

Regionalisation and Regional Policy in Central and Eastern Europe

Edited by:
Ilona Palne Kovacs
Constantin Marius Profireoiu



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THE NETWORK OF INSTITUTES AND
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Regionalisation and Regional Policy in Central and Eastern Europe

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Introduction

Public administrations in the member states of the EU underwent a strong convergence process, the reason being that the implementation of EU common policies depends mainly on the performance of national administrations. The so-called European administrative space became a rather informal project, relying on the relationships between the different tiers of governance (multilevel governance, MLG), as well as on the elaboration of common procedural and professional standards.

The European cohesion policy has had an intensive invasive effect on national administrations, especially in central and eastern European countries, which can be explained by the strong motivation to acquire development resources eligible for less developed regions. Europeanisation was therefore generated directly by the management regime of the Structural Funds. As a result of the European principles of subsidiarity and partnership, including the regions in the decision-making processes of the Union, the regions became more virulent factors of multilevel governance. The delimitation of the so-called NUTS 2 regions, in compliance with the regulations of the European Union, has become, in several countries, the basis of their territorial reforms of public administration. The establishment of various regional consultative bodies, following the principle of partnership, has also been popular, providing governance innovation for public administration.

However, the motivation for accessing and acquiring European resources has a stronger effect on their ambitions concerning the regional tier than any other driving force. EU membership, in the broader sense, had not provided sufficient motivation for the transformation of the territorial distribution of power.

The phenomenon of regionalism and regionalisation is therefore not always identical to political decentralisation and not dependent on the geographical scale of units either. National characteristics strongly differentiate the meso-tier administrations and not general schemes for territorial integration. Central and eastern European countries will therefore make their own way in order to achieve the desirable status of a good fit between European regionalisation and domestic regionalism.

The new democracies in CEE and Western Balkan countries have implemented public administrative reforms during the last two decades in order to adapt to

European requirements. Not only is the designation/delimitation of the new public administrative boundaries interesting, but also the shift in power between the levels and actors emerging in several public policy fields, especially in regional development. The rescaling process has been accompanied by new forms and techniques of governance, bringing more horizontal elements into the traditionally vertical and bureaucratic administrative system of post-communist countries. The changing boundaries, scales and actors could be an innovation contributing to the modernisation and decentralisation of territorial governance, but these could also be the driving forces behind centralisation and client networks.

We have to emphasise that there is a shift in Europe regarding regionalism, at least in the political sense. The region is no longer a phenomenon; it is time to investigate, with no illusions, the processes and consequences of regionalism in Europe in order to be able to envision the future.

There are useful lessons to be learned in the Balkan countries facing public administration reforms, as they must find the proper internal driving forces of modernisation and decentralisation if they wish to avoid the traps of the Slavish imitation of patterns. This applies especially to countries whose EU accession date is still uncertain. Several factors influence the development of public administration systems in the Balkan countries and the main trends can only be detected by studying long-term experience. Although requirements and impulses coming from the EU exert much influence in the spirit of third wave conditions, countries must implement their public administration reforms in an entirely different milieu. However, it is not evident that regional decentralisation is the only effective instrument of modernisation; finding the proper model and method of public administration reform will, very likely, be neither simple nor quick.

The European cohesion (or regional) policy underwent several changes during its almost four decades of existence and regarding the new label of territorial cohesion, it seems that new directions will begin again after 2013. In the recent programming period, the relatively rapid economic development in the new member states concentrated on the capital cities and in their immediate surroundings, enabling them to compete internationally. This led to far-reaching regional disparities and to reducing the resources for the catch-up of the “rest” of the country. Thus, the new central and eastern European member states are suffering from much sharper regional polarisation. The fiscal and economic crisis in Europe and globally has also had direct negative impacts on regional disparities and also on the resources and autonomy of the regions, and even on central governments. Economic performance tends to vary considerably more across the EU regions than across EU countries. The question is what kind of cohesion policy do we need, and what kind of governance models should CEE countries follow in order to absorb subsidies more efficiently?

In the dawn of new regulations concerning the European cohesion policy it seems that this will enhance participative democracy, regional, or place-based decentralisation, contributing to the improvement of economic competitiveness, together with the strengthening of social cohesion among and within the regions at the same time. The concerns, however, are crucial as to whether the contradictory interests, actors, overlapping domestic and European policies could be limited in order to launch a much clearer and strongly integrated cohesion policy after 2013, providing more competences for the territorial governments.

Not only are the main objectives and logic of the future cohesion policy still vague, but the same also applies to the governance system and policy tools. National governments are not likely to be enthusiastic about either regional decentralisation or stronger competences for the European Commission.

The concept of governance has undergone major changes because of emerging challenges which have been triggered by: globalisation, the redefinition of conventional authority based on sovereign states, and hence the diversity of trans-boundary issues. The solution at European level for these challenges has been regionalisation, which implies that geographically close countries, which have, in almost all cases, a similar historical, political and socio-economic context, take collective decisions.

The goals of regionalisation were and are economic competitiveness, accelerated reforms and regional integration. Regionalisation was determined internally by ethnic elements, for example, but the main element that determined this process was emphasised by an external character – access to Structural Funds and Cohesion Funds and cross-border cooperation. The objectives to be achieved through EU funds at the regional level were not expected to materialise. Some of the goals have been achieved, but for many countries decentralisation is carried out at a formal level; the disparities amongst regions were maintained and inter-regional cooperation has been achieved, often by the asymmetrical and temporary situations of the regions. With the increasing tendencies for regional cooperation, a new issue thus arises regarding the interaction amongst regions. In fact, the more regionalised they become the more necessary it is to enable regions to construct connections with each other. In Europe, inter-regionalism and trans-regionalism therefore become a further step which regional blocks take to build a layer in the hierarchy of European governance.

An efficient inter-regional cooperation depends very much on the social, political, even cultural context, for example, the lack of trust, which is a major problem in reaching a cooperative solution. If neighbouring countries, because of past problems, do not trust each other, they may fail to reach a cooperative solution, with each trying to maximise the gains from the regional public good and losing because of the spillover effects that are not taken into account in the decisions of the various parties.

The international economic and political context is much more complex and induces regions to collaborate intensively, and as the regionalisation process becomes more profound, regions are determined to work together to identify and solve problems that cannot be addressed individually.

Regional cooperation and integration is a process through which national economies become more interconnected regionally. Regional cooperation and integration play a critical role in accelerating economic growth, reducing poverty and economic disparity, increasing productivity and employment, and strengthening institutions. It narrows the development gaps between developing member countries by building closer trade integration, intraregional supply chains, and stronger financial links, enabling slow-moving economies to hasten their own expansion.

Regional cooperation is the current cornerstone at European level that has determined the appearance of regional governance, a complex new hierarchical level that aims at sustainable and harmonious development of the European Union, taking into account existing regional peculiarities. An adverse consequence of the liberalisation of markets is increasing the regional disparities and this fact is obvious, even in the absence of many studies on regional disparities. Regionalisation is the new way for nations to achieve economic progress by developing their potential, using financial resources, know-how and expertise coming from both internal and external environments and another great advantage is that decisions on regional issues are taken closer to the citizens.

With EU accession, states have lost some of their autonomy in certain areas. These areas are strategic for the existence and development of the European structure but this fact creates tension between the actors involved in accomplishing public policy. In addition to pressures from local and European levels we can add global and network level pressures.

Regionalisation can be interpreted as a response to the pressure that comes from the phenomenon of globalisation, although globalisation implies increased dependence from the external world. Regionalisation also implies the return of decision-making power to the local level and capacity development that fits the profile and identity of a region.

Regionalisation and inter-regional cooperation led to several controversial issues such as: whether decentralisation and devolution provide the relevant autonomy for regional institutions, and if these institutions are able to stop the negative consequences of globalisation. Does the subsidiarity principle support the growing autonomy of the regions? How do we decide if regions are making the best decisions?

It is also important to clarify the situation of cross-regions and macro regions (Baltic, Danube, and the Mediterranean) that develop throughout Europe at the same time as decentralisation and separation. Is regional construction part of the

same issue as decentralisation and separation or is it a rather distinct aspect of European evolution?

Another controversial aspect that could emerge from this is the sustainability of MGL in Europe. What problems may occur? How they can be prevented? How much influence and representation of the regions within the different national and supranational institutions may European institutions have?

The future of inter-regional cooperation under the 2020 strategy follows these objectives: SMART, GREEN and INCLUSIVE GROWTH; an economy based on knowledge and innovation. European countries should use their resources more efficiently, in a more environmentally-friendly way and be more competitive with a high employment economy, delivering social and territorial innovation cohesion.

More tolerance, variable geometry of governance systems and tailor-made institutions can provide the opportunity for CEE countries to learn and not simply imitate the shaping of their “good” governance systems. The conference organised by NISPAcee in Belgrade in 2013 offered a platform for discussions on state-of-the-art and future regionalism, especially the points of view of central and south-eastern European countries and beyond.

Section I

Regional Reforms and their Consequences



Consolidation in Local Government: An International Comparison of Arguments and Practices¹

Michiel S. de Vries², Iwona Sobis³

Key words: Dahl-Tufte dilemma, consolidation, territorial consolidation, municipal mergers,

Abstract

This paper compares the costs and benefits of municipal amalgamations based on the post-war consolidation experiences of a variety of OECD countries. We begin by suggesting that local and regional government consolidation is currently a popular trend; many Western countries have already implemented consolidation, or they have plans to do so. Various developments, for example, in the welfare state, in the decentralisation processes and in urbanisation, have pushed the professional service delivery of small local systems to their limits and amalgamation is a popular response.

Second, we argue that the processes that lead to public sector consolidation are mainly political processes; these include vested interests, ideological framing, multi-level government conflict, institutional and interpersonal conflicts, and power plays. Although these political processes can result in a variety of outcomes, all are indicative, in some form, in consolidation. In fact, they seem inevitable, either through municipal mergers or by creating additional governmental layers that take over the local government service delivery, or by inter-municipal cooperation. While such amalgamations affect the professionalism of service delivery and the quality of local democracy, previous research is divided about the extent and direction of those effects. That research is based on the well-known Dahl-Tufte dilemma,

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- 1 This chapter was originally published as an article in: *Administration: Journal of the Institute of Public Administration of Ireland*, at the end of 2013.
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introduced in 1973, in which better service delivery is balanced against the loss of citizen effectiveness. This paper argues that two other dilemmas might be as important: 1) the possibility that the neutralising effects of public sector consolidation voids the merits of decentralisation, and 2) the consideration of long-term effects versus temporary transition costs. The transition costs lead to the recommendation that it is preferable to consolidate in a one-step process, as opposed to incrementally. Notwithstanding that recommendation, the fact remains that without additional knowledge about optimal size, consolidation can only be seen as gambling.

1. Introduction

The role of local and regional government is being discussed all over the world. Governmental dysfunction in developing countries is considered to be a major cause in their failure to achieve the millennium development goals (Kauzya 2013). In more advanced countries, local government capacity is often judged as insufficient to justify or allow further decentralisation, i.e. the transfer of powers and authority for policy areas from the central to the local level (Council of European Municipalities & Regions 2009). Subnational government capacity has been a long-standing issue, and many a central government is reluctant to decentralise the authority in policy areas.

We argue that many countries currently use amalgamation to increase the capacity of local and regional government. These processes are pursued under different labels, notably “amalgamations”, “territorial consolidation”, “territorial reform strategies”, “mergers”, and “public sector combinations”. We use these terms interchangeably.

We present the background, frequency and consequences of consolidation, and by deconstructing the territorial consolidation process, we argue that the transition costs are high. While research on the effects of consolidation is divided in its outcomes, most agree that these reform processes always involve a challenging consideration of costs and benefits. How do the outcomes compare to the costs? In order to answer this question, we structure our examination around the following sub-questions:

1. To what degree has consolidation of subnational government spread among countries?
2. What is known about the different phases in such reform processes?
3. What does this knowledge suggest regarding how to proceed with consolidation?

2. Consolidation is in fashion

The first signs of consolidation appeared in the 1950s after WWII. Austria halved the number of municipalities and Sweden reduced them to less than an eighth of the original number. Other west European countries such as Germany, The Netherlands and the United Kingdom, and central European countries such as Poland, Czechoslovakia and Hungary followed (Swianiewicz 2010, 16). In spite of the early start, it has only been during the last decade that we have witnessed the massive resurgent popularity of consolidation, both within Europe and elsewhere. In some countries, consolidation is the reality; in other countries, there were plans that failed. First, again in Scandinavian countries, Denmark decreased the number of municipalities from 275 to 98 between 2000 and 2010; Finland went from 436 to 342; Iceland from 124 to 77; the Faroe Islands from 49 to 30; and Greenland from 18 to 4. In Western Europe, the process of consolidation also continues. The Dutch continue incremental amalgamation to the current number of 400 municipalities, compared to 500 in the early 2000s, and it plans to reduce the number of municipalities to no more than 150 during the second half of this decade. Within roughly the same period, the 12 provinces will be reduced to five counties. Ireland plans to consolidate local government and reduce the number of regions from eight to three. Canada's Provincial Parliament, more specifically Quebec, passed a series of laws in 2000 that merged 212 municipalities into 42 communes. The Prime Minister of New Zealand wants to consolidate local government, and Japan plans to consolidate local government with a 40 % reduction, after a previous 40 % reduction in the early 2000s. The Japanese government's stated goal is to reduce the total number of Japanese municipalities to 1,000. In 2012, Turkey, with a population of approximately 74 million, decreased the number of municipalities from 2950 to 1375. In Greece, the 1997 *Capodistriais* Plan reduced the number of municipalities from 5825 to 1033, although its original plan was to end up with 500 municipalities.

Turning to Central and Eastern Europe, in 2004, Macedonia reduced the number of municipalities from 123 to 84 based on the Ohrid Framework Agreement. Georgia reduced the number of local governments from 998 to 64 in 2006 after the Rose revolution with five so-called provincial cities, i.e. Tbilisi, Rustavi, Kutaisi, Batumi, and Poti. Beginning in 1998, Latvia encouraged local governments to amalgamate with the intent to reduce the number of local governments from 542 to 102. No local government would have had a population under 4,500 and the average would have risen to about 23,000 people (Fox and Gurley 2006, 7).

In other countries, amalgamations were on hold, but the autonomy of small communities was nevertheless reduced by intensified cooperation between them or between them and a central city. This happened in Hungary, where the government introduced "multipurpose micro-regional associations", which can comprise up to 65 municipalities around a larger town. It is also evident in the Czech Republic, where municipalities cooperate intensively, especially in the areas of regional

development, tourism and environmental protection, and somewhat less in social infrastructure, energy, transport and waste disposal, in order to receive European subsidies (Vajdová and Čermák 2006).

In Poland, the three-level administrative division of the country (regions, counties and municipalities) was introduced in 1999 (Dz. U. 1998 nr 96 poz. 603; Dz. U 1998 nr103 poz. 652), but the number of municipalities was not drastically reduced as a result; in 1999, there were 2,489 municipalities, and in 2003, there were 2,478. In contrast to the Czech Republic, the larger towns in Poland were not perceived as a driving force behind the consolidation. Municipalities created regional, interregional and even international associations to cooperate in aid of development, e.g. the association of mining communities, the association of spa-municipalities, the union of cities and municipalities, the union of municipalities and counties, and the association of Polish municipalities – Baltic Euro Region. The only country with plans to increase the number of municipalities was Lithuania. This plan was a result of the substantial amalgamation activity in the 1990s that reduced the number from 581 to 56. This process created municipalities that were too large according to the Lithuanian government.

Another special case is Slovakia, where in 2004, the very small municipalities had to choose to merge with other municipalities or intensify cooperation with a resulting minimum of 5,000 inhabitants in the municipality.

Some instances of consolidation may have been missed in the review above, but the picture is nonetheless clear. In the more or less economically developed countries, consolidation – in the form of inter-municipal cooperation or amalgamations, and in planning or reality – in the subnational public sector is currently in fashion.

3. Deconstructing the process

Paweł Swianiewicz writes the following about consolidation: “it should not be naively seen as a painless remedy with no negative side effects” (2010, 15). Fox and Gurley (2006) come to a similar conclusion when they write: “Countries should not presume that amalgamation will solve the problems because benefits and costs are situation specific.” There is a genuine dilemma in weighing the long-term benefits of amalgamation that is intended to enable local government to deal with increasingly complex problems, policies and spillover effects, against the transition costs of such amalgamation. Such transition costs refer to more than just planning costs or moving officials from one office to another; they refer more particularly to the serious conflicts between national and subnational government, between the constituting partners in the municipalities to be merged and between the local officials in the consolidated municipality. In order to analyse the transition process, we examine the five phases of the processes as listed below:

1. The driving forces behind consolidation;
2. The arguments used in practice;
3. The resistance of stakeholders;
4. The decision-making process;
5. The functioning of the newly consolidated municipality.

3.1 Phase 1: The driving factors behind consolidation

Theories have suggested a number of varying factors to explain public sector consolidation. They point to the emergence and evolution of the welfare state and the changing role of government in general, and specifically to the changing role of local government, urbanisation, decentralisation, and political reasoning. Brans (1992) summarised these theories.

First of all, the evolution of the welfare state is a driving force behind consolidation. According to Kjellberg (1985) and Dente and Kjellberg (1988), in the first phase of welfare state emergence, one sees the increasing number of functions for government in the public sector, which also results in the increased importance of local government. Local government obtained increased power and authority and was seen as the governmental layer in which everything was implemented. This created pressures for rational and efficient administration.

The more involved local authorities had traditionally been in social service delivery, the more likely it was that reorganisation at this stage would resort to ... amalgamation (Kjellberg 1988, 45; Brans 1992, 431). During the second phase of welfare state emergence, distributional policies became more important and the local level became involved in regional and labour market policies. During the third phase of welfare state expansion, these policies became more integrated and resulted in a reconsideration of the financial intertwinement between central and local government (*ibid.*).

All in all, the burdens on local government increased, necessitating a certain mass at the local level in order to adequately handle all of these functions, and hence, the plans for consolidation. One can add a fourth phase, that is the retreat of the welfare state – as a result of the financial crisis – in which many functions are transferred from the central level (which can no longer afford them) to the local level, due to a combination of political and efficiency considerations. Policies become unaffordable because of national budget deficits. Because it is often politically untenable to eliminate these policies entirely, they are decentralised so that the financial burden is transferred to the local level.

The second theory explaining consolidation, points to demographic developments, i.e. urbanisation, and intergovernmental developments, i.e. decentralisation (Sharpe 1988, Brans 1992). Both factors pushed previous local government borders to their limits. Urbanisation caused cities to expand beyond their official borders. In combination with the many new functions that local governments acquired as a

result of decentralisation, they could not adequately handle their duties individually, but they could do so by merging and cooperating with their more rural environment (hinterland).

The third explanation views amalgamations as a political process. First, cities need to protect their interests, and engage in power politics that diminish the autonomy of the suburbs. Second, a kind of gerrymandering occurs as stakeholders use reorganisation to achieve expected electoral gains. Third, local levels can provide the need to have some balance between capitalism and democracy. And fourth, consolidation is needed in order to ensure a continuous supply of “high calibre” councillors and officials (Brans 1992, 436).

Other background factors cannot be neglected. The above three theories view consolidation as a political answer to an acknowledged societal need and governmental problem. Often, consolidation is not a voluntary choice, but it is something forced upon society – as was clearly the case in central Europe after 1989. In those days, outside pressures forced many of the central European countries to simultaneously consolidate subnational government and decentralise power and authority to the local level. Many European and American technical assistance programmes designed for these countries in the 1990s aimed at empowering local government and diminishing centralisation. The subsidiarity principle is crucial to the EU, and many EU member state reorganisations were inspired, in part, or limited by the incentive of receiving regional development funds from Brussels.

Finally, consolidation is deemed possible when other countries have successfully completed the process and can demonstrate consolidation as a best practice. In such cases, institutional mimesis becomes likely. This fundamental explanation in policy diffusion theory can help explain the timing and the shifting popularity of consolidation. This is evident in the first wave of amalgamations between the 1950s and 1960s and the second wave from the middle of the 1990s onwards. Whilst Austria and Sweden demonstrated best practices in the 1950s, Denmark currently seems to be the prime example. In 2007, Denmark consolidated its municipalities from 271 to 98, and its regions from 14 to 5, and economically, it is doing pretty well. This is sufficient reason for other European countries to view it as a best practice country and to pursue similar actions in the hope that it will produce the same effects (Council of European Municipalities & Regions 2009).

From the existing literature, one can extract what might be expected from consolidation in the long-term. The arguments are well summarised in the World Bank report by Fox and Gurley (2006). They give an overview of the costs and benefits involved, based on existing research. They write that the expectation is that: “larger governments can provide services at lower unit or per capita costs or deliver better quality services at the same cost by capturing economies of scale. Alternatively, indivisibilities in production, which are most likely to arise for very small units of government, can be offset with a larger scale.” (Fox and Gurley 2006, 8).

However, the actual benefits may be context-dependent and vary over policy areas: “those services entailing large capital costs (often vertically integrated services), such as sewage plants or transportation systems, are more likely to benefit from greater size. Services that are more labour intensive, such as most horizontally integrated services, including fire protection and education, are apt to have constant or even increasing per capita costs as the number of people served increases.” (ibid., 10) Hence, there may be different effects in, for instance, education and water management. One further point is not directly related to service delivery but to the increasingly complex task of regulation, controls and conducting or understanding, for example, environmental impact assessments at the local level. This kind of activity requires a scale of operation that can recruit area-specialists, and this is not feasible in very small municipalities. Therefore, they conclude that: “the extent of size economies will be lower than may be anticipated – bigger does not always imply lower costs and can imply higher costs.” (2006, 35).

They also mention transition costs (Fox and Gurley 2006, 20): Combining office systems, i.e. merging computers, phones, and filing, the costs of new elections for the city council, the costs involved in creating coherent teams and creating a new organisational culture, not to mention the costs involved in the transfer of assets, severance payments, and pay increases, are all important considerations. As they conclude: “there are likely to be significant transition costs and time spent in moving from the existing government structure to a new, larger government.” (2006, 35).

3.2 Phase 2: Arguments used in practice

If consolidation is as popular and essential as described above, one would expect that the driving forces would provide ample arguments for successfully initiating amalgamations. In practice, however, we see rather different arguments used than the ones mentioned in theory. Politicians and policymakers in favour of consolidation use the arguments with the most positive connotations to support their plans. They talk about efficiency, rationalisation, improved service delivery, customer friendly service, flexibility, local control and development, and modernising social services – especially in rural areas (e.g. in Greece). In Denmark, the main goal of consolidation was meeting appropriate levels of expertise and addressing problems in delivering core welfare services. In Germany, primary motivations included enhancing the planning, administration, capacity, and efficiency of local government units while also ensuring and strengthening local democracy potential (see: Wolman 2004).

The UK and Finland mentioned economies of scale, efficiency, and effectiveness. Macedonia used consolidation to secure expertise in the municipalities in order to cope with increased local government tasks, because the decentralisation process envisaged a further increase of expenditure and revenue assignments. Georgia faced legal, social, and economic pressures, whereby local governments almost ceased to

function and public services were only available in large cities. In Quebec, the main goal of consolidation was reducing fragmentation and increasing accountability and transparency, which was believed to be lacking in the inter-municipal cooperation structures. Policy makers in Hungary emphasised integration and streamlining public service nationwide, and suggested that consolidation would establish equal opportunities for access to public services.

The Prime Minister of New Zealand focused on reducing unnecessary duplication and waste as a way to improve performance and increase cost savings and productivity. The Japanese wanted to enable the transfer of administrative power to the local level. The Czech Republic's reasons for consolidation included economies of scale, better service provision, distributional equity, local economic development and strengthened local democracy (e.g. in Czech Republic) (cf. Swianiewicz 2010).

According to political proponents and policy makers seeking public sector mergers, public sector consolidation furthers all of the quality criteria one would like to see in place in the public sector. However, they rarely point to the long-term societal trends that are mentioned in the theories and research on consolidation, i.e. urbanisation and welfare state developments.

3.3 Phase 3: The resistance of stakeholders

One of the reasons why policy makers use as many arguments as possible to support consolidation is because such plans evoke substantial resistance by local and regional politicians. These politicians have a vested interest in retaining their local power positions, and they will not easily give it up in favour of a national plan to initiate amalgamations. They will even try to mobilise their followers, e.g. the local citizens, to oppose the plans. In such discussions, there is a lot of ideological framing taking place, such as characterising the consolidation in terms of centralisation, even though it goes hand in hand with further decentralisation; pointing to the loss of local identity; increasing distance between citizens and local government, and increasing bureaucracy, etc.

The opponents do have a point, even two points, as discussed below. In 1973, Dahl and Tufte posed the dilemma that while larger municipalities tend to be more effective providers of municipal services, e.g. have a larger system capacity, they are less democratic, e.g. citizen effectiveness. Smaller municipalities tend to have more opportunities for citizens to participate in policymaking processes and to influence the decisions of the polity (local democracy), but could be less efficient and effective in service delivery (Dahl and Tufte 1973, 20).

Empirical research into the matter is ambiguous. As to the so-called systems capacity, or economies of scale, the results of empirical research vary with:

- The nature of the unit investigated (schools, municipalities, police and fire departments, municipalities etc.);

- The supposed linearity of the relation between size and capacity: Some find a u-shaped relation, others find a strong relationship in cases of merging very small municipalities but a decreasing or even absent relationship when reasonably large municipalities merge;
- The investigated effect, be it efficiency, effectiveness, etc.;
- The indicators used, i.e. the costs of local government, the percentage of salary costs to total expenditures, the number of complaints, etc.

As to the second part of the dilemma, the same problems exist in the research findings. Some research shows that local democracy indeed suffers from increasing municipality size (Denters 2002; Kelleher and Lowery 2004). Others have found that direct democracy increases, at least up to a certain size of the municipality (Keating 1995; Frandsen 2002). The same problem is evident with system capacity; the outcomes of the research depend on the nature of the indicators, the policy area and the country investigated.

For instance, in Denmark, Kjær and Mouritzen (2003) found that size has no significant influence on the citizens' attachment to the municipality, their interest in and knowledge of local politics, their trust and political self-confidence, but it does impact their participation in elections and participation in public policy processes. Welling Hansen (2012) emphasises that changes in municipal size negatively affect local political trust, which is consistent with political economy theory, according to which political trust tends to decrease with the size of the polity.

Second, many processes of consolidation are initiated out of the desire to transfer more authority to the local level, e.g. to decentralise. Decentralisation is preferred because of the subsidiarity principle and its supposed advantages, of which efficiency and local democracy are only two. Other supposed merits of decentralisation include the possibilities of developing tailor-made policies and achieving more flexibility, less bureaucracy, and better policies as a result of increased commitment of officials, shorter, more direct links among stakeholders, the superior knowledge about local circumstances, and less redundancy in service delivery.

There is a dilemma rooted in the need to consolidate local government in order to enable decentralisation, because consolidation cancels out some of the mentioned advantages of decentralisation. If downscaling the responsibilities for policymaking through decentralisation to the local level has the above mentioned effects, consolidation – almost by definition – must be expected to diminish the capacity to develop tailor-made policies; to increase bureaucracy, diminish flexibility, decrease the commitment of officials, lengthen the links between stakeholders and result in more redundancy.

The question is whether these disadvantages are evident in all policy areas or especially in those policy areas already handled at the local level before the amal-

gamation and whether the constituting units of the new municipality are equally confronted with these disadvantages or some partners in the merger take the costs and others the benefits.

3.4 Phase 4: Toward the decision to consolidate

Such resistance is easily vanquished if all power is centralised in the national government as was, for instance, the case in Czechoslovakia in the 1960s under the then Communist regime. One stroke of the pen reduced the number of municipalities by 20%.

In democracies, especially in already more or less decentralised countries, such power politics is less obvious. These countries use other instruments, i.e. communicative, legal and financial instruments. Persuasion is evident in the distortion of the possible advantages of amalgamations as described above under phase 2. During the decision-making process, the word “voluntary” often appears, but it is always accompanied by a big stick. In Denmark, municipalities had one year to merge voluntarily; if they did not comply, central government would impose it.

In Finland and The Netherlands, the national governments used financial incentives to induce municipal mergers. In other countries, such as Greece and Georgia, the extent to which policy authority was decentralised depended on mergers. This was most clearly seen in Georgia where a combination of legal, social, and economic pressures resulted in small local governments practically ceasing to function; public services were only available in large cities. This contributed to the drive for a new round of reform in 2004 (Melua 2010, 159). In other cases, the voluntary character is only partial: municipalities could, for instance choose with whom to amalgamate, but national government fixed the lower boundary in terms of number of citizens in the new municipality, i.e. 5,000 or 50,000 or in the case of The Netherlands, 100,000 inhabitants.

Resistance can be effective. In many regions (Länder) in Germany, the small local government units did not merge, but added a new layer of inter-communal bodies tasked with providing operational support to the (small) municipalities which became members of the newly created institutions. (cf. Swienaciz 2010). The same happened in central European countries such as Slovakia, the Czech Republic and Hungary and in Western democracies such as France, The Netherlands, Belgium and Quebec until 2000. In those cases, the small municipalities kept their mayor and sometimes their local council, even though democratic control of the shared tasks is often minimal. Such shared tasks are organised through joint authorities such as those created in Finland, which provide educational, social and health-care services, “integrated” municipalities in Germany, or multipurpose micro-regional associations in Hungary in 2004.

Opting for inter-municipal cooperation instead of amalgamation is also evident in France, where communes cooperate within a community; 34,166 small com-

munes belong to 2,406 *Communautés de communes* (community of communes), and 179 *Communautés d'agglomération* (CA) as well as 16 *Communautés urbaines* (metropolitan cities). Furthermore, the cooperation is strengthened through 1,611,179 single-purpose IMC unions (*syndicats à vocation unique*), 1,445 multipurpose IMC unions (*syndicats à vocation multiple*) and 3,064 unions with communes and other public legal entities, departments, regions, chambers of commerce, and even communities (*syndicats mixtes*) that were established to ensure service delivery in the sometimes very small communes.

Municipalities in The Netherlands experimented with a third option in order to intensify inter-municipal cooperation, but to remain politically independent, that is, to combine their administration, including all local officials, under the responsibility of separate political councils.

Choosing amalgamation or intensifying cooperation is difficult. On the one hand, intensifying cooperation suggests that local identity and democracy will be preserved, and that service delivery will be handled professionally by inter-municipal organisations appointed by local councils. However, such institutional solutions result in fuzzy government with a democratic deficit in relation to the shared tasks. In general, inter-municipal cooperation is, therefore, a transitory step towards full amalgamation. In Quebec in 2000, the problems of inter-municipal cooperation were one of the main arguments for full amalgamation. These additional layers are currently being discussed in The Netherlands and Belgium.

3.5 Phase 5: The functioning of the new municipality

The creation of a new municipality results in uncertainty among the employees involved. It is because of this uncertainty that many authors point to fears, anxieties and resulting resistance to change, especially when employees lack an understanding of the principles and merits of the reforms. Medical research suggests that the uncertainty from large-scale workplace reorganisations can have a negative effect on individuals' well-being, blood pressure and cholesterol levels (cf. Pollard 2001). Pollard concludes that workplace reorganisation causes significant increases in distress and in systolic blood pressure and that uncertainty contributes to these effects.

This uncertainty initially emerges because reforms often involve a change in the hierarchical relationships by either centralisation or decentralisation, because of the creation of new dependency relations by privatising or de-privatising departments, or by creating independent agencies, government corporations, or incorporating a new organisation within the executive branch (cf. Thomas 1993). During reorganisations, positions are shuffled around, and colleagues – even subordinates – may become bosses and bosses can be demoted, pushed aside or even fired, resulting in new and unknown relationships.

The second way in which reorganisations result in uncertainty is when they can be seen as a violation of the psychological contract (Rousseau 1995, Wellin

2007; Sobis and de Vries 2011). Wellin perceives the psychological contract as “the actions employees believe are expected of them and what response they expect in return from the employer” (2007, 27). In case of organisational change, a sense of contract violation is likely to occur, resulting in negative impacts with regard to morale, self-esteem, organisational commitment, trust, job security, and productivity, and increased psychological disturbances (Stark et al. 2000).

In addition to uncertainty, a second direct consequence of reorganisations is the threat to the personal position and interests of employees, resulting in physical, emotional, and/or psychological strain. This could be caused by cost-cutting changes, adjustments in salaries or benefits, forced use of vacation or even very subtle acts such as removing the coffee machine, artwork, limiting office-space, etc. (cf. www.ExecutiveBlueprints.com), and the threat of being fired when the reorganisation involves downsizing (cf. de Vries 2013).

Because of the uncertainty, threats and physical problems amongst employees, they shift attention from their daily work to organisational developments and become focused on whether the reorganisation will affect the nature of their work and working conditions. Especially when employees perceive the outcomes of the reform as unjust for themselves, they are more likely to leave their jobs, are less likely to cooperate, show lower levels of morale and higher levels of work stress and overt and covert disobedience, and they are more likely to initiate lawsuits and may even start behaving in antisocial ways.

A probable indirect effect of reorganisations lies in the inclination of employees to resist further reorganisations and reforms. One might expect them to show conservatism, or in terms of the rationalities distinguished by Max Weber, to move increasingly to a traditional rationality, i.e. preferring the way things are, even though further reforms might be advantageous to their organisation.

Another probable indirect consequence of reorganisations is that interpersonal relations between public administrators become disturbed. Previous research suggests that especially hectic and dynamic work environments are causes of interpersonal conflicts (Marcellisen 1988). Furthermore, if there are substantial power differences, conflicts are more persistent and it becomes harder to arrive at solutions (Kriesberg 1993). This is especially the case when dominant positions are in dispute and ambiguous (Smyth 1994), when power shifts occur, or otherwise fundamental changes take place in the context (Putnam and Wodolleck 2003), and especially if the workplace is perceived as chaotic (Crocker et al. 2004).

Reorganisations may result in a division within the organisation between people who profit from and people who are disadvantaged by the change. As mentioned above, reorganisations may result in (temporary) uncertainty and ambiguity about the new situation, and consequently, result in behavioural mistakes by individual public officials. These, in turn, can be interpreted by others as resistance to the new situation or the newly established hierarchy, thus resulting in an interpersonal con-

flict between public officials (cf. de Vries 2010, Venner and de Vries 2012). In The Netherlands, local officials view such interpersonal conflicts as the primary inhibitor of policy development in their municipality (de Vries 2010).

4. Discussion

The process of reforms implicated by the need to consolidate subnational government does not result in a pleasant picture. The process is full of conflict, ideology, fear, and negative side-effects. First, many of the arguments used by policy makers in support of amalgamations simply reflect ideological framing as opposed to genuine reasons for amalgamation.

Consolidation is neither about efficiency, economies of scale, or distributional equity, nor is it about democracy, as the Dahl-Tufte dilemma suggests. It is rather the political answer to problems that confront a system and make the system crack at the edges (expansion of the welfare state, decentralisation, urbanisation, difficulties in finding political representatives) or are imposed on a country by the international system.

Second, the envisaged problems and conflicts increase during the process: first at the macro level, subsequently at the institutional level and finally at the individual level. Subnational consolidation processes are indeed painful processes, and they are likely to result in a temporary shutdown of policy development in the new municipality because of the internal orientation such processes induce among all stakeholders. Instead of focusing on policy development, they will be primarily concerned about their own individual position vis-à-vis others and the position of their organisation vis-à-vis other organisations. Decision makers have to balance these and other transition costs against the long-term benefits of consolidation.

While the Dahl-Tufte dilemma, i.e. balancing service-delivery against democracy, is best known and dominant in research into the effects of amalgamations, the dilemma sketched above, i.e. balancing long-term gains and transition costs, might be just as important. Research into this dilemma could provide policymakers with instruments and procedures that ease the process and reduce the transition costs. This research might suggest the need to involve all stakeholders in the decision-making process as opposed to imposing consolidation from the top. This research might also result in a reconsideration of the incremental approach in consolidation that governments often opt for in order to reduce opposition. It is doubtful whether such step-by-step processes are indeed expedient.

It may seem that incrementalism makes such processes manageable because it “smuggles” changes into the political system (Lindblom 1979), but such an approach might ultimately multiply the problems and conflicts at the individual level because of the repeated reforms it entails. Perhaps a one-step consolidation is preferable.

Third, the relationship between the effects of consolidation and decentralisation needs further research. To what degree does amalgamation cancel out the expected benefits of decentralisation? Is it indeed the case that shifting policymaking responsibilities to the local level through decentralisation results in tailor-made policies, less bureaucracy, more flexibility and commitment of officials, shorter links between stakeholders, and less redundancy, and that consolidation negates these effects? Research into these aspects of decentralisation could point to an optimal size of municipalities given the cultural and socio-economic context. It could prevent problems such as those currently experienced in Lithuania, where the amalgamations of municipalities apparently went too far, and re-dividing the too large municipalities is a realistic policy option.

4. Conclusions

How do the benefits of municipal amalgamations compare to the costs? We answered this question by comparing post-war consolidation experiences in a variety of OECD countries. The existing literature on the subject is extensive, and it includes numerous accounts of consolidation processes. However, the research is also divided in its evaluation of effects of such consolidation.

Nonetheless, this paper demonstrated that consolidation in local and regional government is currently a popular trend. Many western countries have already implemented consolidation or have plans to do so. Various developments, such as the development in the welfare state, decentralisation processes, and urbanisation have pushed the possibilities for professional service delivery of small local systems to their limits, and provide good support for consolidation.

However, consolidation is not an easy process. In spite of the good support, the public sector consolidation process is a highly politicised and painful process, characterised by vested interests, ideological framing, intergovernmental conflict, institutional and interpersonal conflict and power plays. As a result of the political nature of consolidation, proponents overstate the merits by using the most positive objectives, after which opponents point to the uncertainties involved. Not all expectations about such reforms, especially those touted by the policy makers and politicians initiating such consolidation, are evidence based.

Although these political processes can result in a variety of outcomes, all are indicative of some form of consolidation. This paper argued that consolidation is inevitable, either by way of municipal mergers or by creating additional governmental bodies to take over service delivery of local governments, or by inter-municipal cooperation. Such consolidation affects the professionalism of service delivery and the quality of local democracy, although previous research is divided about the extent and direction of those effects. Most of that research is based on the well-

known Dahl-Tufte dilemma, introduced in 1973, in which better service delivery is balanced against the loss of citizen effectiveness.

Two other dilemmas might be as important as the Dahl-Tufte dilemma. First, there might be a neutralising effect of public sector consolidation in relation to the merits of decentralisation. It might well be that any benefits achieved by down-scaling through decentralisation are negated by local government consolidation. Second, the temporary, transition costs may outweigh the long-term benefits of consolidation.

Both dilemmas beg the question of whether there is an optimum size of local government within a specific politico-cultural and socio-economic context. Clearly, professional service delivery cannot be expected when a municipality is too small to attract the needed professionals or when it is unable to create the needed professionalism. There might be a u-shape relation between size and quality of service delivery in which case municipalities can become too large. The Lithuanian experience points to this problem.

Without answering this question and taking the transition costs seriously, policy makers face a real dilemma. On the one hand, the transition costs result in the recommendation that if one wants to upscale, it should be done in a one-step process as opposed to incrementally. On the other hand, without knowledge about the optimal size of subnational government, consolidation is at best an educated guess, and at worst a gamble with taxpayers' money, with local democracy and the commitment of local officials at stake. Statisticians discourage gambling, especially repeated gambling, because it will ultimately ruin the gambler. They also advise that when one does gamble, it is wise to do it as infrequently as possible and take the odds seriously.

In contemplating consolidation, it is vital to think it through, remain cautious in timing, abstain from ideological framing and overstating the effects, involve all stakeholders, make the process transparent from the start, mitigate negative side effects, and hire mediators who can resolve the inevitable interpersonal conflicts.

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Re-thinking the Roles of Regional Councillors in Poland: Evidence from Wielkopolskie and Lubelskie Regional Assemblies

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Abstract

In its present form, self-government at the regional level was established in Poland in 1998 as a result of the so-called “second wave of decentralisation”. Different tasks were devolved to the regions, including issues as important as the formation of conditions for economic development, creation of the labour market and acquisition and merger of public and private funds. Moreover, it seems that the role of regional self-government has been gradually and substantially strengthened and at present it holds a strong position vis-à-vis the central (governor) and local (municipal, county) authorities. However, the regional assembly should play an important role in stimulating regional development. The purpose of the article is to examine the roles of regional councillors as representatives of local communities, administrators and members of political parties. The article is based on empirical research conducted among councillors from the Wielkopolskie and Lubelskie regions. The evidence indicates that representing regional communities and defining priorities of regional policies are the most important tasks for councillors. Having a political affiliation and representing parties’ interests, however, plays a much less significant role than commonly believed.

Points for Practitioners

The article focuses on regional councillors in Poland and the way they perceive their role in regional governance. The outcome of the research may be interesting for practitioners working in regional administration and for all those interested in representative democracy.

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Introduction

After the political transformation that Poland underwent at the turn of the 1990s it was assumed that the processes of decentralisation and deconcentration should be at the heart of the reforms aiming at reducing the power of central government. Jerzy Regulski, one of the founders of Polish local government, noted that these changes were based on a new vision of the state whose “primary purpose is to create ... conditions for life and development for their citizens” (Regulski 2005, 30). The Act on Local Self-Government, implemented in March 1990, introduced for the very first time in modern Poland, solutions based on freedom and democracy (Nikolski 2011, 47).² On the basis of this Act nearly 2500 municipalities (*gminy*) became the basic units of local self-government. The second stage of decentralisation was carried out in 1998, when the existing structure of single-tier municipal government was supplemented with more than 300 counties (*powiaty*), 65 cities with county rights and 16 regions (*województwa*), creating a three-tier system.

For several years, European researchers have been interested in the roles that elected representatives play in local government and the tensions they experience. In this context the role can be defined as “... a set of expectations oriented towards people who occupy a certain ‘position’ in a social system or group” (Gouldner 1957, 282, cited in Heinelt 2013, 2). This research has recently intensified, as the governing process has been influenced by many new trends. These include the impact of the New Public Management paradigm, the shift from traditionally understood local government to local governance, as well as the increase of citizens’ interest in participating in the decision-making process. Nevertheless, in most countries the changes have been occurring primarily at the municipal level; most researchers therefore focus their attention on these basic units (Heinelt 2013, 1–5; Denters and Klok 2013, 1–16). In the case of Poland, however, regional elites appear to be an interesting research field for several reasons.

First, unlike in many other European countries, regional councillors in Poland are directly elected by the citizens, which increases their legitimacy. Second, the role of regional representatives is influenced by their operating on “the edge” of the state and (regional, local) self-government (Nalewajko 2011, 8). On the one hand, the government-appointed governor (*wojewoda*) and his or her state apparatus are pivotal to regional governance. On the other, elected regional authorities influence the development of the counties and municipalities within the region. This system of mutual dependencies requires a coordination of actions and a search for consensus. Third, since the creation of the regional self-government in 1998, a gradual

2 The Act on Local Self-Government adopted on 8 March 1990, *Journal of Laws* 1990, No 16, item 95.

emancipation and empowerment of its institutions in relation to the state administration has been observed (*ibid.*; Swianiewicz 2011, 502). Moreover, the inflow of EU funds and the key role of the regional self-government in their distribution have led to an increased prominence of that tier. Finally, in comparison to the municipal and county councillors, the role of regional representatives is far more determined by political parties.

The purpose of this article is to examine the role elected representatives play in regional governance. In particular, the article looks for the answers to the following research questions:

1. How is the role and behaviour of councillors at the regional tier influenced by the institutional framework and arrangements for the conduct of regional government, democracy and representation?
2. How do councillors perceive their own roles in multi-level governance?
3. What is the impact of political parties on regional governance and the role councillors play within it?

In the analysis conducted, reference was made to the empirical data obtained from the National Electoral Commission (Pol. Państwowa Komisja Wyborcza – PKW), the Centre for Public Opinion Research (Pol. Centrum Badania Opinii Społecznej – CBOS) and the results of several projects already conducted in Poland, which have focused on the changing role of regional councillors (Dojwa and Placenty 2006; Dojwa 2007; Nalewajko 2011). Also, the results of the pilot survey conducted among councillors of two regional assemblies from Wielkopolskie and Lubelskie regions were used. 72 questionnaires have been sent to councillors from both assemblies.³ The overall rate of return was 23.6%.

The paper is divided into two main parts. The first elaborates the councillor's role from a theoretical perspective and refers to the broader context of regional governance in Poland. Particular attention is paid to the historical conditions and the process of creation and development of regional authorities. This section extensively examines the tasks of regional authorities as well as the legal and institutional framework which shapes and influences councillors' roles. The second part of the paper concentrates on the results of the pilot survey conducted among the councillors of Wielkopolskie and Lubelskie regions. In the concluding part, the factors that determine the roles councillors play in regional governance are presented.

3 Altogether 135 questionnaires have been sent to councillors from 4 regions: Wielkopolskie (39), Lubelskie (33), Warmińsko-Mazurskie (30) and Podkarpackie (33). However, at the time of writing this article only the data from the Wielkopolskie and Lubelskie regions were available.

Councillors' roles and regional governance: the Polish context

The idea of electing representatives who make decisions on behalf of the local community constitutes an important concept in local government. The process of election is a significant act of political participation for citizens, as it gives them a chance to replace local representatives, bring decision-makers to account, and also voice their views on different issues (Sweeting and Copus 2012). The role councillors play in local government is, however, complex and full of challenges. What is more, it is determined by at least two groups of factors.

First, it can be argued that the role and behaviour of councillors, as well as their attitudes towards reforms at the local level, are shaped by both formal and informal institutional structures and/or by their personal characteristics. Second, the behaviour and role perception depend also on the notion of democracy as an expression of councillors' basic beliefs about appropriate behaviour and subjective norms (Heinelt 2013, 1–2).

Many typologies of councillors' roles can be found in specialist literature. Many authors underline that councillors act first and foremost as the representatives of local communities. As such, they are supposed to translate the needs and issues emerging from society into political actions and constitute a reliable and effective link between citizens and local authorities (Heywood 2002, Mouritzen and Svava 2002, cited in Verhelst et al. 2009, 6). However, even this basic role may have different dimensions and meanings, as councillors can act as free agents for the electorate's interests, delegates who place the wishes of the people at the centre of their political attention and action, or politicians who act as trustees where possible, or delegates when required (Eulau et al. 1959, cited in Copus 2008, 593). Second, councillors have an administrative role, since apart from representing citizens they determine the priorities for local/regional government and control the executive power.

This role is, however, more internally directed than the former, as councillors have to confront other local organs and politicians (Verhelst et al., *ibid.*). In addition, in many countries where local government is penetrated by political parties, councillors are also positioned as local politicians who represent the political formation they belong to. Moreover, notwithstanding the above typologies and classifications, it seems that councillors have to find a balance between these different roles. In addition, depending on the "theatre" – council/assembly, public meeting and media – they act in a different manner (Copus 2004, 193).

However, to understand the role councillors play in regional governance, as well as the capabilities to develop it and the tensions they experience, it seems necessary to refer to the broader context – the historical, structural and cultural determinants of a particular local government. In the case of Poland, several issues seem to be worth noting.

First, the tradition of self-government at the regional level in Poland is long, although restricted to the nobility (Szewc 2008, 31). It dates back to the dietines (*sejmiki ziemskie*; *comitia minora*), first formed in the 16th century as the basic institution of local self-government for the nobility. For the higher echelons of society it was, at the same time, the main mode of participation in the political life of the state (Nikolski 2011, 45). This tradition ceased after the partition of Poland in 1772.

By the time Poland regained independence in 1918, diverse solutions and institutions had evolved in the Prussian, Russian and Austrian Partitions; the idea of regional democracy was most fully implemented in the Austrian Partition. After independence was regained in 1918, attempts were made to construct self-government at the regional level. However, directly elected assemblies operated in only two out of seventeen existing regions (Nikolski, *ibid.*). After World War II and the onset of the communist regime, the regional self-government was abolished, with national councils (*radę narodowe*) created in its place. The need to recreate this level of local self-government was not debated until the 1989 Roundtable negotiations.⁴ At that time, however, the immediate introduction of this tier of government proved impossible (Borodziej and Garlicki 2004, 278) and regional self-government was established in 1998.⁵

Second, it must be emphasised that, owing to its complicated history, Poland lacked authentic regional structures, shaped organically as a result of centuries-long historical processes and the existence of cultural diversity (Bandarzewski et al. 2006, 120 cited in Nikolski 2011, 54). For this reason, the formation of regions in 1998 was an administrative, top-down exercise (Izdebski 2008, 43–44). Poland was divided into 16 regions, formally known as voivodeships (*województwa*), which differed in terms of their demographic and economic potential. The number of the regions was an outcome of a political game between the then government, President and political parties.

Political parties, in particular, showed an intensified activity and an interest in increasing their leverage at the regional level. This is evident in the attempts by the parties to alter the electoral system as well as in most regional representatives having a party affiliation. In the 2010 regional election, only 21 out of 561 elected councillors were independents (Table 1; PKW 2013). Parties not only have substantial influence on the shaping of regional elites, they also use these elites as repositories of candidates for parliamentary elections (Dojwa and Placenty 2006, 14; Nalewajko 2011, 19). In the 2005 parliamentary election, 205 councillors stood for election;

4 The Polish Roundtable took place from 6 February to 4 April 1989. The communist government initiated the discussion with the banned trade union Solidarity (*Solidarność*) and other opposition groups in an attempt to defuse growing social unrest.

5 The Act on Regional Self-Government adopted on 5 June 1998, *Journal of Laws* 1998, No 91, item 576.

of these, 86 were allocated top places (1, 2 or 3) in their party lists on the ballot. 47 councillors went on to obtain a seat in the election (Nalewajko 2011, 20).

Third, the tasks of regional government and regional authorities ought to be noted. According to the Act on Regional Self-government, regions are recognised as associations of residents formed to exercise appropriate functions.⁶ Authorities at that tier are responsible for economic and cultural development and must concentrate their activities in four areas: promotion of economic development; management of public services of regional significance such as higher education, specialised health care and some cultural institutions; environmental protection and management of natural resources, and the development of a regional infrastructure, including the management of roads and regional transport and communications.

These tasks substantially differentiate the functions of regional authorities from those of municipalities (*gminy*) and counties (*powiaty*), whose primary function is to meet the direct needs of residents (Regulski 2003, 114). Residents of a region exercise power by making decisions directly or indirectly, through elected representatives. The regional assembly (*sejmik*) holds legislative and supervisory powers; executive powers rest with the regional board (*zarząd*) headed by the marshal (*marszałek*). Each assembly comprises 30 directly elected councillors for the first 2,000,000 residents of the region; for every 500,000 residents over that number there are three additional councillors. The board comprises five persons elected by councillors from among themselves. Both these bodies are elected for a term of four years.

Fourth, as indicated in the introduction, the dual function of regions has implications for governance at this level. On the one hand, regions have directly-elected self-government bodies; on the other, the region is an administrative unit of central government and the seat of the regional representative of the central government, the governor (*wojewoda*). Though there is no hierarchical subordination between the two, it has to be noted that at the time when regions were created in 1998, the position of the regional administration (governor) was stronger than that of regional self-government bodies.

Subsequently, however, the position of the regional self-government was progressively reinforced in what has been termed “creeping decentralisation”, where, despite the lack of extensive institutional reforms, competences were gradually devolved from the centre to the regions (Swianiewicz 2011, 502). As experts pointed out, when regions became functional in January 1999, the ratio between the powers of the regional self-government and the governor constituted 30 % to 70 %. However, in 2009 the numbers changed and at present they are 70 % to 30 % in favour of regional self-government. This process was aided by Poland’s 2004 accession to the EU and the inflow of EU funds.

6 Ibid.

Finally, it has to be noted that having existed for 14 years, regional self-government is a relatively recent institution, and, as such, it continues to evolve dynamically. This is exemplified by, amongst others, the high turnover of political party elites. Since regions were created in 1998, the only party with a constant presence at the regional scene has been *Polskie Stronnictwo Ludowe* (PSL; Polish Peasant's Party). Analysing institutions of local government at regional and county (*powiat*) levels, Gąciarz notes that regional self-government was founded on "a deeply imbalanced system of territorial democracy" (Gąciarz 2004, 263–265). He points to the following factors as reasons:

- 1) Informality of rules, lack of transparent procedures and precise regulations, which would eliminate arbitrary decision-making. This has resulted in a "leaky institutionalisation", which afforded too little protection against "the weaknesses of human nature";
- 2) Insufficient competences in relation to the tasks allocated to regional self-governments. This has led to treading water and a dependency on other authorities;
- 3) A discrepancy between social expectations towards reform with the outcomes of actions by the self-government;
- 4) A "historical" personal continuity in the regional authorities, which resulted in "following patterns of behaviour belonging to a reality which had little in common with self-government" (*ibid.*).

Though these factors are slowly abating, many regional authorities continue to follow a model of the so-called "grand politics". Collective action is often the dominant mode in regions; citizens are viewed primarily through the prism of indirect democracy (elections), that is, as an electorate to be influenced. Moreover, the media message is the default form of public debate (*ibid.*; Nikolski 2011, 9–10). This is reflected in the public opinion's assessment of the activity of regional self-governments and the turnouts in regional elections, both of which are low. Regional authorities, as institutions, are becoming increasingly important, participating as they do in the allocation of EU funds, often central to the development of a region; despite this, only 40 % of voters view the decisions of these authorities as important (40 %).

The respondents see municipal or even county self-government as more important: 64 % and 50 % respectively (Table 2; CBOS 2010, 5). Moreover, just over half of Poles (55 %) believe regional councillors represent the interests of the region's residents (34 % feel they represent the interests of all Poles; 21 % of specific residents); 54 % of the respondents believe that councillors are guided by their own self-interest, or the interest of their political party, profession or acquaintances (Grabowska 2010). These opinions may conceivably translate to electoral turnouts, which average 45.67 % (Table 3; PKW).

Councillors about themselves

Evidence from Wielkopolskie and Lubelskie regions

As noted in the introduction, empirical research was conducted on councillors from two regions, Wielkopolskie and Lubelskie. 72 questionnaires were sent by mail to 39 councillors from Wielkopolskie and 33 from Lubelskie. Each questionnaire contained 24 questions, grouped in the following categories:

- The roles of councillors;
- Regional assembly and other regional actors;
- The opinions of councillors on regional democracy;
- The political careers of the councillors.

Overall, 23.6% questionnaires were returned (18% from Wielkopolskie and 30% from Lubelskie). The result of the research cannot thus be treated as representative; it is nonetheless indicative of certain trends in the way councillors view their role.

There were several reasons behind the selection of the two specific regions. First, for historical reasons their development progressed along different paths. The present Wielkopolskie was part of the Prussian Partition for over a hundred years, while Lubelskie was controlled by Russia. This legacy has significantly influenced the shaping of regional institutions as well as the size of economic and social capital, and the two regions continue to show substantial differences in terms of their potential. Second, there are political differences between the two regions. Wielkopolskie leans towards the left and centre-left, while Lubelskie tends to support candidates from the right or centre-right (Nikolski 2011).

Wielkopolskie is currently governed by a coalition of the Civic Platform (PO) and Polish Peasant's Party (PSL). The regional assembly comprises 39 councillors, of whom 17 represent the Civic Platform; eight belong to the Democratic Left Alliance (SLD), seven to the Polish Peasant's Party, and six to Law and Justice (PiS), and there is one independent councillor (Table 4). Questionnaires were completed by representatives of all political parties.

In the first category of questions, which concerned the regional councillors' perception of their roles, the responding Wielkopolskie councillors found their most important tasks to be representing the interests of the residents of the region (100%), monitoring the implementation of the region's strategy (87.5%) and defining priorities in the development of the region (71.4%). In reference to the first of these issues, they assessed their capabilities as very high (42.8%) and high (42.8%); 42.8% of councillors found they have a moderate influence on monitoring the implementation of the region's strategy, while 28.5% described that influence as low. The councillors found their influence on defining the region's priorities to be very high (28.5%) or moderate (28.5%). All the councillors indicated that their primary

role is to represent the interests of their constituency (100%), followed by the interests of the whole region (57.1%) and their political party (57.1%).⁷

In the questions regarding the regional assembly and other regional actors, the councillors considered the board of the region and its Head, the Marshal, to be the most influential (100% and 85.7% respectively). 57.1% of the responding Wielkopolskie councillors found the heads of department at the Marshal's office to have a relatively high influence on the decisions made in the region. The councillors' own influence on actions taken in the region was, in turn, described as moderate (71.4%). Further, research showed that councillors are aware of the connections between the different tiers of self-government, with 57.1% of councillors noticing the influence of regional administration on decisions made in municipalities and 42.8% perceiving this influence for decisions made at the county level. The same percentage of councillors (42.8%) noted the influence of central government and the EU on decisions made at the regional level.

In the questions relating to broadly defined regional democracy, 57.1% of councillors agreed that residents should actively and directly participate in making decisions concerning regional affairs, and that they should have an opportunity to express their opinions before a decision is made by the region's authorities. The same percentage of councillors, however, conceded that it would often be difficult to reach a broad consensus and efficiently solve a problem at the same time. 42.8% of councillors completely or partly agreed that councillors should make decisions in accordance with their own beliefs, with no regard to the opinion of the region's inhabitants. 71.4% of councillors deemed elections the most efficient feedback from residents, and direct meetings with residents, party meetings and consultations with local communities were judged as fairly useful by 71.4% of councillors. Interestingly, 28.5% of councillors found local referendums to be of little use.

The questionnaire included a section where councillors were able to give their opinions on desirable changes in the way the region is governed and decisions made. The most useful change, according to 71.4% of councillors, would be to broaden the procedure of consultation, through which the region's residents could be informed about and comment on the assembly's proposals. At the same time, over half of the councillors (57.1%) did not find it necessary to introduce direct elections of the Marshal or the option to recall the Marshal in a referendum.

An analysis of the attitude of the responding Wielkopolskie councillors to political parties shows that most (71.4%) believe that regional party structures have a substantial influence on the decisions of councillors in the assembly. At the same time, over 70% are of the opinion that a councillor should vote primarily in accordance with his or her beliefs, while over 40% believe that party discipline should be preserved. As for their future plans, all councillors wished to continue their political

7 More than one answer could be selected.

careers, either by standing for re-election to the regional assembly (50 %) or by running for a parliamentary seat (50 %).

The assembly of Lubelskie comprises 33 councillors, with eleven representing Law and Justice, nine the Civic Platform, nine the Polish Peasant's Party and four the Democratic Left Alliance (Table 5). Lubelskie, as well as Wielkopolskie, is currently governed by a coalition of the Civic Platform (PO) and Polish Peasant's Party (PSL). The questionnaires returned from Lubelskie were completed by councillors from Law and Justice, the Polish Peasant's Party and the Democratic Left Alliance.

In questions concerning the role of regional representatives, all the responding Lubelskie councillors (100 %) found their most important task to be defining the region's policy priorities. 80 % declared that representing the residents of the region was very important, while 60 % indicated that representing the views and interests of minority groups was important. Half of those responding (50 %) defined mediation in conflicts existing in regional communities as fairly important. Assessing their influence on defining the region's policy priorities, the councillors saw it as high (50 %) or moderate (40 %). 40 % of councillors described their capabilities to represent the interests of the residents as high, whilst 30 % viewed these as very high. A clear majority of councillors believed themselves to represent primarily their own constituency (90 %), followed by their region (80 %) and finally their political party (40 %).⁸

Describing the actors involved in the process of regional governance, councillors indicated the Marshal and the board of the region as the most influential person or body (90 % and 70 % respectively). Other influential actors in the councillors' assessment included the heads of departments at the Marshal's office (80 %), the Chairman of the assembly (60 %) and the Catholic Church (50 %). Half of the councillors viewed themselves as having a moderate influence on the initiatives taken in the region, whilst 30 % described that influence as high. As in Wielkopolskie, the Lubelskie councillors are cognizant of the connections between the different tiers of the state, with 60 % noting the influence of regions on municipalities and 50 % on counties. Over half of the councillors (60 %) perceived a substantial influence of the EU on the politics of the region. Interestingly, only 30 % of the responding councillors agreed that the central government has an influence on the decisions taken in the region.

In the questions concerning regional democracy, the councillors agreed (60 %) or partly agreed (40 %) that the residents should be actively and directly involved in decisions concerning the affairs of the region. Opinions were divided as to whether the residents should be able to express their opinion before the authorities make a decision, with 40 % of the councillors supporting the view that they should, and another 40 % selecting the "yes and no" answer. As few as 20 % of councillors partly or

⁸ More than one answer could be selected.

completely agreed that they should make decisions in accordance with their beliefs, independently of what the opinions of the residents might be. Elections, as well as regional and local media, were considered the most useful sources of information on the beliefs and opinions of local residents (60% and 50% respectively). Party meetings were described as fairly useful (60%), as were questionnaires surveying the level of residents' satisfaction (60%).

Just as in Wielkopolskie, the Lubelskie councillors were able to comment on the potential reforms of the system of regional governance. The potential introduction of a procedure of consultation, through which the region's residents could be informed about and comment on the assembly's proposals, was assessed as necessary (40%) or very necessary (30%). Direct elections of the Marshal, who heads the board of the region, proved a controversial notion: 50% of councillors found it unnecessary, while 40% supported the idea. 30% of councillors were in favour of the option to recall the Marshall in a referendum; the same percentage of councillors found that option unnecessary.

The Lubelskie councillors also noted the existence of a complex system of interrelations between political parties and decisions taken at the regional level. On the one hand, most of the respondents (70%) believe that the sitting councillors from a given political party have substantial influence on the decisions of the regional authorities of that party; on the other, over half of the councillors (60%) see substantial influence being exerted in the reverse direction. The opinion that decisions made at the regional level of the party are influenced by the national party leadership is shared by 40% of councillors. At the same time, the councillors believe that when voting, they should be guided primarily by their own beliefs (50%) or the wishes of the residents of the region (50%). Party discipline was not considered important, with no councillors selecting that option. As in Wielkopolskie, all the responding councillors expressed the intention to run for re-election (100%), with 20% considering standing for a parliamentary seat.

Conclusions

In many European countries, councillors are described as Janus-like, after the Roman god Janus: on the one hand, they have a responsibility towards the residents and constituency they were elected to represent; and on the other, there is an expectation that they will further the interests of their political party (Copus 2003, 32). The roles fulfilled by councillors are also affected by historical factors and the institutional context, as well as their own beliefs and understanding of local/regional democracy.

Several points need to be emphasised in an analysis of regional-level representation in Poland. First, the top-down creation of regions and regional institutions in 1998, a process in which political parties played a key role, has significant-

ly affected representation at this level. Even today, most councillors are members of major political parties; independent councillors or those representing regional parties are rare. In contrast, most county and municipal representatives have no political party affiliation; this is particularly the case in the latter group. Second, regional representatives have always been directly elected which gives them a greater legitimacy and creates a stronger bond with the electorate. Third, the regional assembly is the body which acquired the right to elect the region's executive – the board and the Marshal – and which was given the right to define the region's policy priorities. Furthermore, the regional level of government has dynamically evolved over time, strengthening its position and acquiring new competences. Therefore, considering the institutional factors at work, self-government authorities, including councillors, can be expected to play an increasingly prominent role in the system of regional governance.

Empirical research conducted in the Wielkopolskie and Lubelskie regions showed that despite the different history and potential of the regions, the councillors from the two assemblies have similar perceptions of their role, which in both cases is viewed as independent of political party affiliation. In both regions, they see themselves predominantly as representatives of the regional community and as administrators responsible for defining the region's policy priorities. Furthermore, both the Wielkopolskie and the Lubelskie councillors viewed themselves as representing first and foremost the residents of their constituency and then those of the whole region. Significantly, fewer councillors positioned themselves as local politicians representing primarily their own party. Interestingly, the councillors in both regions do not regard themselves as the leading creators of the region's policies. The Marshal, the board of the region and the department heads at the Marshal's office were named as more powerful in this respect. Over half of the responding councillors described their influence on operations in the region as moderate. As for multi-level governance, the councillors note first and foremost the influence of the region on the municipalities and of the EU on the regions; they also perceive the influence of regions on the county-level local government.

Expressing their views on regional democracy, the responding councillors from both regions agreed that the residents should actively and directly participate in decisions concerning regional affairs. At the same time, however, they appear to favour traditional means of ascertaining the citizens' opinions, such as elections or meetings, and distrusting the institutions of participatory democracy. Furthermore, most of the responding councillors distanced themselves from the idea of electing the Marshal in a direct vote, although the idea was not without its supporters in Lubelskie.

Interestingly, the results of the research on the relations between councillors and political parties do not confirm the common belief that councillors are primarily guided by the interest of their parties. They are admittedly aware of the mutual

influence of the regional party structures and the party members who are sitting councillors; however, they claim that political party affiliation does not determine their voting behaviour. In both regions, over half of the responding councillors affirmed that voting should be guided first and foremost by a councillor's own beliefs and then by the wishes of residents; party discipline was allotted the least importance in this context. The councillors expressed an intention to either run for re-election to the regional assembly or stand for a seat in the Sejm or Senate.

The roles councillors play in regional governance are determined by many factors. In the case of Poland, one major factor was the process of political transformation and the way regional self-government was created. Institutions built in the 1990s clearly related to "party democracy" rather than "citizens' democracy" (Vetter 2009). On the other hand, the results of the empirical survey indicate that regional councillors, whatever their political affiliation, consider representing regional communities to be their most important task. However, the dynamics of the change at regional level are creating more and more tension, forcing councillors to confront a number of new challenges. One of the most important of these is an increased participation of stakeholders and actors taking part in regional governance. This may influence the process of creation and development of the new roles. Nevertheless, additional empirical research is clearly needed to gain insight into the changing role of these regional political elite.

In conclusion, it has to be emphasised that while the research cannot be treated as representative, owing to the small sample size on which it was conducted, it is nonetheless indicative of certain trends. Regional councillors perceive their roles in a rather traditional way, viewing themselves as first and foremost representatives of the regional community and administrators. They do not, however, see themselves as the most powerful actors in regional governance, nor do they believe that political party affiliation determines their decisions. Interestingly, it seems that the gradual strengthening of the position of regions and the increasing complexity of governance do not appear to influence the councillors' perceptions.

The recent attempts to foster participatory democracy and its institutions in Poland may well force councillors to increase their engagement with citizens, NGOs and other stakeholders of governance. This issue, however, needs further research conducted on a larger sample of respondents.

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Appendix:

Table 1
Results of the elections to regional assemblies in 2010

Party/Committee	% Votes	Number of Seats
Civic Platform (PO)	30.89%	222
Law and Justice (PiS)	23.05%	141
Polish Peasant's Party (PSL)	16.30%	93
Democratic Left Alliance (SLD) and Green 2004	15.20%	85
Electoral committee of Rafał Dutkiewicz	1.64%	9
Electoral committee of Janusz Korwin-Mikke	1.22%	0
Silesian Autonomy Movement	0.97%	3
German Minority	0.4%	6
Other	10.3%	2*
* National Community of Local Self-Government: 1 seat in Pomorskie; Self-Government Agreement: 1 seat in Świętokrzyskie		

Source: Own calculation on the basis of National Electoral Commission data (Pol. Państwowa Komisja Wyborcza – PKW)

Table 2
Residents' opinions on the impact of different tiers of local self-government on community development (%)

Impact	Municipal self-government	County self-Government	Regional self-government	Central authorities	UE
To a large extent	64	50	40	30	34
To a medium extent	25	31	35	27	24
To a limited extent	5	8	12	30	28
Hard to say	6	11	12	13	14
Average rating	3.93	3.6	3.4	2.98	3.04

Source: The Centre for Public Opinion Research (Pol. Centrum Badań Opinii Społecznej – CBOS) 2010, Samorządność w Polsce. Bilans dwudziestolecia, http://www.cbos.pl/SPISKOM.POL/2010/K_144_10.PDF, 5.

Table 3
Voter turnout in regional assemblies

Year	1998	2002	2006	2010
Turnout (%)	45.4%	44.23%	45.79%	47.26%

Source: National Electoral Commission data (Pol. Państwowa Komisja Wyborcza – PKW)

Table 4
Division of seats in Wielkopolskie regional assembly (1998–2010)

	AWS	LPR	PO	PiS	PSL	Sam.	SLD	SDPL	UW	Ind.
1998	21				5		29		5	
2002		6	8		5	7	13	-		
2006		-	15	12	5	-	7	-	-	
2010			17	6	7		8			1

Source: Nikolski 2011, 325; Own calculation on the basis of National Electoral Commission data (Pol. Państwowa Komisja Wyborcza – PKW)

Table 5
Division of seats in Lubelskie regional assembly (1998–2010)

	AWS	LPR	PO	PiS	PSL	Sam.	SLD	SDPL	UW	Ind.
1998	20	-	-	-	12	-	16	-	2	
2002	-	7	2		7	8	9	-	-	
2006	-	1	6	11	8	4	3	-		
2010			9	11	9		4			

Source: Nikolski 2011, 305; Own calculation on the basis of National Electoral Commission data (Pol. Państwowa Komisja Wyborcza – PKW)

The Impact of Historical Heritage of Changing Territorial-Administrative Division on the Country's Decentralisation Performance

Gerda Zigiene¹

Abstract

The objective of the paper is to analyse how the historical alterations of the country's territorial-administrative division impacts the criteria and terms of intergovernmental division of competences and responsibilities.

The roots of self-government in Lithuania are centuries old. History shows that municipalities were formed in Lithuania during 1918–1919. However, their roots go back to the XIIIth century, when self-governments formed rapidly following the example of German towns, which were based on Magdeburg rights or their modification. The Law on Municipalities was in effect in Lithuania between the two World Wars. These municipalities were eliminated after the Second World War when the USSR occupied Lithuania. Once the independence of the country was re-established in 1990 the rapid changes of the system, turning from a central to market economy, were made.

Realistically, however, the reform of the territorial-administrative division, which consequently impacts the decentralisation process in the country, is still in process, despite more than two decades of independence. The main reasons for such uncertainty in the composition of both are: the lack of theoretical skills of frequently changing political powers and the absence of authentic traditions of self-government.

This paper aims to take a broader look at the subject by trying to make sense through the application of the concept of politic-administrative changes and their impact on the evaluation of self-government identity as well as on the decentralisation process. Attention is given to the historical changes of territorial-administrative division, as the consequence of the Soviet regime was the decimation of ter-

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ritorial identity, which through consistency, created the obstacles for the ongoing decentralisation reforms.

Introduction

In recent years, territorial administrative reform has continued in Europe. The *ups and downs* are generated by political and economic factors. In European countries, self-government bodies either increased or decreased, either split or got back together again. What determines these changes? Self-government is a complex formation. Its understanding, structure and evolution depend on many factors. On the one hand, the principle of decentralisation and subsidiarity states that public service must be provided as close to the people as possible in order to meet citizens' preferences; on the other hand, economic logic dictates that larger administrative units are able to provide public services more efficiently due to economies of scale. However, economists often forget that the historical heritage and the national mentality are sometimes crucial factors ahead of economic considerations.

In this article, the development of Lithuanian territorial administrative reforms is examined and an attempt is made to find an answer to the question of whether political or economic, and historical factors led to the course of the current reforms.

The article aims to analyse how the legacy of a historical administrative territorial division of the country causes conditions and criteria determined by the existing territorial administrative division in the context of decentralisation.

In order to achieve this aim, the following objectives are set: (1) to present the importance of territorial administrative division in the context of decentralisation; (2) to analyse the European trends and territorial administrative reform during the last decade; (3) to present the development of the Lithuanian historical territorial administrative division and its meaning for the current political-economic decisions.

Why is the territorial administrative division important?

The principle of subsidiarity² established in the European Charter of Local Self-Government has not only economic and political, but also spatial and demographic meaning. The size of the local government' territory does not only mean the geographical dimension. It is also related to a number of practical relations. Moreover, the form of local organisation determines the characteristics of other local govern-

2 The **Oxford English Dictionary** defines subsidiarity as the idea that a central authority should have a subsidiary function, performing only those tasks which cannot be performed effectively at a more immediate or local level.

ments, including the distribution of functions and the nature of the intergovernmental relationship between central and local authorities.

The territorial administrative reforms having been continuous for three decades in both the old European countries and countries with economies in transition and include a number of issues which are not only territorial, but also of an administrative and competency nature. One of the most important is the determination of the decentralisation level, which in turn is related, not only to the idea of decentralisation, but with some economic implications too. This means the satisfaction of citizens' preferences and the efficiency of the provision of local public goods and particular market failures as external or congestion effects. All these issues are related to the territorial size of the municipality, the administrative system and the level of decentralisation.

According to Oates (1972), if individuals with similar preferences (e.g. if their living conditions are specific) live in a small area, then decentralisation may be the best way to meet the specific demands. Differences in preferences must be assessed, even if it is difficult. For example, the issue of minority education is important when deciding to which level of government this function must be assigned, together with its funding. It is important to note that if the ethnic or religious communities are located in a small area (in one or several administrative territories), the provision of certain public services may be assigned to local governments. However, this cannot be achieved if the territory they are located in is across the whole country.

Ebel and Vaillancourt (2007) argue that the principle of heterogeneity of preferences is closely related to the geographic usefulness of functions on the area basis. Thus, the essence of this principle – individuals or groups living in different regions – may ask for different quantities for the same service provision, different quality of service, or have a different approach to the provision of services. Under these circumstances, the local government can provide adequate public services only if the area is in line with social preferences.

Another aspect of the territorial division defines the technical scope of economies of scale when determining the issues of provision of public goods or their manufacture. According to Ebel and Vaillancourt (2007) public goods and services should be provided by the level of government that can optimally achieve economies of scale. Economies of scale occur when reducing the supply of goods or production costs. Dafflon and Madies (2009, 32) note that factors of economies of scale may vary, depending on the functional area. Functional areas can be defined as:

- a) from the point of view of the **provision** (manufacturing) of public goods if the economies of scale occur across municipal boundaries, so there is a need for cooperation of local jurisdictions in providing such services;
- b) in terms of **consumption** of public goods, if the public goods provided by local government have overflow effects.

The potential economies of scale in themselves (Latin – *ipso facto*) are not based on establishing a geographical territory of self-government. Cooperation of the public and private sector or jurisdictional cooperation can also absorb the overflow effects.

The above mentioned reasons are only part of the economic motives, which should be evaluated by means of the parties starting the territorial administrative reforms and looking for decentralisation to local government. However, it should be noted that the historical legacy and tradition are often decisive factors in the territorial administrative division, which slightly distorts the economic preconditions for decentralisation.

Below, the trends of territorial administrative reform in European countries during the last decade will be reviewed and then an analysis of historical Lithuanian territorial administrative division, which led to another and now affecting the current decisions of decentralisation, will be listed.

What are the territorial administrative reform trends across Europe?

The economic crisis in 2007–2010 has led to a territorial reorganisation aimed at the optimal, rational use of resources, increasing the efficiency of local authorities. In recent years, the institutional power arrangement has also been changed. Having developed separate processes of federalism, decentralisation, and recentralisation, in some cases both the autonomy and financial viability of local government decreased. These territorial institutional changes have affected all levels of subnational government.

Dexia and CEMR (2012) provide reform models in 2011:

- In Greece, *Kallikartis* became a part of local administration reform in January 2011, so the number of municipalities was reduced threefold (from 1,034 to 324).
- In Germany municipalities were combined in several *Länder* (lands). In 2010 and 2011 in the *Saxony-Anhalt* state, the number of municipalities decreased by three quarters (from 840 to 220). Generally, during the four years, the number of municipalities in Germany decreased by 7% – from 12,456 municipalities in 2007 to 11,553 in 2011.
- There were 116 municipalities in 2009 and on 1 January 2012–106 in Luxembourg. In the State territorial reorganisation programme it is planned to reduce their number to 71 by 2017.
- In Finland in 2007 a project to restructure local government and services (PARAS) was started in order to decrease the number of municipalities gradually

from 431 in 2006 to 336 in 2011. However, at the same time, local expertise was being strengthened, particularly in the area of social services.

- In 2011 the Irish Government promoted mergers of cities and counties, and rationalisation of urban management systems. Local municipalities are encouraged to co-operate in providing common waste collection, water supply services, installing common systems for compensation calculation or for local tax collection.
- Since 2012, the Spanish Government has adopted a plan aimed at rationalisation of municipalities with less than 5,000 inhabitants (and that includes 84 % of the country's municipalities). The merger of municipalities and inter-jurisdictional co-operation are intended in the plan. Municipal competencies are expected to be redistributed according to the number of the population. Regions of Castile and Leon, covering about 2,200 municipalities with less than 5,000 inhabitants, will be affected the most by such policies. It is also planned to reduce and adjust the municipal competencies.
- However, the trend to merge or consolidate municipalities is not observed in all countries. In France and Luxembourg the merger process is moving slowly. In Northern Ireland the reform aimed at reducing the number of municipalities from 26 to 11 has been cancelled for the moment and postponed to 2015. In Italy, the plan, which was one of the 2011 fiscal discipline measures, to eliminate small municipalities (up to 1,000 inhabitants), has been rejected due to changing from the idea of merging to the idea of inter-jurisdictional co-operation.
- Recently, the governments promoted inter-jurisdictional co-operation as an alternative to the merging of municipalities. Co-operation is carried out in various forms, ranging from agreements to the simple transfer of functions, joint service provision, to the more complex integrated institutional forms of cooperation.
- In Italy municipalities with less than a 5,000 population in 2013 will have to share resources (group procurement, municipal unions), while at the same time reducing the number of council members.
- The UK Government has signed up counties to sign the shared services agreement in order to carry out specific public services.
- In 2011 a wide range reform of local government began in Portugal. In eliminating some municipalities, the reform aims to strengthen competencies and financial resources of 23 municipalities and 2 Metropolis (Lisbon and Oporto) by inter-municipal collaboration tools.
- The number of municipalities in Denmark decreased from 271 to 98 in 2007 and in Latvia from 524 to 119 in 2009.

As can be seen from just several examples, the “landscape” of municipalities has changed radically in the last few decades, especially during the last decade. The merger of municipalities was a result of the crisis and austerity measures.

Historical and political implications of the territorial-administrative division in Lithuania

Before analysing the realities and current issues of the administrative-territorial division in Lithuania, it is appropriate to draw a historical discourse which will make it easier to look into the existing issues of never-ending administrative reforms. Lithuanian history, as well as any country’s history, is unique, individual and different from other countries. The importance and significance of the country’s history is treated differently by various researchers. Anthropologists and historians, who emphasise the uniqueness of the country formed by its historical conditions, invoke the current situation, based on the country’s historical, social, and cultural experiences. Others choose the opposite approach, grouping countries into certain groups, based on selected features and looking for similarities rather than differences. According to the author, as with the appearance, structure and ability to survive, a plant depends on where and how it is rooted, the analysis of a country’s subsystem would not give a sufficient explanation of certain phenomena, having not disregarded historical heritage.

Already in the 19th century a model of one paradigm³ economy was abandoned. When studying such a complex system as a “national economy” it is necessary to rely more on empirical research methods, particularly to use historical and statistical descriptions in addition to theoretical logical sophistries (Martišius 2005, 48). Therefore, the so-called historic path (i.e. path dependency) is selected, i.e. the assumption that the initial choices made when shaping and formatting the authority or policies, limits and determines the subsequent choices.

Therefore, the historical approach in this case is important in two respects:

- In terms of the historical legacy of the system. This aspect will reveal the impact on the current administrative system of administrative reforms which regularly occurred in the course of history in different countries which have been applied in our country simply by introducing a new management model. After all, a change in management models, and lack of distinctive traditions and systems lead to searching for a “better and better” administrative model.
- In terms of self-government or centralisation/decentralisation. In turn, existing management centralisation/decentralisation shaped the nation’s understanding

3 Paradigm (Greek – paradeigma – example) – is a kind of thinking pattern, the subjective scheme of interpretation, which helps to understand and explain the phenomena. Paradigm can be defined as the whole of certain basic claims about the world and its method of understanding.

of self-government during the ages. This is important in the context of the current situation, because, according to Musgrave, “Thus, what needs to be done in one case, will depend on the particular set of: the country’s political and economic institutions, history and traditions...” (Musgrave 2003, xi).

Understanding of self-government appeared, based on customs, when people began to live in groups, forming territorial or tribal communities. These communities have been self-governing since they solved the issues of their own households, livelihoods and their distribution among members of the community.

In the course of the development of the state of Lithuania, in the community most people were farmers. In the 12th century, these communities were already referred to as *laukas* (a field), and their inhabitants – *laukininkai* (free peasants). Although the *laukininkai* community consisted of individual households, it co-owned part of the means of production, and performed some productive functions collectively. Cultivable land was divided between *laukininkai* – each household managed part of the land as own property, and grasslands, forests, and water supplies were used by everyone. Members of a *laukas* community lived in solidarity. Weapons and other means were used to defend their own fields; they helped other members of the community in times of need, for example, after a fire or other disaster; prepared joint meals, and buried their dead in a shared cemetery. In order to solve household and administration issues, *laukininkai* meetings were convened. The elder and community court were situated in the *Laukas*. There was also a castle and a Duke. In the 12th century, self-governments of individual settlements in our country were rapidly formed according to the model of German cities, based on the Magdeburg law, or its modification (Kulm, Lubeck). This Law was the first stable and reliable form of local self-government in Lithuania lasting several centuries (from the 12th to the 17th–18th centuries).⁴

Further analysis of the administrative-territorial self-government is divided into the following periods of decentralisation:

- Lithuanian Kingdom and the Grand Duchy of Lithuania from the 13th to the beginning of the 15th century.
- The Grand Duchy of Lithuania from the beginning of the 15th to the middle of the 16th century.
- The Grand Duchy of Lithuania in the Commonwealth of Two Nations from the middle of the 16th to the 18th century.
- The Russian Empire (1795–1914).
- World War I (1914–1918).
- Interwar period (1918–1940).
- Soviet occupation (1940–1990).
- Independence period (1990–present)

4 www.lsa.lt.

The Lithuanian Kingdom and the Grand Duchy of Lithuania from the 13th to the beginning of the 15th century. During the early stages of the Grand Duchy of Lithuania (GDL) some lands were managed by regional Dukes. When King Mindaugas united the country, many of the Dukes were killed, deported or otherwise eliminated. Power was divided between relatives and loved ones. These were the first rudiments of an administrative territorial formation and attempts to enter into a centralised management of Lithuania. However, expanding the country to the Slavic lands, the central government began to wane and the land became semi-independent.

In 1385, having concluded the Kreva treaty with Poland, the Lithuanian territorial administrative model began to change in line with the Polish model.

The Grand Duchy of Lithuania from the beginning of the 15th to the middle of the 16th century. At the beginning of the 15th century, Vytautas the Great began administrative reforms. Following the Polish example, the old feudal principalities began to be reorganised into voivodeships, but the process was slow (Kiaupa et al. 2000, 163–164). Thus, the Lithuanian administrative division at that time was already modified by the Polish one. Unlike Mindaugas times, when the management of administrative units was based on kinship ties, during the reign of Vytautas, a self-government model of noblemen was formed. Although the original idea was to strengthen the central government in the periphery, finally decentralisation became strong. In some places absolute self-government was dominant.

The Grand Duchy of Lithuania in the Commonwealth of Two Nations from the middle of the 16th to the 18th century. Important administrative reforms were carried out during 1564–1566, when preparing the Second Lithuanian Statute and thoroughly reviewing the legal framework (Kamuntavičius et al. 2001, 112). After the so-called reform of the powiat (1564–1566), the Polish two-level large territorial administrative division and the model of caste nobility of self-governance were established in Lithuania. On the basis of the sub-regional level, a powiat or a county became the main unit of nobility self-government (Encyclopaedia “Lietuva” 2008, Volume I, 21), whilst the voivodeship remained large regional-level units functioning for nearly two hundred years. Powiat sejmiks essentially became the supreme government and voivodeships had no direct power on powiats. The entrenchment of absolute self-government was one of the reasons for the internal state of the military and political potential weakening and collapsing (Daugirdas and Mačiulytė 2006, 93).

The Russian Empire (1795–1914). In 1795 when Tsarist Russia occupied Lithuania, the management was promptly reformed under the Russian example. The territory was divided into provinces (regional level) and counties, also called “újezd” (sub-regional level) (Daugirdas and Mačiulytė 2006, 94). The highest administrative state government belonged to a Governor General appointed by the Czar. The Governor General controlled not only the civil government of the prov-

inces, but was also the chief of the army located around the land. Governors – like the Vice-Governor – were appointed by the Czar, usually not from the local population-administered provinces, and headed the county's executive bodies. The greatest power in the counties belonged to the administrative ushers "ispravnikai", elected from the county noblemen, but under the authority of the Governor.

In 1785, in Russia, the self-government of counties of noblemen and provinces was introduced and was applied to the nobility of the connected GDL lands. The noblemen were granted Russian noblemen's rights, and sejmiks of the counties and provinces were left. But the rights of the sejmik, compared with GDL times, were poor. Therefore, these sejmiks performed more representative and advisory functions (Kulakauskas 2002). In 1861, after the abolition of serfdom, when peasants acquired citizens' rights, including the right to self-government, districts and neighbourhoods were established. However, these institutions had little rights and self-government was dependent on the will of the local noblemen. Thus, Daugirdas and Mačiulytė (2006) rightly state in their article that "the system of Russian territorial administration and self-government was completely alien to Lithuania – multilevel, highly exaggerated and highly centralised."

World War I (1914–1918). During World War I, when the Germans occupied Lithuania, the administrative territorial system was promptly replaced by the German order. Lithuania entered the territorial – administrative unit – **Oberost** (in German Ober-Ost). It was intended to be connected to Germany. Oberost Lithuanian territory was divided into six areas, but at the end of 1916 they had already merged into three areas, consisting of 58 counties ("cruisers") (Lithuanian Soviet Encyclopaedia 1987, Volume III), the county governor and his advisers, and the city mayor, under the authority of the county governor and appointed by German officers, structured the German administration. Management regulations of the Oberost eliminated the political rights and personal freedom of the population (forbidden to participate in any activities of administrative institutions, go from one county to another, or send letters in the Lithuanian language, etc.). The land was exploited economically (requisitions were conducted and various fees were collected). At that time, the local government was German. Since 1916, in major cities, boards were structured where local townspeople were appointed. City boards took care of home restoration, tax collection, and requisition organisation needed by the occupiers (Lazauskienė 2007).

Interwar period (1918–1940). After July 1918 the Eastern Front leadership formally abolished Oberost and created two administrative units instead – the Lithuanian region (independence declared on 16 February) and the so-called Baltic state (Kuršas, Lifliandija Estliandija).

Having declared its independence in 1918, the new political power in Lithuania realised at once the importance of local government for restoring the national state and the economy. Although both the Russian period and the German admin-

istration did not meet the needs and traditions of the state, an original Lithuanian territorial administrative division was not created; county boundaries were determined mainly by the boundaries of the Russian *újezd* and German cruiser, where in some places, they were slightly adjusted. The main chain of government was clearly identified, i.e. *volost*, which became a major local government authority. The government provided municipalities with rather broad competences, significant financial resources and tangible assets. Counties performed the role of intermediary between the central government and *volosts*. However, after 1924, having changed the self-government law, counties began to take shape as the central government territorial (regional), government tool, and the self-government of *volosts*' rights began to be limited. This type of governance was very close to the model of the centralised authoritarian state, but during a complex historical period in a complicated geopolitical situation, this could be justified. There was no clear decision about which territorial governance model should be selected (centralised or decentralised). Frequent and cardinal changes in the law confirm that the territorial administration and local traditions were in the process of being shaped (Daugirdas and Mačiulytė 2006, 95–96, Stačiokas 1991, 209).

Soviet occupation (1940–1990). The territorial administrative system from 1940 to 1950 did not substantially change. Only the elderships were replaced by neighbourhoods (Encyclopaedia of Soviet Lithuania 1988, Volume I, 86). In 1950, the counties and districts were cancelled, and the Lithuanian Soviet Socialist Republic was divided into *oblasts*, districts and neighbourhoods (Encyclopaedia Lithuanica 1970–1978, 17–21). Thus, the existing, but not completely formed municipal system, was finally destroyed and centralised, and municipalities retained only economic functions. The district council had no real power, since all important decisions had to meet the requirements of local communists or a higher authority. The purpose of councils was to implement the policy of the Communist Party, to manage cultural and political activities and to ensure compliance with Soviet law.

Independence period (1990–present). In 1990, after gaining independence, everything had to be recommenced from the beginning because Soviet people had been deprived of the right and the duty to manage their own affairs. In the current study there is an attempt to determine if this was actually achieved during the two subsequent decades. However, primary attempts to divide the territory into administrative units and to establish new institutions of self-government were not very successful. Self-government was not sufficiently active because the municipalities still executed the functions assigned by central government, thus, they had neither sufficient political freedom nor the independent budget or property to implement their own functions. Furthermore, the provisions of the Local Self-government Act (12 February 1990) on the power of municipalities and internal organisation of management bodies, created the conditions for internal conflicts between municipalities, councils and boards to come about. Although, according to the free will of the citizens, the Lithuanian Supreme Council was elected on the basis of the

Provisional Basic Law (1990), the conditions for the transition from a centralised to decentralised management were created, but in reality, the aim of the first year of independence was not achieved. The system was criticised because the territorial division was no different from the former Soviet period. On the other hand, within such a short time since independence, the country's changing of the legal, economic, civil and social systems was hardly expected to provide constructive solutions for the decentralisation of the management system. Moreover, as is clear from the historical review, strong traditions of local management in decentralised countries were not present in Lithuania. Basically, in changing the system, there were difficulties in distinguishing and defining the central and local government functions and administrative system clearly, or in providing a strategy for the development of local self-government, and appointing local governments on an economic basis to ensure their valuable functioning.

The situation changed in 1992, when, in the new constitution of the Republic of Lithuania, there were six articles referring to local self-government. Article 6 and the constitutional norms on local self-government were prepared according to the provisions and requirements of the European Charter of Local Self-Government.⁵ This was the impetus for the modification of the legal system governing self-government. In 1994 the Law on Local Self-Government, Municipal Offices Election Law, Ministry of Territorial Units and their Boundaries was adopted. Despite the efforts of various social groups, the division remained similar to those after the reforms in 1990. The law was implemented in 1995 replacing the previous two-level and five-category system (districts, republican subordination cities, cities subordinated by counties, urban-type settlements and neighbourhoods) by a two-level and two-category system (counties, municipalities):

- 10 counties (higher-level administrative units under the authority of the central government);
- 56 municipalities (units with the right to self-government, 44 districts and 12 city municipalities);
- Elderates (territorial units with no rights of self-government, under the authority of the municipalities).

It can be seen that the efforts for the development model of the legal framework and territorial administration did not reflect the objective of decentralisation. The territorial administrative system remained close to the Soviet system, although there were suggestions to restore the inter-war Lithuanian territorial administrative structure and names of the various levels. Decentralisation shifts in Lithuania began in a difficult national and international situation. Such superficial changes could be a consequence of the central government, as in 1990, there was no clear strategy of decentralisation; there was no incentive to break down (from the political point of view) the system for the governing left-wing government with sufficient seats both

⁵ Lithuanian municipalities' portal. Development of local self-government in Lithuania.

Table 1
History of territorial-administrative division in Lithuania

Period	Levels of management*, administrative – territorial unit					Characteristics of self-government. Signs of centralisation / decentralisation
	1 st central power	Level 2	Level 3	Level 4	Level 5	
Lithuanian Kingdom and the Grand Duchy of Lithuania from the 13th to the beginning of the 15th century.	King Mindaugas (Lithuania Grand Duke (~ 1236–1263), King of Lithuania (1251–1261))	Land managed by relatives. Vicegerents – tįjūnai (Latin tivunus)				Land remained semi-independent, weak ties with the central government.
The Grand Duchy of Lithuania from the beginning of the 15th to the middle of the 16th century	Self-government of cities – Magdeburg law Duke Vytautas	Voivodeships managed by noblemen	Powiats			Links with the central government strengthened, caste noblemen self-government model formed. However, eventually decentralisation was strengthened.
The Grand Duchy of Lithuania in the Commonwealth of Two Nations the middle of the 16th–18th century	Self-government of cities – Magdeburg law The central government highly concentrated in Poland	Voivodeships managed by noblemen	Counties (powiats)			Powiat sejmiks essentially became the supreme government; voivodeships did not have any direct power on powiats. The entrenchment of absolute self-government.
	Self-government of cities – Magdeburg law					

The Russian Empire (1795–1914)	Governor general	Governorates	Újezds	Since 1870 districts	Since 1870 Elderates	Territorial-administrative structure equivalent to Russia. A centralised multi-level governance system. Weak self-government
World War I (1914–1918)	Eastern Front leadership (Oberost – administrative territorial unit)	Districts (Bezirkas)	Counties (cruisers)	n.d.	Elderates	Territorial-administrative structure equivalent to Germany.
Interwar period (1918–1940)	Seimas		County	Volosts	Elderates	During the first year of independence, self-government was stronger. In 1924 after amending the Municipal Law the county's (representing the central government), influence increased while districts became limited.
Soviet occupation (1940–1990)	Presidium of the Supreme Soviet of the Lithuanian SSR	Oblasts	Districts	Neighbourhoods		In 1940 the county and district councils were released and self-government was destroyed.
Independence period (1990–now)	Seimas	County**	Municipalities	Elderates	Sub-elder-ships***	Only municipalities have the right to self-government. Therefore, in Lithuania there are only two levels of government, or a government level system.

* Levels of government are divided relatively, because in the Table the period analysed covers several centuries; finding a single division is unlikely to be successful, and the main focus is not on the accuracy of the administrative territorial division, but on the changing perceptions at self-government, regional, sub-regional or local levels in the course of time and subordination, and the aspects of centralisation/decentralisation.

** The county administrations were cancelled in 2010. Only the territorial-administrative unit remained.

*** Elderates – since 2009.

Source: compiled by the author

in parliament and the municipalities. However, returning to the idea that the period of four years after restoring independence was not a sufficient time interval to reform the system that had been in force for many years, we can treat the reform not as finite, but simply as being at one of its stages.

Later, it was planned to continue the territorial administrative reform by crushing administrative units, and gradually increasing the number of municipalities to 90, but the following steps have not been taken. At present there are 60 municipalities in Lithuania with a legal personality and LR constitutional right guaranteed by the government of Lithuania. As Kornai rightly pointed out (1992): “The change of government itself does not mean a change of the system, but rather is an assumption of a system change. Change of systems is a historical process, which seems to require a long period of time.”

Conclusions

In Europe, the implementation of territorial administrative reform is fluctuating, whilst the issues of making municipalities smaller/larger and their size are a never-ending debate. As can be seen from the last decade, the trend for the change in the number of municipalities shows a decrease in the number of municipalities and enlargement of regional administrative units, whilst at the end of the last century, the predominance of federalist ideas led to administrative units being broken up.

Territorial administrative division is determined by many factors. These are not just political decisions, the level of decentralisation, or economic factors, but also historical heritage, which is particularly felt in the post-Soviet countries and their efforts to develop decentralised systems.

As can be seen from the perspective of the historical Lithuanian territorial-administrative division, the country does not have a genuine and deep tradition of division that has been established according to the needs of the population over the years, as can be seen from the country’s volatile geopolitical situation.

Lithuanian history shows that even throughout the 20th century, the models of Lithuanian territorial management and local self-government were changed many times. Centralised management was dominating and self-government was limited or minimal. This prevented the development of local self-government and community traditions; the solidarity of the population declined, and indifference to public affairs increased.

The very beginning of the formation of territorial identity was completely destroyed during Soviet times. Because of the lack of political will, the implementation process of a new territorial and municipal management was delayed and became very complicated. As in the inter-war period, it is still meandering between centralised management and greater self-government.

The absence of both local and regional self-government made Lithuania a unique, quite radical type of unitary state, with a transformed Soviet administrative division of territory. Therefore, in Lithuania the problem of territorial administration reorganisation and decentralisation still remains relevant.

First and foremost, the basis for territorial administration reforms must be the fundamental principles of decentralisation and economic territorial division and for the sake of efficiency, leave aside the residual phenomenon of historic collisions.

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A Chance to Restart Public Administration Reform in Slovakia¹

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The paper compares and contrasts two key public administration modernisation reforms in the history of the Slovak Republic: decentralisation and modernisation efforts of the early 2000s and the very recent and still ongoing “ESO” reform that began in 2012. The focus is on the current reform which, if successful, will arguably be the most important public administration reform in Slovak modern history. The authors examine the two reforms in terms of their stages, specifics, challenges, and known or expected outputs and outcomes. The paper shows which legislative and administrative tools have been implemented and how they affected the current state of public administration in terms of its modernisation. The authors conducted primary and secondary research which draws from various data, including interviews with a former, and a current architect of the public administration reform, which reveal previously unpublished information and government plans.

Keywords: public administration reform, decentralisation, self-government, politico-administrative relations, Slovakia

1. Public administration reform process

The time between the fall of Communism and the end of the 1990s in Slovakia and other eastern and central European countries is often described as a period of missed opportunities (Nižňanský 2002; Verheijen 2003). The early 1990s have been a suitable era, not only for democratic transformation and economic transition, but

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also public-administration reform. However, most of the countries in the region, including Slovakia, failed to “catch up” with the west during this period. Slovakia nevertheless managed to pass key administrative reform measures – especially in terms of decentralisation and deconcentration in the early 1990s (Tables 1 and 2).

Table 1
Timeline of Slovakia’s key public-administration developments⁴

Year	Process	Events & measures
1989		Fall of the Communist regime in Czechoslovakia ⁵
1990–1998	Decentralisation and Deconcentration	Creation of municipal self-governments ⁶ , dissolution of Czechoslovakia and creation of Slovakia (1993). Territorial change and reconstruction of state administration (1996). Creation of new districts [okres] (79 in total) and regions [kraj] (8) with own district and regional offices representing and carrying out tasks by civil servants on behalf of the central government. ⁷
1998–2004	Decentralisation and Modernisation ⁸	New public-administration reform strategy, creation of 8 regional self-governments (i.e. higher territorial units). Creation of the Civil Service Office and Ethical Code of Conduct for civil servants. ⁹ Public Service Act ¹⁰ passed and first regional elections held.
2004		EU accession
2005–2012	Politicisation	Civil Service Office abolished, and its roles moved to ministerial service offices (return to resortism). Abolition of Regional Offices and fiscal decentralisation to regional and municipal self-governments. New Civil Service Act ¹¹ removed all remaining civil service neutrality safeguards.
2012–	<i>Modernisation II</i>	<i>New one party government elected – public administration reform ESO commenced.¹² Plans announced to reduce the number of local state-administration offices from 613 to 79 by 2016. Regional Offices of Specialised State Administration abolished on 1 January 2013.</i>

Source: authors

4 Due to the ongoing public administration reform, the article has only considered developments until the time of writing, i.e. June 2013.

5 Three levels of public administration which were each run by the system of national councils.

6 Municipal Act 369/1990.

7 Act no. 221/1996 [Zákon o územnom a správnom usporiadaní Slovenskej republiky].

8 Modernisation is sometimes also referred to as “professionalisation of public administration” or “civil service reform”.

9 Civil Service Act 312/2001.

10 Act no. 313/2001.

11 Act no. 400/2009.

12 One of the first legislative measures of the reform has been Act no. 345/2012 on Some Measures Regarding Local State Administration.

Table 2
System of public administration in Slovakia

Public administration				
State administration			Self-government	
Central state administration (i.e. ministries, Government Office, central-government agencies)	<i>Regional state administration</i> ¹³ (i.e. <i>Regional Offices, Regional Offices of Specialised State Administration</i>)	Local state administration (i.e. Area Offices)	Regional self-government (8 higher territorial units or <i>župy</i>)	Municipal self-government (2890 municipalities)

Source: authors, Malíková and Vávrová 2011

However, regarding modernisation and civil service neutrality, the Slovak public administration still had a long way to go. The general election in 1998, which saw an unprecedented level of public mobilisation against the Meciar regime, also brought in a new grand coalition government with plans to continue with the public-administration reform – both in terms of further decentralisation and modernisation.

Since local decentralisation had already been more or less completed, the first key public-administration reform goal of the 1998 coalition government was the creation of a new, regional and self-government tier of government. The so-called higher territorial units (*župy*) came into existence in 2001¹⁴, and the first regional elections were held in the same year. The Slovak case study illustrates how the lack of administrative and political culture can easily lead to a public-administration reform acting as a double-edged sword – both in terms of decentralisation and modernisation. Ever since 1990, Slovak municipalities, even compared to municipal governments of other central and eastern European countries, have enjoyed a considerable level of local and regional decentralisation – both for the good and for the bad. The paper covers this process and points out some of the drawbacks and lessons learned from the Slovak public administration reform in terms of its decentralisation.

Furthermore, decentralisation efforts were supplemented with modernisation, which meant an increasing emphasis on management, control and education.¹⁵ The

13 Regional offices dissolved in 2007. Remaining Regional Offices of Specialised Public Administration dissolved on 1 January 2013 and regional state administration de facto ceased to exist.

14 Regional Municipalities Act 302/2001.

15 See MESA 10 (1999) for the complete Strategy of Public Administration Reform in the Slovak Republic.

new legislation offered the means to public-administration modernisation. For instance, the Civil Service Act¹⁶ introduced various innovative measures which were meant to form and uphold modern, flexible, politically neutral and high-performance civil service – just as the EU accession criteria specified and requested. Among various other measures, it is worth mentioning the creation of the Civil Service Office and the introduction of the Civil Servants Code of Ethics. However, soon after Slovakia joined the EU, the Act was severely and gradually weakened until its current form, which lacks sufficient political-neutrality safeguards and allows government ministers and other political appointees to hire and fire civil servants as they wish.¹⁷

The key factor which influenced Slovakia's public-administration reform process – both decentralisation and modernisation, was accession to the EU (Košťál et al. 2012). Prior to the 2004 accession, Slovakia was required to meet numerous strict criteria – which it did more or less successfully. Since EU membership was among the top priorities for all parliamentary parties, EU conditionality also led to an unprecedented cross-party consensus on the issue of regional decentralisation and public-administration modernisation.

The paper will now discuss and provide a narrative of the latest public administration reform, officially named as the “ESO reform”, which commenced in 2012. The authors will also analyse some key similarities and differences between the current and the last key public administration reform of the early 2000s. The paper will particularly point out methods, challenges, results and outcomes, and some lessons learned from the specific reform efforts. The authors approached Viktor Nižňanský, the architect of the previous key public administration reform, and Adrián Jenčo, the General Director of the Public Administration Section at the Ministry of Interior, one of the key people behind and in charge of the current reform. In March 2013, they both provided the authors with extensive interviews which have brought some new insights into the respective reforms and which reveal previously unpublished information and government plans. These interviews revealed some previously unknown information and a number of government plans. Despite being granted this interview opportunity, information provided and used in this text should be treated by readers with caution and rather as a proposed government policy plan. Because of a lack of any other relevant and detailed primary or secondary sources, the effort of researchers should be seen as an endeavour to share previously unpublicised government plans and attempt for the first time to analyse, compare and contrast the ongoing reform with the previous major reform efforts.

16 Civil Service Act no. 312/2001. Other legal provisions were also implemented, e.g. the Public Service Act. However, the case study will focus on the Civil Service Act only, which best illustrates the challenges and lessons learned from Slovak public-administration reform.

17 For more information and detailed narrative of the reform process of modernisation and decentralisation in Slovakia, see for instance Jacko 2013.

2. The “ESO” reform

In March 2012, Slovakia saw an unprecedented election result with the Smer-SD party winning enough votes and seats so that it formed a government unilaterally and is 7 seats short of a constitutional majority.¹⁸ The historically first Slovak democratic one-party government since 1989 announced a new wave of public-administration reform, dubbed “ESO” (Efficient, Reliable, and Open).¹⁹ However, despite having a clear parliamentary majority and a decisive and functioning central government, depoliticisation is very unlikely. The official government programme makes no mention of changes in politico-administrative relations (Programové vyhlásenie ... 2012). Instead, the social democratic government is promising a new radical wave of public-administration reforms in terms of modernisation and increasing effectiveness and efficiency, and though not mentioning it by name – very much in the *New Public Management fashion*.²⁰

2.1 State administration shake-up

Perhaps one of the clearest government reform goals is to decrease the number of most state-administration offices from 613 to 72. The government promised and has already delivered dissolution of 64 regional offices of specialised state administration.²¹ It also plans to reorganise, merge and bring most remaining local state-administration offices “under one roof”. They are now based in different buildings and towns throughout Slovakia, and the plan is to have only 72 Area Offices left, which would represent the 79 existing Slovak districts (Bratislava and Košice having only one Area Office each), ideally based in as few buildings as possible and with easy electronic contact and access points. The Minister of Interior, who is responsible for the ongoing reform, argues it will make public services and state-administration staff costs cheaper, more efficient and accessible (RTVS 2012a). The reform programme and government representatives also emphasise, in a rather PR-exercise way, values such as transparency, quality, client approach, accountability, citizen involvement in decision-making and a “system of strategic planning and management” in the civil service (Programové vyhlásenie ... 2012; 33). If the reform is fulfilled as planned, it will arguably deliver a significant public-administration reform, primarily in terms of its modernisation but also in terms of a considerable drop in central government spending. It should also bring a major enhancement to the quality of public services provided.

18 SMER-SD currently holds 83 out of 150 seats as of April 2013.

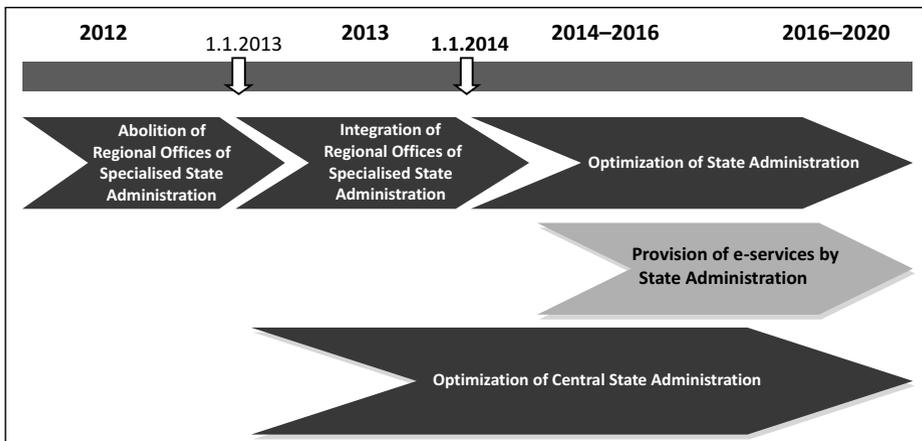
19 From the Slovak *efektívna, spoľahlivá a otvorená*.

20 For media coverage of the reform, see for example: TA3 2012; Sita 2012; Pravda 2012; Kováč 2012; RTVS 2012a.

21 Act no. 345/2012 on Some Measures Regarding Local State Administration. The 64 offices ceased to exist on 1 January 2013.

However, critics point out that the proposals that have been put forward so far lack goals in terms of depoliticisation and/or further decentralisation but, instead, bring only structural changes to the bureaucratic system and an “illusion” of a reform in terms of resources saved (e.g. Hospodárske noviny 2012; RTVS 2012b). If successful, the reform will merely bring a decrease in the number of state-administration offices present in municipalities and regions but not of their officials and staff (RTVS 2012b). The amount of public resources to be saved is also put into question. The government announced that thanks to the reform it will save up to 400 million EUR until 2015 and 700 million EUR until the end of 2016 – this would account for 1 % of the GDP of Slovakia (Saková 2012, Jenčo 2013). However, the critics argue that if any resources are cut, this will be due to overall cuts in government spending, not because of the benefits of the reform per se (RTVS 2012b). So far, considering the sheer scale of the reform, proposed structural changes and the amount of resources to be saved, the government has produced only very few and limited reform proposals, which lack any reform analysis.²² In terms of politico-administrative relations, the ongoing reform is very unlikely to change the status quo either. The reform stages which include the abolition and integration of regional offices of specialised state administration (until the end of 2013) and the optimisation of central and overall state administration (beginning of 2013 and 2014) can be seen in Table 3 below.

Table 3
The “ESO” public administration reform stages



Source: Saková 2012

²² The only officially available information through the Ministry of Interior website: MINV SR 2013a; MINV SR 2013b.

2.2 The master plan

Despite being publicly viewed as a project of the current government, the ESO reform was not an idea of the current government but had been initiated by the Radičová's administration (Jenčo 2013). But the name "ESO" was created during the current government. Various analyses have been carried out since 2012; some had been initiated and already started during the previous government. The current reform team also made quite an unusual decision to retain all staff who had worked on the project under the previous government. Without any major changes or alterations, the current government was able to devise, finalise, launch and promote its own reform "master plan".

The reform plan comes with a number of general and "common sense" principles (Jenčo 2013):

1. Each year the government spends 40 million EUR on rent. The government should not pay rent for state administration offices.
2. A citizen does not know which office is meant for what. The government should be closer to the people and the intention is to simplify the process and make it more customer-friendly.
3. The key goal of the reform is not to sack people but to save money. Hence, the government has not so far announced any planned redundancies but instead, focuses on the money saved.
4. Any government-made reform analysis is their "know-how". Instead of revealing detailed government plans and analyses, the government will announce every year how much money has been and will be saved through the reform.
5. State administration and self-government could work much more economically and efficiently. The government plans to offer outsourced state services for local self-governments²³, and also has plans for further self-government reform.
6. The current state administration system is too fragmented and complicated. The government instead plans to copy the already existent territorial divisions – 79

23 For instance, previously only the Ministry of Interior had 50 area state administration offices and each was making public contracts on all services necessary, including utilities and other necessary products and services. These offices will be abolished (i.e. their administrative-legal status) and their original role will be centralised through the support centres. The plan is also to set benchmarks and minimal requirements for specific job descriptions. For example, a payroll officer will have a set minimum of staff he is responsible for. Furthermore, once having such a system put into practice, the Ministry plans to offer its services via support centres to local self-governments too, i.e. via outsourcing.

districts of Slovakia and will create corresponding 72 “one stop shop” offices. Bratislava and Košice has more districts but will only have one such office each.²⁴

7. If the public sector is not working, take inspiration from the private sector. The government plans to introduce front office and back office, clearly taking inspiration from the private sector. Each district will have its own “one stop shop” called the Contact Administrative Citizen Point (i.e. KAMO²⁵) with a number of extra Integrated Service Points (i.e. IOM²⁶) located, for instance, at village and town halls, post offices, etc. This should also function as an anti-corruption tool. KAMO will limit corruption because the client will not get into direct or any contact with the staff making a decision, but only front desk staff who have no authority to make a decision. Other proposed changes and private-sector-inspired plans will include the introduction of performance management into the system of state administration which will also increase audit and control.²⁷ This will also include performance measurement and a system of staff motivation through the amendment of the Civil Service Act.

In September 2012, the Ministry of Interior was required to finalise the ESO reform plan. The strategic document which has not been so far made publicly available and which further elaborates the reform details mentioned in this paper is called “Elaboration and Completion of the ESO Reform”.²⁸ As of 1 January 2013 the government has synchronised state administration and support services have been fully launched. On 1 October 2013 there will be more competences moved and this will affect 4,000 state administration office staff. 40 other government agencies will merge with local state administration. Legislation which will cover this is, as of April 2013, already in the parliamentary legislative process.²⁹

2.3 Beyond ESO

The unpublished action plan includes reform phases until the year 2020 hence it is unlikely that integration of state administration offices will be the end of the reform. According to Jenčo, there are more teams also working on other government goals (2013). However, because the current government does not intend to ever publish a concrete action plan, the reform arguably has a key limitation – lack of verifiable data.

24 According to the government, this will also be beneficial in terms of civil defence. The whole coordination process in case of emergency will be simplified. The one chief of staff of local state administration present in the district will be able to make decisions much more effectively. Hence, the government intends to give back districts their old structures and roles and to merge all existing offices together.

25 In Slovak, “Kontaktne Administratívne Miesto Občana”.

26 In Slovak, “Integrované Obslužné Miesto”.

27 The government wants to know how many people are needed in order to effectively react to changes that the reform will bring.

28 In Slovak, “Rozpracovanie a dopracovanie reformy ESO”.

29 See NRSR 2013 for the proposed wording of the new legislation and the statement of purpose.

There is also an ongoing audit which commenced in January 2013 and which looks at the efficiency and effectiveness of used resources and government decentralisation – especially in terms of decentralised powers granted to local and regional self-governments. In Jenčo’s words, the audit’s aim is to:

Thoroughly review the state of performance and competencies undertaken by bodies of self-government at both levels (municipalities, regions); also to review the state of their funding in order to achieve high quality, cost-effective and efficient execution of these competencies. The audit will analyse both the transferred powers and the original self-government competences. The audit is currently [March 2013] being carried out by all ministries and other central government agencies. The role of the Ministry of Interior, in cooperation with the Ministry of Finance, is to prepare a summary report on the results of the audit together with a draft of proposed measures. Deadline is set at 1 October 2013.

(Jenčo 2013)

The government will analyse the situation from a pre-2005, post-2005 and post-2011 perspective. This data will be provided and analysed by individual ministries, together with an internationally renowned external audit company. One of the key tasks is to get rid of duplicity, for example in terms of school offices. Then, using this gathered information and also information from municipalities, the Ministry of Finance, Ministry of Interior and the external audit company will do an analysis and prepare recommendations. Based on this audit the government wishes to find out which decentralised or devolved powers are useful and which would better be returned to the central state administration. Also, having such information, the government will have necessary data which would help analyse the potential merger of municipalities.

Critics argue that the ESO reform is too narrow and lacks a more complex approach – it especially misses the opportunity to improve the running of local and regional self-governments. However, Jenčo argues that the government limited the reform to state administration only, partly because the central government does not have any measures to influence local self-governments (Jenčo 2013).³⁰ Instead, the government plans to set an example itself through its state administration offices and wishes to inspire self-governments too. According to Jenčo, the government identified a further 300 million EUR in the local self-governments in terms of their potential cost-saving cuts. Hence, not only (re)centralisation but also a major territorial reform is likely before 2020.

30 Although one could argue that despite so many powers already being vested in local and regional self-government, the central government still retains considerable power over self-government, especially through distribution of collected proportional tax (in Slovak, “podielové dane”).

3. The reforms compared

Seemingly different, the paper will now attempt to more closely compare and contrast the two key public administration reforms, the decentralisation and modernisation reform of the early 2000s, and the current ESO reform. The authors selected 6 key points which will be discussed in further detail: scope of the reforms, reform staff, political support behind the reforms, the role of EU conditionality, communication strategy, and reform outcomes.

3.1 Scope

In terms of scope, the reforms are, at first glance, very different. The two pillars of the first reform were decentralisation and civil service modernisation, whereas the ESO reforms so far publicly announced targets are the reorganisation and simplification of the system of local and regional state administration (Jenčo 2013), and also improvement in citizen access to government services. However, according to the interview conducted, the current government wants to continue and go beyond the ESO reform and already also has plans in terms of (re)centralisation, major territorial reform, and, last but not least, civil service staff motivation (*ibid.*). Hence, although being so far viewed as being rather narrow and local state administration-focused, the ESO reform has many far reaching plans. If successfully and fully delivered, it will likely outreach the previous reform, also in terms of scope.

3.2 Staff

One of the key differences between the two reforms is in the people who have been in charge. Viktor Nižňanský previously worked in the third sector organisation MESA 10 and later became a politician in order to deliver the public sector reform that he had previously worked on. He argues that if he had not been an active politician, the reform would have been much harder, if not impossible, to deliver (Nižňanský 2013). This is in clear contrast to the current reform. Adrián Jenčo used to work in a private multinational company as an IT and customer support expert and had no previous work experience in the public sector or politics (Jenčo 2013). Similarly, Denisa Saková, the Ministry of Interior's Chief of Staff (MINV SR 2013c) who is also in the core reform team and is Jenčo's direct superior, previously worked for the same multinational company and also as a senior consultant at one of the major multinational consulting companies. Between 2007 and 2010 she worked as a general director of the IT, Telecommunications and Security Section of the Ministry of Interior. The core reform working team includes between 5 to 10 people, but in total from 50 to 100 people have worked on the ESO reform agenda. As a result of key staff having extensive managerial and private sector experience, and reform plans confirm it, the reform team takes inspiration from the private sector – both in terms of managerial style and reform content (Jenčo 2013).

In contrast, Nižňanský worked closely with his former third sector colleagues and created his own new team at the Government Office. This was necessary because of the arguably strong politicisation of government staff during the previous Mečiar's government (Nižňanský 2013). On the other hand, the current government let the whole ESO team stay, despite the change in government and only the top management team is new (Jenčo 2013). This is clearly not in line with the more than 20-year practice of government staff shake-ups following each general election (e.g. Beblavý and Beblavá 2011). One could argue that this decision also illustrates the new managerial style – i.e. ignoring the political background but instead focusing on staff merit.

In terms of international staff support, which was available due to various inter-governmental grants and support schemes at the time, Nižňanský (2013) chose to do the reform more or less “in-house” as he believed there were enough experts in Slovakia – both in the government and in the third sector. The current reform team is similarly made up of home experts only. However, the current government, unlike the former one, neither approached nor consulted any third sector or academic experts. By contrast, it has “head-hunted” some high calibre private sector managers, including Mr Jenčo and Mrs Saková and put them in charge of the reform. What is more, the current reform team is taking inspiration from international experience too. The team works with the OECD on a project directly related to public administration reform (Jenčo 2013). OECD will not only comment on the reform but will also make suggestions which might be used during the implementation process.

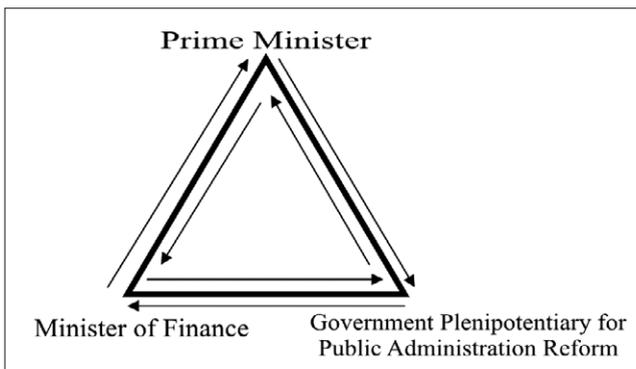
3.3 Political support

In order to successfully pass any public administration reform, political support is necessary. In terms of party politics and in the Central and Eastern Europe domain, this has, until very recently³¹, meant mostly the support from a coalition government and its members of parliament for the respective public administration reform legislation. The general election of 1998 brought in a plethora of political parties which had united against the then Mečiar's government and formed a grand coalition government which included 4 main coalition parties which themselves consisted of more than 10 political parties in total. In such a complex political situation, a major public administration reform seems all but straightforward. Nižňanský (2013) argues that if it had not been for him becoming a member of the ruling government party of the day and later the Government Plenipotentiary for the Public Administration Reform, the reform would not have been passed as planned. Because of his political position and government status, he was able to influence and persuade the parties and their MPs to vote for crucial pieces of reform legislation. Nižňanský adds that despite having a multi-party government, the ruling parties were able to agree on crucial issues, especially in terms of the EU mem-

31 As of April 2013, Slovakia and also Hungary have one-party governments with clear majorities.

bership efforts. Hence, if necessary, he made use of leverage from the conditionality of EU membership (*ibid.*). Nevertheless, he did not always succeed and a number of public administration reform acts were either not passed, or were passed but not in line with the original government intent (*ibid.*). However, the former reform plans had the support of the public and especially of the self-governing municipalities and its representative organisations, such as the influential municipal lobby/interest group ZMOS.³² Naturally, they had supported the reform because it was going to grant them much more power and also more financial resources. Last but not least, Nižňanský also stressed the importance of a working “reform triangle” (Figure 1). The triangle consisted of three key people and their respective government offices which were behind the public administration reform. Interestingly, all three of them, the Prime Minister (Mr Mikuláš Dzurinda), Minister of Finance (Mr Ivan Mikloš)³³, and Government Plenipotentiary for Public Administration Reform (Mr Viktor Nižňanský), had previously worked closely together in the MESA 10³⁴ NGO.

Figure 1
The public administration reform triangle



Source: authors, inspired by Nižňanský 2013

The situation today is very different. Fico’s government has a clear parliamentary one-party majority. So far, all government legislation was passed with ease, including the abolition of regional offices of specialised state administration in 2012. Because of no other government coalition parties, there has been arguably less need to create such a cross-governmental triangle as before. Jenčo argues that the reform at such a scale would be impossible, if it was not for the one-party gov-

³² In Slovakia, y

³³ Mikloš became the Minister of Finance in 2002 but previously held the post of Deputy Prime Minister for Economic Affairs.

³⁴ MESA 10 is an NGO and a think tank which played a crucial role in the government reforms of the first and second Dzurinda’s government.

ernment (2013). The reform is predominantly operated and run from the Ministry of Interior, with some consultation from the Ministry of Finance and relevant other ministries if necessary. The core ESO reform team is based at the Ministry of Interior and includes the Minister of Interior (Mr Robert Kaliňák), the Ministry's Chief of Staff (Mrs Denisa Saková), the Ministry's Public Administration Section General Director (Mr Adrián Jenčo) (Jenčo 2013). Hence, any major disapproval from within the government is unlikely. State administration staff have also, so far, refrained from any protests or open and organised disapproval. If the reform goes further, as planned, and even goes beyond the publicised plan, sooner or later the local self-governments will react. Having their independent status, they are likely to voice their concerns, especially in terms of some decentralised or devolved powers being taken back from them by the central government. In case any territorial and municipal boundary changes occur, one may expect a major opposition of the municipalities due to their general reluctance to merge together.

3.4 EU conditionality

EU conditionality played a crucial role in the former public administration reform but arguably and, to a different extent, in the current reform too. Nižňanský admits that if Brussels had not been pushing for regional and further local decentralisation, the decentralisation reform would have been implausible (2013). Furthermore, Lubomír Plai, the only Civil Service Office Chairman before the Office was abolished, argues that the EU conditionality also played a fundamental role in the modernisation and depoliticisation process of public administration – mainly of the Slovak civil service (Jacko 2013). Similarly to Nižňanský, Plai argues that one of the few and perhaps the only working argument he often had to use in order to gain political support for any changes in the system of civil service was EU conditionality.

Interestingly, EU conditionality, although of a different kind, has also played a significant role in the ESO reform. Despite already being a member of the EU and having the euro as Slovakia's currency, the ongoing financial and economic crisis influenced the current government's top priorities. The government plans to meet the EU's target of a maximum three per cent GDP deficit in 2013 (Vilikovská 2013) and will, in later years, strive for a balanced budget. The ESO reform is an indivisible part of this plan (Jenčo 2013). Jenčo also admits that the government's priority to save public resources via cutting state administration spending is the main driving force behind the reform. If successful, the ESO reform is meant to save up to 400 million EUR until 2015 and 700 million EUR until the end of 2016, which would account for 1% of the GDP of Slovakia (Saková 2012, Jenčo 2013).

3.5 Communication strategy

The modern world of politics cannot ignore the importance of a well thought out communication strategy. Nižňanský admits that he spent days and weeks campaigning at various stakeholder meetings in order to explain and obtain support for his reform and ideas. The government, MESA 10 and other institutions published numerous policy materials and analyses of the then still ongoing reform (e.g. Nižňanský 2002, 2005; Mesežnikov and Nižňanský 2002). The media were provided with all the necessary reform documents (Nižňanský 2013) and, as a result, one could hardly say that there had not been enough policy information made publicly available. In terms of its effectiveness, Nižňanský argues that he managed to secure the support of the municipalities (i.e. ZMOS), of academia and also of the public (ibid.). However, one of his main defeats was the vote on the final number of self-governing regions. Nižňanský, ever since, argued for the 16-regions model but, in the end, due to political calculation, the 8-regions model was passed and is not likely to change. Nevertheless, due to the complex political situation at the time, it is hard to argue whether or not a different communication strategy would have made any difference.

The ESO reform team took a completely different approach. Inspired by *Leading Change* and other work by John P. Kotter (1996), Jenčo acknowledges the influence of the theory and practice of change management (Jenčo 2013). He argues that communication plays a crucial role in any reform process and details such as how exactly they want to cut costs is their “know-how” which they will not reveal – either to the public and media, or to researchers. One of the explanations given is that having their full intentions made public could have been understood differently and could jeopardise the whole reform project. However, according to Jenčo, the reform team is also in contact with the OECD and keeps them informed about the reform developments. Being in contact with such a highly recognised and influential international inter-governmental institution, gives the reform even more international recognition and potential backing if needed.

3.6 Outcomes

Institutionally, the former reform has been a relative success (Jacko 2013). But democracy cannot work without the people. The two rounds of the first regional elections in 2001 were signified by a very poor turnout, which continued and even dropped by the time of the second regional elections in 2005 (2001: 26.02 %; 2005: 18.02 %; 2009: 22.9 %).³⁵ In light of these percentages, one may argue that the regional government still struggles to attract greater public interest and political engagement. Critics of the reform also argue that it represented only limited structural

35 Slovak Statistical Office: <http://app.statistics.sk/vuc2009/sr/tab2.jsp?lang=sk>; http://app.statistics.sk/vuc_2005/slov/results/tab2.jsp, <http://app.statistics.sk/volby01/webdata/slov/tab/tab1.htm>.

changes to the system of public administration and that a more personal approach was missing (Agh 2003). The reform process was predominantly concerned with the territories, their numbers, boundaries and the selection of regional capitals. This was also reflected in the parliamentary and public discourse. Instead of being granted extra rights, the public was, for instance, more concerned with the benefits they or their towns would gain from being the regional capitals. Even Viktor Nižňanský admits (despite the overall success of the reform) that further reforms should have been made in order to bring government and decision-making closer to the people and make the government more effective.³⁶ Nižňanský was, at the time, dissatisfied with the rise in number of civil servants, and he also pointed out that further reforms would be needed to deliver the changes that he had originally hoped for. The key architect of the reform blames the politicians and their private interests for failing to deliver a more successful administrative reform at the time (Nižňanský 2002, 2013). However, following the election of the pro-reform government in 2002, regional decentralisation successfully continued, and until 2004 more than 400 powers and competencies were devolved to the 8 self-governing regions. In terms of outcomes, not only Nižňanský (2013) argues that his decentralisation reform was for the most part successful – especially considering the reform’s goals to “to form a modern, democratic, decentralised state providing its citizens with real opportunities to participate in the governance of the public matters” (Mesežnikov and Nižňanský 2002, 11). Even Verheijen (2003, 491) mentions at least partial success:

The Slovak government strategy on decentralisation and modernisation of the public administration (1999) is another interesting example of a well-designed strategic document, even if its orientation was more towards decentralisation. The implementation of the strategy had been fraught with difficulties, due to the vagaries of coalition politics in the state, but it still offers a rare case of a strategic framework that has been at least partially implemented.

Regarding the success or outcomes of the ESO reform, we should refrain ourselves from commenting, due to the still ongoing process and lack of verifiable data. Nevertheless, the first signs show that the reform has so far gone ahead as planned and that the government might save even more money than originally planned (Piško 2013, Jenčo 2013).

36 For instance, he was disappointed with the rise in numbers of civil servants and duplicity due to the co-existence of Regional Assemblies (established 2001) and Regional Offices (established 1996) (Nižňanský 2002). For another useful summary of the reform including recommendations, see Nižňanský 2005.

Conclusion

Public administration reform is not an end but merely a means to an end. In order to have a successful administrative reform, clear and/or cross-party political support is needed, and the reform has to be accompanied by a longer administrative and political culture change. The Velvet Revolution (1989) signalled the first wave of change in the system of Slovak public administration. The first decentralisation phase soon followed, and only six years later the government commenced the deconcentration of public administration. The year 2001 was crucial for continued public administration reform – both in terms of decentralisation and of modernisation. The peak reform efforts were reached in 2004 when Slovakia joined the EU. Afterwards, the Slovak civil service has experienced a move backwards in terms of further politicisation of politico-administrative relations. The recently announced and commenced government plan to improve the quality, effectiveness and efficiency of public administration could indeed signal a new wave – a chance to restart public administration reform, but critics remain rather sceptical.

In terms of the two analysed reforms, they are not the same. Nevertheless, one can identify a number of similarities, for example the EU conditionality playing a crucial role in both reforms. Slovak decentralisation requires more impact assessments to objectively evaluate the extent of the reform success. Having a fragmented local government could be viewed as a good example of subsidiarity and a high level of local democracy, but in order to achieve effectiveness, political culture and active civil society must be present in the long run. The considerable level of decentralisation and fragmentation has brought opportunities for public participation on the one hand, but often at the cost of efficiency on the other. The current ESO public administration reform also has some sound aspirations and seems well planned. Researchers should watch out for any early accomplishments or failures.

To conclude, current reform developments in Slovakia give hope that public administration will be closer to the people and move even further towards its original purpose – to serve citizens with better quality and less cost.

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Interviews

- 26 March 2013, Viktor Nižňanský, former Government Plenipotentiary for Public Administration Reform and former Government Office Chief of Staff.
- 27 March 2013, Adrián Jenčo, General Director of the Public Administration Section of the Ministry of Interior.

The End of Regionalism in Hungary? An Assessment of Local Governance Before and After

Edit Somlyódyne Pfeil¹

Abstract

After an experimental phase of a decade, the Hungarian Parliament abolished the para-state institutions of regional development and also broke with the principle of regionalism. In 2010, state building, based on a new philosophy, began with significant implications for both the system of local governments and the operation of governance at the local and meso-level. The aim of this paper is to evaluate, from the aspects of local governance, an institutional system that allows the horizontal cooperation of the various actors and their integration into the vertical branch of governance. The study focuses on two separate periods: the former period of regionalisation, on the one hand, and the period after the approval of the new Constitution and Act on local governments, on the other. Its methodology is basically the analysis of the legislative frameworks, with a public policy approach and it also tries to support the evaluation by the introduction of partial results from an empirical survey.

One of the main findings of the paper is that in the name of regionalisation, an extremely dense organisational network (both at subnational and micro-regional level) was created for the cooperation between the different sectors and levels. Still, the para-state development councils, operating with the dominance of public administration actors, proved to be unsuitable for reaching the integration of the fragmented local and territorial actors and for the changes in the administrative capacities in accordance with the expectations of the EU.

The empirical research activity aimed at surveying three city-suburban areas with large cities. According to the results, there were very weak foundations for the birth of governance structures but cooperation, willingness and ability were high amongst the public elite. Also, the survey tried to detect the existence of regional thinking and the boundaries of a potential functional urban area, but one could see little signs of this in the city regions. Surprisingly, after 12 years of strong state

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regional policy, it was recognised that the vertical branch of multi-level governance did not work, despite the fact that local governments collaborated in a large number of cooperation organs.

In 2010, a reform was introduced in Hungary which pushed public administration towards the notion of effectiveness and cost-efficiency. This reform seems to have been accompanied by a rather *étatiste* state in the framework of which the hierarchic and centralised methods of the management of public tasks enjoy priority over the principle of decentralisation. The conclusions show that the governance methods of the municipalities definitely gained a public law character, which brings them closer to classic government but distances them from governance. The circle of institutions of cooperation definitively became narrower, and they provide rather small interfaces for building partnership with the various actors, both with the higher governance levels and with other sectors.

1. The institutional frameworks of local governance in the light of regulation and operation (1999–2011)

A new philosophy of state organisation began in Hungary two years ago, with significant implications for both the local government system and for the operation of governance at the local and meso-level. Hungary organised local public administration in 1990 following the principle of “one settlement – one municipality”. The local government system of the country has been fragmented since then. Together with the Czech Republic and Slovakia, Hungary has remained an east-central European state with small municipalities where inter-municipal cooperation has a significant role in the operation of public administration at the basic level (Swianiewicz 2010).

Hungary has made several attempts in the past two decades since the transition to modernise its administrative structure, but the political will, necessary for a final decision, was non-existent until 2011. It was a constant dilemma for central administration about how to meet the EU’s expectations; whether there was a need for decentralisation of the central power and a strengthening of the subnational level, or whether it was enough to build up administrative capacities in order to meet the directives related to the implementation of the structural policy of the European Union.

Hungary was a forerunner in the eastern European block, with the approval of its Act on regional development and physical planning in 1996, including formal acceptance of the Union’s basic principles on structural policy. The first breakthrough towards regionalisation was the introduction of the planning and statistical regions in 1999, but the seven institutionalised regions have not become administrative units. We must not forget, however, an interesting event: in 2002 the government’s programme clearly stated that decentralisation and the breaking down of the over-centralised power was a basic government task. In relation to this, the gov-

erning party launched the reform programme of public administration, with three interrelated reform objectives: the introduction of the model of regional public administration (planned with the directly elected body); the rationalisation of local administration, together with an increase in its efficiency, and the implementation of the financing reform of local governments. In relation to this, the foundation of self-governing regions in the seven NUTS2 spatial units became an obligatory government programme in 2002, 2004 and 2006. Although there was research carried out on the creation and operation of the self-governing regions (Horváth 2004), Parliament rejected its introduction in 2006, due to the deficiencies of the professional and political preparation (Verebélyi 2009).

For want of something better, para-state institutions were created for the tasks of regional development: so-called development councils operated at four levels, i.e. national, regional, county and micro-regional level. In addition, there were those institutions that provided participation on legal grounds for the municipalities in decision-making at higher levels, at the vertical branch of governance. Regional development councils were the dominant elements in this institutional structure. They were constructed on the principle of delegation and dealt mainly with support distribution, and also with spatial planning and programming. In the councils, the municipalities had representation, on the one hand because all towns with county ranking in the territory of the respective regions were automatically members; on the other hand, the micro-regional development councils that realised the integration of municipalities at the first level (LAU1), had three representatives in the councils. The operation of the county development councils, at one level lower, were emptied in the present Union programming period of 2007–2013, and all functions related to the management of the Structural Funds were delegated to the agencies of the regional development councils.

We should add, at this point, that the original concept of the structure of the regional development councils was that their composition should reflect the principle of partnership in accordance with the expectations of the European Union. This principle could also have guaranteed the efficiency of regional development, but the development councils were nationalised in 1999 and after changes in the laws, representatives of administrative organs were exclusive members. It is only in the composition of the National Regional Development Council, where the principle of partnership is still visible, that this organ has an almost negligible position in the vertical chain of influencing decision-making, despite its role defined as an organ for governmental coordination of spatial policy. Among the members of this consulting body, with no decision-making competency, we find chairpersons of the National Chambers of Economy, representatives of the National Economic and Social Council and three representatives of the national level of municipal associations.

In the administrative and territorial management of Hungary, institutions were slowly born that seemed to be suitable for communication between the differ-

ent levels and for the integration of actors at the same levels. Among the members of regional development councils there was a balanced proportion of representatives of different bodies from the respective region and delegates from the ministries, i.e. representatives of the central state. This was seen as a negative point by many, but this composition could have easily led to the birth of a platform of representatives of the central state and representatives of different tiers (county, micro-region, towns with county status), although the regional interest was actually never specified (Somlyódyne Pfeil 2006).

The institutional structure of regional development has often been criticised. Nevertheless, despite all its malfunctions, it did have some positive features for local governments. In the system with broad responsibilities, emphasising the unquestionable primacy of the local level, the willingness of municipalities to cooperate, striving for sovereignty was rather weak. Spatial view and planning were missing in the municipalities. The spatial development councils operating at different levels inspired their member municipalities to cooperate and articulate their interests. The spatial scale of this interest articulation was the so-called statistical micro-regions. LAU1 level (174 statistical micro-regions) was a spatial unit of integration for both spatial development activity and public administration, because from 2004 to 2011 the same statistical micro-regions were frameworks for the micro-regional development councils and for the so-called multi-purpose micro-regional associations (MMA) responsible for the implementation of public services by the municipalities. Both institutions formalised the cooperation of municipalities only; in fact, they both consisted of the same municipalities. After some time, a positive integration of municipal and spatial development organisations was brought about by the regulation, according to which in those micro-regions where all local governments were members of the multi-purpose micro-region association, the council of the multi-purpose association was also the council of the micro-regional development council. This remedied the problem of unnecessary organisational parallels.

Within a few years, the full integration of the local level was realised, as the MMAs covered the whole territory of Hungary and within their frameworks, municipalities provided the majority of basic health, social, public education, children and family protection, and educational and public collection (library) services. Apparently, it was the ideal state of the cooperation among the municipalities: all municipalities were forced to cooperate. The explanation for this was that they were only eligible for central budgetary supports if they provided services jointly. The level of micro-regions did not become an administrative level, but it operated as a decision-making and public service organising level. The delegated body, consisting of the mayors of the member municipalities, the association council and the micro-regional development council, had certain authority: they approved the territorial development programme made for the statistical micro-region, of the so-called public education development concept and also of the social services development plan. The joint planning activity of the municipalities is a suitable governance tool

as regards its content, and also a suitable method for the management of conflicts among the settlements in the horizontal dimension. And, as has already been mentioned, the institutions established at LAU1 level are able, although through multiple representation, to represent their interests as decision-makers in the regional development councils. The importance of participation is proved by the fact that it was the regional councils that decided on the award of EU Structural Funds' support in the framework of the operational programmes of the respective region (Somlyódyne Pfeil 2008).

As regards the horizontal cooperation institutions of the local governments analysed so far, it is striking that they still follow bureaucratic governance methods as an effect of the decision of the legislator, and they do not need relationships with either the economic sector or the civil and other non-governmental organisations. In fact, in the organisation of the public services the state gave the municipalities less and less freedom every year to outsource tasks to the private and not-for-profit sector (cf. Pálné Kovács 2009).

In Hungary, in the first twenty years of the democratic state, there was a general belief that the meso-level of self-governments, i.e. the county self-governments, was very weak in both their position and responsibilities. The county general assemblies, however, operated as a full right subnational level as they were led by a political body elected by the electorate. Prior to the changes in their profile in 2012, the county had broad competencies in social, public education, public collection, youth protection, sport etc. and public services, to which considerable financial resources were allocated. In addition to these, they carried out spatial planning and established foreign relations with subnational units of other countries. It was diagnosed as a general problem that the competency of the subnational level did not include territorial development tasks, as it was a task of the previously mentioned regional development councils as delegated bodies. The anachronistic nature of the situation is well reflected by the fact that Parliament divided the so-called territorial development tasks between the regional development councils and the county assemblies. The biggest loss may have been that the development ideas of the government, the micro-regional development councils, the municipalities and the economic organisations in the territory of the county had to be coordinated by a development organ of a corporate character. This organ was also responsible for the assistance of the development activities in the micro-regions with its professional capacities. In the integration of local municipalities, the county self-governments were made negligible in this arrangement and they lost their relations to the local level.

What is also worthy of note is that in the other branch of events, in public administration, legal regulations only allowed local governments to participate in those associations formalising the cooperation of municipalities. The legislator has still not allowed the establishment of associations governed by public law for the cooperation of municipalities and county self-governments. The reason

for this extraordinary situation is probably the fact that the level of subnational self-governments has been regulated with a subsidiary character since 1990, i.e. local authorities and their associations are allowed to acquire any task at the county level, which the county assembly cannot reject. The interpretation of subsidiarity has led to the un-questionability of the primacy of the lower level in the provision of tasks. Consequently, no joint organisation of tasks by the local and the county level has been reached, unlike in the regulations in many other countries. In other words, the connection between the county and the municipalities was also missing in the form of the inter-communal associations. The para-state organs, county and regional development councils, were designated as the arena for communication and coordination between the local and the meso-level self-governments. A question often asked during a decade about these organisations was what interest they represented (Pálné Kovács 2001). On the one hand, the ability of the development regions for the representation of regional interests was questioned, and on the other, the sheer existence of regional interest was doubted, i.e. there was a question as to whether there was such a thing as regional interest at all. What was missing in the first place from their operation was any effort to use development interventions at county, micro-regional and local level in a strategy, dynamising the development of the region. As a result of the so-called watering can effect and because the decisions of the councils served to satisfy the interests of all territorial organs represented in the council, the operation of the regions neglected the principle of resource allocation and became “effectiveness”.

The findings of some empirical surveys – researching the adaptation to the Union’s institutional system in the Hungarian support policy – already came to the conclusion for the 2001–2004 support period that in the cooperation of actors at micro-regional and local level, the vertical relations were stronger than the horizontal relations. Also, in the period prior to Hungary’s accession to the European Union, relations within the counties were even stronger than those outward-looking to the regions (Pálné Kovács 2009). On the side of the local actors, the articulation of interests aimed at the acquisition of advantages during the communication to higher levels, as a consequence of which the institutions designed for horizontal cooperation did not become a field of unification of resources and the creation of synergies; on the contrary, they functioned more as an arena for the intensification of the competition of the actors.

A network analysis carried out later also pointed out that the importance of the institutional relations of the actors of territorial development was still most palpable in relation to the local municipalities. The dominant actors in the order of importance of institutional relations are municipalities, followed by the media and the subnational authorities, while regional councils are far less important and even more negligible are the county development councils. The embeddedness of the civil sector was extremely weak, on the periphery of institutional relations (Pálné Kovács 2009).

We can see that Hungary has continuously strived to catch up with the EU through the development of its institutional capacities in the ten years that have passed since accession. As a strongly centralised member state, however, it has not been able to make significant steps towards decentralisation. As a consequence of this, the combined weakness of the autonomous territorial levels and the social sector is an obstacle to the establishment of the mechanisms of multi-level governance. The macro-political sphere was built up with transition, but the meso- and micro-level policy hardly works. On the other hand, a condition of real membership in the Union would mean that the Hungarian institutional actors would be able to meaningfully participate in the integrated process of vertical and horizontal Europeanisation, as pointed out by Ágh (2009). As we have tried to prove with the aforementioned, regional development and development policy, artificially separated from public administration, operated in totally fragmented institutional structures, and the division of the competencies between the municipalities and the development councils resulted in the fact that none of them were capable of real integration. In the decision-making process of the public sector, non-governmental organisations and the economic actors are only able to participate on a very limited basis.

Disintegration and confusion, visible in the local and territorial institutions, coupled with other factors, have led to unfavourable macro-economic phenomena: out of the seven Hungarian NUTS2 regions, four are among the 20 least developed regions of the EU on the basis of their GDP per capita data. The Union set the goal in its Lisbon Strategy to become the most competitive region of the world by 2010. The standards used for the measurement of competitiveness suggest that a considerable part of the factors relates to the quality of the operation of the state, so an “underperforming” state can worsen the positions of the economy. We should start from the wider definition of competitiveness “... which determines the ability of a nation to create and maintain an environment that sustains more value creation for its enterprises and more prosperity for its people” (Garelli 2003, 702, quoted by Lengyel 2010, 112.). The Global Competitiveness Report 2010–2011 published by the World Economic Forum (WEF 2011) ranks the competitiveness of Hungary at position 22 among the EU 27 member states. Hungary only preceded Slovakia, Romania, Latvia, Bulgaria and Greece. It is striking that among the indices listed between the three main groups of factors used for the calculation of the Global Competitiveness Index – Basic requirements, Efficiency enhancers, Innovation and sophistication factors – Hungary was in the worst position regarding the factors qualifying the institutions and the macro-economic environment. These factors, representing the efficiency of the governance of the state, ranked Hungary worse than the final position of the country (position 79 and 69, respectively, out of 139 states, while the country has position 41 in the group of factors related to innovation).

2. Situation of cooperation and interest articulation ability of the municipalities

2.1 Goals and methods of the empirical research

It is definitely characteristic of the period of Hungarian regionalisation that in an extremely dense institutional network it theoretically created the possibility for everyone to cooperate with everyone else and find a way to represent their interests within the framework of the regional development policy. The extent to which this possibility became a reality will be illustrated by some findings of a research completed recently (Somlyódyné Pfeil 2012). The research covered a two-year period from June 2010 to May 2012, supported by the Hungarian Scientific Research Fund (Országos Tudományos Kutatási Alap, OTKA).² The research focused on empirical findings in the city regions of Győr, Miskolc and Pécs. These three city regions are those which the methodology of Hungarian statistics considered as agglomerations, in addition to the agglomeration of the capital city. These agglomerations are located in three different regions of Hungary, and consequently they represent three completely different types as regards their development level and socio-economic situation. The cities are located at the third level of the Hungarian urban hierarchy, as the Hungarian urban network lacks a large city category below the metropolises, a level that is considered as large cities or agglomerations by European standards. In an international setting these cities are middle cities, together with their hinterlands.

The research sought an answer to amongst other things, the question as to whether in the selected city regions there exists some sort of cooperation and if so, at what level, and what the conditions are for the creation of the unity of space that is presently fragmented from an administrative aspect. According to our hypothesis, a dominant condition for the competitiveness of the city regions is the quality of urban governance, and we also believe that this is cooperation on a regional scale by which local actors of the city regions can enter the national and international space from their local space. One of the objectives was to obtain a picture of the conditions and participants of the cooperation operating between the three city regions which can be described as agglomerations, and also of the areas and organisation frameworks of cooperation, or, in the absence of these, of the needs and willingness for cooperation by local and regional actors. We handled the analysed regions, not only as spaces of public administration and public service organisation, but also as planning development and economic development spaces.

An important methodological foundation of the research was the questionnaire survey hallmarked by interviews carried out with the most significant local political, economic and civil sector actors. The breakdown of the interviewees was as

² *Registry number: K81789, Title: Issues of the institutionalisation of agglomerations within and beyond the structure of public administration. Research leader: Somlyódyné Pfeil, E.*

follows: local politicians accounted for 56 %; economic actors 38 % and civil actors only 6 %. We must add, however, that non-governmental organisations involved in regional and economic development were either difficult to detect or showed indifference about the research. This explains their low representation in the sample, which is also a reflection of the general weakness of the civil sector in Hungary. The paragraphs hereinafter are focused on the summary of the opinions of local politicians on several aspects.

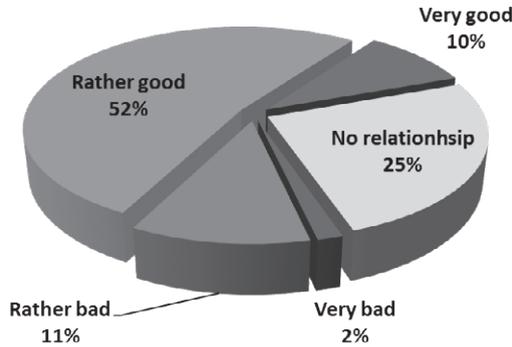
2.2 Governance abilities of three city regions during the period of regionalisation

Hungarian public administration has lacked, since transition, the legal and organisational framework into which cities and city regions could integrate. There is no adequate institution for the cooperation of urban hinterlands, for their joint planning and development, not to mention their operation. A slight change was brought to this situation in Hungary by the introduction of the micro-regional administrative system in 2004, when the legislator applied, within the framework of 174 statistical micro-regions, the same uniformed organisational model, irrespective of whether it was hinterlands of middle towns of a rural or urban character. This is partly explained by the fact that the primary mission of complex micro-regional associations was the rationalisation of public administration at the basic level and levelling out the quality of public services. This was the institutional model that also operated in the three sample regions in such a way that it neglected the position and role of the cities and did not assign any function to them (Somlyódyne Pfeil 2010). Thus we could not consider the multi-purpose micro-regional associations as adequate organisations formalising the cooperation of functional urban areas. It was a positive effect of these organisations from another aspect, though, that they were obliged by law to approve certain sectoral planning documents, which could lead to the establishment of coordination and spatial view in the circle of the municipalities.

One of the questions of the structured interview was about how local politicians assessed their relationship with the city and its local government. Respondents declared the existence or non-existence of these relationships, as a result of which we received the rather unexpected answer that 25 % of the surrounding municipalities had no relationship with the central city; 13 % of them thought that this relationship was bad to some extent and 62 % assessed this relationship as positive (*Figure 1*). We made a cross-table analysis for this question, which did not reveal a significant correlation between the type of answers and the respective regions. The high proportion of “no institutionalised relationships” raised questions about the MMAs actually operating at the time of the data collection. On the basis of this, we came to the conclusion that the multi-purpose association was not a framework of cooperation for one-third of the municipalities, but it was more about meeting the expectations of the state and was nothing but a tool for access to extra budgetary supports.

Figure 1

Local politicians' own judgement of the relationship of their municipality to the core city (in per cent), 2012



Source: edited by author's own survey.

We can say that the municipality of neither the Pécs nor the Miskolc micro-regions over-rated the operation of the multi-purpose micro-regional association, although in these two micro-regions, the operation of this institution was model-like, it integrated all municipalities and provided the local public services assigned to them for the total of the territories (Somlyódyné Pfeil 2012). The fixed point of view is explained by the fact that the majority of associations worked because of financing constraints.

The next control question was as follows: “To what extent do you think the multi-purpose micro-regional association can serve as a framework for the cooperation of the city region?” The majority of replies said that this institution was a framework which was very or adequately suitable. The proportion of these replies was 72 % from all responses. More than a quarter of the respondents gave negative replies (not suitable at all; not suitable; not good enough; do not know). Replies did not show significant correlations to the respective regions. As there was no harmony between the replies given to this and the previous question, it seemed probable that the municipalities accepted the institution under pressure of the financial incentives and so when they definitely had to evaluate this kind of institutional relationship, two-thirds of them had positive opinions. In other words, they showed the attitude to the questioner and the state that they were expected to show. On the other hand, when they had to evaluate their institutionalised relationship to the big city in general terms, the multi-purpose association was not the framework of cooperation on a voluntary basis and mutual horizontal advantages for 37.9 % of local politicians.

The next question asked was whether the local authority of a large city represented the interests of the municipalities in the city region or not. The questionnaire

offered the levels of interest for the responses, which were as follows: micro-regional, county, regional and national levels. From the responses given we obtained a rather negative image of the operation of the levels of interest articulated by the mayors in the city regions; if the replies “no” and “do not know” are treated as one single group, almost 70 % of respondents said that local and city region interests could not be articulated at the regional level. The situation is even worse if we look at the national level, whereby the only interest that received an evidently positive evaluation was that within the micro-regional level. In other words, cooperation at the vertical branch of the political institutional system was considered by local politicians to be the least successful, with weak efficiency.

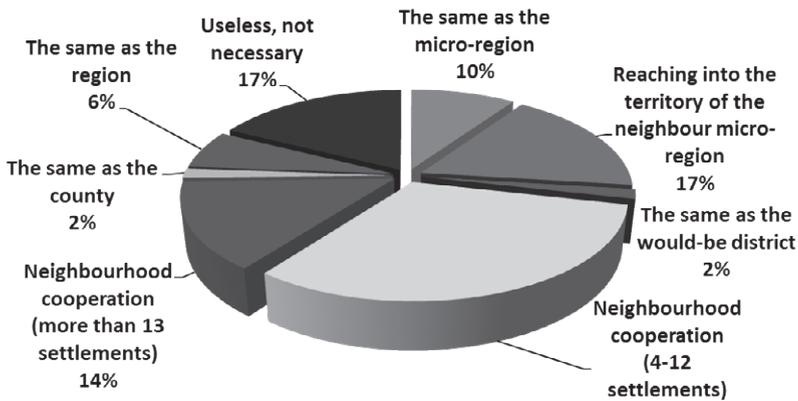
Amongst the questions there was one concerning what level of interest the respondent thought most important for the development of the city and its region. Responses reflected the current institutional constellation as 62 % of all respondents – probably inspired by the experiences of the last years – specified the micro-region level, whilst 15 % of them favoured the national level as the desirable interest area of the city regions. The picture is only complete if we add that the questionnaire survey was conducted – with the exception of the Győr micro-region – in 2011, and at that time there was no verbal intention by the legislator to eliminate the micro-regions.

We tried to explore the relationship between the municipalities with a question about the existing joint development tenders in the city regions. The finding was that real cooperation manifested in actual investments was not really typical of the municipalities. If we consider the total of three city regions, more than half of the municipal leaders said that they had no current development tenders with other municipalities, so they were unable to specify any concrete development goal. The specified types of common development goals were not too inspiring, either, in any of the city regions, as the responses of the municipal leaders did not reveal any effort towards direct promotion of the economy or development of the business environment. The findings suggested in this respect that the municipalities in the agglomerations appear to be in competition with each other.

At the end of the interview the interviewees were given the task of drawing the boundaries of an ideal city region, on the basis of their subjective perception that they considered as integrated from planning, development and administrative aspects. For this task they could use a map featuring only the administrative boundaries of the villages and towns. With the assistance of the 65 respondents we attempted to detect the existence of regional thinking and the outlines of a potential functional city region. The responses given to this question, after a coding procedure, could be placed in eight manageable territorial units. The finding revealed different thinking about city regions (*Figure 2*). As opposed to our preliminary expectations, 46 % of respondents gave smaller territorial scales than the present LAU1 spatial unit as a desirable development policy unit in their own city regions. Taken together these can be considered to be neighbourhood cooperation, as they speci-

fied spatial units smaller than the scale of the micro-regions. These neighbourhood relations showed differences regarding their territorial scales, and some of the respondents believed that a few neighbouring municipalities, a tier below the present micro-regional level, would be sufficient for cooperation. The present LAU1 spatial category was an optimal spatial category of cooperation for a mere 10% of local politicians, whilst only 2% of them specified counties as the optimal scale. Finally, a small proportion (6%) of interviewees considered regions, i.e. the regional scale, as the optimal scale of development and planning units.

Figure 2
 Administrative and development policy unit seen as ideal
 (In per cent), 2012



Source: edited by author's own survey.

The above would suggest that the first two decades of the local governance system did not favour cooperation at the different territorial levels, and that regional thinking has not caught on, despite the institution building efforts made by the state. Of course, if we look back at the question of to what extent local politicians considered the region to be adequate in the scale of interest articulation, the situation is not surprising. The two viewpoints are linked. Consequently, the leaders of the municipalities have not been able to gain experience in the comprehensive handling of problems at a scale above the level of the micro-regions. The image is completed by the fact that despite the efforts put into the operation of the multi-purpose associations, a significant number (17%) of mayors questioned the micro-regional impacts and would also extend agglomeration cooperation to the neighbouring micro-regions. It must be a clear reflection of the failure of the development policy that many (17%) thought it made no sense to have administrative and development policy units at the level of agglomerations.

In summary, the survey attempted to detect the existence of regional thinking and the boundaries of a potential functional urban area and common spatial planning unit. Surprisingly, a low number of interviewees thought that a regional scale was optimum in this respect, although after 12 years of strong state regional policy, it has been recognised that the vertical branch of multi-level governance does not work, and similarly, the low level of social capital obstructs the workings of the horizontal branch of partnership. The three city regions have a fragmented structure, despite the so-called micro-regional associations; none of the city regions have institutions that have comprehensively formalised cooperation in the area. According to the results, there were very weak foundations for the birth of governance structures but the willingness and ability to cooperate were high amongst the public elite. In addition, in the areas surveyed, the actors in the economy had more intense cooperation with representatives of other sectors.

3. About the impacts of the new state ideal on the institutional system of local-territorial governance – in a nutshell

3.1 The reformed meso-level in Hungary

The Hungarian government approved a new Act on local governments in 2011 that transformed the division of tasks between the local and the meso-levels of public administration. The Hungarian Act on Local Self-Governments suggests that the legislator was aware of all the critics of fragmented local governments that have so many responsibilities and which resemble the North European model of governance. The basis of the new concept of state organisation is the Constitution which reconsidered and intensified the relationship between the state and the municipalities. The regulation at the local level entailed, in several areas, narrowing down the responsibilities. Some tasks were absorbed by the state (primary and secondary education, health care services etc.). In addition, at the subnational level, a completely new profile was created by the model of the county self-governments. This is related to the fact that the new power simply threw away the system of regional development, built on development councils. Regions and regionalisation were forgotten and regions were downgraded into nothing more than statistical units of data collection (NUTS2); their status was taken by the county. It was a relief for the advocates of county general assemblies, because the task of regional and rural development was assigned to the subnational level as of 1 January 2013. This level was also authorised for spatial planning and the management of some development coordination tasks. Counties, a territorial unit formerly considered as weak and void of positions, have become the almost exclusive actors of meso-level governance – or have they? This doubt is indicated by the fact that Parliament deprived counties of all their former public service provision tasks, and also nationalised the related

institutional properties of the counties. Counties no longer run hospitals or special service institutions; they no longer operate secondary education institutions, libraries and other public collections, and they no longer offer sports and pedagogical professional services etc. The nationalisation of these tasks and the parallel building of the county government offices moved the meso-level from decentralised structures towards a hierarchical and centralised organisational system. Of course, there is another contradiction in the fact that the counties are now responsible for both development and spatial planning. Neither the local nor other territorial actors are integrated in a manner governed by public law into this important governance tool. From this aspect, the authorisation of the county to cooperate in the harmonisation of the spatial development plans of the villages and towns is indifferent.

All in all, meso-level self-governments lost their functions, which could have been their links to the municipalities in the case of strong counties. As we have already mentioned, the legal institutional framework for the cooperation of the two tiers of self-government are still missing from the Act on Local Self-Governments. Local governments of the two tiers can cooperate in a formalised framework with each other, quite absurdly, if they participate in some cross-border cooperation, such as a European Grouping of Territorial Cooperation (EGTC), Euro-region etc.

The new government evidently became tired of regional experiments; the para-state development councils operating counter-productively with the exclusion of publicity, and aimed at the creation of clear-cut and transparent institutional structures. Of the densely woven network of organisations, the only survivals at the meso-level (including macro- and micro-regional spaces) are the general assemblies of the counties. This would not be a problem in itself, but the establishment of the election system at county level also impacts the political representation at this level, which is an obstacle to the operation of the vertical branch of the multi-level governance structure. One of the reasons for this is that as a result of the electoral reform of 2010, districts of settlements with less than a ten thousand population and towns with more than a ten thousand population became integrated. This meant that local actors who formerly had been able to obtain a mandate from separate lists now had to fight for the same positions of representation. On the other hand, new regulations resulted in a decrease of social organisations with local and territorial ties able to make electoral lists (to 13.9% nationally, as opposed to the 86.1% proportion of parties), which transformed power relations into meso-level governance and favoured macro-level politics to the detriment of the articulation of local interests (Dobos 2011, 74–78.). Consequently, the county receded from local society and the interests of the smaller municipalities in the composition of its representative organ (the general assembly).

Institution building continued at the meso-level by a major amendment to the Act on Regional Development and Spatial Planning in 2012. Two new institutions were created with the label “consultation” in their names: the Regional Spatial De-

velopment Consultation Forum and the County Spatial Development Consultation Forum. The names suggest that organs suitable for the articulation of the interests of local and territorial actors were created. However, if we look behind the “back stage” and the scenery, we will be disappointed. According to the Act, the members of the regional consultation forum are the chairpersons of the three county assemblies making up the NUTS2 regions (in the central region that covers only one county and membership includes the Chairperson of the county and the chief Mayor of Budapest). The Forum is empowered to act on those issues that require regional level decisions, statements or opinions, and also to “represent the single decision of the county self-governments as the viewpoint of the region” (Par. 14/A of the Act). Thus, the consultation forum does not provide any framework for dialogue, either between different sectors or between the territorial tiers. The birth of the consultation forums, consisting of the same type of organisations, suggests that this institution is responsible for the preparation of the responses to the structural policy issues of the EU and is meant to substitute the missing regional level. What is especially worrying is the doubt as to whether counties that have been made the main character in meso-level governance are sufficiently embedded at the subnational level and whether their tools and competencies make them suitable for the overall articulation of territorial interests. We should mention that members of the county spatial development consultation forums are representatives of the general assemblies of the respective counties and the mayors of the towns with a county rank in equal number, through which there is coordination between two public actors of the same rank.

3.2 Some elements of the reform of the municipal level in the period after regionalisation

The institutional frameworks of the cooperation of municipalities (multi-purpose micro-regional association, micro-regional development council, types of inter-municipal bodies according to the Act on municipalities) were overruled by the legislator. The typology formerly offering four types of association bodies for the municipalities became even narrower, and the only type of association now available for cooperation is the so-called association with a legal entity, the highest level of institutionalisation. This association is authorised for the foundation of bodies of its own in the forms regulated by public and private law, in fact, in the form of a not-for-profit organisation. No looser form of cooperation is allowed by the regulations in force which might frighten municipalities away from cooperation. Meanwhile, the new Constitution has created a constitutional background for the legislator to oblige the municipalities to associate, both for the management of local public affairs and for public authority proceedings. The Hungarian Parliament remedied a long malpractice by inaugurating the institution of the so-called obligatory associations. Now if municipalities are reluctant to cooperate on their own initiative, the

state may order the establishment of associations for the provision of the respective tasks, even in a single manner for the whole country.

One kind of requirement to cooperate came into effect as of 1 January 2013 by the obligation for villages with less than 2,000 inhabitants to set up joint mayors' offices. Another requirement for the foundation of joint offices is that they have to serve a minimum of 2,000 population from which the legislator excuses those joint municipal offices that have been composed of at least seven municipalities. This way the element of the economies of scale is now being integrated into the operation of municipal level public administration, two decades after transition.

When looking at this regulation of new philosophy it seems reasonable to find parallels between the Hungarian reform attempts and the territorial and organisational reforms carried out in the eastern provinces of Germany in two waves after reunification. After the collapse of the socialist states, the autonomy of the fragmented municipalities could not be touched in either state, for political reasons. In order to remedy the situation, in both countries the small municipalities were inspired to set up joint municipal offices, in the belief that the building up of administrative capacities in this manner would suffice. The difference is that the optimum size of joint mayors' offices was not defined in Hungary and the state lacked any tool for the ordering of compulsory setting up of joint offices. In the five new states of Germany, on the other hand, the reform was consistently carried out. Later, in the 2000s, a discourse began in several East German provinces on a second wave of reforms, as the democratic character and the capacities of the joint offices of the small municipalities were questioned. The municipal reform carried out in two German provinces (Saxony and Brandenburg) made the method of village amalgamations a priority, by which the number of local municipalities was considerably reduced and their average population significantly increased. The reform of the municipal level was followed by the restructuring of the county level (Damskis 1993, Wolmann 2010). The amalgamations of villages triggered a remarkable protest by the population, although the specified provinces (Länder) chose a solution that did not infringe the right of electors to self-governance. All that happened is that after the consolidation, citizens could use this right through an integrated local municipality, which does not change the principle of decentralisation.

On the contrary, what happened in Hungary ten years later is more of a centralisation solution. Although the sovereignty of the individual municipalities was not affected by the reform, the narrowing down of the competencies of the municipalities has led to the nationalisation of part of the local public affairs, i.e. democratic procedures have been replaced by the hierarchy of state administration. We have to add that the new Constitution, unfortunately, does not acknowledge – as opposed to the previous Constitution – the right of self-government as a collective right of the local community of citizens. The definition states that in Hungary, municipalities operate for the management of local public affairs and for the practice of local

authority [Constitution, Par. 31. (1)]. This new approach to self-government may open the way for a structural reform in the future, as the right to self-government is not guaranteed by the Constitution. This same declaration of the Constitution can also be interpreted (Patyi 2013, 387) in a way that the Constitution no longer requires the operation of local authorities in each settlement. This concept is a sign of the fall of the principle “one settlement, one municipality” in relation to the present interpretation of autonomy by the local governments.

In another view, the local government system formerly considered as definitely liberal and democratic will be under stricter state control by the Hungarian Act on Local Self-Governments, from legal, legislative and economic aspects alike. These measures are seen as re-centralisation by many (Balázs 2012), but we would like to point out that they allowed the annihilation of several malfunctions and features of the past two decades of the local government system that continuously jeopardised legal certainty and the predictability of the operation of public administration. These measures are more about the fact that in Hungary, after the trial period of self-governance, there was a need for a regulation putting the democratic guarantees to the foreground, and subordinate to the operation of the constitutional state. The arguments to support this (Balázs 2012, G. Fodor and Stumpf 2008), such as the operation of the economy, are that the state concept also changes cyclically the building down of the welfare structures which began all over Europe in the states hit by the financial and economic crisis, and are the unfurling of the neo-Weberian state after turning away from the neoliberal state ideal.

It is evident that in Hungary, public administration based on local autonomy was replaced by a different system built on the dominance of the state administrative structures. This is indicated, amongst other things, by the building out of the district government authorities as the new lower-meso level tier of state administration. The competencies of the districts are made up of the mass of state authority tasks that formerly overburdened the local municipalities and their offices. The operation of the municipality was thus freed from those tasks that are not local public affairs and do not belong to the category of local governance. The logic of this profile clearing is unquestionable.

4. Conclusions

The regionalisation period in the history of Hungarian public administration came to an end in 2010 without the decentralised management of the structural funds having been created. Although there were a large number of organisations at the meso-level that formalised the cooperation of different local, territorial and central governmental actors, still there was no meso-level governance in Hungary, because Europeanisation, i.e. the adaptation of the EU norms, was not realised during the creation of the national institutional system; cooperation lacked the strength of

both a decentralisation and democratic character. Very interesting findings were reached for this period by the survey conducted in the three city regions. At the end of the process we saw that the region and the regional scale were almost completely missing in the thinking of the local politicians. In fact, after the regionalisation periods, even the county level was eliminated. It is hardly present now as an adequate development and planning area for the city region. In other words, the para-state organisational system failed to integrate the fragmented institutions.

Compared to this, the latest institutional reform of the Hungarian public administration is a step towards the *étatiste* state. Within this framework, the governance tools of local governments are definitely of a public law character, which brings them closer to classical government and distances them from governance. Cooperation institutions at their disposal are scarce and offer a rather thin interface for relationship building and touch both higher levels of governance and the actors of other sectors (economy and not-for-profit sector). What may be worrying about the changes concerning local governments is the decrease in the abilities of Hungarian municipalities to integrate and meaningfully participate in the multi-level governance structure of the EU. At the same time, it is a generally accepted view in a European context that the tendencies of centralisation and decentralisation follow each other in cyclical turn in state building, and in the present situation, the efforts for cost saving and efficiency favour centralisation, as the hierarchical structures give the state much more freedom of action for structural interventions. The application of the tools of decentralised concentration, such as the rearrangement of competencies from local governments to state offices, turning away from New Public Management (NPM), the systematic decrease of the role of the economic and civil actors, the elimination of certain institutions and “arenas” of cooperation etc. are all measures which show the renaissance of the Weberian state.

The EU recognised quite a long time ago that “good governance” is a factor of economic competitiveness, and so it promotes the application of governance structures in the member states. The issue of governance cannot be neglected in relation to the realisation of territorial cohesion either. In a professional interpretation (Camagni 2007), the concept of territorial cohesion must be added to the content of economic and social cohesion and also must be linked to sustainability. Territorial cohesion can only be reached by an integrated approach, i.e. by the joint development of the three sub-systems: the economic, the social and the physical-natural factors. For our topic, this integrated view is of special importance, which also includes the need to counterbalance fragmented decision-making mechanisms in both the public and the private sector. In other words, territorial cohesion requires both vertical and horizontal cooperation among different tiers of governance and among the representatives of different sectors within the frameworks of the same territorial level. Consequently, governance as a tool can effectively contribute to the implementation of territorial cohesion.

In this correlation, the paper emphasises the opinion that for CEE countries, including Hungary, it is continuously difficult to apply the governance methods promoted so often by the EU. In the old member states of the Union, where there are many decades of tradition for cooperation amongst the different levels and actors, Europeanisation is implemented with much more success. In the French and Spanish subnational levels it resulted in in-depth transitions in the national system of governance. During the process called “cognitive regionalisation”, regional institutions are able, in these countries, to act as intermediary actors, where their responsibilities include the handling of local problems as well as the operation of partnerships with higher governance levels, which in Hungary failed in the period of regionalisation (Pasquier 2005). We have to point out that in Hungary, after an institutional experiment, a new model of government is being born, of which only the basic rules are known for the time being. This means that the Hungarian public administration has made a move towards effectiveness and cost-efficiency, which, together with the tools of centralisation, seem to narrow down the governance capacities of local and territorial actors.

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Regionalisation of the Civil Service in the Russian Federation

Alexey Barabashev¹

I. General description of the Russian civil service structure: Job position imbalances

Amongst all the countries of Eastern Europe, Russia represents maybe one of the most imbalanced due to its complex civil service system², which is quite difficult to manage.

Originally, the Russian civil service, from the beginning of the 1990s, consisted of a highly complicated system of groups and categories of job positions. It was reflected in the first Russian public service Law “About the Foundations of Public Service in the Russian Federation” (1995)³: the structure of civil servants’ job positions consists of categories A (political nominees); B, C (managerial levels); and 5 groups (professional levels). The combination of categories and groups gives the job positions – directly to Public Service attributed levels B and C, and all 5 groups of positions at levels B and C.

Later, with the present Russian public service legislation, this structure was transformed not towards simplification, but rather towards a more complicated system. According to the Civil Service Law (2004)⁴, (public part) categories B and C were replaced by 4 categories of civil servants (managers, advisors, specialists and supplementary specialists). The groups remain the same. The combination of 4 categories and 5 groups creates certain job positions which vary from the highest level, as the highest managers (*rukovoditel*, *glavnaya gruppa*), to the lowest

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3 The Federal Law from 31 July 1995 “About the Foundations of Public Service in the Russian Federation” FZ-119, Articles 1, 6.

4 The Federal Law from 27 July 2004 “About the Civil Service in the Russian Federation” FZ-97, Article 9.

level as the youngest supplementary specialists (obespechivayuschij spetsialist, mladshaya gruppa).

Table 1
Combinations of categories and groups of civil servants in Russia

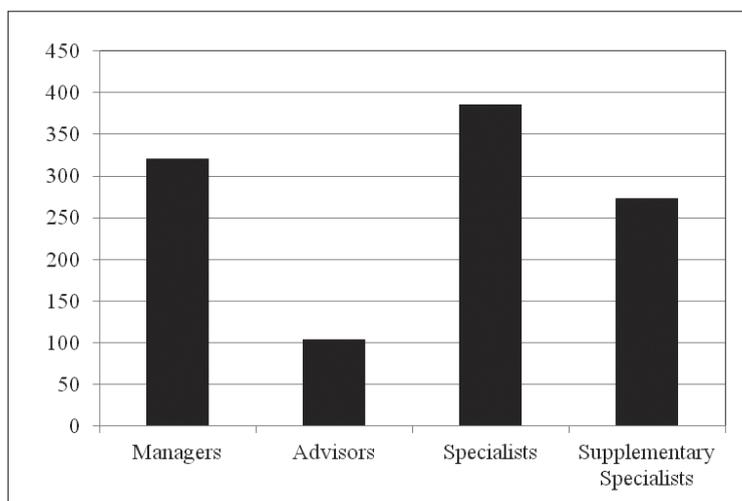
Categories/Groups	Highest Group ("Vyshchaya gruppa")	High Group ("Glavnaya Gruppa")	Leading Group ("Vedushchaya Gruppa")	Senior Group ("Starshaya Gruppa")	Youngest Group ("Mladshaya Gruppa")
Category "Managers" ("Rukovoditeli")	+	+	+	Non-existent	Non-existent
Category "Advisors" ("Pomoshchniki/(Sovetniki)")	+	+	+	Non-existent	Non-existent
Category "Specialists" ("specialisty")	+	+	+	+	Non-existent
Category "Supplementary Specialists" ("Obespechivayushchie specialisty")	Non-existent	+	+	+	+

The above Table shows only the pattern job positions of civil servants. This is the real picture of the diversity and heterogeneity of the job positions presented (for Federal civil servants) in the Decree of the President of Russia (2005)⁵ that was issued the year after the new Federal Law about the civil service came into effect. It shows 1084 different job positions at different Federal governmental bodies which specify the initial pattern of job positions of civil servants.

One can clearly see the imbalance of the number of positions in the Federal civil service: the number of managerial positions is close to the number of specialist job positions. Russia has too many Federal state manager positions, a very limited number of Federal advisor positions and insufficient Federal specialists' job positions. It is the concentration of Federal governance at the top level that is reflected in the structure of the Federal civil service.

5 The Decree of the President of the Russian Federation from 27 September 2005 № 1131 "About the Ranking of Federal Civil Servants in the Russian Federation".

Table 2
Histogram of the positions at the Federal Civil Service of Russia



Within such a system of job positions, many *paradoxes of “top-down” subordination* exist. One example is the Head of the Department in the Administration of the President of Russia, who is responsible for the coordination of the activities of different departments with other Government bodies. He holds the position of specialist⁶, but the Heads and Deputy Heads of the Departments in Government bodies, who are under the control of the Administration of the President of Russia, have managerial level positions⁷. This shows that the Russian civil service system, because of its over-complexity, has clear structural problems at the Federal level.

II. Federal and regional levels of the Russian civil service: Their complexity, centralisation and imbalances

Russia, as the Federal State, has not only the Federal civil service, but also the civil service at the territorial level. At present, Russia consists of 83 Regions (so-called Subjects of the Russian Federation), including 60 territorial Subjects (oblast'; kraj; autonomy oblast'; autonomy okrug), 21 National Republics, 2 Federal Cities (Moscow, Saint-Petersburg). Various kinds and branches of government bodies (departments or ministries, agencies, services for executive branch of power) are located at Federal and Regional levels. Amongst the Federal Ministries, which have the largest number of territorial branches, are included the Ministry of Finance (especially its

⁶ The Decree № 1131, registration number of job positions: 01-3-1-043.

⁷ The Decree № 1131, registration numbers of job positions: 05-1-1-005, 05-1-1-009, 05-1-1-010, 05-1-2-013, 05-1-2-014, 05-1-2-015.

Federal Tax Service Agency), the Ministry of Economic Development (especially, its Federal Agency for State Property Regulation). If one compares the Federal and Regional levels of the Russian civil service, it is evident there is a remarkable imbalance of the levels.

Statistical data clearly show the lack of balance in civil service size. We can see that the number of Federal level civil servants in Russia is much higher than at the Regional level, and also the over-centralised responsibility and functions distribution in the system of Russian governance.

Data in December 2012 (Russian Federal Agency of Statistics report⁸) shows:

1075.4 thousand civil servants = Federal level of civil service + Regional level of civil service (civil service of the Subjects of the Russian Federation);

77% of all civil servants belong to the executive power;

813.3 thousand civil servants = Federal level of the civil service;

765 thousand = Federal civil servants, working at the territorial branches of Federal government bodies (94% of all Federal civil servants);

48.3 thousand civil servants = central apparatus of Federal government (5.9% of the overall number of Federal civil servants);

262.1 thousand civil servants = Regional level;

496.7 thousand municipal servants = municipal level, which is constitutionally not part of the civil service, but has a lot in common with the civil service in its legislation, and in its organisation.

We can see, that:

- 1) Over 75% of civil servants represent the executive power, i.e. ministries, agencies and services, at Federal and Regional levels. This means that the executive power in Russia statistically, in number, dominates legislative and judicial powers;
- 2) Only 24% of civil servants work at the Regional level and the remaining 76% work at the Federal level. This shows that the Russian Federal (mostly executive) power rules in the Regions (in the Subjects of RF) via its territorial branches;
- 3) The Federal civil service, imbalanced in size, consists of a relatively small central apparatus (5.9%) and numerous territorial branches of Federal bodies (94.1%). As a result, it is difficult for regional branches to operate from the Federal centre, due to the imbalance of the size of central and territorial branches. It is well-known that the departments of Federal bodies simply *have insufficient*

8 Table "The Number of Civil Servants in Government Bodies and in Municipal Structures distributed according to the branches of Power and the Levels of Governance", data on 31 December 2012. Revised on 23 April 2013. http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/state/#

time to work closely with the appropriate territorial branches belonging to the given Federal bodies. Federal regional branches or territorial bodies of Federal ministries (especially the territorial branches of the Ministry of Finance and its Agencies, the Ministry of Economic Development and its Agencies, Ministry of Labour and Social Development, and the Ministry of Healthcare) are for the most part “independent” as regards the implementation of their day-to-day duties from the Federal central executive apparatus.

III. To decentralise or continue the centralisation of the civil service? Russian decision

Theoretically, there are two possible existing methods to harmonise the system of the Russian civil service: to give more responsibilities to the Regional level of the civil service for the municipal level of service (this is the way forward for the democratisation of the civil and municipal service, and the tool for balanced decentralisation of power in Russia), or to construct at the Federal level some centralised *sub-Federal* civil service units (potentially – some “quasi-states”), which should help to reinforce the links between Federal power and the Regions.

To choose the first alternative, to reduce the number of federal servants and, at the same time, enlarge the number of regional civil servants and municipal servants, means shifting many areas of responsibility and decision-making from the Federal to Regional level. The “regionalist topic”⁹ is being discussed in Russia because of the different opinions regarding the balance of civil service regionalisation covering both positive and negative outputs. Amongst the dangers for Russia’s existence were the negative “separatist” scenarios and the danger of regionalisation in Russia was very real during the middle and late 90s, when some decisions regarding which di-

9 Глигич-Золотарева М. В. *Теория и практика федерализма: системный подход*/научный редактор Н. М. Добрынин. Новосибирск, 2009; Багдасярян В. Э. *Проблемы региональной дезинтеграции как угроза российской государственности* //Проблемы государственной политики регионального развития России. М. 2008; Гаджиев, А. К. *Некоторые аспекты административно-правового статуса главных федеральных инспекторов аппаратов полномочных представителей Президента Российской Федерации в федеральных округах*/А. К. Гаджиев, К. В. Черкасов/ /Современное право. – 2013. – № 1; Мамонов В. В. *Государственный суверенитет и территориальная целостность – главные принципы современной российской государственности* /Государство и право. 2004. № 4; Безруков А. В. *Укрепление единства государственной власти Президентом России при проведении преобразований в системе федеративных отношений* / Научный ежегодник Института философии и права Уральского отделения Российской академии наук. 2012. Вып. 12.; Лексин И. В. *О правовых принципах и критериях в территориальном устройстве России и в его реформировании* /Государственное управление. Электронный вестник Выпуск № 40. Октябрь 2013 г. URL: http://e-journal.spa.msu.ru/vestnik/item/40_2013; Лексин И. В. *К вопросу о реформировании территориального устройства России* /Право и власть. 2001. № 1; Добрынин Н. М. *Российский федерализм: Становление, современное состояние и перспективы*. Новосибирск, 2005; Бутенко А. В. *К вопросу о современной модели российского федерализма* /Конституционное и муниципальное право. 2012. № 10; Мириханов Н. *Федерализм, многонациональность, государственность: Новый курс российской власти* /Федерализм. 2002. № 3.

rection to choose should have been made. Due to many factors (heterogeneous bureaucracy; depth of social inter-regional differences (*Muzin and Gurban, 2012*); differences in the mentality of neighbouring regions; so-called national republics and national autonomy districts' existence; tensions between “poor” and “rich” regions; internal labour migration from some regions to other Russian regions – so-called “othodnichestvo”; etc.), the periphery-driving forces in Russia were similar to the forces during the late Soviet Union period, when Soviet Republics broke up. Especially strong during the 1990s were the attitudes of the so-called “national republics” to obtain independence and the economic crisis in 1998–1999. The Russian Federal authorities were afraid to “release the Genie from the lamp”, and as a result, at the beginning of the 2000s they preferred less perspective but more empire-tradition for Russia, to strengthen the vertical-oriented system of civil service.

The special compensatory mechanism to foster the centralisation of the civil service was established at the beginning of Putin's first presidency in 2000 (establishment of the new institution i.e. the Office of Representatives of the President of Russia in Federal Districts). This mechanism, proposed by President Putin, introduced seven (since 2010, eight: Central, North-West, South, North-Caucases, Volga, Urals, Siberia, and Far-East) Federal Districts, and established the positions of Federal Representatives in the Federal Districts with their apparatus, as part of the Administration of the President of Russia¹⁰.



10 The Decree № 849 of the President of the Russian Federation from 13 May 2000 “About the Assigned Representative of the President of the Russian Federation in the Federal District”.

A new sub-level of the Federal civil service, the Institute of Federal Representatives, was established to achieve the clear goal “to disperse” Federal power to the Regions, and to regulate in a centralised (unified) manner the process of territorial governance. Unfortunately, this goal was not achieved because of the intersection of Federal Representatives and their regulatory functions with the day-to-day functions of governance: the over-extended regulatory functions, which were developed at the Federal representatives’ offices, often blocked the operational activity of regional power. Permanent requests for data from the Administrations of the Subjects of the Russian Federation, numerous reports to the offices of the Federal Representatives, frequent coordination meetings for regional authorities ordered by the Federal Representatives and by their staff, numerous audits of regional bodies’ functions, checking of federal programmes’ outcomes and expenditures, etc. became a common practice of interaction of the Federal Representatives’ offices and the Administrations of the Subjects. The regional managerial activity, as many colleagues from the regional administrations expressed, was highly affected by the unprecedented regulatory structure, instead of being supported by the creative managerial activity of the Federal Representatives’ offices. Later, during the next step, the Federal Representatives became the “federal corruption-hunting dogs”, and anti-corruption policy became one of the main tools of its influence on regional power. It is now clear that this was the wrong way forward.

Should the Federal Representatives and their offices remain in the administrative structure of the Russian Federation? Has Russia now, after the period of the 90s, overrun the danger of regionalisation and is it ready to dismiss the Institution of Federal Representatives in the Subjects?

There is no clear answer to the above question. The institutional analysis shows that once established, the agency or any other government unit is extremely difficult, almost impossible, to close down. In practice, the Kaufman exploration of organisational death shows¹¹ that it is usually left to chance, to the political circumstances (such as change of administration), and mostly to the long process of resource reduction, and lack of ties with other organisations, etc.

The Federal Representative Offices’ evolution in Russia shows that the “survival scheme” for government organisations works successfully in this case. To be established as a response to the danger of regionalisation, the Federal Representation, as the Federal Governance Institution, moves from coordination to audit functions, and towards concentrating mostly on the control regulatory activity (including anti-corruption measures control). It leaves some space for Federal Representatives Offices’ survival long after the period of political instability.

11 Kaufmann 1976; see also Chackerian 1996, where the author insists that it is better to talk about the reorganisation of organisations rather than their termination.

At present, the Institution of Federal Representatives is trying once more to renew and strengthen its niche in the system of the Russian civil service, and to extend its areas of responsibility.

First, there is the participation of Federal Representatives Offices in the Federal HR management, namely at cadres reserve selection and training at the level of Federal Districts. Since 2011, Federal Representatives' offices have been actively participating in the programmes of cadres reserve policy, namely in the preparation of lists of Federal Districts cadres reserves. From now until the end of 2012, and also in 2013, the Federal Representatives' offices will attempt to start inter-regional cadres rotation (despite the fact that the Federal legislation regarding the conditions of such rotation is not yet ready)¹². Also, we can now see some new "local" approaches in the inter-regional short-term training of civil servants, which is guided in Federal Districts by the Federal Representatives' offices and implemented mainly in the regional branches of the Academy of People Economy and Public Service (APES) under the President of Russia.

Second, for some Federal Representatives' Offices, one can see they are involved in a variety of projects and activities, such as homeland security issues (North Caucasian District, South District), complex multi-Subject Federal programme implementation (Winter Olympic Games – South District; Far East programme of complex economic and social development – Far East District and the Football World Cup preparation – at least 4 Federal Districts), etc.

Last, but not least, the Federal Representatives slowly became the top federal level authorities. They influence federal decisions more now than at the beginning of the last decade. Some of them became Governors of the Subjects of the Russian Federation and some moved to the top positions at the Federal bodies. This process clearly shows that the institution of Federal Representatives has spread its roots far beyond the Administration of the President of Russia, outgrown its initial goals, and has become a strong political and administrative force. From the positions of state structure evolutionary growth¹³, the institution of Federal Representatives and their Offices are easier to transform and convert their goals from the support of centralisation to other different goals, than close down the Federal Representatives institution.

12 As an example, the Cadres Reserve at the beginning of 2012, at the Central Federal District, includes over 5000 civil servants from different Subjects of the RF belonging to this Federal District.

13 Of course, in the case of political turmoil and instability, on the other hand, the institution of Federal Representatives will definitely be in the front row for termination.

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Section II

Regional Development and Cohesion Policy



Macro-Regions: Regional Integration Within and Beyond the EU

*Nico Groenendijk*¹

Abstract

This paper focuses on three European macro-regions: the Baltic Sea Region (BSR), the revamped Benelux, and the Danube Region (DR). It makes a comparative analysis of these three schemes of regional integration within (and in some cases beyond) the EU. The paper discusses literature on differentiated integration as well as literature on (old and new) regionalism and territorial governance. It develops an analytical framework which involves various aspects of differentiation/regionalisation: time, matter, drivers for differentiation and/or regionalisation, membership, institutions, decision-making, and modes of governance. Through desk-research (policy documents, websites, and earlier research) the framework is applied to the three macro-regions at hand. The analysis leads to the conclusion that the macro-regional strategies for the BSR and DR are almost identical; that the Benelux is different from the other two macro-regions, but that there is also some convergence, with the Benelux becoming more open and process-oriented, and the BSR and DR being effectively institutionalised by the EU. Rather than being a threat to European integration, the macro-regional strategies of the EU have essentially strengthened its position.

Keywords: Macro-regions, European integration, regionalism, regionalisation, differentiated integration

1. Introduction

Within the EU we have recently witnessed the emergence of so-called macro-regions and/or the intentions to create such regions. Examples are the Baltic Sea Region, the Danube Region, the European North Sea Strategy, the Black Sea Synergy,

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and the Adriatic-Ionic Initiative, to name but a few cooperation schemes (which admittedly vary considerably in nature). From a different perspective, we have also recently witnessed the emergence of the use of the formal EU differentiated integration mechanisms and enhanced cooperation in the field of divorce law and in the field of patents. These cooperation schemes are probably only the proverbial tip of the iceberg, as enhanced cooperation schemes are now also discussed in several other policy fields. More generally, ever since the 1980s, flexible integration schemes within the EU have been used more and more, and have been the topic of academic and political debate. This paper discusses the emergence of macro-regions in the European Union (EU) as the appearance of both flexible integration and regionalisation, hereby understood as the cooperation between sovereign jurisdictions² that are in geographical proximity.³ Up until now, with the exception of Groenendijk (2011) and Matarrelli (2012), literature on regionalisation and literature on differentiated integration have not been brought together. The paper focuses on three European macro-regions (or three cases of regionalisation): the Baltic Sea Region (BSR), the revamped Benelux, and the Danube Region (DR). It makes a comparative analysis of these three schemes of regional integration within (and in some cases beyond) the EU, by looking at the drivers for the establishment of macro-regions, their policy domains, their institutional set-up, their membership, and their modes of governance.

The paper is structured as follows:

First, when discussing macro-regions in the EU, it is important to link macro-regions but, at the same time, demarcate them from other types of so-called non-uniform (or flexible) integration within the EU. To that end, *section 2* first discusses various concepts of non-uniform integration, resulting in dimensions of differentiated integration that can later be applied to macro-regions. Second, our premise is that regionalisation starts from regionalism. Regionalism is understood here as the approach that is applied in establishing concrete regionalisation schemes. Section 2 therefore also discusses insights from literature on regionalism, especially the distinction that has been made between “old” and “new” regionalism. Both parts of the literature will then be put into a single analytical framework to typify and describe macro-regions.

2 A less general definition would refer to any such cooperation between nation states, thereby excluding cooperation schemes which involve jurisdictions within nation states (e.g. autonomous regions).

3 See Hettne (2005) for a discussion of the concepts of regions, regionalism and regionalisation. We do not get into a discussion of the concept of regions. As Hettne states, it is widely accepted that there are no “natural” regions: definitions of a region vary according to the particular problem or question under investigation. Regionalism refers to a tendency or political commitment to organise the world in terms of regions; regionalisation is the actual – often complex – process of forming regions and the resulting regional cooperation.

Consequently, in *section 3*, we will tentatively apply this framework to the three macro-regions at hand. To do so, we will first briefly discuss the EU macro-regional strategies in general and the three macro-regions specifically, and then discuss the different parts of the framework.

Based on this analysis, *section 4* concludes.

2. Analytical framework

2.1 Differentiated integration

As argued elsewhere (Groenendijk 2007, 2012), contrary to common belief, EU member states have always been substantially involved in alternative integration schemes, outside the EU, as well as in differentiated integration, within the EU. Non-uniform integration is a permanent feature of the European integration process, but it has increased considerably from the early 90s.⁴

Non-uniform integration has been discussed in literature under a large number of different terms (core Europe, vanguard groups, multi-speed Europe, *afgestufte Integratie*, concentric circles, variable geometry, the European Union etc.). This part of the literature mainly dealt with visualising non-uniform integration schemes and with finding adequate metaphors to capture the phenomenon. With some exceptions (e.g. Stubb 1996), it is generally lacking in terms of robustness of conceptualisation.⁵ Additionally, some literature has dealt with the formal scheme (introduced in the Nice Treaty) of closer or enhanced cooperation. Here we focus on more recent literature in which various attempts have been made to conceptually make sense of non-uniform integration.

In discussing sub-integration, the yardstick is *uniform integration* as the default mode of EU integration: integration that is uniform in time and matters for all members of the integration scheme. According to Su (2005), *sub-integration* then refers to an instance of integration that takes place amongst some, but not all members, of an already existing (larger) integration, and this can take different shapes. The first distinctive feature is whether sub-integration takes place within the EU institutional framework or not. The second feature refers to the policies which are involved. Sub-integration can deal with policies that are within or outside the EU policy domain (as set out by the relevant EU treaties). If sub-integration uses an institutional framework other than the EU framework it can either be labelled “new” integration or “alternative” integration. *New integration* refers to sub-integration

4 See Schimmelfennig et al. (2011) for a quantitative analysis of differentiation practice in the EU (1950–2010).

5 See, for a detailed discussion of these concepts and for literature references: Groenendijk (2007, 2012). See also the contributions in Dyson and Sepos (2010). See Holzinger and Schimmelfennig (2012) for an assessment of the state of affairs in research in this field, which is adequately captured in the title of their contribution: *many concepts, sparse theory, and few data*.

outside the EU institutional framework dealing with policy areas that are not part of the EU policy domain. Sub-integration outside the EU institutional framework, concerned with policy areas that are within the EU domain, is called *alternative integration*. In both cases it is possible to cooperate either with EU Member States only or with outsiders as well (third countries).

If sub-integration occurs within the EU institutional framework, there are again two possibilities. One is *odd integration* sub-integration that employs EU institutions but deals with policies outside the EU domain. The term *differentiated integration* is used to denote sub-integration taking place both within the institutional framework and within the policy domain of the EU.

Table 1 lists the various forms of sub-integration.

Table 1
Types of sub-integration (adapted from Su 2005)⁶

Differentiated integration	Within the EU framework, dealing with policies within the EU domain.
Odd (or: alienated) integration	Within the EU framework, dealing with policies outside of the EU domain.
Alternative integration	Outside the EU framework, dealing with policies within the EU domain.
New integration	Outside the EU framework, dealing with policies outside of the EU domain.

Building on Stubb's (1996) three-way classification of differentiation in time, space and matter, Holzinger and Schimmelfennig (2012) have put forward six dimensions of differentiated integration:

1. Permanent versus temporary differentiation;
2. Territorial versus purely functional differentiation;
3. Differentiation across nation states versus multi-level differentiation;
4. Differentiation within EU treaties versus outside of EU treaties;
5. Decision-making at EU level versus regime level (club decision-making);
6. For member states only versus also for non-member states/areas outside the EU territory.

Dimension (1) is straightforward; it refers directly to Stubb's dimension of differentiation in time.

Dimension (2) is problematic; it refers to Stubb's second and third dimensions: differentiation in space and matter. Holzinger and Schimmelfennig argue that differ-

⁶ Su (2005) uses the term opt-out integration for alternative integration. This is not followed here as opt-outs are very often associated with differentiated integration.

entiation always has a territorial aspect and always has a functional (or sectoral aspect). They state that differentiation in space and matter is actually about fixed and flexible memberships in regimes, but still they make a difference in territorial versus purely functional differentiation. Their application shows that this distinction does not really work; all their models of differentiated integration are territorial; they can only put forward Frey and Eichenberger's (1997) Functionally Overlapping Competing Jurisdictions (FOCJ) as an example of an exclusively functional scheme of differentiated integration. This does not do justice to the idea of FOCJ; the territorial aspect is also relevant to FOCJ. The idea of FOCJ is that jurisdictions that deal with specific functions can territorially overlap with jurisdictions that deal with other specific functions i.e. FOCJ do not follow the same territorial pattern; they are not territorially embedded in a fixed administrative structure (as in the Russian doll model⁷). This is probably what Holzinger and Schimmelfennig mean by fixed/flexible membership, but the formulation of their second dimension is confusing. Dimension (3) refers to the involved jurisdictions: often – as in the analysis of Schimmelfennig et al. (2011) – differentiated integration is limited to cooperation schemes between nation states; in line with our earlier definition of regionalisation it can, however, involve sovereign jurisdictions at all levels.

Dimension (4) refers to Su's mode of alternative integration.

Dimension (5) is about the sovereignty in terms of decision-making of the differentiated integration scheme: are decisions taken by the EU or is this the competence of the regime itself?

Dimension (6) is straightforward: does the regime reach outside the EU or not?

Groenendijk (2007) has put forward some other relevant dimensions:

- differentiated integration may deal either with a single issue (or a few single, non-related issues) or with a multitude of (potentially interrelated) policy issues;
- it can differ as far as the size of the group of insiders is concerned (relative to the size of the group of outsiders);
- it can be open to newcomers or closed.

In addition, and following up on the discussion above on the territorial/functional aspect of differentiated integration, two other aspects should be taken into account:

- Is the differentiated integration scheme embedded in the existing administrative structure (or institutions) or does it involve the creation of a new administrative structure? To illustrate this point with an example from regional/local governance: if, within a nation state, municipalities cooperate in providing primary

7 Jauhainen (2013) uses the concept of "bounded" regions, whose territorial governance is hierarchically arranged as a series of spatially nested territorial tiers encompassing an increasing number of inhabitants.

and secondary education, the cooperation scheme is still embedded in the existing administrative structure. If new school districts are established and formally tasked with providing such education, the administrative structure is changed: (single purpose) jurisdictions are added to the basic structure of (multipurpose) government;

- Does the functional cooperation involve geographical proximity or not? In the case of cross-border cooperation (as with Euregios) the functional aspect is all about geographical proximity; in the case of EMU, or with the enhanced cooperation mechanism for divorce law, for example, the functionality is not necessarily about geographical proximity.

Taking these issues into account and combining them with (some of the) the issues and dimensions put forward above, we have put together Table 2 with the following dimensions of differentiated integration.

Table 2
Dimensions of differentiated integration

Permanent or temporary.
Single issue or multi-issue.
Open or closed.
Embeddedness of policy area(s): inside EU policy domain or outside.
Embeddedness of institutions: use of existing EU framework or use of own institutional framework.
Embeddedness of decision-making: EU decision-making or – sovereign – club decision-making.
Nature of decision-making: “loose” coordination or centralised/supranational.
Nation states only or multi-level.
Geographical proximity relevant or not.
Small or large (insiders/outside).
Territorially exclusively inside the EU or also outside.

2.2 Regionalism and territorial governance

We now turn to the second part of literature which is relevant to making sense of macro-regions: the literature on regionalism. We focus here on Wallis (2009) who has contrasted “old” regionalism (which according to him has been the dominant school of thought of practice in regionalisation from the 1880s to the 1980s) and “new” regionalism by looking at six characteristics. In Table 3 these characteristics

are listed and briefly discussed (following, but different from Wallis 2009 and Williams 2005).⁸

Table 3
Old versus new regionalism

"Old" regionalism	"New" regionalism
Government: top-down establishment of new layers in the hierarchy of governments, with nation states as the main actors.	Governance: bottom-up, goals-oriented, networks-based, with involvement and shared responsibility of various public and private actors.
Structure-oriented: focus on formation of new regional structures (public entities), procedures as the pathway through these structures.	Process-oriented: process is central to creating vision, resolving conflict and building consensus.
Closed: focus on defining boundaries and jurisdictions. Delimitation and membership are crucial to the definition of the region.	Openness: boundaries are open, unclear or elastic. The region is defined by the issues at hand.
Coordination: hierarchical redistribution of resources through governments.	Collaboration/cooperation: voluntary agreements among equals.
Accountability and responsibility: fixed responsibilities and little flexibility.	Trust: as a binding element among regional interests. Responsibilities are flexibly shared.
Concentration of power: sovereignty of the state.	Diffusion of power, aimed at the empowerment of actors.

As Wallis mentions, it is important to stress that the new regionalism is not necessarily superior to old regionalism. The old regionalism continues to offer important solutions to significant problems. Rather, the new regionalism is almost certainly a response to a new set of problems that the old regionalism was either not aware of, or was not designed to address.

Another strand of literature that is of interest here is that of governance dimensions of territorial cooperation. Based on theoretical work on Europeanisation, multi-level governance and new regionalism insights, Van der Zwet and McMaster

8 Although Wallis' typology is primarily meant for application to regions within (federal or unitary) states, the typology of "old" versus "new" regions can be applied to the EU as a whole (i.e. as a region on a global scale). The typology is also relevant for what happens in terms of region-building within the EU. As Hettne (2005) argues the process of regionalisation in Europe is both endogenous (i.e. emerging from within the geographical area in question) and exogenous (i.e. acting on the challenges of globalisation). Or, following Gänzle and Kern (2011), the process of region-building within the EU can be understood from two perspectives. First, internally, it can be understood from the inability of the EU to devise integration schemes that solve collective action problems that result from diverse membership (in socio-economic, geopolitical, cultural and political terms). Secondly, it can be understood as a way for the EU to provide the basis for external cooperation in a globalised world.

(2012) have put forward five dimensions of European territorial cooperation, some of which correspond to characteristics of the old/new regionalism:

- Top-down versus bottom-up;
- Centrally driven versus locally driven;
- Highly institutionalised versus loosely organised;
- Closely managed/regulated versus open/flexible arrangements;
- Narrow involvement versus broad partnership.

2.3 Analytical framework

Bringing together the dimensions of differentiated integration and regionalism/territorial cooperation, we can now put together the analytical framework that will be used in the remainder of this paper.

Table 4
Analytical framework for description of differentiated integration
through macro-regions in the EU

Dimension	Variation
Time	Permanent or temporary.
Matter	Single issue or multiple issues.
	Geographical proximity important to the issue(s) or not.
Drivers	Inside EU policy domain or outside.
	Top-down or bottom-up.
Membership	Centrally driven (nation states) or regionally/locally driven.
	Small/narrow involvement or large/broad partnership.
	Open/fuzzy boundaries or closed/strict delimitation.
	Nation states or multi-level.
	Public or public and private.
Institutions	EU only or EU plus outside.
	Embedded in existing larger framework or own/new framework.
Decision-making	Highly institutionalised or loosely organised.
	Embedded in existing decision-making or new/sovereign club decision-making.
Mode of governance	Hierarchical/centralised/closely managed/regulated or loose/open/flexible coordination.
	Structure-oriented or process-oriented.
	Fixed responsibilities (with accountability schemes) or shared responsibilities (based on trust).

3. Macro-regions within the EU

In this section we will apply the analytical framework to three existing macro-regions: the Benelux, the Baltic Sea Region (BSR) and the Danube Region (DR). The Benelux is a relatively old region (as a customs union dating from 1948, but established during the Second World War). It has been a macro-region (*avant la lettre*) within the EU since the European Community began. Cooperation in the BSR dates from the late 1980s (the Council for Baltic Sea States, CBSS, was officially founded in 1992), and the EU Strategy for the Baltic Sea Region (EUSBSR) dates from October 2009. The EU Strategy for the DR was initiated in 2009, when the European Council invited the European Commission to develop such a strategy, which was adopted in June 2011.

Table 5 displays some general information on the three macro-regions.

Table 5
Three macro-regions compared

	Benelux⁹	Baltic Sea Region	Danube region
EU member states involved	Belgium Netherlands Luxembourg (Germany: Nordrhein-Westfalen)	Denmark Sweden Finland Estonia Latvia Lithuania Poland Germany: Hamburg, Schleswig-Holstein, Mecklenburg-Vorpommern	Romania Bulgaria Hungary Slovenia Slovakia Czech Republic Austria Germany: Baden-Württemberg, Bavaria
Non-EU partners involved	–	Norway Russia Belarus	Ukraine Croatia Serbia Bosnia & Herzegovina Montenegro Moldova
Population (millions)	28 (45)	71	89
Area of the macro-region (in 1,000 km ²)	1 (3.5)	1,279	769
GDP in billions of Euros of the countries involved	1,015 (1,597)	1,375	1,620

9 Between brackets: including Nordrhein-Westfalen.

Before the actual application we will give a brief description of the three macro-regions, but before doing that we will look at the EU macro-regional strategies.

The methodology used in this section is desk-research; it is based on (and limited to) the analysis of policy documents, earlier research and websites.

3.1 EU macro-regional strategies

The debate on EU macro-regional strategies should be understood in relation to various shifts in the EU policy framework (Dühr 2011): with the Lisbon Treaty, territorial cohesion has become a central objective in EU policy, the importance of territorial governance to the effectiveness of the Europe 2020 Agenda, and the related changes in EU cohesion policy for the next programming period. Still, as Dubois et al. (2009) argue, the concept of macro-regions is not new. Although the term, as such, has not always been explicitly mentioned in EU policy documents (it was first used in a 2005 document where macro-regions are set apart from micro-regions; mainly smaller cross-border regions), the idea has been present for a longer period, beginning with the 2001 White paper on European Governance. According to the former European Commissioner for Regional Policy, Samecki (2009), a *macro-region* is an area including territories from a number of different countries or regions associated with one or more common features or challenges. The number of member states involved should be significantly fewer than in the Union as a whole. The extension of a macro-region does not have to be identical to administrative boundaries of nation states but can simply cover parts of those. According to DG Regio, boundaries of macro-regions are flexible and subject to the issue addressed. A *macro-regional strategy* is an integrated framework that allows the EU and its member states to identify needs and match them to the available resources through the coordination of appropriate policies (Samecki 2009). Two types of macro-regional strategies are distinguished. The first type deals with problems that cannot be satisfactorily addressed by regions or countries acting alone, such as environmental challenges. The second type deals with a cooperation which is beneficial to the regions and countries involved, but not necessarily in terms of dealing with such externalities. As Dühr (2011) points out, this peculiarity reflects the distinction between a transnational issue and a common issue (used in the debate on transnationality and subsidiarity of EU funding). According to DG Regio, the European Commission is primarily interested in the first type of macro-regional strategy. So far, EU macro-regional strategies have only been prepared for and implemented in the BSR and the DR. Other strategies are under discussion. In the case of the Benelux, the regionalisation scheme exists without an EU strategy. In the case of the BSR, the EU Baltic Sea Strategy (EUBSR) is part of a longer process of regionalisation in the area. In the case of the DR, the EU Strategy for the Danube Region (EUSDR) was the main driver of the regionalisation process as such.

There are three No's for EU macro-regional strategies: no new funds, no new legislation, and no new institutions. "No new funds" implies that the expected added value of these strategies lies in the coordination of actions across policy areas, which should lead to more effective outcomes and a more efficient use of resources than individual initiatives. "No new legislation" means that the strategies take the form of a non-binding Communication by the European Commission which is endorsed by the European Council. "No new institutions" means that no new institutions are created at the EU level. DG Regio is not the process manager of the macro-regional strategies; it relies on the existing institutions and organisations in the macro-region.

Macro-regional strategies have some characteristics which set them apart from just any other territorial cooperation between member states within a region (Dubois et al. 2009; Nacchia 2011): a multi-sectoral approach (i.e. coordination across policies), a multi-instrumental approach, and a multi-actor approach. More specifically, in literature, some efforts have been made to distinguish macro-regional strategies from multi-level governance, and from transnational cooperation within the INTERREG framework. In this respect it is mentioned (Nacchia 2011; Schymik 2011) that multi-level governance is very much about territorial diversification of policies across the vertical range of different public authorities (EU-states-subnational authorities), and less about cross-policy issues and the involvement of private actors. An EU macro-regional strategy stresses the transnational, horizontal dimension of policies and aims at strengthening the territorial cohesion of existing cooperation at bilateral, multilateral, supranational, and subnational levels. Moreover, macro-regional strategies provide the basis for external cooperation in the macro-region as they include the EU external and neighbourhood policy fields.

EU macro-regional strategies are different from the mainstream territorial cooperation scheme aimed at the transnational dimension (INTERREG IVB) in the sense that this scheme is primarily a funding scheme for a diversity of transnational projects and involves far less multi-sectoral coordination. Moreover, although there is some overlap between the areas covered by the 10 (European continental) regional INTERREG IVB programmes¹⁰ and the macro-regions in Figure 1, some of these INTERREG IVB areas are rather large and do not have a centripetal geographic feature (such as a sea or a river, as in the case of the BSR and DSR). In this respect, enlargement has been an important factor for the emergence of EU macro-regional strategies. In the cases of the Baltic Sea and the River Danube enlargement it meant that these waters became – to a large extent – internal EU waters. Enlargement also changed the geopolitical configuration of the EU, in terms of the centre and the periphery. By combining old and new member states, and the periphery and

10 Northern Periphery, Baltic Sea, North West Europe, North Sea, Atlantic Coast, Alpine Space, Central Europe, South West Europe, Mediterranean, South East Europe.

the centre, EU macro-regional strategies can contribute to territorial cohesion in Europe (Schymik 2011).

3.1 The Benelux Union

The so-called Low Countries are the historical lands around the low-lying delta of the Rhine, Scheldt, and Meuse rivers, and include the modern countries of Belgium, The Netherlands, Luxembourg and parts of northern France and western Germany. The term originates from the Late Middle Ages. For centuries, the Low Countries have been united, separated and re-united. The last re-unification dates from 1813, but lasted only 15 years as Belgium separated itself from the Kingdom in 1830, with Luxembourg temporarily being brought under Belgian rule until it also became fully independent in 1839.

In the second part of the 19th century and the first decades of the 20th century the three independent nation states flourished economically, through increased trade, the development of a strong agricultural sector and the establishment of new manufacturing industries. Relations between the states normalised rapidly. In 1846, a treaty on trade was conducted between the three states. After Luxembourg, for political reasons, retreated from the German *Zollverein* (in 1919), a treaty was conducted in 1921 which laid the foundations for an economic union, i.e. a common Benelux market. Economic decline in the *interbellum* led to an initial delay in the implementation of these plans, but the 1932 Treaty of Ouchy provided for a decrease in import duties and abolished protectionist measures. A number of treaties conducted in 1943 and 1944 led to the birth of the Benelux customs union, on 1 January 1948, which eventually was to progress into a fully-fledged internal market. On 1 November 1960, the – consolidated – Treaty on Benelux Economic Union (BEU, conducted in 1958) came into force, effectively creating the common market. In June 2008, the Treaty was renewed.

The main policy area that the Benelux has been involved in is market integration (including integration in the field of intellectual property rights). This is still the core of the Benelux activities, even though these activities have largely become part of the mainstream common market policies of the EU. In addition, the Benelux has been involved in specific issues of cross-border cooperation. Recently, with the renewal of the Benelux treaty, the Benelux has identified a few new policy areas it has, or will be, engaged in: innovation, sustainable development, and justice and home affairs. More recently, we have seen an increase in joint political statements by Belgium, The Netherlands and Luxembourg, on topical issues in a variety of policy areas.¹¹

Another recent feature is the “relationship” between the Benelux and the German state of Nordrhein-Westfalen (see Andringa 2010, for a detailed discussion). In

11 For example: on Friday, 15 March 2013, the Benelux countries issued a joint statement to urge for unity on the part of the EU on the issue of supply of weapons to the Syrian opposition.

December 2008, (just after the renewal of the Benelux Treaty), a partnership agreement was signed between the Benelux and Nordrhein-Westfalen (effective from 2012), which deals with five policy areas: disaster management, police cooperation, air pollution, spatial planning, and food safety.

The Benelux is an intergovernmental organisation. Decisions are taken unanimously. They only become legally valid after they have been incorporated into national legislation. The Committee of Ministers is the main decision-making body of the Benelux and is made up of the ministers of the three countries. The Committee has a different composition depending on the issues at hand, and has a rotating presidency.

In EU terms, the Committee is the Council of Ministers. The Benelux Council consists of high-level civil servants of the three member states. It is in charge of the preparation of Committee decisions (in EU terms: Coreper). The Secretariat-General is in charge of the implementation of decisions and resembles the EU Commission. The Benelux parliament is not chosen directly, but is made up of national parliamentarians. In that sense it resembles the “old” European Parliament, before EP became a directly elected body in 1977. As with the EU, the Benelux also has a court, similar in set-up to the EU Court of Justice.

The legal instruments of the Benelux, again, are very similar to the EU: regulations, directives and recommendations can be issued by the Committee of Ministers. The Benelux budget is set for a period of five years. This multi-annual budget is funded by member states based on their national income. Within this multi-annual framework, the Committee of Ministers sets annual budgets.

3.3 The Baltic Sea Region (BSR) and the EU Strategy for the Baltic Sea Region (EUSBSR)

As with the Low Countries, the countries of the Baltic Sea rim (i.e. a coastline of 8,000 km) have a complicated history of political unions, separations and conflicts. Roughly, according to Tassinari (2004), the Baltic Sea region comprises the German *Länder* of Schleswig-Holstein, Hamburg and Mecklenburg-Vorpommern, Northern Poland, Lithuania, Latvia, Estonia, the Leningrad and Kaliningrad *oblasti* (regions) and the St. Petersburg Municipality, Finland, Sweden and Denmark.

The Council of the Baltic Sea States, which is the main political forum of the region, was officially founded in 1992, but as Tassinari (2004) and Williams (2005) argue, the region-building period had already begun in 1988, as the initial ideas of region-building in the Baltic Sea region arose, parallel to the main changes that took place in the late 1980s in Europe in general and the specific geopolitical changes in the Baltic states. During this period of region-building, references were made to various earlier regional cooperation schemes in this area, including the Hansa cooperation which stretched from the 14th to the 16th century. Within the BSR, and in addition to the CBSS, in the 90s there were other well-

established cooperation schemes (of which some still exist), such as the Nordic Council (since 1952, for inter-parliamentary and inter-governmental cooperation, originally between Norway, Iceland, Denmark and Sweden but now also includes Finland, and associate and observer members from the Baltic Sea region), HELCOM (environmental policy), VASAB (transnational spatial planning), the NB8-group, Baltic 21, the Union of Baltic Cities, the Baltic Development Forum, the Nordic Council of Ministers, and various INTERREG programmes and projects in the region (including the Baltic Sea Region Programme). The multitude of actors already involved in cooperation schemes in the region was reflected in the large number of organisations (109) that participated in the written public consultation on the EUSBSR in 2008; interestingly enough, some member states refused to speak out and contributed so-called non-papers.

The EUSBSR was initiated in 2005 by the Europe Baltic Intergroup (i.e. an informal group of MEPs from the Baltic Sea region) as a spin-off from the 2005 Parliament's resolution on the Northern Dimension. The outline for an EU strategy for the Baltic Sea Region was drawn up by Henrik Ilves (Estonian MEP, later Estonian President), later followed up by an EP report by Finnish MEP Alexander Stubb (later Finland's foreign minister). Germany and Finland (during their presidencies in 2006 and 2007) tried to sell the idea to other member states, but initially the idea did not meet with enthusiasm in the European Council. It was taken up again by Sweden in the run-up to its presidency in 2009; the European Council invited the European Commission to present a EUSBSR by June 2009, which was then endorsed in October 2009.

Metzger (2010, following Marres) argues that in the 1990s, in the Baltic Sea region, a regional public or "community of concern" had begun to emerge, which raised issues concerning security, the environment and economic development, but this community was not fully able to turn these issues into a coherent whole. This is exactly what the EUSBSR focused on: the transformation of a loose regional public into a more stabilised regional stakeholder community and the translation of multiple interests into a set of shared interests (Metzger 2010). Schymik (2011) also points to the growing dissatisfaction over the stagnating cooperation in the region, after a dynamic start following the end of the Cold War. He argues that after integration of the eastern States into the EU and NATO was achieved, the regional cooperation temporarily lost its drive. The EU macro-regional approach revitalised the process of transnational cooperation in the Baltic Sea Region (Dühr 2011). Metzger and Schmitt (2012), state that the EUSBSR solidified Baltic Sea regional cooperation by formalising the soft space of the region.

Although it could be argued that with the development of the EUSBSR the CBSS has become less important (and EU institutions have become more important), the CBSS is still the overall political forum for inter-governmental cooperation in the BSR. It deals with five policy domains/priorities: environment/sustain-

able development, economic development, energy, education and culture, civil security and the human dimension. The Members of the Council are the eleven states of the Baltic Sea Region (Denmark, Estonia, Finland, Germany, Iceland, Latvia, Lithuania, Norway, Poland, Russia, and Sweden) as well as the European Commission. The Council consists of the Ministers for Foreign Affairs from each Member State and a member of the European Commission. The Presidency of the Council rotates among the Member States on an annual basis. The role of the Council is to serve as a forum for guidance and overall coordination among the participating states. The foreign minister of the presiding country is responsible for coordinating the Council's activities and is assisted in this work by the Committee of Senior Officials (CSO).

The Committee of Senior Officials (CSO) consists of high ranking representatives of the Ministries of Foreign Affairs of the Member States as well as of the European Commission. The CSO serves as the main discussion forum and decision-making body for matters related to the work of the Council between Ministerial Sessions. The CSO monitors, facilitates and aims to coordinate the work of all CBSS structures. The CSO and its Expert Groups are serviced by the Permanent International Secretariat of the CBSS, which was established in 1998. The mandate of the Secretariat is to provide technical and organisational support to the Chairman of the CBSS and the structures and working bodies of the Council; to ensure continuity and enhanced coordination of CBSS activities; to implement the CBSS Information and Communication Strategy; to maintain the CBSS archives and information database, and to maintain contacts with other organisations operating in and around the Baltic Sea region, the national authorities of Member States and the media.

As the CBSS focuses on specific cooperation projects, it does not require specific legislative competencies. It does not have a general budget or project fund. Members are responsible for funding common activities and/or for seeking and coordinating financing from other sources. Since 1998, the CBSS Member States have financed jointly the Permanent International Secretariat of the CBSS.

Returning to the EUSBSR, the EUSBRS, as such, is set out in a communication by the European Commission, elaborated upon in more detail in its Action Plan, and evaluated/accounted for in annual reports. The Action Plan prioritises the activities into 15 priority areas, organised into four thematic pillars and a horizontal section. Every priority area has its flagship projects. The four thematic pillars are: the environment, prosperity, accessibility and attractiveness, and safety and security. For each priority area, some EU member states are designated as coordinators (contrary to the EUDSR, non-EU states do not act as coordinators within the EUSBSR). The strategy is overseen by a High Level Group of all EU member states.

3.4 The Danube Region (DR) and the EU Strategy for the Danube Region (EUSDR)

Just as in 2004, the Baltic Sea became a common EU sea and in 2007 the River Danube largely became an internal EU river. Historically, cooperation in the Danube Region began to develop right after World War II, in order to coordinate the navigation of the Danube, more generally to coordinate transport issues, but also involving cultural exchange. During the Cold War, the region served as a link between East and West. During the 1990s the region went through a deep political transformation and conflicts (Balkan wars). In addition to navigation/transport issues, security and stability issues became important, as well as the environmental protection of the River Danube. During this period, several international organisations became important players: the OSCE, the UN, NATO, the Council of Europe, and of course the EU. EU involvement consisted of bilateral arrangements with outsiders (accession partnerships; use of IPA (Instrument for Pre-accession Assistance); Stabilisation & Association Agreement; European Partnership; Partnership & Cooperation Agreements within the ENP framework) and through the EU cohesion policy. Just as in the case of the BSR in the DR, various organisations and networks were active, before introducing the EUSDR. The OCSE initiated the Danube Cooperation Process, which replaced the Stability Pact for South Eastern Europe and the South East Cooperation Initiative (SECI, founded in 1996, on US initiative). In 1996, Bulgaria initiated the South-East European Cooperation Process and in 2008, the Regional Cooperation Council (RCC) was established. Various other organisations were also active, mainly concerned with the management of the Danube: the Danube International Commission (set up in 1948, fully operational as from 1964), International Sava River Basin Commission, ISBRC (2001), International Commission for the Protection of the Danube River (ICPDR 1998), Working Community of the Danube Countries (1989), Council of Danube Cities and Regions (CDCR, launched in 1998, formally established in 2009) and various NGOs and business associations.

The institutional landscape of the DR, prior to introducing the EUSDR, was far more complex than that of the BSR in the 1990s. Still, compared to the BSR, the DR is hardly unified by a shared regional identity or culture, and the EUSDR involves more region-building than the EUSBSR. The main drivers for regional cooperation are shared political and historical developments, the need felt to respond to integration processes in other parts of Europe, the wish to overcome political divides from the past, and obviously the management of the River Danube. The external dimension is more prominent with the EUSDR than with the EUSBSR.

Compared to the EUSBSR, the role of the EP was less prominent; only when the EUSDR was already in the process of development (i.e. shortly after the European Council decision of June 2009 to create a EUSDR), a Danube Intergroup was set up in the EP (July 2009). The main driver was the European Commission which

called for an EUSDR, backed by Austria, Serbia, Slovakia, Romania and Baden-Württemberg. The idea immediately met with enthusiasm in the European Council. The European Council asked the European Commission to prepare the EUSDR to be adopted in 2011. A consultation procedure was launched (February–June 2010), in which all EU member states openly participated on a broad scale (Schymik 2011), as well as third countries, including Russia (which was far less reserved regarding this strategy than regarding the EUSBSR). The EUSDR was adopted in 2011, under the Hungarian presidency.

In terms of governance, the EUSDR is constructed in the same way as the EUSBSR (strategy in a European Commission communication, on which an Action Plan is built), with pillars, priority areas, and coordinators. The four pillars are: connecting the Danube Region, environmental protection, prosperity, and strengthening the Danube Region. In contrast to the EUSBSR, here we find that non-EU countries, in some cases, are part of a coordinators' group (always twinned to one or more EU member states), except in the area of security/safety.

3.5 Application of the analytical framework

In this section the different elements of the analytical framework will be applied to the three macro-regions at hand.

Dimension: time

PERMANENT OR TEMPORARY

All three macro-regions are permanent features of differentiation. In the case of the Benelux, the treaty arrangements have recently been renewed. In the case of the EUSBSR and the EUSDR, the time frame is undetermined; a long-term perspective is used, with the possibility of a revision of the strategies (see also Matarrelli 2012).

Dimension: matter

SINGLE ISSUE OR MULTIPLE ISSUES

All three macro-regions deal with multiple issues. In the case of the EUSBSR and the EUSDR, the multi-sectoral approach is one of the defining characteristics of the strategies; in the case of the Benelux, it originally dealt with a single issue (cross-border trade), but it has developed into a cooperation scheme that deals with a multitude of issues.

GEOGRAPHICAL PROXIMITY IMPORTANT TO THE ISSUE(S) OR NOT

Again, territoriality is essential to the macro-regional strategies. Both the BSR and the DR are centred around a natural entity (sea, river) and all pillars and priorities do have a distinct geographic dimension, although one could argue that in the case of the DR the extent to which the region is united by a number of functional characteristics is less than in the case of the BSR.

In the case of the Benelux, to some issues the geographical aspect is important, but especially when it comes to the cooperation by the three countries in order to share bargaining power within the EU, increasingly, non-geographically determined issues are involved.

INSIDE EU POLICY DOMAIN OR OUTSIDE

The EUSBSR and the EUSDR are internal EU strategies. Although there is no specific Treaty clause that refers to such strategies, they have been developed as part of the objective of territorial cohesion. As such, but also if we look at the specific pillars of the strategies, they stay within the EU policy domain.

The same is true for the Benelux: market integration, innovation, sustainable development and justice and home affairs are all issues within the EU policy domain, in which integration deepens between the three countries (and its German partner).

Dimension: drivers

TOP-DOWN OR BOTTOM-UP

According to Nacchia (2011), Dühr (2011) and Van der Zwet and McMaster (2012, following Armali and Salines) the macro-regional strategies involved a mix of (or balance between) bottom-up and top-down approaches. For instance, regional cooperation in the BSR began bottom-up (already in the 1980s) by the development of networks of subnational and private actors, but nation states then built on this, followed by the EU (mainly EP and/or European Commission). Regional cooperation in the DSR was led more by international organisations and has relatively more top-down features than regional cooperation in the BSR.

Benelux cooperation is the result of a top-down approach. Later, when the Benelux was incorporated into the EU framework, bottom-up regional cooperation (cross-border cooperation) emerged, but mainly within the INTERREG framework.

CENTRAL GOVERNMENT DRIVEN OR REGIONALLY/LOCALLY DRIVEN

As with the establishment of the Benelux, central governments have been crucial to the development of the macro-regional strategies. Although subnational actors have been important, the process of macro-regionalisation primarily has also been driven by central governments.

Dimension: membership

SMALL/NARROW INVOLVEMENT OR LARGE/BROAD PARTNERSHIP

In terms of the countries involved, the Benelux is a small macro-region, whereas the EUSBSR and the EUSDR are large/broad partnerships.

OPEN/FUZZY OR CLOSED/STRICT DELIMITATION

All three regions are open, but to a very limited extent. It is hard to see how the (EUS)BSR and the (EUS)DR can geographically enlarge, given that they currently

already encompass all relevant territory. However, here we must make a distinction between the macro-regional strategy and the broader regional cooperation scheme. For example, if we take the case of the BSR, the strategy is clearly EU-centred (and as such not open or unclear), but one of the main political entities in the region, the CBSS, is open, as is shown by the involvement of many observer states (Belarus, France, Italy, The Netherlands, Romania, Slovakia, Spain, the Ukraine, the United Kingdom and the United States of America) and various strategic partners.

With the Benelux, the recent cooperation with Nordrhein-Westfalen shows that there is a less strict delimitation of its boundaries than previously.

NATION STATES OR MULTI-LEVEL

Central governments are the nodes of the macro-regional governance systems (Stocchiero 2010). In forging the macro-regional strategies, the EU and its member states were important, but also in the actual governance of the strategies.¹² EU member states are the main actors in the European Council and have general oversight power through High Level Groups. The role of subnational actors in macro-regions is limited to consultation in the initiation and policy making phases, weak in the management phase (where central governments and the European Commission are responsible) and mainly concerns the implementation phase (Van der Zwet and McMaster 2012):

Still, membership and involvement in coordination is possible for subnational authorities. In the EUSBSR, Mecklenburg-Vorpommern is one of the coordinators for tourism, and Hamburg for education. In the EUDSR, Bavaria is the coordinator for biodiversity, and Baden-Württemberg for the competitiveness of enterprises.

The Benelux is an intergovernmental organisation in which the nation states dominate. However, in addition to the involvement of subnational authorities in specific projects, there is multi-level governance, if we take into account the cooperation with Nordrhein-Westfalen.

PUBLIC OR PUBLIC AND PRIVATE

The same that is true for subnational authorities, but even more so, is also true for private actors, in all three macro-regions: involvement in the actual implementation of projects, but to a much lesser extent in the policy making and coordination domains. Obviously, they are part of the macro-regional networks, but they are not “full” members of the formal regional cooperation schemes. At heart, all three macro-regions are governmental entities.

12 As Williams (2005) shows, the initial ideas of Schleswig-Holstein’s prime minister Engholm for a truly non-governmental Baltic Sea Forum or New Hanse, supported by Sweden’s minister (and later ambassador to Germany) Hellström, were slightly weakened by interventions from the German Foreign Minister Genscher and his Danish counterpart Elleman-Jensen, who insisted on a significant role for the nation states in the CBSS.

EU ONLY OR EU PLUS OUTSIDE¹³

The Benelux fully falls within EU territory; the EUSBSR and the EUSDR include partners from outside of the EU.

Dimension: institutions

EMBEDDED IN THE EXISTING FRAMEWORK OR NEW/OWN INSTITUTIONAL FRAMEWORK

The EU macro-regional strategies have led to a situation where regional cooperation has been embedded in the EU institutional framework. In the case of the EUSBSR a dense and hardly manageable array of transnational organisations and networks already existed. The EUSBSR aimed at a realignment of the institutional structure, mainly with a view towards the CBSS, which is no longer the leading political council cooperation in the region, as this role has been taken over by the EU (Schymik 2011). Though its role may be less prominent, the CBSS still has its own (intergovernmental) institutional framework.

In the case of the EUSDR, the transnational institutional landscape was weakly developed. The EU stepped in, and in line with one of three No's, no new institutions were established, but still there are calls for a Danube Council, especially to better accommodate third states (Schymik 2011).

In the case of the Benelux, there is a separate institutional framework, which preceded the EU framework, but has become perfectly aligned with it. Within its member states the institutional set-up (especially the role of the Benelux parliament) is increasingly discussed, in light of this embeddedness, which leads to all kinds of overlap.

HIGHLY INSTITUTIONALISED OR LOOSELY ORGANISED

Both the EU framework for the macro-regional strategies and the Benelux framework are highly institutionalised.

Dimension: decision-making

EMBEDDED IN EXISTING DECISION-MAKING OR NEW/SOVEREIGN CLUB DECISION-MAKING

What applies to the institutional framework is also true for decision-making: almost perfectly embedded into EU decision-making (even though in the case of Benelux, decision-making is sovereign and the Benelux has its own legislative order).

13 Schymik (2011) combines the external dimension, the broadness of membership, and countries' sizes into what he calls "symmetry". He argues that the (EUS)BSR and (EUS)DR are reasonably symmetrical (Schymik 2011): the countries as such, and taken together are small enough to have an equal incentive to raise their stature and influence within the EU through transnational cooperation, and they are mainly within the EU (BSR: 8 insiders, 3 outsiders; DSR: 8 insiders, 6 outsiders). According to him no other macro-regions can be found in the EU which have the same balance, which limits the transferability of the current experiences.

Dimension: mode of governance

HIERARCHICAL/CENTRALISED/CLOSELY MANAGED/REGULATED OR LOOSE/OPEN/
FLEXIBLE COORDINATION

Coordination within the macro-regional strategies does not involve (new) legislation or funding. The strategies, as such, are non-binding communications, endorsed by the European Council. The Benelux uses hard, as well as soft, coordination (in that way it mirrors the current use of both types of coordination in the EU). It has moved away from its single focus on market integration through harmonisation of legislation and is more oriented towards cooperation through projects in the policy fields it has newly embraced.

STRUCTURE-ORIENTED OR PROCESS-ORIENTED

Because of the three No's, the emphasis within the macro-regional strategies is on processes and outcomes rather than on building and maintaining structures. Again, the Benelux shows a mix of both approaches; historically, it has always paid close attention to the institutional set-up (which served as a role model for and is very similar to the set-up of the European Community), but increasingly it is oriented towards process and outcomes.

FIXED RESPONSIBILITIES (WITH ACCOUNTABILITY SCHEMES) OR SHARED RESPONSIBILITIES (BASED ON TRUST)

In all three cases, responsibilities and accountability schemes are very clearly outlined. This is especially true for the Benelux (where responsibilities and accountability are well-defined and linked to its institutional structure, which includes a parliament and a conflict-settling court, but also for the EUSBSR and the EUSDR, where the European Commission and the member states are responsible.

Table 6 lists the outcomes of the application of the analytical framework on the three macro-regions.

4. Conclusions

Our analysis leads to the following conclusions. First, the EUSBSR and the EUSDR are largely identical, even though the two strategies involve regions that are different in terms of regional identity and historical background. The main difference is that in the BSR there seems to be more involvement of private actors. Second, the Benelux differs from the two “new” macro-regions. It is more top-down driven; it is relatively small (in terms of participating countries); it does not reach outside the EU and it has its own institutions and decision-making procedures. Third, when looking at the Benelux on the one hand and the other regions on the other, it can be argued that some convergence has taken place. The Benelux has begun cooperation with Nordrhein-Westfalen, which diminishes its “nation states only” – char-

Table 6
Outcomes of the application of the analytical framework for three EU macro-regions

Dimension	Variation	Benelux	Baltic Sea Region	Danube Region
Time	Permanent or temporary	Permanent	Permanent	Permanent
Matter	Single issue or multiple issue	Increasingly multiple issue	Multiple issue	Multiple issue
	Geographical proximity important to the issue(s) or not	Geographical proximity important, but not on all issues	Geographical proximity essential (Baltic Sea)	Geographical proximity essential (River Danube)
Drivers	Inside EU policy domain or outside	Inside EU policy domain	Inside EU policy domain	Inside EU policy domain
	Top-down or bottom-up	Top-down	Mixed	Mixed
Membership	Central government driven (nation states) or regionally/locally driven	Central government driven	Central government driven	Central government driven
	Small/narrow involvement or large/broad partnership	Small/narrow	Large/broad	Large/broad
Institutions	Open/unclear or closed/strict delimitation	Open (limited)	Mixed (EUSBSR <> region as such)	Mixed (EUSDR <> region as such)
	Nation states or multi-level	Nation states + multi-level	Multi-level	Multi-level
Institutions	Public or public+private	Public	Public + private	Public
	EU-only or EU+outside	EU only	EU+outside	EU+outside
Institutions	Embedded in existing framework or own/new framework	Own institutions, but aligned with EU framework	Embedded in EU framework	Embedded in EU framework
	Highly institutionalised or loosely organised	Highly institutionalised	Highly institutionalised	Highly institutionalised

Decision-making	Embedded in existing decision-making or new/sovereign club decision-making	Sovereign club-decision-making, but embedded in EU decision-making	Embedded in EU decision-making	Embedded in EU decision-making
Mode of governance	Hierarchical/centralised/closely managed/regulated or loose/open/flexible coordination	Mixed	Open coordination	Open coordination
	Structure-oriented or process-oriented	Mixed	Process-oriented	Process-oriented
	Fixed responsibilities (with accountability schemes) or shared responsibilities (based on trust)	Fixed responsibilities	Fixed responsibilities	Fixed responsibilities

acter and brings it closer to the multi-level character of the other two regions. It is increasingly involved in multiple issues, with more open coordination and more orientation towards processes. On the other hand, the EU macro-regional strategies have brought institutionalisation to more or less unclear, fluid and heterogeneous cooperation schemes that emerged after the end of the Cold War in the BSR and the DR, as part of the process of EU accession of most of the countries involved. The EU macro-regional approach has lifted such transnational cooperation out of the domain of intergovernmental cooperation and into the sphere of EU multi-level governance with a stronger role for supranational institutions (Dühr 2011). Or, to put it differently, the EU has effectively taken over these regional cooperation schemes and has successfully imposed its institutional framework. In that sense, macro-regions (as appearances of differentiated integration and regionalisation) are no threat to EU integration, and through its macro-regional strategies the EU has actually strengthened its position.

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The Role of Hybrid Partnership in the Management of Development

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Key words: territorial partnerships, regional development, new regional policy, management of development

1. Introduction

The New Regional Policy of the European Union creates specific challenges for entities responsible for the management of territorial development. The new model of regional policy is focused on territorial public intervention (a place-based policy) as well as on Multi-Level Governance. The principal objective of the paper is to disclose new roles of territorial partnerships brought into existence in the course of the formal emergence of so-called “functional areas”, as a tool for an integrated approach to regional development.

2. Territorialisation as the essence of the new paradigm of regional policy

The territorialisation of development policy relates to the observation that “the efficiency of place-based production systems and their competitiveness is a key factor for gaining competitive advantages by producers” (Markowski 2011, 76). Based on the analysis of many authors, T. Markowski considers that the territorial dimension of development policy is – amongst other things – the result of the necessity to create conditions for effective cooperation of self-governments in order to stimulate development that crosses borders of administrative divisions at the national and international levels (Markowski 2011, 77).

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An understanding of territorialisation was presented in F. Barca's well-known report: *An Agenda for a Reformed Cohesion Policy. A place-based approach to meeting European Union challenges and expectations*, published in 2009 (Barca 2009). The Barca Report stated that there was a consensus that the European Union should modernise its cohesion policy. The policy concept formulated in the Report is the place-based development approach. The objectives of the Report were to reduce inefficiency (under-utilisation of resources resulting in income below potential in both the short- and long-term) and social exclusion (primarily, an excessive number of people below a given standard in terms of income and other features of well-being) in specific places. According to the Report, "places are defined through the policy process from a functional perspective as regions in which a set of conditions conducive to development apply more than they do in larger or smaller areas". The Barca Report argued that a place might require an intervention from outside in response to two sets of market and government failures:

- a place can be trapped in a vicious circle of inefficiency or social exclusion because local elites intentionally fail to choose appropriate economic institutions (since it is against their interests); or
- the less a place has effective institutions, the less likely it is to have them in the future (path dependence) (Barca 2009, 11).

The essence of policy territorialisation boils down to the fact that the goods and services concerned need to be tailored to places by eliciting and aggregating local preferences and knowledge and by taking account of linkages with other places. The place-based approach goes beyond the traditional dilemma of whether to decentralise or centralise public functions. Authorities governing exogenous interventions set the priorities, rules and general objectives for using the funding provided, leaving it to lower levels of government to implement these principles according to the context as they see fit. Place-based policies are complex but they have brought a spatial transparency to public interventions. The spatial dimension of public interventions is transparent, verifiable and subject to citizens' scrutiny and there is a clear recognition that "the state does not necessarily know best." Among the most evident weaknesses which indicate the need for reform of cohesion policy, the Barca Report mentions "a deficit in strategic planning and in developing the policy concept through the coherent adoption of a place-based, territorial perspective" (Barca 2009, 15).

Currently, the philosophy of "a place-based approach" is mentioned in many strategies and policies, including – amongst others – the important EU document *Europe 2020, "A strategy for smart, sustainable and inclusive growth"*, adopted in 2010 by the European Commission. Amongst the 3 main priorities, this strategy indicates "an inclusive growth", consisting of "fostering a high-employment economy delivering economic, social and territorial cohesion" (Europe 2020, 2010, 11).

Territorial priorities for the development of the European Union have been adopted in the form of the so-called *Territorial Agenda of the European Union 2020* (TA2020), agreed at the Informal Ministerial Meeting of Ministers responsible for Spatial Planning and Territorial Development on 19 May 2011 in Gödöllő, Hungary. This document defines six territorial priorities for the EU which can contribute to the successful implementation of the Europe 2020 Strategy. These priorities are:

1. Promoting polycentric and balanced territorial development,
 2. Encouraging integrated development in cities, rural and specific regions,
 3. Territorial integration in cross-border and transnational functional regions,
 4. Ensuring global competitiveness of the regions based on strong local economies,
 5. Improving territorial connectivity for individuals, communities and enterprises,
 6. Managing and connecting ecological, landscape and cultural values of regions.
- (TA2020, 2010, 7–9)

The *Territorial Agenda* indicates the relevant governance and implementation mechanisms. TA2020 underlines that “Implementation instruments and competences are in the hands of EU institutions, Member States, regional and local authorities and private actors. Multi-Level Governance formats are required to manage different functional territories and to ensure a balanced and coordinated contribution of local, regional, national and European actors in compliance with the principle of subsidiarity. This needs vertical and horizontal coordination between decision-making bodies at different levels and sector-related policies to secure consistency and synergy” (TA2020, 2010, 9).

A place-based approach is present in the latest Polish national development documents. *National Strategy of Regional Development 2010–2020. Regions, cities, and rural areas (KSRR 2020)* is the basic development document outlining future socio-economic development processes in the period up to 2020. The adoption of a new model of thinking concerning place-based development – stimulation of internal territorial potential and strengthening mechanisms ensuring diffusion of development from stronger centres to entire regions – addresses the challenges that the current policy needs to face. The new regional policy is one oriented towards all Polish regions and territories, as it focuses on their strong points and makes use of the opportunities, and, where need be, provides external resources to level out development gaps (KSRR 2020, 2010). Another national strategic document of the greatest importance is the *National Spatial Development Concept 2030 (KPZK 2030)*. As spatial management is a result of multi-level development processes, KPZK 2030 makes use of the place-based approach in establishing its goals and its implementation instruments. The main idea is still territorially balanced development, focused on the development potential of the areas selected in the EU 2020 Strategy. The document outlines the complex but well-tailored concept of functional areas playing different roles in national, regional and local development. According to KPZK 2030, functional area planning is a key feature of modern development policy. This

type of planning will be present at each of the levels of the planning system in Poland. A new and important feature of functional areas is the fact that they cut across administrative borders. So, the development model adopted in KPZK 2030 represents a comprehensive approach: functional planning in the areas demarcated by geographical features based on socio-economic conditions will enable a more precise definition of the specific development potential and comprehensive problem-solving in the area.

So, instead of insisting on cohesion principles, the national development policy in Poland encourages socio-economic competitiveness of the functional areas, defined on various spatial scales (macro-regional, regional, sub-regional and local). However, this new approach to development policy at the national level has not yet filtered down to regional and local systems of development management in Poland. In 2011, the author prepared two expert opinions for the Polish Ministry of Regional Development, concerning the current state of and possible amendments to regional and local systems of development management in Poland. The findings of these expert opinions, as well as other researches by the author conducted in the form of participant-type observations of the regional and local authorities' development activities, are the reasons for formulating the following conclusions.² The spatial dimension of territorial planning is very important and only loosely linked to socio-economic planning. The legislator, in many cases, imposes a requirement to coordinate intraregional development with national policy, leaving internal harmonisation of plans to regional authorities. The legal acts define the organisational conditions for preparing, enacting, implementing and monitoring regional plans and programmes.

The main actor is the regional self-government, responsible for 23 out of 36 documents, prepared at the regional level. At the local level, the obligatory planning system comprises 41 documents: 22 at the district (*powiat*) level and 19 prepared for communes (*gmina*). The legislator does not impose a multilevel coordination of plans and programmes on this level either. This situation urgently needs to be addressed, as development policy should be cohesive at all governmental levels. Despite certain formal connections between plans and programmes, the overall shape of the obligatory local planning system does not seem to allow for efficient management of development processes. This stems from two main characteristics. The first deficit of the local planning system is – at the regional level – the weak linkage of socio-economic and spatial issues. The next important deficiency rests in the fact that there is no necessity to adopt local strategies in Poland. So, the majority of local plans and programmes are operational and sectoral, without a broad and cohesive reflection of the entirety of administrative unit problems. In the opinion of the

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author, a territorially oriented local development strategy should be an obligatory element of the planning system.

The inquiry prepared in 2011 disclosed that the best governed Polish metropolises, districts and communes prepare local strategies as non-obligatory plans. In addition, “smart” cities, districts and communes enact many other non-obligatory plans and programmes. These documents are frequently strategically oriented. A good example is the case of revitalisation (urban regeneration) programmes, which in practice are of an integrated nature. Revitalisation programmes are a good example of the contemporary understanding of territorial development, combining sustainable, smart and inclusive aspects of the territorial change. In describing the local planning system in Poland, we must add that there is only loose coherence of regional and local solutions. This situation also needs to be amended immediately.

From the organisational point of view, the regional and local systems of development management are based on the fundamental role of statutory legal entities of regional and local governments. However, it is worth noting that there is an important level of disaggregation of the organisational system. Apart from governmental authorities, the territorial management system includes different types of institutions: governmental managerial units or agencies. Only a few coordination or monitoring responsibilities are transferred to NGOs. The monitoring committees, composed mostly of officials of regional and local levels, form the regional system of control of the EU cohesion policy implementation. That – still weak, but existing – heterogeneity seems to be a good introduction to the future needs of the organisational infrastructure of territorial management. However, it should be underlined that there is practically no legal pressure to implement deep, socially rooted public participation. Instead, we usually find recommendations for “informing” or “consulting”, which can easily be reduced to mere formalities. In the case of the regional, as well as local levels, public participation is then more symbolic than real (Noworól 2011a, 2011b).

3. Increasing role of multilevel governance and inter-organisational relationships

At the root of Multilevel Governance is the conviction that “Governance includes the state but transcends it by taking in the private sector and civil society. All three are critical for sustaining human development. The state creates a conducive political and legal environment. The private sector generates jobs and income. And civil society facilitates political and social interaction – mobilising groups to participate in economic, social and political activities” (UNDP 1997). So, the concept of Multilevel Governance implies changing relationships between many actors, operating at different levels of political systems and in different sectors (Szczerki 2005, 11). The multilevel effect concerns the empowerment, not only of public

authorities at different government levels, but also other private and non-governmental entities affiliated through interweaving networks. Based on the analyses and interpretations of many authors (Agh 2010; Sorensen and Torfing 2007; Sroka 2009; Szczerski 2005, 2012), Multilevel Governance should be treated as one of the concepts of territorial management, and at the same time, as a phenomenon revealing the civilisation changes reflected in the new public governance theory (Pollitt and Bouckaert 2011). Multilevel Governance emerges from a model of policy understood as a system of continuous negotiation between public, private and social bodies in the networked environment.

The multilevel approach to governance (and consequently to public management) is rooted in the contemporary civilisation phenomena. A scientific understanding gives a deep insight into those issues that are related to the flow economy (Dawson 2008) and the relationship economy (Allen et al. 2008). In particular, the flow economy is a concept “in which almost all value is based on the flow of information and ideas”. Companies must therefore continuously examine their position in the context of these flows. The flow economy forces the emergence of new business strategies related to the necessity of finding a position in “the landscape of economic convergence”. (Dawson 2008, 123–128). R. Dawson identified six elements of the flow economy which are interrelated: standards, interfaces, connectivity, relationships, content and services.

The primary axis in the flow economy is the linkage of standards and relationships. As standards become more open – and thus it becomes easier for customers to change affiliations – **relationships** become the main source of value. In the flow economy – whoever controls the relationships controls the value. Companies all over the world must therefore constantly change their strategic business positions. This process of strategic repositioning, founded on opening businesses’ thinking to new possibilities, strengthens the role of participative communication processes. This participative approach has become imperative in the flow economy. Strategy development must consider the participation of people throughout and even beyond the organisation. The strategy should be participative, inclusive of members of the organisation and external partners (Dawson 2008, 128–147). It refers directly to the importance of Multilevel Governance in which mutual dependencies in networks are often more important than legal regulations. In the networked environment – as in the flow economy – relationships that are built on trust are therefore of fundamental importance. Then, political factors become progressively weaker and we can observe an increasing importance of public participation, as a key element of building a competitive advantage based on innovation activities. Public participation, usually associated with the processes of democratisation of public life, becomes a new pragmatic approach within the flow economy. It helps varied types of entities to identify hidden phenomena and to build coalitions for improving their own position in the world of ever-changing circumstances. Then, a large part of decision-making processes related to the stimulation of development happen be-

yond institutions, which have – traditionally and in accordance with the law – been responsible for territorial units’ activities.

In order to deepen understanding of the meaning of territorial cooperation, it is worth recalling selected research problems and theoretical concepts. Let us begin with R. A. W. Rhodes, who maintains that in the contemporary world, “governance refers to self-organising, inter-organisational networks” with the following four characteristics:

- Interdependence between organisations, as governance is broader than government, covering non-state actors; the boundaries between public, private, and voluntary sectors become opaque;
- Continuing interactions between network members, caused by the need to exchange resources and negotiate common purposes;
- Game-like interactions, rooted in trust and regulated by rules of the game negotiated and agreed by network participants;
- Significant degrees of autonomy from the state; networks are self-organizing; although the state does not occupy a sovereign position, it can indirectly and imperfectly steer networks“(Rhodes 1997, 53).

Interoperability in the field of territorial management may take the form of partnerships. Based on analyses of public administration strategies involving the transfer of some public responsibilities to the private and social sectors, I. Elander indicates cross-sectoral partnerships as a spreading form of organisation of the execution of tasks, particularly in the sphere of revitalisation and mobilisation of development capabilities (Elander 2002, 192–193). A partnership is defined as a “a coalition of interests drawn from more than one sector in order to prepare and oversee an agreed strategy for the regeneration of a defined area” (Bailey et al. 1995, 27; Elander 2002, 191). I. Elander stresses the importance of cross-sectoral partnerships in creating public policy. He puts forward 6 arguments:

1. partnership may create synergetic effects of partners;
2. partnership may spread the risks of a project among several actors;
3. partnership may help one partner influence the world view and the way the other partners act;
4. partnership may be an instrument for gaining additional financial resources for the participating partners;
5. partnership may be a way of reducing open conflict and creating a consensual policy climate;
6. partnership may reduce demand overload upon a government and create a broader, more diffuse situation of accountability (Elander 2002, 198).

An in-depth study of the functioning of partnerships between territories was carried out by X. Luo and J. Shen (China), and by M. I. Haseki (Turkey). They distinguished the following partnership types:

- **pro-development**, created by local authorities, the private sector, and academic elites for joint development for mutual benefit on the basis of a partnership agreement (for example: cooperation in tourism);
- **promotional**, pursuing a common territorial marketing, carried out mainly by local and regional-level authorities, and focusing on the development of common strategies and programmes, as well as promotional brochures, and meetings (such as the promotion of investment opportunities and/or tourism);
- **coordination**, which aims to improve the availability and level of public services at the local and regional level, with the involvement of regional and local authorities, and NGOs, on the basis of a partnership agreement to co-ordinate the design, creation, and operation of the infrastructure, and the improvement of public policies (such as cooperation in the sphere of transport, especially public transport);
- **resource-based**, where public authorities seek to manage (share) human and natural resources on the basis of a partnership agreement (e.g. education, maritime economy);
- **strategic**, controlled by public authorities and aimed at strengthening overall competitiveness and weakening competition between cities through the creation of common strategies and programmes (such as the single market, the standardisation of investment policies) (Luo and Shen 2009, 60; Haseki 2011, 103, 106).

Among important theoretical concepts, it is also appropriate to recall Model 4C created by A. Najam, characterising the relationship between public and non-governmental organisations (Najam 2000). On the basis of an analysis of the relationships between NGOs and (self-) governments, he proposed a scheme of interdependence of their strategies and goals.

Figure 1
Model 4C of NGO-Government Relations

		Goals (Ends)	
		Similar	Dissimilar
Preferred strategies (means)	Similar	Cooperation	Co-optation
	Dissimilar	Complementarity	Confrontation

Source: Najam 2000, 383

Model 4C is structured, based on the juxtaposition of features of similarity or dissimilarity of strategies (means) and goals (decisions) of public organisations and NGOs. A. Najam claims that it leads to one of four combinations:

- Cooperation when aspiring to similar goals and using similar measures,
- Complementarity, when looking for common solutions, but using dissimilar strategies,
- Co-optation, when applying similar strategies, aspiring to dissimilar goals,
- Confrontation, when both goals and strategies are dissimilar.

In the context of the theme of this paper, when studying the impact of public intervention on the stimulation of development processes, Model 4C seems to be a valuable analytical tool.

The listed concepts of interoperability and creation of partnerships must take into account three ways of social communication: information, consultation and public participation (Noworól 2009). Public participation is a particularly important and difficult form of communication. It is defined as “the involvement of individuals and groups that are positively or negatively affected by or are interested in a proposed intervention, e.g. a project, programme, plan, or policy that is subject to a decision-making process” (Enserink et al. 2007).

The essence of public participation is dialogue and deliberation. J. Cohen uses the notion “deliberation” to describe a “public process of communication oriented towards searching for appropriate arguments advocating specific evaluations and solutions in the issues under discussion” (Sroka 2009, 28). The public character of the discourse is of fundamental importance. J. Sroka, taking into consideration the theoretical approaches of J. Cohen, J. Habermas and J. Dryzek, presents seven postulates of deliberation procedures:

1. argumentative character of deliberation, which requires participants in the communication process to exchange only logically justified proposals;
2. not allowing the “gagging” of certain views, which means that debates are of a fully inclusive and public nature, and each position, even the most atrocious, should have the possibility to access the debate;
3. liberating debates from external pressures, which consists of participants being sovereign towards the environment; they are bound only by communicative assumptions and argumentation principles;
4. liberating debates from internal pressures; everyone has the same opportunities of being heard, raising topics, criticising, etc.;
5. debates aiming at rationally motivated consent, which means that the rule of majority (voting) is acceptable to apply only because debates have to finish with conclusions;

6. the fact that the deliberation includes problems that can be regulated in the equal interest of everyone; everyone must then be guaranteed equal access to the mechanisms of social and political communication;
7. debates embracing (re-)interpretation of needs and changes of pre-political attitudes and preferences, but the principle issue is the strength and credibility of arguments, according to the chosen criteria (Sroka 2009, 32–39).

Due to potential conflicts of interest, the application of these rules in the conduct of public debates is extremely difficult. However, it is important to note that a constructive debate creates an arena of adaptation of views of those who are striving for constructive inter-organisational relationships.

Finally, it is worth recalling two models of arrangement in the public sphere. K. Szczerski distinguishes a **model of participative deliberation**, in which the public sphere has open channels of participation by various social actors (stakeholders) in the decision-making process and open communication channels through the media. The media become neutral relayers of the deliberation, allowing the existence of diverse opinions and mutual persuasion. Another model of arrangements is a **liberal tender of interests**, which is the concept of the public deciding, which implies the self-organisation of interest groups (especially economic ones) and their balancing in the process of public negotiations. The conditions of such a process of constant bidding (bargaining) are voluntary participation, equality, transparency, mutual trust and low costs of entry into the system (Szczerski 2012, 169). It is worth noting that the conditions mentioned by K. Szczerski coincide with the above mentioned postulates of deliberation procedures.

New and future EU regulations on cohesion policy for the period 2014–2020 show the importance of partnerships and multilevel governance. The Draft Regulation of the European Parliament and the Council provides common principles for all structural instruments relating to general principles of support (Proposal for Regulation of the European Parliament and of the Council 2011). Partnerships and Multilevel Governance are mentioned among these principles. The Draft includes the requirement to establish key areas of support and territorial challenges that need to be addressed. Special emphasis, in the context of the subject matter of this publication, must be placed upon the following:

- mobilising potential at the local level by strengthening and facilitating Community-Led Local Development (CLLD), and by the transfer of responsibility for the implementation of local development strategies to Local Action Groups,
- the introduction of an instrument called Integrated Territorial Investment (ITI) in cases where the strategy of territorial development or the urban development strategy requires an integrated approach, involving investments in more than one priority axis of one or more operational programmes (Proposal for Regulation of the European Parliament and of the Council 2011, 14–26).

The mentioned observations indicate the direction of change of the organisational infrastructure of development management.

4. Hybrid partnerships and their nature in development processes

Constant processes of change are going on in the contemporary world. Technological progress, climate change and globalisation are creating new reference points and new challenges for those who are trying to anticipate the future. In such complex circumstances, the spatial, social and economic environment demands new concepts and new approaches from development actors. Development is going to be organised within functional areas, strengthening competitiveness and expressing a place-based approach. Multilevel Governance is more and more widely seen as the intellectual tool to manage the heterogeneity and complexity of development determinants. Functional planning arranged across administrative borders as well as deliberative and participative approaches to territorial management are stimulating the change in roles of the main territorial actors.

The position of the governmental sector is going to be diminished, while it appears that the importance of both the business sector and the third sector will be increased. Thus a basic causative mechanism emerges in the form of the common interest of territorial partners from all three sectors. The deliberative procedures should allow relevant organisational solutions to be found. The idea of hybrid partnerships as the main organisational tool of the management of development emerges. Such types of partnerships should assure the interoperability of the territorial actors. Their cooperation should reveal reciprocal interests, prevailing over the role of public administration. This means, as was mentioned by A. Agh, that we are approaching an authentic “participatory revolution” (Agh 2010). In the network of interests of all the partners, the voice of public administration is going to be weaker than today. However, the causative strength of governments would be revealed in two cases:

- where partnerships were comprised of public entities that were ready to allocate their assets to support other partners;
- where partnerships endeavoured to win the support of an outside public entity.

Both cases are probable and seem to exist in parallel. It is then probable that the public administration will strive to regain the ability to govern, subject to the liberal tender of interests, rather than to rule using traditional, hierarchical ways.

Another “revolutionary” aspect of incoming partnership arrangements will be related to the contractual dimension of the hybrid partnerships. The business and social sectors will place emphasis on the effectiveness of partnership activities and the fulfilment of their strategic goals. As a result, we will see the widespread

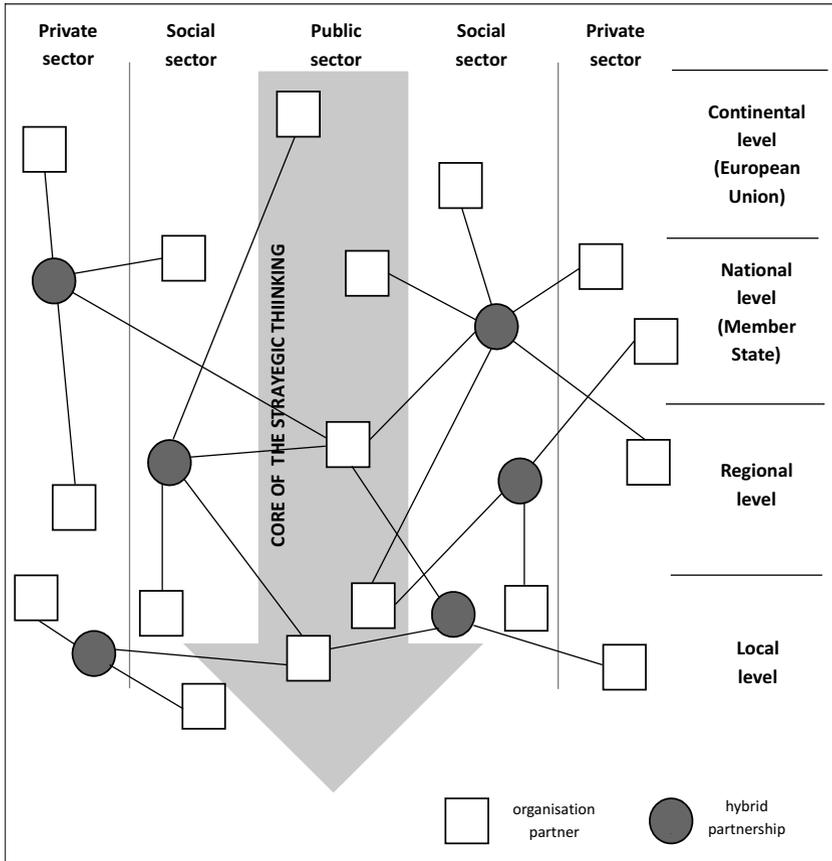
use of portfolio analyses of undertaken projects. This means that the projects will be more linked to the partnerships' strategic goals than to the political marketing of public leaders. Partnership projects will be subjected to portfolio-type thinking, typical for the business sector. We can expect then that an authentic and deep evaluation of policies and projects will become prominent. It will strengthen the strategic attitude of all partners.

Taking into consideration the above mentioned observations, the new role of the public administration can be revealed. In the complex environment of competitive hybrid partnerships, the main function of governments will be strategic orientation focused on public interests, democratic principles and human values. Public authorities – being members of hybrid partnerships or their external debaters – would probably be able to ensure the cohesion and the coherence of scattered multi-directional activities of hybrid partnerships. This cohesion will be guaranteed by selective support for those dispersed strategies, policies, operational programmes and single projects which fulfil the rules and goals created in the common interest of the community, the region and the country. In this way, “the core of the strategic thinking” guaranteed by the public sector will emerge (see the Figure below).

It is worth outlining the contribution of representatives of all three sectors to the future development's organisational conditionings. As has been mentioned above, **public authorities** will perform a dual role in the management of development. First, as the animator and the main actor of public intervention, political organs and governments will create policies, rules, instruments and conditions for the fulfilment of common territorial interests. They will guarantee the democratic order and the participation of business and social actors in the systems of development management of territorial units. Another important role of public bodies will consist in the coordination of activities of the actors of all the territorial levels (EU, country, region, district and community), respecting the principle of subsidiarity. The fundamental task of the public sector will consist in the preparation and the conclusion of territorial contracts signed between public authorities of various levels and hybrid partnerships anchored in different areas of the multi-organisational networks. The more practical dimension of the monitoring, strategic control and evaluation will then emerge in order to accomplish the goals of all the partners. Second, public authorities will participate as partners in the hybrid partnerships. This means that the public sector will have to learn the new roles. It should guarantee the interests of the community against those of the others in the partnership. The public sector should use accessible contractual resources and persuasive means in order to integrate the activities of all the partners with public tasks. At the same time, it should participate, based on the principle of equality, in the process of setting goals and implementation strategies of the partnership projects. The role of the public sector would be to take part in the conclusion of the territorial agreements (territorial contracts). Public authorities would frequently act as mediators in the process of negotiations of partnership with other public authorities. Public institu-

tions and organisations, as members of partnerships, would participate in drawing up project portfolios, take care to balance them and take part in their monitoring and evaluation.

Figure 2
Model of interoperability of hybrid partnerships



Source: Own study, in reference to Noworól 2013, 135

The **business and social sectors** will also perform new roles in the management of development, surpassing current practices and experiences. On the one hand, corporate and non-governmental organisations will participate as economic and social partners in the preparation of public planning documents and in the consultation of implementation arrangements, undertaken by the legal authorities. That will be a significant role, taken into consideration in the methodology of creating programming documents, especially in the domain of land use planning.

On the other hand, an even more important role of business and social partners will consist of active participation in hybrid partnership activities. As has been mentioned, those partnerships will increasingly take over responsibility for the development of functional areas, frequently crossing administrative borders. In consequence, the private and social sectors will try to secure their own interests in the management of development processes. If the selection of partners is adequate for local or regional communities' needs, such a situation will be conducive to functional area development. Otherwise, it will create many differentiated and unpredicted troubles, conflicts and collisions. Business and non-governmental organisations will then use accessible contractual resources in order to integrate the development processes in their own way. As participants of territorial partnerships, they will take part – together with representatives of the public sector – in the formulation of the goals (and the means of their realisation) of the agreed project portfolios.

Finally, it is important to mention that contractual and project portfolio oriented thinking emerges as a consequence of the situation in which the beneficiary of the exogenous intervention is the hybrid partnership and not the public authority of the lower level. The significance of an authentic evaluation of development processes becomes the crucial issue, as a fair estimation of the contribution of all the partners is a condition of mutual confidence and the continuation of cooperation. The balance between financial profits of the business partners and environmental or social aims, defended by non-governmental participants of the partnership, can have – in parallel with the common goals of public authorities' efforts – a new positive impact on development processes. Thus, those processes can be freed from predominant orientation towards the political interests of the ruling parties – a situation that is typical in cases where the public sector is the only (or main) executor of the development.

Final remarks

Based on a review of the premises and the essence of the New Regional Policy, the paper indicates the main mechanisms and instruments allowing the enhancement of the effectiveness of networked triple-sector, hybrid partnerships. As the principal conclusion, the paper indicates the role of these partnerships, which – in parallel with the public system – will determine development management processes. A coherent and territorially-oriented activity of the public administration should then be strengthened by various entities from the corporate and non-governmental sector. Strong cooperation between functional area partners at the strategic level will allow the implementation of development projects. These projects could be based on territorially balanced development policies. The integrated strategies could be adapted to various types of functional areas and allow the realisation of integrated projects relating to specific problems and access to services.

The necessity to implement public participation seems to be obvious. However, taking into consideration the low level of social capital in Poland and the results of the mentioned studies, this field currently seems to be the biggest challenge for the entities responsible for the management of development. New EU instruments in the shape of community-led local development or integrated territorial investments will demand a specific type of management by institutions acting, based on dialogue and deliberation procedures. The hybrid partnerships, comprised of public, private and social participants, will then assume a role of major importance in development processes of functional areas. The decreasing role of the public sector in such an organisational environment should then be balanced by strategic orientation and by selective support for those activities which guarantee human values, constitutional principles and – in general – the common interests of the territorial communities.

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Development Policy in an Age of Austerity – Result-orientation, Effectiveness and Sustainability

Györgyi Nyikos¹

Abstract

With the development policy of the European Union, the Cohesion Policy is changing dramatically from a mere solidarity instrument to an investment policy. This leads to an important questions: is it still regional policy or not? This paper examines the effects of the different types of public investments and the different institution systems implementing the cohesion policy and also the cohesion policy regulation proposals in progress. The aim of this paper is to analyse the effect of the new approach of the cohesion policy on decentralisation and regionalisation. The findings show that the new regulation will push centralisation forward.

Key words: cohesion policy, better spending, result-orientation, sustainability

Introduction

In the various phases of the economic crisis when the economic and governmental actors are constantly consulting about which direction to follow, an important question is how to use the limited resources available in the most efficient and sustainable way, especially the resources aimed at development. **But what is most needed? What is the best and most effective way to promote economic development and territorial and social cohesion using public money?**

There are different economic-theoretical approaches to the effects and growth effects of development programmes. Macroeconomic models assess the potential **impact of public investments** on growth, often differentiating between **hard and soft forms of investment**. All models estimate positive growth effects but the size of the benefits and their distribution over time are aspects that are strongly dependent upon the model used and the assumptions regarding management's behaviour. Esti-

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matting the growth effects of the EU cohesion policy sets a number of methodological challenges. The question of ensuring the effectiveness of the use of funds is what and how we measure and evaluate. The impact assessment of public investments and of the EU cohesion policy is controversial and to judge the necessity, utility and sustainability is not easy. The assessment of development policy interventions and the question of the successful absorption of development funds shifted clearly towards stronger enforcement of the aspects efficiency and effectiveness.

Public Investments have a growth potential, but their **effectiveness is often undermined** by management failures and by “wrong investment decisions” in the sense that either the theme of intervention or the sector or the place or all of the aforementioned are not capable of delivering the expected result. This is required to interpret regional inequality trends, combined with an analysis of their impact in particular places.

Currently, the preparation of the new 2014–2020 multi-annual financial framework period is taking place in all areas: not only in budget-negotiations, but also in sectorial legislation, such as the **establishment of the new system of Cohesion Policy**, which is in progress. The rules are being formed in the spirit of a new approach and **result orientation** will become the main goal which requires a change of attitude in the operation of the institutional system. Together with the consideration of the planning and programming tasks, there are also the following questions. “What kind of institution system would be necessary for the implementation tasks? Is it necessary and if so, what kind of changes to the current organisations would be needed and what factors would influence the structure of the cohesion policy’s implementation institutional system?” **Cohesion Policy is changing dramatically from a mere solidarity instrument to an investment policy and one of the most important questions is: is it still regional policy or not?**

What is the best and most effective way of promoting economic development and territorial and social cohesion using public money?

The effectiveness of public spending has always been an important issue in the past. In the current crisis it must be very carefully considered about how to divide the scarce resources; in what areas cuts should be made and in what areas to invest, and what the effect of public spending is. Public spending must be accompanied by steps to strengthen the efficiency and targeting of these outlays. There is significant scope to make existing spending more effective in fostering development by reallocating it to the inputs which are most needed. The question is what is needed and where does public spending provide the best results (value for money principle)? However, in examining the results, the question also arises as to whether we look at them in the short- or long-term and on which territorial level.

Of course it is also important to define what constitutes development. There is a long-running dispute concerning the definition of development, so not surprisingly there are various different definitions in the various encyclopaedias.

According to the classical production function approach, by raising the three components of GDP – the amount of capital and labour and total factor productivity – we obtain more welfare. Following this approach we can also categorise a variety of development interventions: infrastructure measures enhancing state and/or corporate capital, employability and productivity-enhancing R&D and training interventions. The intervention logic from social needs leads to economic, social and environmental objectives, for which they provide the tools and resources. The results of the use of resources and the intended and unintended effects change the socio-economic environment. The EU cohesion funds essentially finance public tasks.²

In Europe, at Community level, the cohesion policy provides a framework for the use of public funds for development, and which sources give a significant portion of Community expenditure. In some Member states – depending on the level of development and with different funding rates – these EU cohesion funds are financial resources for development and during the next period, with shrinking budgetary resources available, this will become even more evident. As a consequence, it would be entirely justified to consider where and how these resources exert their effect, and how to make a more efficient and effective use of them.

1. The economic interpretation of cohesion policy

The cohesion policy has always focused on bridging regional imbalances which result from the integration process, by promoting economic development and social cohesion with investment in structural changes. It aims to increase the economic performance of the region, in particular on GDP, employment, productivity, investment, and the balance of foreign trade. There is a significant amount of public money for the policy used – in the period 2007–2013 a total of EUR 347 billion financial resources from the cohesion policy provide considerable support to public investment in EU Member states and regions.

Both competitiveness and convergence are amongst the development's objectives and there is an ongoing professional debate about how they relate to one another. However, the cohesion policy is the policy framework for European solidarity in which the structural funds and the Cohesion Fund are used for its implementation. In recent times, the economic and financial crisis has brought attention to the cohesion policy as an accelerating tool in the context of economic recovery.

2 The public tasks based on the theory of public goods, according to which for some reason certain products' production would be lower only in the private sector, as if there was government intervention (e.g. due to asymmetric information).

The cohesion policy invests in the real economy. About 70% of the entire 2007–2013 budget is earmarked for investments to be implemented in the four priority areas of the EU's growth and jobs strategy (employment, business, infrastructure and energy, research and innovation).

Figure 1
Intervention areas: summary of five headings (in % of total)

Member State	Industry and Service	Human Resources	Infrastructure	R+I	Technical Assistance
BG	8.36	20.89	62.50	4.67	3.58
CY	14.99	20.45	50.95	10.03	3.58
CZ	8.39	15.56	61.09	11.58	3.58
DE	23.12	22.43	31.07	20.83	2.56
EE	8.04	10.87	62.31	16.75	2.04
ES	12.10	21.54	50.47	14.74	1.15
GR	6.83	21.53	63.52	5.69	2.42
HU	13.18	15.12	61.92	5.91	3.87
IT	16.54	18.22	54.80	8.60	1.83
LT	8.06	13.45	62.23	13.26	3.00
LV	4.13	11.49	67.81	14.07	2.51
MT	14.40	12.82	65.96	5.30	1.52
PL	7.81	13.67	63.00	11.94	3.58
PT	10.47	32.22	40.78	13.60	2.93
RO	8.95	18.62	65.19	3.65	3.59
SI	9.01	15.82	54.42	18.65	2.09
SK	5.43	11.75	70.05	9.32	3.44

Source: DG ECFIN

This focus is crucial as these priorities can contribute to a faster recovery and improve the competitiveness of the EU. With investment in key infrastructures, production capacity of enterprises and human capital, the cohesion policy in the short-term stimulates domestic demand, whilst maintaining a sustainable medium-term direction. Thus, it plays an important role in restoring confidence in the real economy.

The EU's cohesion policy has a regional character, namely that the regions are considered to be territorial units and not whole countries. With this it will be possible not only to support poorer countries, but also in developed countries the otherwise serious structural problems of the regions can also be supported, so as

to alleviate in all Member states the centre-periphery differences. The eligibility of various funds is based on the development of the NUTS 2 region.³

The *development policy priorities* set by Member states depend on the existing regional disparities and other factors (e.g. social preferences, the distribution of power within the country, the regional nature of the challenges and the available financial resources... etc.). However, the policies aimed at reducing inequalities gradually shifted towards policies aimed at strengthening the regional and national competitiveness, which focused on the exploitation of regional potential to contribute to national growth.

The regional policy in the last ten years is characterised by a kind of shift perceived in the direction of support of the endogenous development (Yuill et al. 2008).

With the adoption of the Europe 2020 Strategy a new strategic framework was also formed for the implementation of the cohesion policy. ***Most of the areas of cohesion policy interventions are consistent with the priorities and objectives of the new strategy. The key question is what kind of logic would be in line with the implementation of the interventions, and what would be the added value to the positive socio-economic change.***

In the draft regulation of the cohesion, the Commission proposed a set of 11 thematic objectives⁴ directly linked to the priorities of the Europe 2020 strategy. Member states and regions would need to concentrate EU and national resources on a small number of priorities – according to their specific challenges – from the established menu of thematic priorities in the regulation. Depending on the amount of Community funding involved, Member states and regions would be obliged to focus on more or less priorities, some of them possibly being obligatory. Moreover, the Commission has also defined a certain percentage of funds to be earmarked for specific purposes. There are concerns about the thematic concentration requirements from the start, claiming they are excessive and do not offer the flexibility needed to address the diverse realities and needs of the regions. **But what is most needed? What is the best and most effective way to promote economic development and territorial and social cohesion?**

3 The NUTS classification (Nomenclature of territorial units for statistics) is a hierarchical system for dividing up the economic territory of the EU for the purpose of collection, development and harmonisation of EU regional statistics, of socio-economic analyses of the regions and framing of EU regional policies.

4 Investments in research, technological development and innovation; information and communication technologies; competitiveness of SMEs and the agricultural sector; low-carbon economy; climate change; environmental protection; sustainable transport; employment; social inclusion and combating poverty; education and training; institutional capacity and efficient public administration.

2. Intervention areas and evaluation of the impacts

The Commission continuously tries to evaluate the usefulness of cohesion policy funds. However, the evaluation is significantly more difficult because of the differentials linked to decentralised programming and execution, and the lack of uniform methodologies and data. In addition, cohesion policy is only one factor in a complex system: the macro-economic developments, changes in technology, individual and corporate behaviour, all have an impact on economic, social and environmental progress.

Different methods can be used to complete assessment tasks to receive a more detailed picture of the development, such as examining spatial statistics, output indicators, control data, ex-post cost-benefit analysis, macroeconomic models⁵ and models showing the effects of changes⁶, and case studies that help the Commission and Member states to work in these areas.

The commonly used methodologies measuring the efficiency of development interventions are:

- micro-econometric evidence-based impact assessment
- models based on macroeconomic data.

By now a wide variety of models⁷ has been developed, which are suitable for different types of questions. However, it should be noted that the models do not measure the impact of the policy, but rather mould it. The HERMIN⁸ and QUEST⁹ used by the Commission begins from different assumptions of the operation of economic forces. However, the combination of the results – when and if they are of the same direction – may result in a more reliable operation.

The effective channels of medium- and long-term economic impacts of EU cohesion policy are the following:

5 The European Commission has applied two macro models (HERMIN and QUEST) and a model for transport investment (TRANSTOOLS).

6 Such a model has been developed and applied by 6 Member states: Austria, Denmark, the United Kingdom, Poland, Germany and Italy.

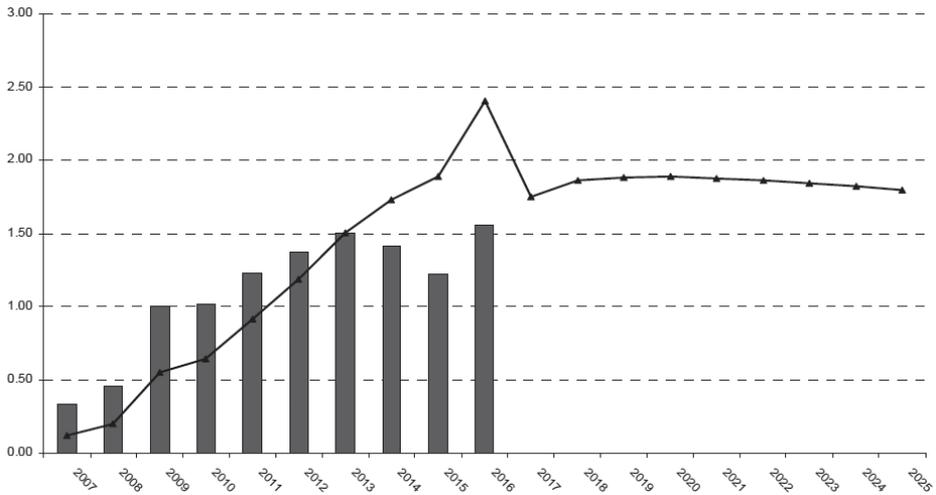
7 Econometrics macro model (HERMIN model – ESRI 2002), traditional macro CGE model (ECOMOD model – Bayar 2007) or DSGE approach (QUEST III – Ratto, Roeger and In't Veld 2009). The properties of the model used by the National Development Agency (GMR-Europe model system – Varga, Járosi and Sebestyén 2009, Varga, Pontikakis and Chorafakis 2010, Tórmá and Varga 2010) is closer to the HERMIN model, with the difference being that the former also takes the regional dynamics into account.

8 Macroeconomic model with neoclassical supply-side characteristics, specifications: http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/expost2006/wp3_hermin_aggregate.pdf.

9 New-keynesian micro-based dynamic general equilibrium (DGE) model with endogenous growth, description: mikroalapú dinamikus általános egyensúlyi (DGE) modell endogen növekedéssel, leírás: http://ec.europa.eu/economy_finance/publications/economic_paper/2010/index_en.htm.

- Support for broadly defined public infrastructure investments;
- Support for private investment increasing the modern forms of physical capital;
- Support for investment in human capital, i.e. the increase in labour productivity;
- Support for long-term scientific research, in order to increase the productivity of all factors of production.

Figure 2
Cohesion spending on infrastructure in the “new” Member States, percentage of GDP and GDP impact



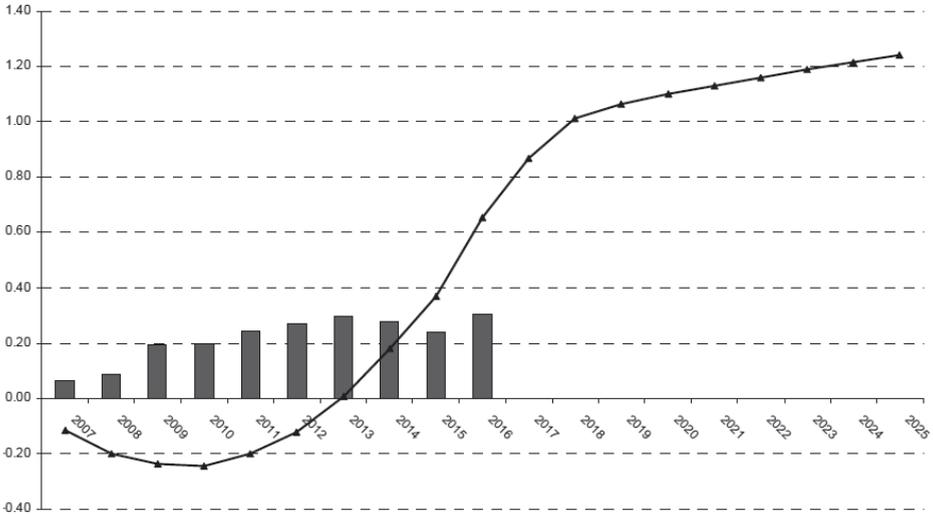
Source: Varga and in't Veld 2010

The real convergence is required to remove barriers, such as underdeveloped basic infrastructure or high-risk economic activity. It is clear from the conclusions, based on the empirical analyses, that the development of roads and investment in human capital investment – under assistance from the cohesion policy on economic regions – exercise the most powerful influence on the pace of convergence between EU regions.¹⁰

However, development of the basic infrastructure does not appear either in the EU 2020 strategy objectives or in the thematic concentration.

10 Gorzelak G., Kozak M W. 2010. Expert evaluation network delivering policy analysis on the performance of cohesion policy 2007–2013 – Task 2: country report on achievements of cohesion policy Poland, University Of Warsaw, Euroreg.

Figure 3
 Cohesion spending on human capital in the “new” Member States, percentage of GDP and GDP impact



Source: Varga and in't Veld 2010

The analogue convergence mechanism may affect human (labour) capital accumulation (Mankiw et al. 1992). Since differences in human capital stocks and in the labour force determine the level of development of the regions, the use of EU instruments for the development of labour-capital could significantly speed up the convergence of these territories.

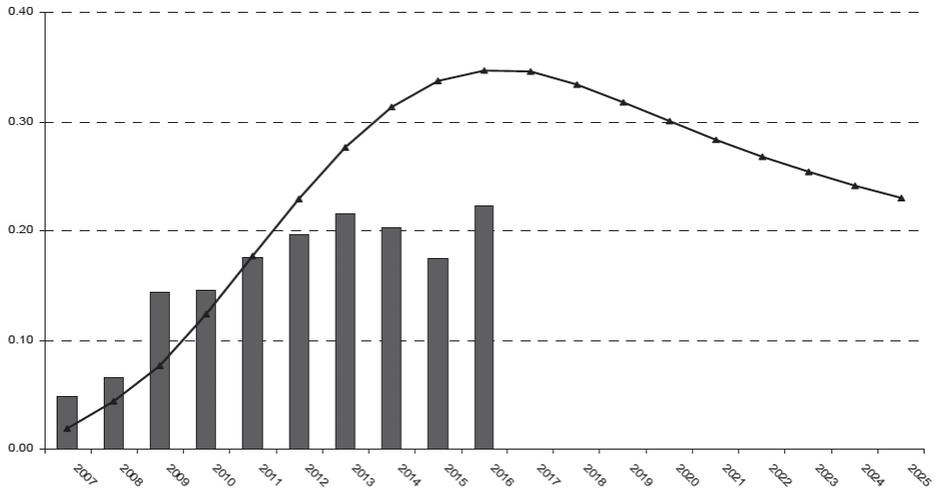
Accelerating investment, however, requires in the short-term, a restriction in consumption and in the modernisation of physical capital (Greenwood et al. 1997). A loss may cause a decline in real wages and (potentially) an increase in unemployment. One of the aims and functions of the cohesion policy is to facilitate “surviving” the transition period of modernisation for the EU’s poorer countries and regions.

Most of the theoretical models, as well as the empirical findings, suggest, however, that the convergence in human capital and in physical capital accumulation is of a similar nature (Bils and Klenow 2000).

In accordance with this, in the assessment of the previous 2000–2006 period, Hagen and Mohl (Mohl and Hagen 2010) came to the conclusion that under the first objective – i.e. in the less developed regions – the payments supported the increase of regional economic growth, whilst under the other objectives (2 and 3) – in developed regions and European territorial cooperation – the used sources are

not visible and cannot measure any positive economic impact. Nevertheless, the authors also indicate that the impact on growth does not occur immediately, but a 2–3 year delay can be seen.

Figure 4
Cohesion spending on R&I in the “new” Member States, percentage of GDP and GDP impact



Source: Varga and in't Veld 2010

Some of the human capital growth endogenous models (Benhabib and Spiegel 2005) assume that for the achievement of the appropriate level of development of the education system, it is a prerequisite to start-up the convergence process, but this process is not sustainable in the long-term. The *technological dimension* is crucial in the long-term: full convergence requires not only the inter-regional equalisation of industrial elements, but also the standardisation of the used technology quality. In view of the prevailing concepts in the framework of growth theory, the technological development is the ultimate source of global economic growth in the long-term.

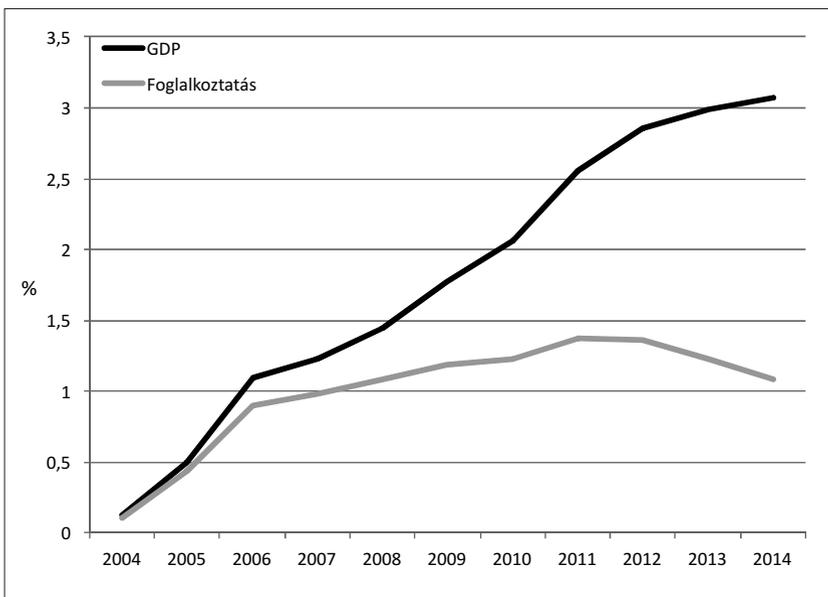
The technology gap theory suggests that if the grant is intended for technological progress, the use of technologies developed elsewhere may hasten the process of real convergence of poorer regions, because the adaptation or imitation of foreign technology is cheaper than invention (Cappelen et al. 1999). In addition, it is generally accepted that the research and development, as well as the use of high technologies in industry and services, contribute to productivity growth. There is also a positive correlation observed between the medium-term economic growth and R&D spending.

The empirical evidence on the real convergence phenomenon is unclear (Quah 1996), but it refers to the temporary decrease in the development differences of the Member states, or perhaps of certain areas of relatively homogeneous countries. Both models used by the European Commission show the result that cohesion policy expenditures result in positive economic impacts: but smaller short-term effects are indicated more by the QUEST than by the HERMIN. This is partly explained by the fact that the focus of the research, the model type and the underlying assumptions of the two models, are different.

The National Development Agency and the University of Pécs together carried out an impact assessment survey which showed that in Hungary, at the time of the general economic crisis, the cohesion funds became almost the only driving force of economic growth and job creation. With the model¹¹, the relative effects of the use of EU development funds have been studied. The study showed a surplus of 5.5 percent – an annual average of GDP – to the scenario without subsidies.

Figure 5

The estimated effects of the National Development Plan and the Cohesion Fund (2004–2006): Additional GDP and employment due to support

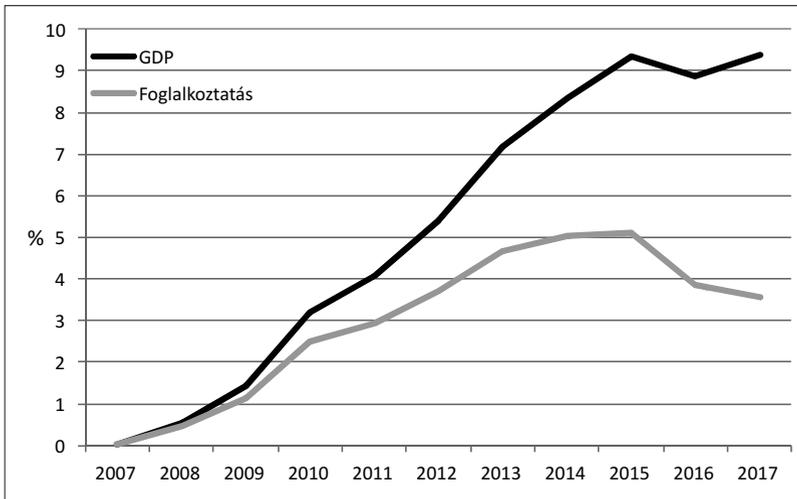


Source: NDA

11 See detailed description of this model: <http://www.nfu.hu/modellezes>.

Figure 6

The estimated effects of the National Strategic Reference Framework (2007–2013):
Additional GDP and employment due to support



Source: NDA

The simulation also shows that the recession, the slow growth and the presence of support in time, do not directly refer to the ineffectiveness of support. It could be that *without support this segment of the economy would be in a much worse situation.*

3. Institutional systems to implement cohesion policy

The general conclusion is that the Structural Funds are effective in Member states that have an appropriate institutional system (Ederveen et al. 2006). A key feature of the cohesion policy is a decentralised implementation system. The Member states are responsible for the management of the programmes. This includes project selection, control and monitoring – to prevent, to realise and correct any irregularities – and also project evaluation.

Member states should also ensure that the rules of other areas of Community law – i.e. Public procurement and state aid rules to protect the environment are properly applied. The Commission shall ensure that the Member states set up and operate an implementation and control system, which is in accordance with the ef-

fective regulations.¹² The programme implementation takes place at both regional and local levels, so these levels' priorities also influence the project selection criteria. The organisations of the community at national and regional levels work in a shared responsibility system. The primary objective of the community rules¹³ in all areas is linked to the protection of EU financial interests.

Performing the tasks of management, certification and monitoring is possible within one organisation, but the functions should be *separated*. There are different approaches in the Member states: in some, the different tasks were given to separate organisations and others have different functions within one organisation (e.g. Denmark and Spain). There is also a structure in which the managing authority and the certifying authority functions are in one organisation and the audit function is set up independently from the previous two authorities (e.g. Finland and Sweden). There is also an example where the certifying authority and the audit authority work as separate units of the same entity (e.g. the Czech Republic and Slovenia) and the managing authority is separated into another organisation. Finally, the three authorities can also work in different organisations (e.g. Austria and Portugal) (Davies et al. 2008).

It also varies throughout the Member states how the implementation tasks are *centralised*: in some, one certifying authority operates with all the operational programmes (e.g. Austria, Czech Republic, Denmark, Finland, Portugal, Slovenia, and Sweden) and in other countries certification authorities are set up by OPs (e.g. Belgium France, Germany, and Italy). There are similar solutions for audit authorities: sometimes one central audit authority carries out the duties of all operational programmes (e.g. Austria), as elsewhere for every programme there are audit bodies (e.g. Germany). In other Member states, the audit authority at central level ensures

12 Article 317 TFEU: "The Commission shall implement the budget in cooperation with the Member states, in accordance with the provisions of the regulations made pursuant to Article 322, on its own responsibility and within the limits of the appropriations, having regard to the principles of sound financial management. Member States shall cooperate with the Commission to ensure that the appropriations are used in accordance with the principles of sound financial management. The regulations shall lay down the control and audit obligations of the Member states in the implementation of the budget and the resulting responsibilities. They shall also lay down the responsibilities and detailed rules for each institution concerning its part in effecting its own expenditure."

13 In the cohesion policy: Commission Regulation (EC) No 1681/94 of 11 July 1994 concerning irregularities and the recovery of sums wrongly paid in connection with the financing of the structural policies and the organisation of an information system in this field, Commission Regulation (EC) No 1831/94 of 26 July 1994 concerning irregularities and the recovery of sums wrongly paid in connection with the financing of the Cohesion Fund and the organisation of an information system in this field and Commission Regulation (EC) No 1828/2006 of 8 December 2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund.

that national operational programmes work regularly, while audit authorities work at regional level for the regional operational programmes (e.g. Italy and Poland).

The Member State shall designate one or more *intermediate bodies* to the managing or certifying authority to carry out some or all of its functions under its responsibility. The delegations are usually responsible for implementing regulations or contracts by delegating different responsibilities to different organisations. Organisations can be government agencies (ministries, central authorities or regional authorities), public and private companies, and non-profit organisations.

A substantial part of the risk of implementing a cohesion policy emanates from the fact that many of the operational programmes will be organised in many different systems, with many organisations and with the implementation of a very large number of projects. On the other hand, the implementation rules are generally not simple, clear, detailed or complete at the beginning of the period, so at the time the implementation issues of interpretation problems occur, they are dealt with through legislative changes or sometimes simply with Commission's Guidelines, which is extremely difficult for ongoing programmes/projects if the previous practice was not in accordance with the new guidelines which were recommended later.

The establishment and operation of the territorial levels are different in the Member states too: the number of regions and the duties and authorities of territorial structures are different. The question is not only how work is shared between the different territorial levels, but also which organisations (municipalities, decentralised agencies, development councils, or agencies) address the responsibilities and how they will function. In fact, the nominal division of roles does not provide precise guidelines for the practice, i.e. managing authorities and intermediate bodies can be judged depending on the skills of the real content.

A distinction can also be made between the structure of the institutional systems of each Member State according to *how the central level is organised* and how it operates: with a centralised solution by one central body or managing authorities operating in different ministries; by independent operational programmes or in one combined management authority, with the use of intermediate bodies (IB-s by OPs or the same intermediate body for all OP), or without them etc.

It is important *how the levels of tasks are structured*: the complexity increases the extra monitoring and reporting system, which can be associated with the complex structure. In addition, experience has shown that the lower levels of multi-task operations increase audit scope and the level of detail and this control is associated with a narrow interpretation. This could also be due to the uncertainty of regulatory reform and law enforcement. The most significant factor leading to increased scrutiny could be that whilst the programming and implementation of cohesion policy is decentralised, the responsibility for its implementation is not decentralised – but belongs to the Member State. This in itself brings with it the need for strong controls. The multi-level implementation system entails a multi-level control

system and monitoring system and increases the administrative costs. In addition, a complex implementation structure can increase the legal uncertainties, which is only counteracted by strong coordination.

Figure 7
Organisations implementing programmes in Member States (except ETE)

Member State	Total available funding (EUR)	ERDF & CF (EUR)	OP-s	No. of organisations in the programme implementation	No. of certifying organisations	No. of audit organisations
AT	1,276,780,733	680,066,021	9	20	2	1
BE	2,403,876,316	990,283,172	4	6	3	3
BG	6,624,538,988	5,488,168,381	5	7	1	1
CY	579,606,868	492,665,838	1	7	1	1
CZ	26,503,627,152	22,528,083,056	14	24	1	1
DE	26,396,199,001	16,107,961,527	18	90	23	20
DK	509,577,240	254,788,620	1	7	1	1
EE	3,611,579,771	3,011,942,552	2	16	1	1
ES	39,001,563,519	26,600,405,159	23	200+	1	20
FI	2,103,523,445	977,401,980	5	60	1	1
FR	22,690,079,887	8,054,673,061	30	73	1	1
GR	20,172,569,973	15,846,461,042	10	100	1	1
HU	25,049,482,420	21,292,060,049	15	20	1	1
IR	938,897,096	375,362,372	2	16	1	1
IT	44,092,710,694	21,027,307,507	28	50	26	25
LT	7,068,539,664	5,747,186,096	2	14	1	1
LU	85,107,216	25,243,666	1	2	1	1
LV	5,096,599,364	3,979,793,917	2	15	1	16
MT	856,615,354	728,123,051	1	5	1	1
NL	1,968,601,000	830,000,000	4	10	1	1
PL	70,617,533,404	55,514,676,992	20	74	17	17
PT	23,512,385,699	14,899,172,647	10	46	1	1
RO	18,916,024,612	15,528,889,094	5	34	1	1
SE	2,026,189,558	934,540,730	8	1	1	1
SI	3,935,705,031	3,345,349,266	2	8	1	1
SK	11,674,087,288	9,861,016,794	9	24	1	16
UK	11,088,825,121	5,416,019,735	16	23	5	5

Source: K. Böhme (2010)

The differences between the programmes have a significant impact on how the implementation system is designed. The important factors are the eligibility of the programme, the thematic focus of the programme and the financial volume of the programme. The more complex the measures of intervention are, the greater the need is for appropriate administrative capacity of both the institutional system and the beneficiary. The relationship between the programme area and the regional structure of the administrative and institutional system also has an impact on the implementation structure. The financial volume of the programme and the projects supported also affect the necessary administrative capacity; furthermore, all programmes have general costs that are independent of the size of the programme.

It is also important for the establishment and operation of an institutional system how the use of EU cohesion funds and national resources are established: whether this is carried out in a coordinated manner or not and how the delivery system of the two sources relate to each other.

Considering the harmonisation of the national regional development systems and the EU cohesion policy implementation system at the international level, on the basis of two criteria, we find the following solutions:

- based on the *cooperation* of the two institutional systems: integrated – parallel – “mixed” models,
- based on the *management* of the implementation: centralised – decentralised – “mixed” models.

In the *integrated system* the allocation of cohesion funds takes place through the national decision-making channels. A benefit of the system is that an effective and focused use of resources can be assured. Integrated systems also vary between Member states, according to whether the cohesion funds dominate the development of resources (e.g. Poland) or contribute to national development resources (e.g. Germany, Austria).

In *parallel institutional systems* there are specific and separate decision-making mechanisms for domestic and EU funds. In this structure, on one hand, the results and costs of the various programmes are more visible, and on the other, the setting up of a new system and operation of the two systems in parallel has significant additional costs. In addition, there could be problems with the coordination of both funds and programmes.

In the *coordinated (mixed) model* there are specific decision-making mechanisms for domestic and for EU funds. However, with the recording of the development priorities and objectives and with other consultation and coordination mechanisms, this is building on the existing structure and can ensure coordinated development decisions. However, in the model, there are challenges of matching and problems of parallel administrative capacity.

Figure 8
Centralised, decentralised and mixed implementation systems

Centralised	Decentralised	Mixed
Denmark, Lithuania, Estonia, Latvia, Slovenia, Slovakia, Hungary, Greece, Sweden, Rumania, Bulgaria, Cyprus, Malta and Luxembourg	Germany, Italy, The Netherlands, Austria, Belgium and Ireland	Poland, France, Finland, Czech Republic, Spain, UK and Portugal

Source: author's compilation

In the *centralised system* the management tasks are performed by national ministries or other national central organisations with limited decentralisation and sometimes with limited partnerships too. In most member states, the central government plays an important role in the implementation of cohesion policy. National ministries supervise the programme preparation, expenditures, monitoring and evaluation. In addition, in some member states, the role of the national level is very strong: there may be some delegation of responsibility, but the national authorities playing the key role of the management authority define every relevant element of the implementation.

In the *decentralised (regionalised)* implementation system the implementation role and the responsibility for programme implementation is given to the regional level. The role of the central government covers coordination, high-level negotiations with the Commission, intergovernmental consultation and the evaluation of “best practices”. In the decentralised system there is more emphasis on multi-level governance, which can support effective programme implementation. The objectives can be defined more clearly and the development measures may be enjoying the trust and support of local and regional levels. On the other hand, the coordination between levels is an important task and additional cost.

Many Member States seek to *combine* the advantages and disadvantages of the two previous system structures. With sectoral and regional programmes and with the managing authorities (IBs) and national ministries’ matrix-type responsibility system, involving the regional level will be implemented in the development programmes. Mixed systems may also be designed in fixing the enforcement responsibilities for each measurement of the OP to different organisations at specific levels.

Hungary set up a parallel and centralised cohesion implementation system. A centralised system of parallel institutions for national and EU funds management were built; even the management of EU funds operates outside the traditional Hungarian public administration system, with all its advantages and disadvantages. The use of development funds basically followed sectoral logic, not regional coordination, or the objectives defined by law. While strengthening the regional level, decentralisation was a priority programme of successive governments and until 2010, the regional level institutions could not become substantially stronger. Not only has the

structure of the operational programme strengthened the central administration level, but also the structure of management institutions.

However, the effectiveness of regional policy depends largely on the **efficiency of the operation of management organisations** and, in general, the quality of the functioning of the administrative system. Corruption and discrimination can significantly reduce efficiency.

Recent research (Charron et al. 2012) confirms that the quality of governance and public administration of countries and regions also affects the capacity of the efficient and effective use of cohesion funds. It can be concluded that the cohesion policy works best when the circumstances support the policy (Burnside and Dollar 2000).

New tools in the draft legislation of cohesion policy and their effects on regionalisation and decentralisation

To boost performance, new conditions are being introduced to ensure that EU funding will be a strong incentive for member states to achieve the Europe 2020 Strategy goals and objectives. So-called “**ex-ante**” **conditions** are defined and have to be met as a precondition for use of the funds, and the so-called “**ex-post**” **conditions** that are to be achieved are preconditions for the funding. In addition to performance-based results, any failure to reach the milestones, if this is caused by a malfunction of the implementation, may bring about the suspension or even loss of resources.

In view of this, it is essential therefore, to set down the conditions, objectives, and indicators being fixed to measure the effectiveness of the programmes. For the assessment of the efficiency of the use of the resources it is a question of how and what is measured and evaluated because public investment and the impact of the EU cohesion policy is controversial and evaluating the necessity, the utility and sustainability is not a simple task (Nyikos 2013).

In the proposed **new annual clearance and accounts system**, the intermediate payments by the Commission, due during the financial year, would achieve only 90 % of the amount due to the member state, the remaining 10 % being paid off subsequent to the annual accounts when the full guarantees of the regularity of expenditures are already available.

In general, to implement the proposal in the draft regulation results-oriented system is a complex and difficult task. In addition, the cohesion policy in the recent period operates more by the “process-oriented” approach than by “results-orientation” and the administrative capacity is constantly perceived as a bottleneck to performance. Focusing on results requires a complete cultural shift in the institutional system.

The approach of results-orientation could mean that the beneficiary makes performance commitments in return for support, and may decide to be more flexible, in the regulatory framework, about implementation issues (on what, how and how much to spend in order to achieve results) in the project implementation. The institutional system pays less attention to legal compliance and irregularities in financial discipline and accountability. Paying less attention, however, is not allowed in the new cohesion regulation, which is proposed, on the one hand requiring results, and on the other, checking accounts strictly to ensure the regular and efficient use of resources.

With this aim one can see, however, that this dual requirement may not take the implementation system in the direction of simplification and flexibility. In addition, the demand for uniform standards and effective management of this complex system moves the structure towards centralisation, instead of decentralisation. Decentralised planning and implementation could be an effective solution because of the knowledge of local circumstances and characteristics. However, strong methodological guidance and coordination by the central level is required. In the absence of this, a fragmented structure cannot provide the desired results.

A *key issue* is therefore the appropriate *planning and programming* (more important than previously), which should be consistent with the strategic goals of the Community, the member states and the regional and local plans (Nyikos 2011a), with a relevant and manageable system of indicators and this should be combined with an effective, appropriate financial management system.

However, with the regulation proposing 11 thematic objectives and special and strict ring-fencing, it is questionable whether the thematic concentration requirements offer the flexibility required to address the diverse realities and needs of the regions. From the point of view of the draft regulation, the cohesion policy seems to be becoming a mechanical exercise.

Another problem appearing with the thematic concentration concerned is the fact that the “new” member states need a basic infrastructure and despite the fact that evaluations show that support could be effective in this area, it does not appear in the list of objectives.

In addition, for the first time, the cohesion policy will be used as an instrument for economic governance, as some *macroeconomic conditions* are set down and failure to comply with them can be sanctioned by the Commission with suspension of part or all of the funds for a member state. Macroeconomic conditionality has become one of the major elements in discussions on the future of EU cohesion policy. Such conditionality would make the cohesion budget dependent on EU economic governance rules: this would have certain advantages for economic governance, but also risks entailing serious disadvantages for the final beneficiaries, the regions and the cohesion policy itself.

If not properly managed, macroeconomic conditionality can have a highly negative impact: it would imply that the prospective victim of the cuts would be different from the level of government responsible for economic policy decisions. In addition, under its original conception, cohesion funding should primarily be used where it matters most, i.e. the least prosperous regions, and not necessarily where it can have the best return. In this sense, the application of macroeconomic conditionality sanctions would be detrimental to the solidarity of the cohesion policy and its redistributive nature. In certain situations, the sanctions may prove counter-productive. It may happen that the funding suspension could force a member state to cancel projects or to finance the missing part of the budget on its own. This could lead to the cancellation or delay of other investments, or increase public debt, thus further worsening the already existing fiscal problem.

Conclusion

The cohesion policy is one of the most evaluated community policies in Europe. Over several programming periods the Commission introduced increasingly sophisticated, rigorous and more systematic approaches (Polvierari et al. 2007) in the evaluation of policies and programmes. This process has several advantages: enhancing the learning process, identifying those elements of the cohesion policy which add value, and information about results and feedback in shaping the political system for strengthening quality, relevance and the impacts of the programmes.

Among all these positive effects, evaluation studies could questionably fulfil their mission to clearly demonstrate the effects of development resources. Next to the continuous evolution of the assessment activity there is still a limited scope of information about the impact of the programmes available, which significantly complicates the assessment of interventions and conclusions.

The EU's cohesion policy was also undermined by the crisis and wide-ranging policy reforms were undertaken. Establishing the cohesion policy rules is also influenced by political considerations, and these do not necessarily point in the direction of result-orientation. It is not very clear what to compare when we talk about efficiency. As a consequence of all this, it appears doubtful that for the 2014–2020 budget-period, prepared for the European Commission's cohesion legislative proposals, the thematic concentration defining the objectives and eligibility requirements for the use of funds will correspond to the effective development intervention areas revealed by the evaluations and that the objectives will be consistent with the characteristics and the needs of the regions' development goals.

An effective and efficient cohesion policy requires implementing targeted and complementary measures at all political levels. The integrated interventions have to be tailored to the characteristics of the affected areas, because cohesion policy

shows significantly less effectiveness when the individual spatial situations and problems cannot be taken into account (Nyikos 2011b).

All in all, the sustainability of the effects of the cohesion policy can only be achieved if the development interventions are implemented through an integrated strategic approach (Nyikos 2011c). Ensuring an approach of an efficient, effective **and decentralised/regionalised** cohesion policy seems to be a difficult task under the new conditions.

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Tax Sharing as an Instrument of Interregional Fiscal Equalisation

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1. Introduction

2012 is already the eighth year since the implementation of fiscal decentralisation in the Slovak Republic. Tax revenues generate more than half of local government total revenues. The most significant tax revenues (in terms of volume), however, are shared taxes (more than 70%). Despite the name, shared taxes play the role of unconditional grants even if they are formally labelled as local government own revenues under the current legislation. The share of personal income tax is the principal intergovernmental transfer which plays a significant role in the redistribution of resources between local and regional authorities in Slovakia, intended to ensure sufficient revenues to meet its expenditure responsibilities. Comparing the amount of personal income tax collected in the Slovak regions and determining the rate of its interregional redistribution is the subject of this chapter. In this regard, the allocation of personal income tax share is examined as an instrument of regional policy and a factor affecting inter-regional disparities.

The chapter presents some results of the research project VEGA 1/0822/11 “Redistribution of financial resources in the decentralised fiscal system in Slovakia”.

Key words: tax sharing, fiscal imbalance, redistribution, fiscal decentralisation, regional disparities.

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2. Fiscal equalisation and tax sharing

Fiscal equalisation can be considered as a natural component accompanying fiscal decentralisation, since it aims to correct imbalances resulting from the autonomy of subnational governments. Decentralisation leads to a growth in imbalance, when large-scale provision of public services is devolved to local governments that do not have sufficient fiscal resources to ensure the adequate funding of services. Assignment of revenue sources and expenditure responsibilities to local governments is also accompanied by the emergence of fiscal imbalances between local government budgets. An appropriate system of intergovernmental transfers can correct the inequities and inefficiencies caused by decentralisation.

Fiscal federalism literature refers to “vertical fiscal imbalance”, also known as “vertical fiscal gap” (Oates 1977, Boadway and Tremblay 2005) and is the situation that arises when the central government has the power to obtain more revenues than it requires for its own direct expenditure responsibilities, while subnational governments are in the reverse situation. This creates an imbalance that must be resolved in order to respond to the asymmetric decentralisation of expenditure and revenue-raising authority.

Horizontal fiscal imbalance can arise when there are significant differences in income and therefore, public resources amongst subnational governments. A horizontal fiscal imbalance refers to the situation where the municipalities and regions have differing abilities to provide comparable levels of services through imposing comparable tax burdens, because of demographic and economic disparities between them. There are differences in fiscal capacities and/or fiscal needs.

Fiscal equalisation involves the transfer of payments across jurisdictions with the aim of offsetting differences between a jurisdiction’s revenue-raising capacity and expenditure needs. It can address both vertical fiscal imbalance and horizontal fiscal imbalance. However, some authors use this term more narrowly: “Its principal objective is to allow sub-central governments to provide their citizens with similar sets of public services with a similar tax burden even if incomes differ across areas ... fiscal equalisation is not concerned with differences in individual household incomes but with differences in access to public services in a geographical sense” (Blöchliger and Charbit 2008, 2). Generally, the equalisation which addresses horizontal fiscal imbalance is also usually referred to as fiscal equalisation.

Intergovernmental transfers are used by central government to reduce fiscal disparities and fill the gap between the spending needs and fiscal capacity of municipalities and regions. Tax sharing and intergovernmental grants are two sub-central funding arrangements that are often used as fiscal equalisation instruments. Under the tax sharing arrangement, subnational governments are automatically attributed a fixed percentage of the yields of certain national taxes without any discretion or taxing power of the subnational authorities. Moreover, central governments play a

dominant role in determining the amount of revenue each sub-central unit receives from the shared source. It has therefore become common in academic literature to interpret grants and tax sharing as equivalent tools of central fiscal control over sub-central tiers. We do not intend to discuss the differences between the two methods of transfers. However, according to the purpose of this chapter, it should be mentioned that resources emanating from tax sharing are thought to convey more power and autonomy to subnational governments than intergovernmental grants. Also, in a tax sharing system, subnational governments tend to bear more financial risk in terms of tax revenue losses or fluctuations than if their revenue was based on grants (Blöchliger and Petzold 2009).

Tax sharing arrangements may differ according to how tax revenue is distributed across individual jurisdictions, i.e. whether an individual subnational government share is closely related to what is generated on its territory or whether there is some in-built redistribution.

In the first case, the revenue share of each subnational government is strictly related to what it generates on its own territory. The tax share allocated to each region is proportionate to what that region generated on its territory and there is no horizontal redistribution or fiscal equalisation across regional/local governments. The other arrangement redistributes a fixed share of specific tax revenues to subnational governments on the principle of horizontal fiscal equalisation, levelling out differences in potential revenue-raising capacity and/or needs. Fiscal equalisation arrangements are implemented indirectly via a vertical system financed by national tax revenues generated at the subnational level.

The aim of this chapter is to present some results of a survey that was carried out in order to resolve the question as to whether tax sharing has a major role in fiscal equalisation in Slovakia, to explore whether there is a large regional redistribution via tax sharing and which regions contribute and which regions receive. With this purpose in mind we will first briefly outline the subnational system of finance in Slovakia. The next section presents some data illustrating regional disparities. Then we will focus on comparing the amount of personal income tax generated in each region and the amount of personal income tax share allocated to municipal and regional budgets in the same regions.

1.1 Subnational system of finance

Slovakia is divided into eight regions (corresponding to the EU's NUTS 3 level) and 2,890 municipalities (as at 31 December 2011). The basic statistical data are provided in Table 1. Until 2002, there was a one-tier system of local government comprising more than 2,800 municipalities. Within these there are 136 towns and cities where 55 per cent of the population lives. The vast majority of municipalities is very small and is based on village communities. Over two-thirds have a population of fewer than 1,000, and the range goes from just seven people to 424,623 in

the capital, Bratislava. After the regional elections in December 2001, the governing bodies of the regions took up their functions. Every level (region and municipality) has its own elected officials, defined responsibilities, and tasks. The municipalities and regions have rule-making powers.

Table 1
Regions in Slovakia 2011

Higher territorial unit	Area (km ²)	Number of inhabitants	Number of municipalities	Urbanisation rate (in %)
Region of Bratislava	2053	606,537	73	0.81
Region of Trnava	4148	555,509	251	0.48
Region of Trenčín	4501	594,186	276	0.56
Region of Nitra	6343	689,564	354	0.46
Region of Žilina	6788	689,601	315	0.49
Region of BanskáBystrica	9455	660,128	516	0.53
Region of Prešov	8993	815,806	665	0.48
Region of Košice	6753	792,991	440	0.56
Slovak republic	49,034	5,404,322	2890	

Source: Statistical Office of Slovak Republic

In 2001–5, Slovakia carried out a comprehensive reform of public administration, in which decentralisation was a key element. In 2001, a law on the self-government of regions (technically called “higher territorial units”) set up a second tier of local government. Within this period, massive powers were transferred to the subnational government. The transfer of executed competences from the public administration bodies to the municipalities and regional governments was accompanied by a significant devolution of expenditure responsibilities from the centre to subnational governments in the areas of education, social services, roads and health care, etc. The assignment of expenditure responsibilities to local governments was also accompanied by the emergence of fiscal imbalances between subnational government budgets. Matching revenue resources to spending responsibilities was one of the most crucial issues.

A new system of financing the municipalities and higher territorial units (regional government), was prepared, to take effect in 2005, the substance of which was to determine revenue collections of the regional government, as well as to strengthen the independence and responsibility of local governments in deciding on the use of public funds for efficient subnational service delivery (Čapková, 2010).

Its basic principle was that the local government would finance their “original” competences from their own resources. The economic base of this process was to

increase the tax revenues of municipalities and higher territorial units at the expense of subsidies from the state budget.

The principal intergovernmental transfer is the share of personal income tax, which is collected by the centre. The legislation has stipulated the share of the aggregated personal income tax that was re-distributed from the state to the regional government (23.5%) and the municipalities (70.3%) respectively. The remaining 6.2 per cent was kept by the state (Čapková 2010). Since 2012, the percentages of yield have been changed in favour of the state – 65.4% municipalities, 21.9% regions, 12.7% state. The share for each subnational government is calculated on the basis of needs and former expenditures of the national government for devolved responsibilities. Subnational governments are free to use the revenue allocated, i.e. it is unconditional revenue.

Transfers play a significant role in the subnational government budgets in Slovakia, intending to ensure sufficient revenues to meet its expenditure responsibilities. Although tax revenues generate more than half of subnational government's total revenue, the most significant tax revenues (in terms of volume), however, are shared taxes. Shared taxes are a form of unconditional grants, where central government retains control over the tax rate and tax base and the local government sector is entitled to receive a certain percentage of the tax yield. Total funds are determined by a tax sharing formula. However, the Act on local government budgetary rules classifies shared taxes as own revenue of local and regional budgets as the subnational governments are free to use these revenues for all kinds of legally allowed purposes, for example, financing current or capital expenditures.

Table 2
Shared taxes as a percentage of current revenue and expenditure

	2008	2009	2010	2011
Per cent of municipal current revenue	47	43	37	42
Per cent of regional current expenditure	45	40	35	39
Per cent of municipal current expenditure	54	47	39	45
Per cent of regional expenditure	47	42	35	41

Source – Government Final Accounts

Municipalities and regions are entitled to a share of the national personal income tax which is redistributed across subnational governments, taking a number of need criteria into account, i.e. tax revenue for a single subnational government is not proportional to what was generated on its territory. Formulas used for calculating the tax re-distribution to a certain region/municipality are driven mostly by population and population-related factors, such as number of inhabitants, age structure, size, and population density, etc. The criteria that explain need differences

have been selected, their weight was established and associated data are regularly collected and published.

2.2 Regional disparities

There are sharp regional differences across Slovak regions. The eastern regions have a much higher incidence of poverty, as economic activity is heavily concentrated in the west, particularly around the capital, Bratislava. Regional disparities are not only substantial, but they also tend to be persistent. Regional disparities have remained basically unchanged over a period of more than 20 years. To illustrate regional disparities in Table 3 we provide regional GDP and unemployment rate indicators in 2010.

Table 3
Regional GDP and regional unemployment in 2010

Region	Regional GDP (mil. EUR)	% Regional GDP on total GDP	Regional GDP per capita (in EUR)	% Regional GDP per capita on total GDP	Unemployment in the number of unemployed (in thousands)	Unemployment rate (in %)
Region of Bratislava	18,297	27.78	29,241	241.05	20.9	5.4
Region of Trnava	7,666	11.64	13,634	112.39	36.6	9.4
Region of Trenčín	6,435	9.77	10,744	88.57	30.7	7.9
Region of Nitra	7,105	10.79	10,078	83.07	54.1	13.9
Region of Žilina	7,500	11.39	10,746	88.59	48.7	12.5
Region of Banská Bystrica	5,857	8.89	8,974	73.97	60.3	15.5
Region of Prešov	5,546	8.42	6,861	56.56	72	18.5
Region of Košice	7,464	11.33	9,581	78.98	65.8	16.9
TOTAL	65,869	100	12,131	100	389	100

Source: Statistical Office of Slovak Republic

Disparities are usually measured by regional **GDP** as an *indicator* of economic performance in a particular territory. GDP per capita can be assumed to be a good

indicator of revenue raising capacity (Blöchliger et al. 2007, 26). In the long run, the highest GDP has been produced in the Bratislava region with a total share of almost 30 % of total GDP.

GDP calculated per capita in the region of Bratislava exceeds 240 % of the average GDP per capita. On the other hand, GDP per inhabitant in the region of Prešov represents only 56.6 % of the average; moreover in 2010, the inhabitants in the region of Prešov produced only 23 % of GDP produced by inhabitants in the region of Bratislava.

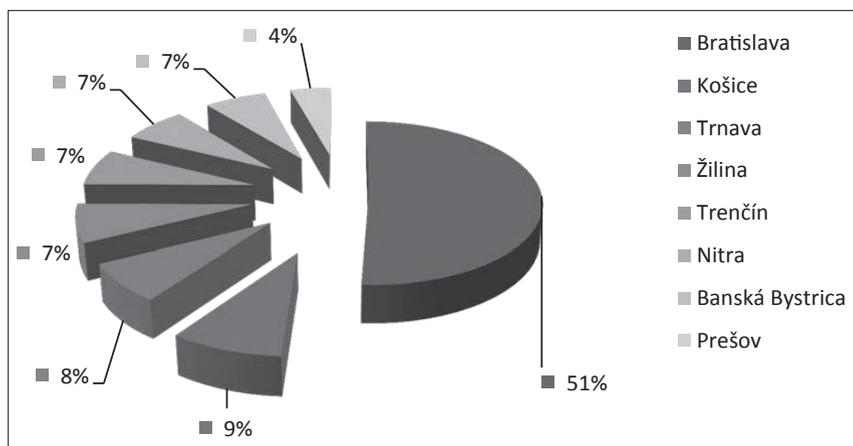
Regional GDP is followed by the unemployment rate in regions. The lowest unemployment rate is in the region of Bratislava (5.4 %). On the other hand, the highest unemployment rate is in the region of Prešov (18.5 %).

The presence of unequal economic circumstances, which produce disparities in the capacity of different regions to generate wealth and thus fiscal resources, is the main rationale for fiscal equalisation.

2.3 Personal income tax redistribution

As mentioned above, a fixed share (93.8 %) of personal income tax collected in the regions was redistributed to subnational governments, taking a number of need criteria into account. In our research we have looked at the amount of personal income tax collected in different regions and the sum of revenue from PIT share distributed to municipal and regional government budgets in the respective regions. Some of the results and findings are presented in the Figures and Table below.

Figure 1
Personal income tax in 2010



Source: National Tax Office

Table 4
Personal income tax and tax sharing revenue in regions

Region	2007	2008	2009	2010
Bratislava	Personal income tax collected	830,989,148	791,473,827	754,231,524
	Revenue from tax sharing	211,639,792	200,528,965	164,800,934
	% Tax sharing revenue on Personal income tax	25.47 %	25.34 %	21.85 %
Trnava	Personal income tax	154,608,147	135,916,888	114,744,469
	Revenue from tax sharing	164,895,519	154,981,107	129,406,745
	% Tax sharing revenue on Personal income tax	106.65 %	114.03 %	112.78 %
Trenčín	Personal income tax	152,624,159	130,202,900	106,003,796
	Revenue from tax sharing	181,935,379	170,189,031	138,857,999
	% Tax sharing revenue on Personal income tax	119.20 %	130.71 %	130.99 %
Nitra	Personal income tax	136,426,738	122,217,521	101,833,368
	Revenue from tax sharing	208,159,079	195,059,475	158,213,533
	% Tax sharing revenue on Personal income tax	152.58 %	159.60 %	155.37 %
Žilina	Personal income tax	158,598,474	131,554,756	111,919,871
	Revenue from tax sharing	226,774,201	218,429,955	182,796,310
	% Tax sharing revenue on Personal income tax	142.99 %	166.04 %	163.33 %

Banská Bystrica	Personal income tax	106,400,658	127,583,780	111,424,285	97,374,988
	Revenue from tax sharing	179,834,011	211,461,060	197,549,661	163,262,467
	% Tax sharing revenue on Personal income tax	169.02%	165.74%	177.29%	167.66%
Košice	Personal income tax	153,980,685	179,860,340	149,848,903	133,460,236
	Revenue from tax sharing	205,528,300	242,935,384	227,420,742	187,973,779
	% Tax sharing revenue on Personal income tax	133.48%	135.07%	151.77%	140.85%
Prešov	Personal income tax	82,231,872	101,450,489	84,121,635	63,409,816
	Revenue from tax sharing	220,249,187	261,378,364	246,336,352	203,153,855
	% Tax sharing revenue on Personal income tax	267.84%	257.64%	292.83%	320.38%
TOTAL personal income tax		1,559,355,143	1,842,141,275	1,656,760,715	1,482,978,068
TOTAL personal income tax sharing		1,436,704,226	1,709,178,778	1,610,495,288	1,328,465,622

Source: National Tax Office

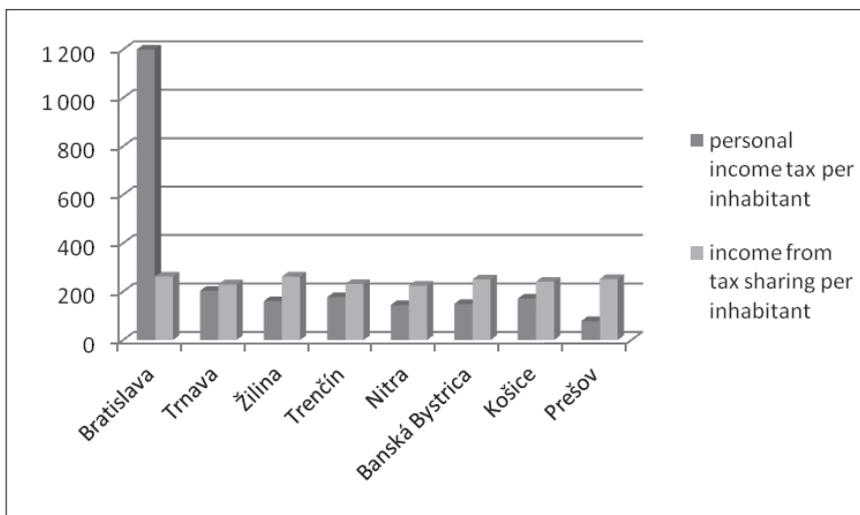
As shown in Graph 1, personal income tax collected in each region in 2010 is comparable in 6 territorial units. There is a huge difference in the region of Bratislava where collected tax exceeds more than 50 % of the total personal income tax collected in Slovakia. On the other hand, in the region of Prešov, with the highest number of municipalities as well as the highest number of inhabitants, personal income tax collection did not exceed more than 4 % of the total collected personal income tax.

In Table 4 below, personal income tax collected in a particular region as well as tax-shared revenues in municipalities and self-governing regions (summed) are shown. Personal income tax collected, compared with revenues from shared tax, differs mostly in the region of Bratislava where the coefficient is around 20 %. In the regions of Trnava, Trenčín, Žilina, Nitra, Košice and Banská Bystrica the ratio values range from 112 %–168 %. However, in the region of Prešov, the taxes collected in 2010 reached a value of 63.4 million EUR; revenues from this region (counted revenues of municipalities and self-governing regions) exceeded 203.2 million EUR (the ratio achieved a value of 320 %).

Tax collection per capita in comparison with revenue from tax sharing in particular regions calculated per one inhabitant is shown in Figure 2. The highest tax collection per inhabitant is in the Bratislava region, followed by other regions where the situation is much more comparable. The worst situation is in the region of Prešov where collected tax per inhabitant was only 78 EUR compared with revenue from shared tax of more than 250 EUR. The figure shows that the redistribution has a major effect on “poor” regions such as Prešov, followed by other regions where the coefficient reflecting the difference between tax collecting and real revenue from tax sharing is more than 1 (100 %).

In summary, the region of Bratislava is the region with the highest rate of urbanisation and the lowest unemployment rate, together producing the highest regional GDP in Slovakia. This region is the main contributor to fiscal equalisation via personal income tax sharing. On the other hand, the region of Prešov has produced the lowest GDP in comparison with other regions; its GDP per capita has also been the lowest. With the highest unemployment rate, its collected personal income tax was only around one-third of the average tax collection in all the Slovak regions (when we extract tax collecting in the region of Bratislava, data collecting in the region of Prešov was around 60 % of the average of all other higher territorial units). This region is the main receiver of the system, although all other regions belong to this category.

Figure 2
Personal income tax and tax sharing in regions calculated per inhabitant
in year 2010



Source: National Tax Office

3. Conclusion

Fiscal equalisation is shaped by the wider institutional framework such as size, number of subnational governments, and the responsibilities and fiscal resources allocated to each jurisdiction. In Slovakia, the Bratislava region seems to be the only contributor to the Slovak personal income tax sharing arrangement. It confirms the assumption that capital regions are generally richer and thus have a larger tax base. Although there is logic to regional redistribution and the allocation criteria are listed objectively, there is a feeling of having to contribute too much amongst local politicians in the capital region.

In the presented tax-sharing arrangement, only cost differences are equalised. There is no transfer arrangement aimed at revenue equalisation, i.e. reducing the difference in a municipality's/region's per capita revenue-raising capacity. On the other hand, Slovakia is one of the countries in which a relatively small proportion of local revenues come from local taxes, so there are less fiscal differences to equalise.

Shared tax is essential revenue in the budget of small municipalities. Thus, equalisation could prevent small municipalities from amalgamating or from searching other forms of joint provision that would help save costs or increase quality.

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Local Governments as the Main Actors of Regional Development in Lithuania

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Introduction

The process of territorial decentralisation in Lithuania began in 1995 when the new territorial-administrative reform was introduced. In accordance with the Law on Administrative Territorial Units (LR Parliament 1994a, b), Lithuania was divided into two main subnational territorial administrative tiers: 10 counties – higher administrative units, whose management was organised by the Government and 56 municipalities – lower administrative units, where self-government was introduced (since the year 2000, there are 60 lower administrative units, as approved by LR Government 1999). It appears, therefore, that the regional level of governance was missing. Nonetheless, the Government began regional development programmes in 1997. First of all, the Law on Regional Development was introduced in 2000 (LR Parliament 2000). In 2002, Parliament accepted the Master Plan of the Territory of the Republic of Lithuania (LR Parliament 2002b). Both these documents treated *regions* and *regional policy* in terms of *regional economy* – the main aim was to reduce territorial socio-economic differences. The means for achieving this aim, however, were not sufficiently clear until the Government and Parliament introduced several new documents concerning the territorial development vision up until 2013 (LR Government 2003a, 2003b, 2005; LR Parliament 2006, 2007). All these documents diverted regional policy towards *socio-economic cohesion*.

In 2010, the administrations of the counties were abolished, leaving counties as territorial (statistical) units only. It appeared that regions would be formed according to demand by using different territorial units (counties as well as municipi-

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palties). As the administrations of the counties were abolished, the main institutional body implementing/forming regional policy became the regional development council. There are 10 regional development councils (one in each county). Each council is composed of: municipality mayors (from all the municipalities belonging to that particular county), delegates from local councils, and an authorised person appointed from the Government or Governmental institution. These councils, however, are not independent as they must work under the directions of the National Regional Development Council and the Ministry of the Interior (Department of Regional Development).

Worldwide, *regional policy* is perceived as a very dynamic and broad concept. Various territorial units could be used as the basis for regional formation. As we can see from Lithuania's regional policy, regions can be formed very flexibly, using different spatial areas (counties as well as municipalities). This flexibility is justified by the main purpose of regional policy – dealing with socio-economic inequality. The aim of the Government is, therefore, to identify the remote territories and to divert certain assistance in time.

Lithuanian regional policy is very ambivalent, as we can talk about regional policy without regions. Regions are used as analytical concepts subjected to the needs of the Government. The *purpose* of this article is to reveal the role of local governments in this complicated process of regional policy. To achieve this, the following *tasks* are assigned:

- to present Lithuanian territorial administrative development since 1990 till now, putting the main focus on the *position* of local governments in regional policy;
- to present and analyse the current institutional system of regional governance, revealing the particular *role* of local governments in this process.

To implement these tasks, official documents were analysed (laws, Governmental regulations, national and regional strategies, regional and local documents etc.), as well as using the other scientific resources.

1. Divisional approach

The presence (or absence) of regions in Lithuania's territorial administrative division is a long story lasting more than twenty years, troubling government and scientists. This story can be divided into several phases of development. We prefer to focus on four periods of development; each one encompasses a completely different approach (idea/vision) to regional structure and regional policy in Lithuania:

- The first phase – 1995–1997 – territorial administrative reform (no regions, no regional policy, no regional governance);

- The second phase – 1997–2002/2005 – initiation of regional policy, various visions of regional development and regional level of government/governance (counties as the main potential regional substitutes);
- The third phase – 2002/2005–2010 – counties, with county Governor administrations as the main actors (stakeholder) of regional development.
- The fourth phase – 2010 till now – abolition of the county governor administration, new stakeholders of regional development policy.

Since 1995, according to *the Law on the Territorial Administrative Units and their Boundaries* (adopted 9 July 1994, No. I-558⁴), Lithuania has been divided into counties (higher administrative units), and municipalities (local self-government). The Law states that: “the county shall be a higher administrative unit of the territory of the Republic of Lithuania, the governance wherein is organised by the Government of the Republic of Lithuania pursuant to the Law of the Republic of Lithuania on Local Self-government and other laws”⁵ (this norm was legalised in the Constitution in 1992). Furthermore, the Law states that: “the county shall be formed from the territories of municipalities characterised by common social, economic and ethno-cultural interests.”

According to the same Law, a “municipality” is defined as: “a territorial administrative unit of the Republic of Lithuania which is governed by the municipal council, elected by the community of residents pursuant to the Law of the Republic of Lithuania on Local Self-government and other laws. The municipality shall be formed from residential areas. Its terrain may be divided into territories, serviced by wards. The main criteria for forming a municipality shall be its readiness to manage and maintain its environment, municipal economy, provide services to residents and perform other functions provided for in the Law of the Republic of Lithuania on Local Self-government.”

The enormous amount of reforms meant that the expertise of the higher administrative units was not properly separated from state and municipal competency. As could be seen later, this division was not optimal in terms of governance, territorial boundaries, and the number of residents (inhabitants). Experts from the EU Commission (Lithuania was seeking membership of the EU at that time) immediately pointed to this as a problem. According to the Commission report (European Commission 1997), the newly created higher administrative units – counties – were not proper units which could be treated as regions as far as European understanding was concerned. Evaluating all this, on 27 November 1997 the Prime Minister

4 As last amended on 30 March 2010 – No XI-709.

5 Since 2010 this norm has been changed as follows: “The county shall be a higher administrative unit of the territory of the Republic of Lithuania, the governance therein is organised by the Government of the Republic of Lithuania in the manner prescribed by law.”

of the Lithuanian Republic signed Decree No. 533, according to which, a Working group was established (LR Government 1997).

The main task of this Working group was to solve the problem of regions (their appearance in Lithuanian territorial administrative division) in Lithuania's regional policy by evaluating all possible alternatives and providing a solution on how to organise Lithuanian territorial administrative division (corresponding to the European NUTS system). The other task, of no less importance, was to provide a solution on how Lithuania's regional governance should be organised. It encompassed such questions as institutional organisation of regional policy, strategy of national regional development, and other complex problems. The Government adopted Resolution No. 902 on 21 July 1998. According to this Resolution (LR Government 1998), the proceedings of the Working group were agreed.

The proceedings of the Working group and the Resolution resulted, in 2000, in the *Law on Regional Development* (the last amendments adopted on 29 July 2010 – No. VIII-1889), being adopted. According to the Law (LR Parliament 2000): “**region** shall mean an integral part of the territory of the State whereby the national regional policy is under implementation.” Correspondingly: “**national regional policy** shall mean purposeful activities of state institutions and other entities which make a differentiated impact on the socio-economic development of the State's regions with a view to reducing socio-economic disparities among the regions, as well as an imbalanced development within the regions and encouraging a balanced and sustainable development of the entire territory of the State.” Initially, the Law and the other various documents seemed to be leaning towards the two main directions: in the short-term perspective, counties had to be treated as temporary substitutes for the regions until the introduction of “real” regions in Lithuania's territorial administrative division in a long-term perspective.

Before taking the infinite decision about which model of regional division should be introduced, the government decided to consult the people. For this reason, in 2001, three projects of the potential regional level of governance (LR Government 2001) were introduced. Sometimes it appears that at that particular time the Government of Lithuania was overtaken by chaos, whilst almost at the same time (the year of 2002) the Master Plan of the Territory of the Republic of Lithuania was adopted. According to this Master plan (LR Parliament 2002b), all Lithuanian territories should be treated as being divided into four particular layers (levels, according to the urban hierarchy), one of which is the regional layer, consisting of five regional centres and their respective territories.

Some years after this Master plan, several new documents concerning the territorial development vision up until 2013 were adopted (namely, LR Government 2003a, 2003b, 2005). All these documents diverted regional policy towards *socio-economic cohesion*. This time, regional policy directions followed the Master plan, although counties remained as the main statistical territorial units, and the county

Governor administrations remained responsible for many regional issues (at least their administration).

This situation changed drastically as the new post-crisis Government in 2008 presented its programme (LR Parliament 2008) where the abolition of county Governor administrations until 2010 was introduced. The initial (and main) aim of this radical reform was the idea of budget money saving. Second, this reform leaned towards the reduction of bureaucratic institutions. To be clear, only the County Governor administrations were abolished. Counties, as territorial units, remained intact, composed of the respective municipalities. The Law on Regional Development was amended because of this (LR Parliament 2010). Since 2010 “the national regional policy shall be implemented in the State’s territorial administrative units – counties and municipalities. Regional development planning shall be carried out in the counties.” As there were no more governmental institutions left at the county level, according to this reform, local governments were supposed to obtain more power in regional development policy. Regional development councils, composed mainly of the mayors of the respective municipalities and delegated council members, seem to substantiate this idea.

Summarising the divisional approach of territorial arrangements in Lithuania, we argue that regional policy in Lithuania is implemented without regions as territorial administrative units. The main (territorial) actors are the municipalities (local self-governments) organised territorially within the boundaries of a county or according to the needs. The institutional approach, however, provides some different views which are presented in the following chapter.

2. Institutional approach

The main bodies implementing Lithuania’s national regional policy (according to the Law on Regional development and other legal documents) are the following:

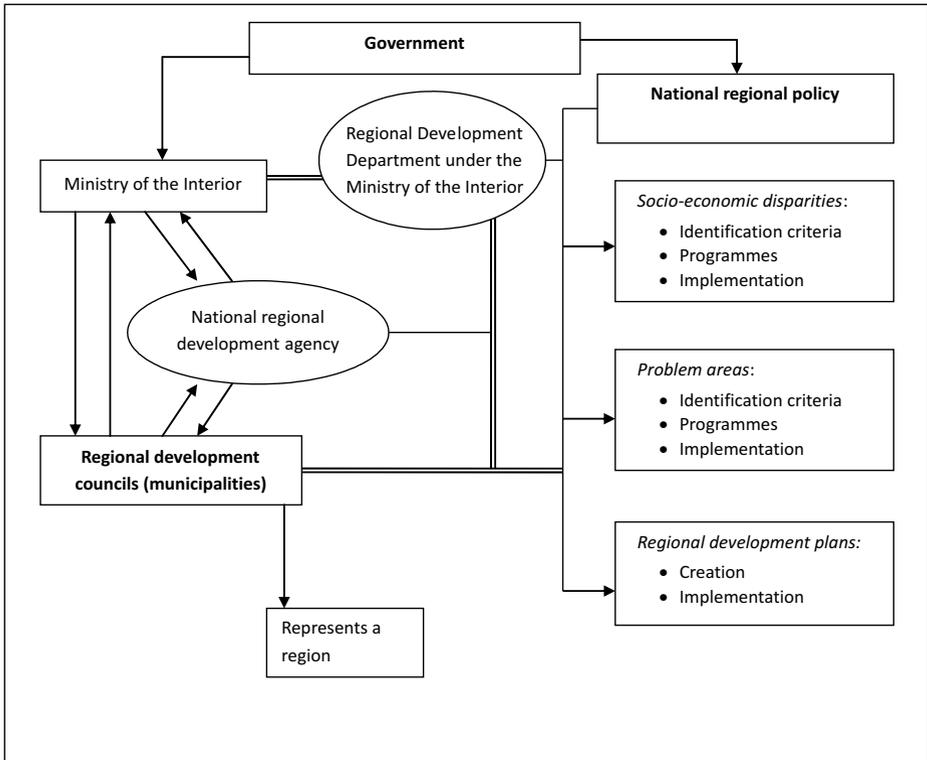
- The Government;
- Ministry of the Interior;
- National regional development council;
- Regional development councils.

As the system is centralised, these bodies should be treated as a vertical, “top-down” hierarchy. Municipalities are able to participate actively at the very bottom of the hierarchy – Regional Development Councils.

According to the Law on Regional development: a “regional development council shall consist of the mayors of the region’s municipalities, delegated mem-

bers of municipal councils and a person appointed by the Government or an institution authorised by it.”⁶

Figure 1
Institutional system of the National Regional Policy of the Republic of Lithuania (2013)



Source: Authors’ consideration of the institutional system of the National regional policy according the Law on Regional Development (LR Parliament 2002b, 2010)

According to the Law (LR Parliament 2002a, 2010) and as shown in Figure 1, we can identify the three main areas of institutional participation in the National regional policy:

6 The composition of a regional development council shall be approved by the Minister of the Interior within three months of the announcement of the final results of elections to municipal councils. A member of the regional development council authorised by the Minister of the Interior shall convene the first meeting of the regional development council and chair the meetings of the regional development council until the council elects its Chairperson. In cases where regions are formed by the Government, the procedure for setting up regional development councils shall be established by the Government in accordance with this Law.

- Identification of socio-economic disparities, creation of a programme, and its implementation;
- Identification of problem areas (territorial as well as sectoral), creation of development plans, their implementation;
- Regional development plans (creation and implementation).

We have, therefore, several institutional levels with different competencies and powers.

First of all, we have an overall “top-down” national level. The Ministry of the Interior, acting in accordance with national long-term development strategies as State Progress Strategy “Lithuania 2030” (approved by LR Parliament 2012a), National Progress Strategy (approved by LR Government 2012), and under the influence of the European development strategies (as “Europe 2020”), aims to seek *territorial cohesion*. As the aim of the cohesion is to minimise (reduce) socio-economic disparities, the main task of the Ministry is to prepare the programme for the reduction of socio-economic disparities between the regions and take responsibility for the implementation of this programme. In such a case, the Ministry is totally responsible to the Government; all other institutions participate as an information source.

Second, we have one more “top-down” level (administrative) – the so-called *problem areas*. Regional development councils are responsible for the timely identification of such areas in the respective county. The Councils are able to propose solutions regarding problem solving. The role of the Councils, however, has more of a deliberative character. The main institution in the entire process, beginning with identification and ending with implementation is, again, the Ministry of the Interior. According to the law, the Ministry “submits to the Government a draft decision on the identification of problem areas; prepares problem area development programmes; submits them for consideration to the National Regional Development Council and, upon approval, submits them for approval to the Government” (LR Parliament 2002b, 2010).

The same Law on Regional development states that “the state institutions and municipalities which received recommendations from the Ministry of the Interior, in relation to the implementation of the programme for reduction of socio-economic disparities among the regions, problem area development programmes and regional development plans, must provide the Ministry of the Interior with information specifying the recommendations which have not been taken into account” (LR Parliament 2002b, 2010). ***It means that municipalities which were identified as the problem (territorial) areas are directly responsible to the Ministry of the Interior concerning the implementation of regional policy. This is an absolutely centralised approach/centralised policy and seems to be the only sphere where local government of the respective municipality falls under direct regulation***

from central government and is responsible to the government instead of its residents/inhabitants. The National regional development council appears to be the main intermediary agent encompassing all three phases, i.e. identification, creation, and implementation.

Third, and last, we come to the “bottom-up” level. Regional development councils, composed of municipal representatives, “consider and approve the regional development plans”. Also, these councils “consider proposals by municipalities and state institutions in relation to socio-economic development projects ... [they] select projects and draw up and approve the lists of projects under proposal to be funded” (LR Parliament 2002b, 2010). This appears to be a competency with quite a large responsibility. Nevertheless, the situation appears to be ambivalent, as the main body that “prepares a draft regional development plan in accordance with the procedure established by the Minister of the Interior and submits it to the regional development council for consideration and approval” (LR Parliament 2002b, 2010) is the *Regional Development Department* under the Ministry of the Interior. The first issues of the Law on Regional development (in 2000 and 2002) dedicated this role to the county Governor administration. It (i.e. county Governor administration) was responsible for the development of a plan (of all phases beginning with identification and ending with implementation). When analysing regional development plans (they were adopted before the abolition of the counties) many different stakeholders were involved in the creation process: administration personnel, municipalities’ representatives, and social partners. The abolition of the county Governor administration institution led to the centralisation of regional policy and the concentration of powers in one hand – i.e. the Ministry of the Interior. In such a case it is very difficult to talk about the shift from regional government to modern regional governance.

Summarising the institutional approach, we argue that institutional changes and reforms of regional policy led to the centralisation of powers instead of decentralisation. The elected members of municipal councils do not have sufficient authority to make independent decisions. The rights of local self-government are very restricted because the activity of local self-government institutions in Lithuania requires numerous procedural steps, according to the state’s legal acts. The Law on Local Self-Government (as amended in 2013, LR Parliament 2013), establishes that participation in the formulation and implementation of regional development programmes is an *assigned function* which means that the independence of a municipality is limited by the implementation of powers assigned by the state. According to the legal provisions, municipalities themselves could allocate resources for at least partial financing of regional development institutions and their activities. However, with no prior experience, this is almost impossible. First of all, municipalities themselves lack the finances for the preparation and implementation of their own economic and social development plans. Furthermore, it is always complicated to reach an agreement between municipalities on the proportions and priorities to

be financed, while inter-municipal cooperation is still at the embryo phase in Lithuania. The current situation thus seems to be going *from regional governance back to regional government*.

3. (De)centralisation approach

The winding path from *regional government* to *regional governance* and back to the former seems to have a very clear and explicable background. First, this tendency (the so-called re-centralisation or as we call it, “centralised decentralisation”) is not unusual in the practice of old and new democracies (de Vries 2000, 193–194). Second, the path of *regional governance* in Lithuania has a very clear *zigzag* trajectory that has been proved by the research of Kraujutaitytė et al. (2014). The authors (Kraujutaitytė et al. 2014), using the reform *scenario* method as proposed by Pollitt and Bouckaert (2011), analysed the Programmes of the Governments of the Republic of Lithuania for the last 20 years. The analysis resulted in a very interesting discovery: all the divisional and institutional changes of Lithuania’s regional policy depend, actually, on the left-right political fluctuations of the authorities.

According to the authors, right-wing politicians have a very clear aim (*omega*) to change the territorial-administrative division by implementing regions and a regional level of governance, and know implicitly what and how this should be changed. The left builds a tough path towards cohesion; in their political vision, regions are only analytical tools, whilst in the right phalanx, regions are the goal. All this leads to the missing continuum in the regional policy of the State (Kraujutaitytė et al. 2014). How is this *zigzag* fluctuation connected to the issue of *government-governance* debates and the place of local authorities? The issue leads to the essential debates on territorial decentralisation.

The implementation of the regional level in the territorial administrative division (which has been the goal of all right-wing governments) presumes the need to re-distribute governmental functions amongst central, regional, and local authorities, putting the balance on complete *decentralisation*. It is difficult, however, to evaluate the possible *government-governance* outcomes of the reform, when it has never been implemented completely, although, presumably, it was supposed to end in the higher regional governance, leaving local authorities more accountable to (or even dependable on) the regional authorities. Despite an illogical first glance, this would have led to increased local authorities’ independence from central government. All the left-wing governments (including the present Government) have been tackling the *deconcentration* of power instead of *decentralisation*. Do local authorities gain more functional powers in such a case? The answer is quite complex (and even surprising).

The analysis of divisional and institutional development of regional issues in Lithuania (as presented above) proves that municipalities are some kind of giants:

they are the main actors (subjects as well as objects) of the regional policy in Lithuania, but their abilities are limited (they are pulled from the centre). This, in turn, proves the idea by Illner and Wollmann that “the decisive level for political decentralisation is usually the intermediary (regional) level” (Illner and Wollmann 2003, 314). The absence of a regional level in the state’s territorial administrative division does not mean any increased local authority power to solve regional issues. We argue that the introduction of the intermediary level as the Helsinki Declaration on Regional self-government (Council of Europe 2002) proposes, would increase governance at the local level and municipalities would become the true *grassroots of regional governance* (as developed by Nolon 1999).

Conclusions

The research proved that regional policy in Lithuania is implemented without regions as territorial administrative units. The main (territorial) actors of regional policy are the municipalities (local self-governments) organised territorially in the boundaries of a county or according to the need.

All the previous and current authorities have been drifting between two extremes: 1) introduction of the regional level (at least partially, self-governing) into the state’s territorial administrative division and 2) preservation of the situation where all regional policy issues are to be solved by central and local authorities, through the regional development councils. The latter is the dominant tendency. Paradoxically, but instead of gaining more powers, municipalities became a kind of giant: they are the main actors (subjects as well as objects) of the regional policy in Lithuania, but their abilities are limited (they are pulled from the centre). Institutional changes and reforms of regional policy led to the centralisation of powers instead of decentralisation. This seems to be heading from regional governance back to regional government.

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Enhancing Local Governance through Three-Sector Partnerships? The Case of the Podkarpackie Region (Poland)¹

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Abstract

The paper discusses the theoretical and empirical aspects of a supposition that local governance may be enhanced through the promotion of three-sector partnerships, focusing on Polish rural areas. The idea of a three-sector partnership is a regular feature of public decision-making in many EU member-states. The partnerships' development in rural areas is, inter alia, promoted in the framework of the EU initiative "LEADER". In Poland, the so-called LEADER approach has been a regular feature of the Rural Development Programme (Axis 4) since 2007. In the following paper, the three-sector partnerships are exemplified by thirty-one Local Action Groups (LAGs) located in the Podkarpackie Region.

The theoretical context of the present study is indebted to the governance approach (see Peters and Pierre 1998, 223–244). Essentially, the authors refer to its major thesis that no actor in public decision-making has the monopoly for authority, power, information, expert knowledge, financial, human or any other resources. Dispersed resources need to be pooled and particular (sector-specific) goals need to be reconciled in order to accomplish objectives that promote collective interests of a given community (on different levels: European, national, regional and local). Governance is seen in terms of a dynamic and interactive process, complex and multi-level, which is pursued within a network of mutual relations and involving

1 This study is based on the results of the research implemented in the framework of the research project: *Intersectoral Partnership In The Process Of Creation And Implementation Of Local Development Strategies In The Podkarpackie Region* planned for 2010–2013 and being accomplished in the Section of Public Administration and Public Policy of the Institute of Political Science, Rzeszow University (Rzeszow, Poland). Financed by the Ministry of Science and Higher Education in 2010–2013 no. N N114 250039).

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joint decisions by actors representing the three sectors: public, private and civic. Therefore, it is also presented as a model approach to generate multi-actor and interactive solutions to collective problems. The empirical part of the paper is based on preliminary results of the research carried out in the framework of the project; *Intersectoral Partnership In The Process of Creation And Implementation of Local Development Strategies In The Podkarpackie Region* planned for 2010–2013.

Although the discussed research project is still under way, its preliminary results will be presented in the paper. The authors will focus on the following major issues: actors who initiated and participated in the LAGs; types of LAG activities and their objectives; the way to attract partners to the LAGs; activities performed by the LAGs' boards; decision-making in the LAGs and in the LAGs' boards; consulting on the LAGs' activities with the LAGs' members and their local communities, and the future prospects for the LAGs.

Key words: local governance, three-sector partnerships, Local Action Group, Poland, rural areas.

Introduction

The turn of the 20th and 21st century was marked by mounting efforts to execute a transition from government to governance in most areas of social life, including public policy-making and policy implementation. The core idea of the intended change was to restructure the dominant mode in which societies – at least in the global north – had been governed and administered over most of the 20th century, with some aspects and cases reaching back partly to the 19th century. Most importantly, the restructuring has involved a more or less radical withdrawal of the state and its agencies from the centre stage as far as directing, steering and organising societal development is concerned. What was proposed instead of the state's monopoly in this respect was an idea of a panoply of existing and still to be created agencies and actors – public, semi-public and private – who could largely be responsible for and growth and development of societies, independently of the state (or with the state's much more limited involvement than before).

The new public governance approach, as it is commonly known in literature (cf. Osborne 2010), seems to be specifically well-suited to regional and local contexts where relations between public actors, as represented by local administration, and private and civic actors are often based on everyday interactions. Furthermore, it might be claimed that traditionally, in local contexts, there has been plenty of evidence for formal and informal co-operative behaviour, such as exemplified by school committees, cultural associations and neighbourhoods. Therefore, it might be assumed that in the framework created by territorial self-government – as typical of democratic states – both institutional and social conditions will be conducive to arrangements involving representatives of all sectors in activities focused on ways

to improve local development by better governance of collective aspirations and resources.

In this paper, one type of such an arrangement is going to be discussed as it has been applied in the Polish rural areas beginning from the country's accession to the European Union in 2004. The notion of **three-sector partnership** is understood in this paper in terms of voluntary, but institutionalised, cooperation between actors representing three sectors – public, private-economic and civic (not-for profit). The major aim of the three-sector partnership is to identify and define common problems that could be best tackled by jointly elaborated solutions. Within the framework of the partnership, the participating actors are granted an equal footing irrespective of the represented sector. This principle is expected to result in the empowerment of economic and social partners *vis-a-vis* the representatives of the public sector. Moreover, all partners involved agree to pool their resources and competences. They also agree to share the costs and benefits generated by their actions.

1. Local action Groups and the LEADER approach in Poland

At the local level, the idea of this kind of three-sector partnership is related to new concepts of local development and public policy that have gained prominence across the European Union since the 1990s. These new concepts emphasise the value of endogenous inputs, decentralisation and subsidiarity. One of the main fields in which this approach has found its application in the EU Member States is the field of rural areas' development, where it has been institutionalised in the form of the LEADER initiative. So-called **Local Action Groups (LAGs)**, which are established as three-sector local partnerships, have become one of the main features of the **LEADER approach** (see European Communities 2006). In Poland, the LEADER approach was first tested during the period 2004–2006. Positively evaluated, it was then launched full-scale during the programming period 2007–2013.

The 2004–2006 first steps in the LEADER approach resulted in the creation of several three-sector partnerships across rural Poland, and the major task was to elaborate their **Local Development Strategies**. Following the experiences of the 2004–2006 pilot activities, the LEADER approach has been granted the status of a fully fledged programme to be carried out as axis IV of the Rural Areas Development Programme (2007–2013). As a result, several hundred Local Action Groups have been brought into existence, covering virtually all of the Polish rural areas. Each of the LAGs is composed of several self-governing communes (*gminas*) which have put together joint Local Development Strategies. The LAGs are authorised to organise grant competitions for local people and institutions with a view to stimulating activities which are congruent with their LDSs. They thus collect, review, select and recommend locally prepared projects for EU financial support.

In this paper we focus on those LAGs established in the *podkarpackie* voivodeship, which occupy rural areas in the south-eastern area of Poland. Altogether, there are **thirty-one** Local Action Groups in the region, all of which constitute three-sector partnerships. The empirical findings presented are discussed in the following section of this paper and have been used as part of a research project carried out at the **University of Rzeszow**. The research project is specifically dedicated to investigating mechanisms to create and operate three-sector partnerships as exemplified by these Local Action Groups. The collected data yielded an insight into the forms taken by those three-sector partnerships, their membership, decision-making processes, promotion and information activities, as well as their role in local/rural development of the region, including empowerment of civil society and mobilisation of local communities around common goals. One of the major research questions that the data will help to answer is the question concerning hypothesised changes in the role of public administration in local governance settings.

2. Theoretical framework

The definition of three-sector partnership – as presented in the introduction – has been formulated according to the governance approach. Governance itself is the mechanism of negotiating and implementing public policies with participation from the different stakeholders. It can also be defined as a decision-making model, where the involvement of all interested actors obtaining a consensus on the final result is prized (García 2006, 745). As such, governance is dynamic and interactive; complex and multi-level; implemented in the network of mutual relationships and common decisions of actors from three sectors. Furthermore it is characterised by (Peters and Pierre 1998, 225–227) by way of:

- the dominance of decision-making networks: not public institutions but an “amorphous collection of actors” determine the catalogue of public services and the way to provide them;
- the state’s diminished ability to exercise direct control over social policies: state agencies function more as negotiators in the decision-making networks whose actors have an equal status;
- emergence of public and private resources: the state uses non-state actors to attain what it cannot achieve by itself and *vice versa*;
- the use of various instruments to implement the goals of social policy: application of “unconventional” methods of obtaining funds and for the provision of public services.

Governance can be the preferred model of decision-making in a situation where public institutions are unable to achieve their objectives: 1) using only their resources (public resources are limited); 2) depending only on the evidence of their

social needs and interests (some of them are weakly articulated in the process of political competition); 3) depending only on traditional (representative) forms of decision-making, which are characterised by low acceptance of the final results and high probability of social conflict.

Bob Jessop estimates that an interesting example of assigning an ethical dimension to governance discourse and practice is the concept of good governance (Jessop 2007, 6). The latter is the response to the demand for subsidiarity in the relationship between different levels of public administration and between the latter and the citizen, entrepreneur, and non-governmental organisation. Furthermore, in conditions of decreasing legitimacy of the state, governance can be treated as a tactic to restore political credibility through engaging different actors in the decision-making process. On the other hand, the issue of accountability of both actors in such decision-making networks, as well as the networks themselves, remains open (Peters and Pierre 1998, 227).

Ann M. Kjær addresses this issue asking to whom the networks are responsible and how representative democracy works in the milieu of strong public-private partnerships, non-profit organisations and inter-governmental relations. Independent and self-steering networks are exclusive and considerably obstruct the performance of democratic accountability at an acceptable level. Furthermore, the absence of a decision-making centre, dispersion of authority, competence and power – which are not an attribute of any stakeholder, but the feature of mutual relations between partners, makes indicating the actor responsible for the decision and its consequences very difficult (Kjær 2009, 61–62).

The above mentioned conditions of network governance development have appeared in Poland – to a large degree being part of the Europeanisation process of the country (cf. Radaelli 2000). However, so far, the functioning of governance structures – as analysed at the central and regional level – has been largely evaluated as ineffective (Börzel 2009, 69–100; Gasiór-Niemiec 2010, 90–111). One of the major findings indicated the paradoxical weakness of all types of partners expected to participate in the new modes of governance, including the weakness of public administration. Therefore, as a matter of fact, governance is often reduced to consultation procedures that are enacted at the central and regional level (cf. Hausner 2007, 309–317; see Kolarska-Bobińska 2009). In contrast, the potentially more promising local conditions for new modes of governance in Poland have not been conclusively investigated. This is what motivated our research project which is focused on Local Action Groups as a mode of new local governance in one of the country's regions.

3. Specificity of the Podkarpackie rural areas

The rural areas in the Podkarpackie region are characterised by their low production potential. This is an effect of: specific natural conditions; poor working regional

system of institutional agriculture support; in effect, the rather minute structural changes in this sector and overall activities of regional society (Ślusarz 2009, 39). Generally, the rural areas of the Podkarpackie region are recognised by their high agrarian fragmentation, large population and low level of agriculture production (Strategia ... 2010, 43).

The total number of farms located in the Podkarpackie region in 2010 was 261.4 thousand which accounted for 11.5% of all farms existing in Poland. However, only just over 60% of the regional farms have been productively active. The average farm size in the region is 2.63 hectares; only 3.7% are more than an area of 5 hectares (Powszechny Spis Rolny 2011, 19–20).

The next significant issue characterising the Podkarpackie region is its population. In 2010, the number of people in the region amounted to 2,103.5 thousand. 1,233.5 thousand lived in the rural areas, which accounted for 58.64% of the region's population. The number of people employed in agriculture in 2010 amounted to 255.2 thousand and they were mostly members of the farmers' families. It shows that the agricultural sector is based on family farms and the agricultural production basically covers family needs (Czudec 2009, 71–76).

The age structure of the region's population living in rural areas is unfavourable. More than 67% of people are aged over 44. Every 6th resident is over 65 years old (compared to the entire nation, where every 10th inhabitant is over 65). Females constitute up to 70% of the rural areas' population of over 44 years of age.

The rural areas of the Podkarpackie region are also characterised by the increasing migration process. This phenomenon is detrimental. Although the Podkarpackie has a high proportion of young people compared to other regions of the country, the outflow of young people from the region undermines the demographic structure, generates problems in the labour market and reduces the competitiveness of the region's economy. In the next few years, the increased demographic burden (at present it is 59 retirees per 100 economically active) might challenge both the economy of the region and its social policy (Wyniki Narodowego Spisu ... 2012, 12).

Summarising, the significant social problems of the rural areas of the Podkarpackie region include: a decrease in the population, a low rate of urbanisation, a negative balance of migrations, and an increasing number of retired residents. Thus, IPs in Podkarpackie are more than just a tool for stimulating the growth of social capital, engaging people in local affairs and the overall development of a civil culture. They are expected to participate in local policy making to break unfavourable economic and social developments, and to make rural areas more attractive to the present tenants – to stop their outflow and invite new residents.

4. Methodology of the research

The research is aimed at investigating mechanisms to create IPs as exemplified by LAGs located in the Podkarpackie region. It focuses on the forms taken by the IPs, their membership, decision-making processes, promotion and information activities, and their role in local/rural development of the region, including the development of civil society and mobilisation of local communities.

The following research questions were formulated:

1. What is the degree of IPs' innovativeness and to what extent are they strange modes of governance? Are they an effect of endogenous creativity or a "structural constraint" of the EU?
2. To what degree does the emergence and functioning of IPs depend on the political, administrative and civic culture of the region and particular communities?
3. Are IPs well rooted in local communities? What is their potential to survive without EU support?
4. Are IPs inclusive and representative for the local community? Is the prerequisite of 50 % participation of business and the civic sector observed?

The research has been based on the following hypotheses:

1. IPs are mostly compulsory structures; they are innovative but run the risk of traditional and hierarchic decision-making.
2. Although IPs are the platform of cooperation between three sectors, they are dominated by the representatives of local governments – the usual architects of local IPs.
3. Organisational pattern of IPs is an effect of legal stipulation and usually copies foreign solutions; however, IPs are working on their own institutionalisation.
4. IPs have a chance to become stimulators of local development, however on the condition that local authorities overcome the tendency to dominate them, and programmes of local development correspond to local needs, resources and objectives of local communities.

This study refers to the results of quantitative research, based on a questionnaire addressed to all members of all LAGs in the Podkarpackie region. The questionnaire addressed the following issues: actors who initiated and participate in LAGs; profiles of LAGs' activities and their objectives; the method of enrolling partners to LAGs; decision-making in LAGs; consulting LAGs' activities with their stakeholders and local communities, and prospects for LAGs.

The questionnaire had been distributed during general assemblies of LAGs, to members of the LAGs – individuals and representatives of corporate members.

Getting to the majority of active (not only listed) LAG members and obtaining a high number of completed questionnaires are the advantages of this mode of distributing questionnaires. It also makes the collected information more credible. On the other hand, the research team did not reach those members who are active but, incidentally, did not participate in the general assembly. SPSS application has been used for data processing.

5. Results of the research and discussion

Those who answered the questionnaire were: local governments: 26.6% of respondents; Federation of local governments: 1.4% of respondents; NGOs: 19.7% of respondents; business: 8.1% of respondents; individuals: 34.4% of respondents; other: 1.7% of respondents and no subject has been indicated: 8.1% of respondents.

The above numbers show that LAGs observe the principle of at least 50% share of other than public members. Those representing NGOs, business, individuals and others constitute, in total, 63.9% of all respondents. What is worthy of note is the low number of business members in LAGs and over 1/3 of respondents who indicated themselves (individuals) as being members of partnerships.

The core mission of LGDs is authorising, updating and implementing a strategy of local development. According to the Communal Government Act of 8 March 1990, authorities at the community level exercise all powers regarding local matters which have not been reserved for other institutions. Community development is such a matter. Therefore, community governments are obviously interested in IPs as a mechanism supporting their efforts. Results of the research confirm this assertion.

According to 74.8% respondents, IPs were initiated by local authorities (Table 1). Slightly more than 12% indicated an NGO as the architect of their LAG; a few indicated a person and even less, a businessperson as the initiator of partnerships. The leading role is undoubtedly reserved for local authorities. Their dominant position is due to several factors: 1) local authorities have access to the information about the LEADER Programme, including details regarding its structure, organisation and financing, as well as evaluation and accountability rules and 2) they have far better access to the regional authorities. In accordance with the regulations implemented in Poland, regional authorities have been designed as the management entity for implementing and supervising the LEADER; 3) public administration is better prepared to implement procedures referring to creation as well as leading IPs.

The factors mentioned do not refer to NGOs, which although officially numerous (about 8,000 associations and foundations are registered in the Podkarpackie region, in fact, only approx. 1,500 are active) are rather weak regarding their staff (based on volunteers), structure and finances (Gumkowska et al. 2008, 12–15; Raport z badań ... 2008, 10). The business sector seems to share the same drawbacks.

Its low participation in IPs has also been observed in other European countries (Espancia et al. 2000, 96).

Table 1
Who initiated your LAG?*

Local government	74.8
NGO	12.4
Representation of local business	1.9
Individual	4.8
Hard to say	5.9
Other	0.2

Table 2
What was the prerequisite for choosing the LAGs' profile?

Natural values of LAG's territory	37.4
Local needs	74.8
Rich traditions of local cooperation	20.9
Prerequisite to institutionalise local cooperation to obtain financial resources	46.5
Others	1.0
Hard to say	3.7

Table 3
How were the members of LAG recruited?

All institutions and organisations that could be interested in participating were invited	79.9
Selected institutions and organisations were invited	9.4
Information on LAG and invitation to membership was published on the website	20.5
Information on LAG and invitation to membership was published in the customary way	18.7
Informal relations were used	26.7
Others	0.4
Hard to say	4.1

Table 4
How frequently official meetings of LAG take place?

Once a month	3.1
Once a quarter	39.8
Once half a year	17.0
Once a year	2.9
Are convened irregularly	31.7
Hard to say	4.1
No data	1.5

Table 5
How are decisions made in LAG?

Voting	92.8
Getting consensus without voting	9.9
In a circulating manner	1.8
Hard to say	2.3
Other	0.2

Table 6
Is the local community informed about LAG's activities?

Yes	87.8
No	0.6
Hard to say	11.6

Table 7
What is the method for informing the local community about LAG's activities?

Publication on LAG's website	91.0
Publication via local media (radio, press)	48.4
Announcements placed in public places	34.3
During open meetings	51.2

Table 8
Are LAG's decisions discussed with the local community?

Yes	56.6
No	11.8
Hard to say	30.3
No data	1.4

Table 9
What is the method for communicating LAG's decisions?

Consultations during LAG's meetings with the participation of citizens	57.8
Consultations during citizens' meetings	36.4
Consultations during meetings of local councils	30.0
Publications in local press	23.9
Publications on the website	50.8
Carrying out a survey	6.7
Other	2.4

Table 10
According to you, would LAGs be created if they did not provide financial resources from the EU?

Yes	6.4
No	68.3
Hard to say	23.4
No data	1.9

Table 11
According to you, will LAG survive after EU financial support is withdrawn?

Yes	31.9
No	17.8
Hard to say	48.3
No data	2.1

Table 12

How do you assess LAGs as an instrument of local community development?

This solution is correct	58.7
This solution seems correct	38.1
This solution does not seem to be correct	2.0
This solution is definitely not correct	0.6
Other replies	0.6

*all numbers in the Tables are in per cent

**in Tables 2, 3, 5, 7 and 9 numbers do not add up to 100 % as respondents could choose more than one answer.

The respondents usually indicated more than one reason for LAGs' creation. The decisive factors were local needs (Table 2). However, nearly half of those surveyed pointed out the need to institutionalise intersectoral cooperation to gain access to the financial resources of the EU. Only every fifth respondent remarked that the tradition of previous cooperation on the local level was the basis for collaboration in the LAG's form. This allows us to conclude that there are basically no traditions of intersectoral cooperation in the region. Consecutively, the enterprising role of local authorities in reference to IPs, their resources, and basic reason to create LAGs, i.e. local needs that are principally to be answered by local government, decide on the superior position of the local authorities in IPs and the rather utilitarian approach of the first to the latter.

In the majority of LAGs, all the individuals and corporate bodies who might be interested in participating were invited (Table 3). Almost 10 % of those surveyed indicated that only selected institutions were invited to take part in LAG's creation. However, the system of choosing potentially interested local objects still remains unclear. We do not know whether all business organisations and NGOs were actually invited or only selected. If only selected, what were the criteria of the selection? Who was responsible for the selection criteria? Every fourth person surveyed pointed to "informal relations" as a form of recruitment. This could be a sign of a self-organising local community – informal ties build up a social network for decision-making on local development and services (Hardina et al. 2007, 357–359).

The results of the survey at this point are comparable with the results of the research accomplished in Ireland (PRIDE survey) (Moseley et al. 2001, 185–186). The importance of informal ties was also stressed by Brian Adams who considered that participation and engagement in local matters do not need an official procedure. He believed that members of the community might use informal ways to influence local issues (Adams 2007, 32–33). We also admit that cooperation at the local level is mostly dependent on the density and strength of informal linkages. Without the

latter, even the most favourable legal and financial conditions would not result in a vital partnership.

There are no general rules when it comes to the frequency of meetings of LAGs' members. LAGs usually regulate this issue in the statutes. What we could observe was that almost 40% of those questioned pointed out that meetings are organised once a quarter (Table 4). Slightly less than one-third indicated that LAGs' meetings are not convened regularly but are organised as necessary. The rigid LAG's meeting schedule seems to be redundant. Boards of LAGs are reluctant to convene meetings either on a regular basis or too frequently, as an indispensable condition for the validity of decisions is a quorum that numbers from 30% to 50% of those entitled to participate in the meeting. It is usually a moment of uncertainty whether the quorum will be attained or not.

The method for making decisions in LAGs (Table 5) is specific for representative democracy. The overwhelming majority of respondents pointed to voting. This form seems to be the easiest way of making decisions during the general meetings. A relatively high number of LAGs' members make other forms of obtaining conclusions harder and time-consuming. Only about 10% of respondents indicated that "obtaining a consensus without voting" was the procedure for making decisions. This result can be interpreted as a conservative attitude towards concluding debates (if any), which was copied from the usual practice of local representative bodies.

LAGs try to be transparent when it comes to informing local communities about their decisions (Table 6). They use different media; however, the majority of respondents indicated LAGs' websites as the most common way of informing people about their activities (Table 7). Slightly more than half of respondents indicated that citizens are informed during open meetings. We estimate that the latter form of informing people is active and more demanding for both LAGs and local communities. This way of communicating to people gives them the opportunity to express their opinions about LAGs' accomplishments and also to pose questions to the representatives of LAGs' boards. The latter receive instant feedback on their performance.

LAGs are less concerned about conveying their choices (Table 8). 56.6% of respondents indicated that their group conveys decisions to the local population. One-third of respondents have no knowledge on the issue. 57.7% of those who agreed that LAGs' decisions are communicated to local communities indicated that the communication takes place during meetings of LAG's members with citizens' participation; 20 per cent pointed to citizens' meetings as the place of consultation, and 1/3 of respondents pointed to the meetings of local councils (Table 9). As respondents could indicate more than one answer, in certain cases consultations might have been implemented in several ways. We should not, however, ignore the "passive" modes of consultations, for example placing decision proposals on web

sites (indicated by half of the respondents), although in this instance one could not expect considerable feedback.

In the opinion of the majority of LAGs' members who responded to the questionnaire, LAGs would not have been created without EU financial support (Table 10). We interpret this data more comprehensively – the EU initiative was not only a source of money but also, or most of all – inspiration for the majority of associates to constitute partnerships. There are several groups that had previous experience with combining resources and partnerships of the three sectors and the LEADER Programme gave them only additional opportunity to develop. In respect of nearly all the groups, no one would even think about the founding IP with the aim of communal development, unless there was an external stimulus.

Respondents are undecided when it comes to determining LAGs' future after terminating the EU support – almost half responded “hard to say” (Table 11). However, 1/3 seem to have no doubts that their group will survive, even without external support. We estimate this data as evidence of the satisfaction of LAGs' activities – that is supported by the overwhelming majority of respondents that assess territorial partnerships as an efficient instrument of local development (Table 12) – as well as the growth of social capital as an effect of cooperation between partners representing different sectors. Summing up, we would formulate the statement that the future of LAGs depends on: 1) expected benefits from further cooperation between partners and 2) persistency of bonds between partners, and 3) aggregate social capital that emerged as a result of collectively accomplished projects.

Conclusions

Apart from the pressure of Europeanisation, the deficit of legitimacy for public authorities and the deficiency of public finances incline political centres in Poland to extend the circle of actors participating in decision-making and to amend the existing institutional structures. Three-sector partnerships in general, and LAGs in particular, are expected to pool the resources of all sectors and support the participation of their representatives in decision-making on and development of rural areas. However – as claimed by B. Guy Peters and John Pierre – “Governance, as are all models of public service, derived from the political culture within which it is embedded. The emergence of governance, therefore, will appear in different institutional forms in different national contexts” (Peters and Pierre 1998, 233). This statement quite aptly summarises the results of our research.

We have found that the key responsibility for development of local communities, in spite of expectations that it will be shared by all stakeholders, still rests with local authorities. Therefore, although the share of the public sector does not exceed 50 % of LAGs' members, the idea of balanced power of all stakeholders is undermined by their sustained key position in the local context. Local governments

are crucial actors in local development and, as such, both initiatives to create LAGs and to operate them belong mainly to them. This situation is an effect of not only legal regulations that apply to the sphere of territorial self-government in Poland. It is caused as much by the much greater resources of local administration units (LAU) as compared to resources commanded by the other partners in local governance.

However, as indicated by our research results, this structurally privileged position of LAU is considerably strengthened by the fact that they are still perceived by local politicians, citizens, entrepreneurs and representatives of local associations as the unquestioned and legitimate leaders in the field of local development. Paradoxically, based on qualitative interviews (this part of our research project is still in progress), we have been able to identify a rather regular pattern according to which any challenge to the hegemonic position of local administration is often self-consciously excluded on the part of the other partners in local governance, who sometimes do not seem to grasp the very idea of three-sector partnership. In contrast, many representatives of local administration have already, by and large, been socialised to the practice of networking and partnership, owing to their involvement in other EU-supported arrangements and programmes. Thus, at least declaratively, they are able to identify some merits associated with new modes of governance at the local level and due to enhanced local governance the performance of their local communities could be improved.

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The Role of Local Public Administration in Building Up Social Economy in Romania

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Introduction

Social public policy is a significant factor of the governmental system at the local level. The costs that can be sustained by local authorities, as well as the possibilities for extending social economy at the local level as a viable solution for traditional instruments should be considered when defining and applying social protection mechanisms.

The traditional social protection instruments promote a direct financial or material support delivered by state institutions or local governments to specific categories of individuals. In contrast, social economy provides the inclusion of individuals with financial difficulties and a feasible option for building up local communities in the context of the economic crisis.

As Nicolaescu (2011, 96) remarked “the lack of literature about social enterprises and the way in which these regional differences and social-economic contexts manifest themselves have played an important role in the recording of some relevant comparative data. Therefore, the existing differences within social enterprises from different regions of the world are, in part, reflections of the regional social-economic context.”

However, Kerlin (2009), using contributions from other scholars from seven regions of the world, has shown how the regional specific factors, such as its users, the organisational forms, the legal structure and the supporting environment have influenced the concept of social economy. “In Central and Eastern Europe, social

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enterprises were rekindled by a strategic retreat of the state after communism had fallen. Here the strategic retreat of the state was more dramatic and was not supported by civil society, already weakened by the communist period. Moreover, the transition towards a market economy led to a great increase in unemployment. The international community responded to this crisis with an increased grant of foreign aid, as well as with different sets of political recommendations.” (Nicolaescu 2011, 100) However, as Nicolaescu (2011, 100) has shown, a small number of policy-makers from CEE countries recognised “social enterprises as a viable solution and they received support from international sources for their developments.”

In this context, our study aims to investigate the size and the features of social economy (SE) in Romania in order to identify ways in which to engage local public administration in expanding it.

“Paradoxically, although the concept of social economy was practically non-existent in Romanian literature, there is a long tradition of structures which developed specific activities even from the early years of the past century” as Arpinte et al. (2010, 65) mentioned. Furthermore, Cace et al. (2011, 50) noticed that “despite the fact that there is no wide acceptance of the concept of social economy, there is a persistent involvement in the economic activity which fits the broadest definition of social economy – economic activity neither controlled directly by the state nor by the profit logic of the market, prioritising the social well-being of communities and marginalised individuals over partisan political directives or individual gain.”

There are combinations between juridical, economic and sociological criteria which allow us to bound and structure the shape of social economy organisations (Vienney 1994).

Spectacular growth in social economy has taken place in the field of organisations engaged in producing what are known as *social or merit goods*, mainly work and social integration and providing social services and community care (CECOP 2006).

Over and beyond its quantitative importance, in recent decades, the social economy has not only asserted its ability to make an effective contribution to solving new social problems, it has also strengthened its position as a necessary institution for stable and sustainable economic growth, matching services to needs, increasing the value of economic activities serving social needs, fairer income and wealth distribution, correcting labour market imbalances and, in short, deepening and strengthening economic democracy (CIRIEC 2008).

From the perspective of Muhamad Yunus (2010, 23), “social enterprise involves an individual initiative with social impact, which can be an economic activity, a charity and a business with or without profit.”

In 2009, the European Parliament adopted an important Report on the social economy that recognised the social economy as a social partner and as a key opera-

tor for fulfilling the Lisbon Strategy objectives (the Toia Report). Moreover, states were selected based on the degree of recognition of the social economy concept and in accordance with the methodology used in the CIRIEC study (2000). In this context, the European countries were classified in relation to the acceptance of the SE concept into the following groups (DI CESE – CIRIEC 2012):

- countries with the highest degree of SE concept acceptance, such as: France, Portugal, Spain, Belgium, Ireland and Greece;
- countries with a medium level (relatively) of SE concept acceptance, such as: Italy, Cyprus, Denmark, Finland, Luxembourg, Sweden, Latvia, Malta, Bulgaria, Poland, Iceland and the UK;
- countries with low or no recognition of the SE concept, such as: Austria, Czech Republic, Estonia, Germany, Hungary, Lithuania, The Netherlands, Croatia, Slovakia, Romania and Slovenia.

As an activity, the social economy is historically linked to grass-roots associations and cooperatives which make up its backbone. The system of values and the principles of conduct of the popular associations, synthesised by the historical cooperative movement, are those which have served to formulate the modern concept of the SE, which is structured around co-operatives, mutual societies, associations and foundations (CIRIEC 2008).

Social economy demonstrates that it can be a viable tool that helps to ensure inclusive labour markets for people with disabilities because currently in Romania a total of 490 authorised protected units (APU) are operating, which employ 1,370 people with disabilities (www.anph.en).

Given that the state proved to be a poor manager of subordinated structures, the social economy, through its traditional and innovative forms, might intervene where the state has failed in its traditional mechanisms to address socio-economic issues of inclusion, including social provision of social services (including health and education) and environmental protection.

Effectiveness of the social economy at the community level can be assessed through the social inclusion size. Adding social protection measures to certain categories of people, the engagement in social economy activities of these persons could be an effective measure to increase social inclusion. From this perspective, the re-allocation of additional funds for social economy from the social protection funds should be considered as a mechanism supporting social economy.

The employment opportunities for people receiving social protection within social economy activities should take into account the following: amount of guaranteed minimum income, the social aid size, and the distribution of the relative poverty rate, and inequality in income distribution, etc.

Methodology

The general purpose of the research was to analyse some aspects of the Romanian social economy in order to examine some trends and to set up some orientations for its development at the regional level. In respect of this, we focused on the following aspects:

- State of the social economy actors.
- Financial mechanism to support the social economy in Romania.
- Level of development of each Romanian region, measured according to GDP size and GDP per capita.
- Level of activities' concentration in counties within each development region.
- Features of the regional labour market, taking into account unemployment rate, active and employed population, activity rate.
- The financing capacity to support social economy activities of public and private actors.

Our research is based on a corpus which combines statistical data released by the National Institute for Statistics (INS), as well as aggregated data carried out from our own survey.

Data collected and the calculated indicators focused on the evolution of a number of social economy organisations and on the features of each Romanian development region, according to their GDP and rate of poverty, and inequality in income distribution.

The survey was carried out in December 2011, both by classical means and on-line. The majority of those interviewed (60.4% out of 48) engaged in social economy activities lived in communities with a large number of socially assisted persons (more than 300 socially assisted persons). The grid of questions included two main themes:

- Defining a social profile at localities in order to identify social economy activities which could contribute to its economic and social development and assure a decreasing number of persons depending on social aid;
- Identifying the causes that contribute to framing these persons into a socially assisted persons' group.

Social economy actors in Romania

As Cace et al. (2011, 51) argued, "Social economy is still a contested term. Thus, despite the variety of practices that can be conceived as belonging to it, different agents involved in the social economy and observers of the social economy do not agree with the meaning of the concept."

The Minister for Labour, Family and Social Protection (MMFPS) identified the following categories of traditional corporate social economy in Romania (MMFPS 2010, 38):

- Non-profit organisations (foundations and associations) engaged in economic activity, regardless of scope, or within their companies;
- Mutual Aid organisations (CAR) organised as non-profit organisations of retirees or employees (according to Law no.540/2002 and Law no.135/2003);
- Credit unions;
- First level cooperative societies: Craft, consumption, recovery, agriculture, housing, fisheries, transport, and forestry, etc (governed by the Law no. 1/2005).

Besides traditional forms of social economy there is an increasing presence of modern organisational forms of social enterprises, but some of them are unrecognised by the law (MMFPS 2010, 39):

- Authorised protected units⁴ – according to the General Directorate for the Protection of Persons with Disabilities⁷ (DGPPH) website, from 1 July 2011 there were 490 authorised protected units (APU) which employed a number of 1370 persons with disabilities;
- Micro-enterprises and SMEs; companies; Nonbanking Financial Institutions.

In the Romanian social economy there are both structures working with or for vulnerable persons or groups – such as associations and foundations aiming to improve the living conditions of disadvantaged groups and structures undertaking activities which are not directly related with such groups, but manifesting social features through their collective character, democratic functioning – such as, for example, mutual aid organisations of employees.

The Cooperative Society in Romania is an autonomous association of individuals and/or legal entities, as appropriate, based on their expressed consent given by them, in order to promote the economic, social and cultural needs of cooperative members, being jointly owned and democratically controlled by its members in accordance with cooperative principles.⁵

The issues of the Romanian system of social protection have pressurised policy makers to look for solutions to social and economic imbalances.

Social protection expenditures represented 2.86% of GDP in 2010 without this leading to a better quality of life and high levels of dependency, meaning that of the approx. 8.3 million people who are helped or assisted financially by the state, 1.8

4 Law no. 448/2006 on the protection and the promotion of the rights of people with disabilities, published in the Official Journal of Romania, no. 1006 from 18 December 2006.

5 Art. 2, Art. 7 al. 1 și 2 art. 108 Law no. 1/2005 on the organisation of cooperatives published in the Official Journal of Romania, no. 172 from 28 February 2005.

million are unemployed, are not attending school or any other training courses and do not suffer from any disability etc.

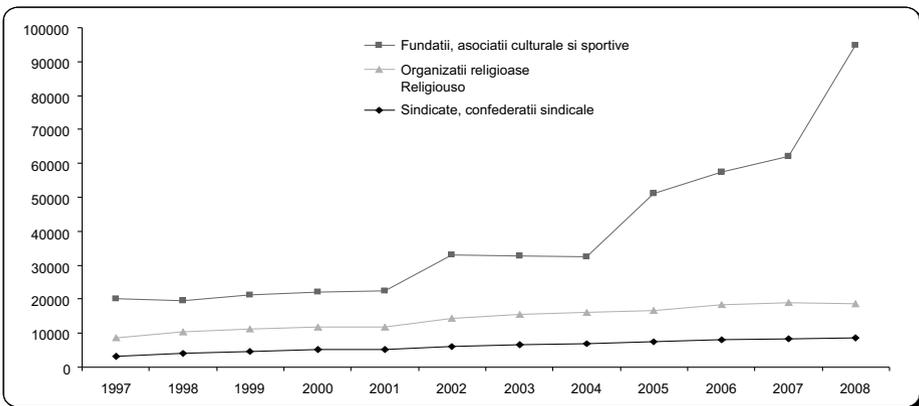
In Romania, there are:

- 2,000 cooperatives,
- 3,000 mutual organisations of employees and retirees and,
- 20,000 other NGOs active in all areas of the national economy. Of these, more than 3,000 organisations achieved steady economic activities; met the criteria to be classified as social economy enterprises; many workshops created protected units for the employment of persons with disabilities and about 2,000 provided social services and employment, including work integration of disadvantaged people in Romania.

Those actors involved in social economy activities have direct and indirect implications on the social economy, regulating or undertaking activities in the social economy. Within the category of entities operating in social economy, we could mention associations, companies with special regimes, cooperatives of various types, such as credit cooperatives, consumption or agricultural cooperatives, etc.; associations of retirees, and other categories of actors.

Figure 1

The evolution of the number of foundations, cultural and sports associations



Source: National Institute for Statistics (INS)

There are a large number of foundations and associations in Romania. In 2008, the average number of persons active in a cultural or sports association or foundation was approximately 226 people and in the same year, the average number of persons active in a religious organisation was about 1150.

For further analysis it should be confirmed to what extent those people are evenly dispersed at the county and regional level.

Another important aspect to be pursued regarding the territorial distribution of foundations, associations and religious organisations is assessing their involvement in the social economy. In this regard, we consider it appropriate that the analysis at county level and the correlation of statistics relate to those entities with economic and social development indicators for each county. For this analysis, statistical measures to characterise the quality of life in each county, the quality of the labour market, and the size of the social economy business entities etc. should also be considered. An important tool for the evaluation of social economy and of the work of various organisations is a statistical questionnaire. In this sense, information can be obtained through: the entity profile, number of employees, number of members, workload, projects undertaken, and the profile of social economy activities, etc.

Between 1997 and 2008 the number of self-employed persons increased, compared to the family associations. If, in 1997, the ratio between self-employed persons and family associations was 1.9, it increased to 5.5 in 2008. This trend has been due to the increasing number of self-employed during this period by 50 % and the decreasing number of family associations by almost 50 %. These figures have shown the importance of increasing the supply of self-employed persons in activities such as transport, other services and industry.

Legal and financial mechanisms to support the social economy in Romania

In Romania, there are legal provisions supporting the development of social economy:

- Government Decision No. 1434/2 September 2004 on the duties and framework of the organisation and functioning of the General Directorate of Social Assistance and Child Protection (DGASPC) with subsequent amendments amended through the DGASP powers in that it could contribute to promoting development of social economy and social economy initiatives forms. “In order to promote the active inclusion of people in difficulty, the General Directorate may organise, on its own or in partnership, and with the approval of the county council, departments with the responsibility for providing advice and assistance to promote and support the social economy initiatives and monitoring the activities of social economy.”
- Government Decision approving Regulation No. 90/2003 – framework for the organisation and functioning of public social service, amended, the duties of this office, stating that it could support, alone or in partnership, social economy initiatives. (Art. 3, paragraph. (2), b, letter k).

The fiscal and financial framework does not directly support social economy enterprises, but includes measures that it can obtain, according to specific forms of organisation. Some examples may be:

- Non-profit organisations conducting economic activities directly or through companies are exempt from profit tax economic activities up to 15,000 Euros per year, provided that the exemption does not represent more than 10 % of total income exempt from corporate income tax;
- Exemption from tax on reinvested profits for operators in SE;
- exemption from tax, provided that at least 75 % of the relief obtained is reinvested in restructuring or for the acquisition of technological equipment, machinery, plant or arrangements of work and jobs protected for UPA;
- Employers who have more than 50 employees are required to employ at least 4 % people with disabilities under the law. Otherwise, they had two options: either they paid a monthly amount to the state budget representing 50 % of the gross minimum wage in the country, multiplied by the number of jobs where people with disabilities had not been hired, or they purchased products or services produced by disabled persons hired in authorised protected units, on a partnership basis, in an amount equivalent to the amount owed to the state budget, as provided in subparagraph (a);
- Exemption from customs duties, authorisation, VAT operations and products, tax exemptions in the law for authorised protected units (APU);
- Small and medium enterprises (SMEs) can benefit from public procurement in the sense that they have 50 % off for criteria related to turnover, guaranteed participation and performance; tax and also a reduced rent for the premises rented from local authorities CAR.

Social economy development strategy in the south of the country must be defined differently for Bucharest-Ilfov in contrast to the other three development regions (South-East, South-Muntenia and South-West) since the types of activities of social economy in the region of Bucharest-Ilfov may be different compared to those developed in the other three regions, because both demand and supply of social economy are different.

Statistical data related to economic development and the labour market of each region

It is acknowledged that the national and local labour market should play an important role in the implementation of some measures destined to ensure social economy development.

Table
GDP structure on development regions between 1993–2008 (%)

Year	North-West Region	Centre Region	North-East Region	South-East Region	Bucharest – Ilfov Region	South-Muntenia Region	South-West Oltenia Region	West Region	Other regions	Total
1993	12.4	12.3	13.3	12.9	14.0	16.2	8.8	9.8	0.2	100
1994	11.7	12.2	12.6	12.4	15.3	15.2	10.6	9.8	0.2	100
1995	11.9	12.3	13.6	13.2	15.1	15.2	9.1	9.3	0.2	100
1996	11.9	12.4	13.6	13.1	15.1	14.9	9.3	9.4	0.2	100
1997	11.7	12.4	12.6	13.4	15.4	14.2	9.9	10.3	0.2	100
1998	11.9	12.1	12.6	13.0	17.6	13.4	9.5	9.9	0.2	100
1999	12.1	12.1	12.3	12.1	18.7	12.9	9.3	10.5	0.1	100
2000	11.7	12.2	11.8	11.6	22.1	12.2	8.9	9.4	0.1	100
2001	11.8	12.1	12.4	11.7	20.7	12.5	9.1	9.7	0.1	100
2002	12.1	12.3	12.5	11.9	20.6	12.5	8.3	9.8	0.1	100
2003	12.0	12.2	12.4	11.6	20.4	12.4	8.9	10.0	0.1	100
2004	12.1	11.8	11.9	12.1	20.4	12.7	8.8	10.2	0.1	100
2005	11.9	11.5	11.5	11.4	22.6	12.8	8.3	10.1	0.1	100
2006	11.8	11.7	11.2	11.2	22.5	12.9	8.3	10.4	0.1	100
2007	12.2	11.9	11.1	10.6	23.0	12.5	8.3	10.3	0.1	100
2008	11.3	11.2	10.7	10.9	25.4	12.7	8.1	9.7	0.1	100

Source of data: National institute for Statistics (INS)

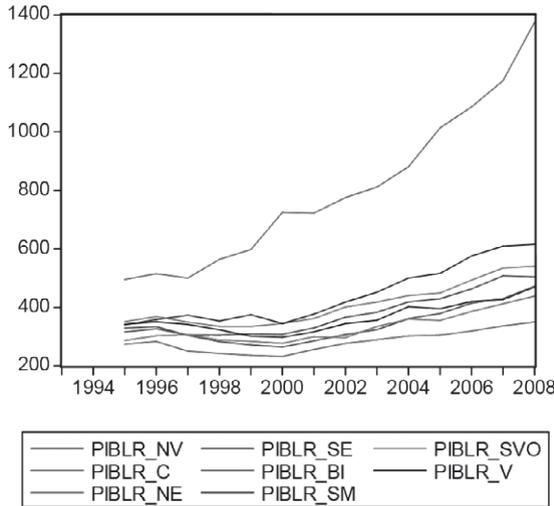
National data regarding GDP evolution in Romania's regions have shown us the following:

- Available data about GDP growth in Romania's regions allows the following comments:
- The Bucharest-Ilfov region is the most important contributor to the achievement of Romania's GDP. In 2008, this region represented a quarter of Romania's GDP;
- In 2008, more than 38 % of GDP was related to two regions: Bucharest-Ilfov and South-Muntenia;
- During the periods 2001–2004 and 2005–2008 there were significant increases in the eight regions. However, it should be noted that in the north-east, the lowest values for average annual growth rate were recorded;

- During the period 1995–2008, the gap between the most developed region (Bucharest – Ilfov) and the poorest developing region (North-East), has increased;
- Over time GDP concentration increased in specific regions. To reduce the negative social effects of this trend, the social economy can be an important lever.

Figure 2

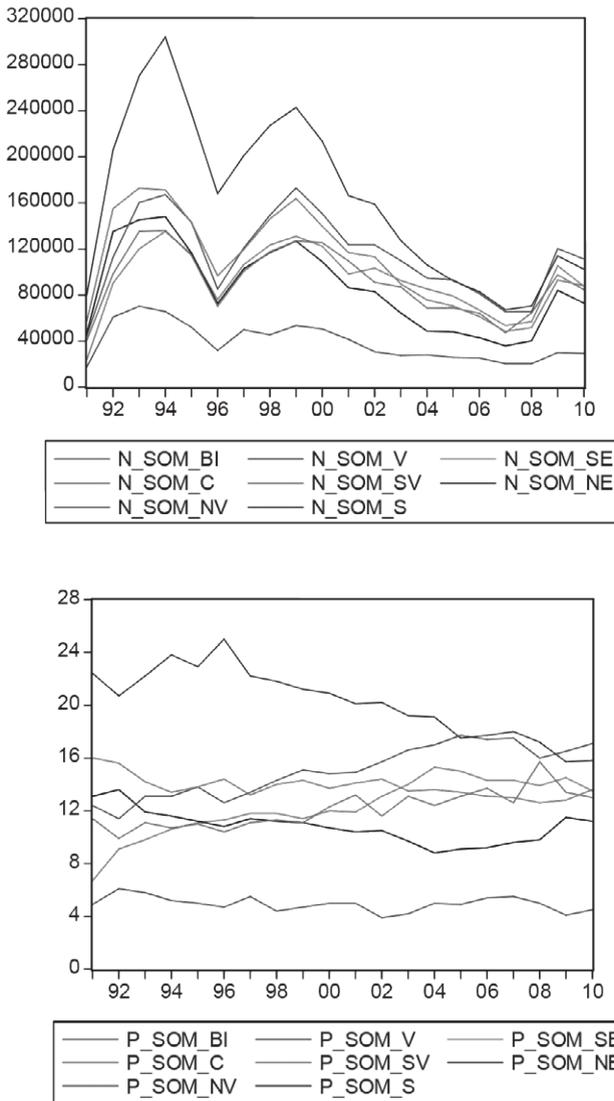
GDP – per capita in the development regions during the period 1995–2008



Source: own contribution

Another important aspect to be taken into account in the development of social economy is the gap created between the development regions in Romania. There is a tendency in the country to outline the two extreme categories of regions with a development workload. The first category includes regions Bucharest-Ilfov and the West which have created new opportunities for the growth of GDP; on the other hand we have the North-East, South-East and South-Muntenia with a low business growth rate.

Figure 3
Evolution of the number/proportion of unemployed in the regions during 1991–2010



Source: own contribution

The above graphs have revealed relatively similar trends in the number of unemployed in the regions:

- In each of the regions, the maximum number of unemployed in the period under review was reached in 1993;
- A relative decrease in the number of unemployed persons was recorded in 1995, followed by a period of growth to the level of 1999;
- The period 1999–2008 marked a decline in the number of unemployed; in 2009 there was an increase in the number of unemployed in all eight regions.
- Bucharest has the smallest share of the unemployed.
- The largest share of the time period of unemployment is highest in the region North-East.
- A reduced concentration of unemployed in certain regions.
- The annual average unemployment rate for each of the eight regions in the period 1991–2010 is different.
- An increase in the number of unemployed during the referenced period was recorded in South-Muntenia. In this region the average annual growth was almost 5 %.
- There is a strong dependence between regions in relation to the evolution of unemployment from one year to another.

Data on earnings by region provide the following:

- At the beginning of the transition period there were significant differences between regions in relation to average earnings;
- In 1991, the average net wage in the western region was 6 % higher than in the Bucharest-Ilfov region. During the transition period the ratio was reversed, so that in 2009, earnings in the region were 30 % lower than in the Bucharest-Ilfov region.
- In 1991, average earnings in the other six regions were more than 6 % lower than in the Bucharest – Ilfov region and in 2009 were 28–36 % lower;
- The other seven regions, except for Bucharest-Ilfov, recorded throughout the transition, relatively equal earnings;
- The average earnings increased during 1995–2009 in all development regions at average annual rates of between 2 and 4.2 %

Table 2
Comparing earnings of each region with the Bucharest-Ilfov region

	BI	C	NW	W	SW	S	SE	NE
1991	1	0.97	0.99	1.06	1.00	0.97	0.99	0.94
1992	1	0.96	0.95	1.03	1.03	0.98	1.00	0.91
1993	1	0.93	0.92	0.99	1.01	0.94	0.97	0.88
1994	1	0.84	0.83	0.93	0.95	0.86	0.91	0.80
1995	1	0.88	0.86	0.94	0.95	0.88	0.93	0.82
1996	1	0.87	0.83	0.90	0.92	0.87	0.91	0.79
1997	1	0.84	0.84	0.84	0.90	0.86	0.91	0.79
1998	1	0.79	0.76	0.78	0.87	0.83	0.87	0.75
1999	1	0.69	0.68	0.72	0.75	0.72	0.73	0.64
2000	1	0.72	0.69	0.74	0.82	0.75	0.79	0.67
2001	1	0.70	0.69	0.76	0.81	0.76	0.78	0.68
2002	1	0.72	0.71	0.77	0.84	0.78	0.78	0.72
2003	1	0.75	0.75	0.81	0.85	0.79	0.80	0.73
2004	1	0.75	0.75	0.81	0.82	0.79	0.79	0.74
2005	1	0.68	0.69	0.73	0.75	0.73	0.72	0.68
2006	1	0.69	0.69	0.72	0.76	0.74	0.72	0.68
2007	1	0.68	0.68	0.71	0.73	0.70	0.70	0.68
2008	1	0.64	0.62	0.67	0.70	0.67	0.66	0.64
2009	1	0.67	0.66	0.70	0.72	0.71	0.69	0.66

Source: National institute of Statistics (INS), own contribution

Table 3
Evolution of annual expenditure on socially protected unemployed compared with 1995

	BI	C	NW	W	SW	S	SE	NE	Total
1996	98.6	150.3	92.3	104.4	120.2	161.9	92.6	94.7	112.6
1997	43.9	151.2	191.0	416.9	260.6	167.7	130.4	113.3	151.2
1998	78.9	178.2	150.7	286.1	184.1	164.3	109.8	151.8	146.6
1999	60.6	148.8	172.2	298.7	187.8	134.0	140.7	135.3	138.9
2000	119.7	125.3	123.1	195.4	114.4	128.3	119.0	98.4	122.4
2001	111.3	118.8	92.1	155.3	98.6	118.4	99.9	100.0	110.2
2002	123.2	103.8	99.8	156.6	122.7	117.0	134.6	105.2	114.2
2003	136.2	120.1	135.8	241.1	137.6	134.6	207.7	119.3	142.2
2004	96.0	161.9	186.4	419.5	148.4	164.4	205.1	136.8	165.6
2005	76.4	165.5	184.8	373.7	131.4	127.3	127.8	142.5	144.6
2006	72.2	164.8	204.0	377.1	137.5	126.5	129.1	153.1	147.7
2007	60.4	176.5	233.3	358.0	158.8	128.8	138.0	152.3	152.6

Source: National Institute of Statistics (INS)

These data have led us to the following conclusions:

- Bucharest – Ilfov Region revealed unique characteristics compared to other regions. In this region there was a decrease in three variables. This situation is explained by the greater opportunities that exist in the labour market in this region;
- In other regions there has been a significant increase in total expenditure on social protection of the unemployed;
- In the North-East region they have seen an increase in total expenditure on social protection, but the real growth of unit costs on the unemployed decreased by a few per cent.

Formulation of proposals for social economy development within a region cannot be achieved without questioning a number of social features – the evolution of the unemployment rate, changes in net earnings and the amount of the unemployed social protection expenditure.

The social economy should provide a solution to promote social inclusion for groups of people in economic difficulty. At the corporate and national level we can calculate a number of statistical indicators to characterise the distribution of income between members of society and life conditions. In this regard, three important aspects of human development have been envisaged: assessing poverty in a community, the inequalities between categories, and the health status and level of education of the population. At the national level, 10 primary indicators and 8 derived indicators have been calculated.

The 18 indicators are divided into two categories: primary (defined poverty rate threshold of 60 % of median income; index of income inequality; persistent poverty rate; median deficit ratio; coefficient of variation of employment rates; long-term unemployment rate; the share of jobless households; proportion of young people aged 18–24 years who have left school early; life expectancy at birth; percentage of those in the upper and lower quintiles who rate their health as bad or very bad; derived dispersion around the poverty line with the poverty rate anchored at a threshold; poverty rate before social transfers and the Gini coefficient; persistent poverty rate threshold of 50 % of median income, and long-term unemployment rate, with the share of 25–64 years with low levels of education. Depending on the level of aggregation of the 18 statistical indicators, these can be assessed at a national, regional and county level.

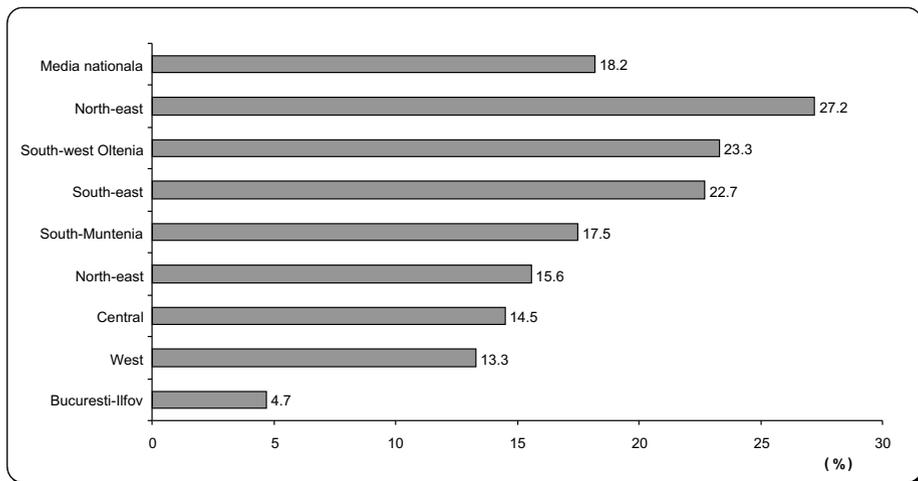
The relative poverty rate⁶ is the share of poor in the total population. To complete this definition, it should be noted that a person is considered to be living in poverty if the adult disposable income is less than 60 % of the median income. The poverty rate was higher in Romania compared to the European average. Based on

6 Dimensions of social inclusion in Romania, National Institute of Statistic, Romania 2009.

economic difficulties, the national poverty rate has been around 20 % – much higher than the EU average, equal to 15 %. The share of the poor has been higher amongst people in rural areas compared to urban areas.

The poverty rate was much higher in rural areas, compared to urban areas. In rural areas it was over 30 % and 10 % in urban areas. More than 70 % of poor people live in rural Romania.

Figure 4
The poverty rate in the eight regions



Source: Dimensions of social inclusion in Romania, INS 2009

There have been significant differences between the eight regions in relation to the relative poverty rate. The relative poverty rate is much higher in development regions that have been closed or where there has been reduced production capacity in industry, construction, etc. The highest level of poverty has been in the North-East, where there has been a value of over 27 %. The lowest level has been recorded in the economic region which was most economically developed. Thus, in the Bucharest-Ilfov region, the relative poverty rate was 4.7 %, its lowest level. In general, the poor category included more women than men. Thus, in 2009 the poor were estimated as being 2009.9 female and 1907.8 male, respectively. Inclusion of people in the poverty category depended largely on occupational status. Distribution of those with poor occupational status has been as follows: 40 % in self-employment, 20 % retired, 25 % inactive, 8 % unemployed and 7 % employed.

There is a different distribution of poor people by age in Romania, compared to the EU. In general, those most affected by poverty are young people; the poverty rate is highest in the age group below 16, which was more than 25 %. The lowest

poverty rate for the age group between 50 and 64 is less than 12%. Based on the statistical data recorded, we can say that young people are more vulnerable to poverty compared to other categories. In general, the poverty rate is higher amongst people who come from families with children or elderly dependents. Those most affected by poverty are families composed of 2 adults and 3 or more children. More than 47% of these families are on the verge of poverty.

In Romania there are significant differences between the eight regions in relation to the relative poverty rate. This is much higher in development regions where production capacities were closed. The highest level of poverty is evident in the North-East, where there is a value of over 27%, whilst the lowest recorded in the economic region with the most developed economic environment, is Bucharest-Ilfov where the rate relative poverty is 4.7%. Regarding the distribution of poor occupational status, the situation was as follows: 40% perform activities on their own, 20% are retired, 25% are inactive, 8% are unemployed and 7% are employed. In Romania, as in the EU, there is a different distribution of poor people by age. In general, the most affected by poverty were young people; the poverty rate was highest in the age group below 16 years, which was more than 25%. The lowest poverty rate in the age group between 50–64 years was less than 12%. Based on the data available, we concluded that young people were more vulnerable to poverty, compared to the other categories. With regard to people with disabilities, according to the Directorate General, information regarding people with Disabilities (DGPPH) according to the Ministry of Labour, Family and Social Protection, was 690,469.

During the period 1990–2010, life expectancy has increased nationally and in the eight regions. Both nationally and in the eight regions, life expectancy was higher for the female population than for the male population. With the exception of the Bucharest-Ilfov region, the other three development regions in most years' life expectancy were lower than the national average.

Nationally, the number of employed decreased by 16.4% over the period 1992–2008. Only in the Bucharest-Ilfov region has there been an increase in employment, whilst the other seven regions saw significant reductions. The largest reduction of almost 25% was recorded in South-Muntenia.

The evidence has led us to certain comments on the people profiles which can be stimulated to engage in the social economy:

- Rural people should be involved in social economy activities. Another advantage of carrying out activities of social economy at the local level is the high potential of application of these products by rural people;
- Development of economic activities should be implemented with the participation of self-employed persons. These are generally people who have been experienced in economic activities and their income is relatively low;

- In these activities, young people should be attracted who have left school early and have had difficulties in finding a job. This approach could ensure higher levels of social inclusion and could reduce social security costs during the medium- and long-term. Equally, such an approach can help to increase people's ability to socialise i.e. those of an age who have proven antisocial behaviour;
- Due to the fact that women are more vulnerable to poverty, economic activities should be developed in the social economy to which they are drawn;
- Retired persons generally have higher incomes than other people belonging to vulnerable groups or in relation to other social categories. According to this situation, certain vulnerable groups could develop some social economy activities that would provide services for retirees.

Results of the social economy survey and discussion

After conducting a statistical survey in the institutions/organisations in the southern counties, the following results have transpired:

- Even in the towns with few inhabitants, there were large numbers of socially assisted people. 14.3 % of respondents in towns with more than 3,000 people reported that over 300 people were socially assisted. This situation has been most common for those with an agricultural profile of economic activity. However, there were also a considerable number of socially assisted persons in areas with a large number of people.
- The overall number of people receiving social assistance has increased with the number of inhabitants in a village. This was mainly due to the following: on the one hand, it was due to the economic profile of these settlements and on the other, during the transition period, many industrial production facilities had closed e.g. in construction, etc.
- For any type of locality it should be noted that women were more likely to place themselves in the category of socially assisted persons.
- In general, socially assisted people are those who are older than 45 years of age. The overall share of the socially assisted increases with this age group. This situation can be explained by the fact that people who are older and become unemployed find it difficult to find a new job.
- People receiving social assistance were, in most cases, those with a lower level of education. In general, people with high school, vocational school and university generally receive less social aid.
- In some places there are people who belong to ethnic groups which are more vulnerable to the category assisted social inclusion – Roma people are the most vulnerable to being included in socially assisted persons.

- Almost 60 % of socially assisted persons took care of 3–5 dependent persons. Frequently, they were children. In almost 85 % of cases, socially assisted persons had at least one dependent child. There are quite a number of cases where the person has a disabled dependent person on social assistance.
- The main factors that determine the position of people in the category of socially assisted persons were the reduced number of jobs, low training, low interest in work and various forms of disability suffered by the people concerned.

Economic developments contributed to an increase in socially assisted persons, loss of jobs, and the closing of companies has contributed to the increasing number of socially assisted persons; worsening medical conditions; the uncertain economic situation and the lack of a stable job which led to maintaining the category of socially assisted persons. The results revealed a high capacity of local authorities in the implementation of projects. In half of the cases reported, projects were carried out in the field of social and labour. The above results highlighted local interests to develop and implement projects in the social and labour fields. The results revealed a low interest of individuals for participation in the implementation of projects in the fields of social and labour.

10% of people said they had not received any information concerning this area, and another 15 % felt that the information was reduced. The above results highlighted the importance of organising information campaigns about the social economy.

Most areas in which to conduct social economy are agriculture and manufacturing. Assessments conducted revealed a favourable opinion on the development of social economy in Romania. 45.8 % of respondents consider that the social economy greatly contributes to local development.

Conclusions

Social economy will secure efficient support in decreasing expenses with social protection and prevent the appearance of socially excluded communities. A significant expansion and diversification of activities carried by NGOs within the social economy area has been recorded in eastern European countries due to the decreasing role of the state in the economy. Romania has been confronted by significant differences between the regions considering the level of economic development. This situation could argue in favour of a different approach of the mechanisms aimed at widening social economy on a regional level.

Acknowledgement

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Regional Partnerships, Foreign Investments and Local Economic Development: A Case Study of Nokia in Cluj County, Romania

David Barnes¹, Octavian Moldovan², Erzsébet Pocsveiler³

Abstract

This current research makes an in-depth analysis of Nokia's actions in Bochum (Germany) and Cluj-Napoca (Romania) to observe how large-scale foreign investments affect the economies of local communities in three major stages:

- 1) when deciding where to place and how to begin new economic activities;
- 2) when conducting large scale economic activities that significantly influence local regional environments;
- 3) when relocating operations outside the region, leaving the community with positive and negative results.

Going beyond a simple case study, the paper proposes the actions necessary to convince large FDI actors to choose a certain location, accounts for gains and losses that such economic actors may bring to a community, and proposes a possible model for ensuring sustainable, long-term local economic development, regardless of business relocations.

Nokia "put Cluj on the map." Large FDI actors attract more media/public attention (and scrutiny), bringing innovation, improved workforce development and greater contributions to local government, suppliers and family budgets. Nokia's transient actions were also more disruptive for the local economy and community than the relative "stability" of lower-paying, smaller, indigenous firms. Other FDI

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actors and SME's proved to be more stable, but could lack the drawing power or capacity-building catalysed by Nokia. Finding a balance is possible, as shown in the case study. On the one hand, local stakeholders (government, private and NGO's) emphasise cooperation and networking to attract investors, but may not fully consider whom they want to attract (and the inherent pros and cons of different sectors and firm sizes). On the other hand, stakeholders concentrate on future and on-going efforts, learning from past mistakes and successes. Thus, strategic thinking becomes a necessity rather than an alternative for local decision-makers.

Points for practitioners

This case study offers a useful model for public policy and administration officials forging multi-sector partnerships to promote regional economic development through the recruitment of foreign direct investment.

Key words: Polycentric Growth Pole Development Model, Foreign Direct Investment, Intraregional Cooperation, Mixed Methods.

1. Introduction

This paper scrutinises the actions surrounding the location of Nokia, a large multinational mobile phone manufacturer, in Cluj County, Romania, and its subsequent departure. The analysis serves as a platform to observe three general issues:

- 1) actions at the local and regional levels around Cluj-Napoca to attract and expand employment opportunities through the recruitment of Large Foreign Direct Investments (FDI);
- 2) significant post-Communist regional networking re-structuring between local authorities, NGOs, institutions, national ministries, indigenous businesses, and international investors to enhance local development; and
- 3) impacts of attracting distinct types of economic actors (e.g. by firm size) in the local economic environment.

The paper uses a mixed methodology and various data collection instruments such as an extensive document review, primary interviews with multiple economic development actors, and windshield surveys and other direct observations.⁴ Both qualitative and quantitative analysis is used to verify the accuracy of the information and analysis presented. Inherent bias from subjective data, as in individual comments, is counterbalanced by diverse and thorough interviews, evaluation of official documents and statistical reports and a balance of regional economic devel-

⁴ The authors express their deepest gratitude for the remarkable access provided by local leaders and facilitated by professors from the Faculty of Political, Administrative and Communication Sciences, Babeş-Bolyai University, Cluj-Napoca, Romania.

opment theories, both at the academic and EU policy level. This approach intends to provide a holistic picture of regional efforts to attract new local investments and job creation through FDI.

Section 2 provides a brief theoretical framework useful to place these efforts in the context of international development. Section 3 discusses the methodological aspects of our study (referring both to data collection and interpretation). Section 4 describes Nokia's actions and their journey from Bochum, Germany to Cluj, Romania and on from there. Section 5 presents the Transylvania Region's economic environment centred on the Growth Pole city of Cluj-Napoca. Based on official statistics issued by state and local authorities, a viable strategy is recommended that includes both foreign and indigenous investment through Small-to-medium-sized firms, as well as Large Multinational employers. Section 6 analyses the qualitative data and views obtained by interviews through extensive meetings with local leaders, and finally Section 7 offers observations and conclusions.

2. Theoretical background

The Growth Pole Development theory originated from ideas presented by Francois Perroux (1950, 1961, 1964 and 1988) to indicate large, innovative firms that interact to a great extent with other firms and exercise a dominant influence over inflow and outflow exchanges in a region. Throughout the 1960s and 1970s, academic literature and public policy expanded these ideas to describe central geographic areas into which regional resources are aggregated to produce positive economic growth and development spill-over effects throughout the surrounding region. For example, an airport may be built outside a key urban centre, to be utilised by many surrounding communities. Rather than building multiple small airports, aggregation capitalises on utilisation by the larger urban centre, which allows for an expansion to capture economies of both scope and scale through usage by the broader region. This EU regional model of Polycentric Growth Poles stands as the central framework of development analysis for the Nokia Case Study.

2.1 EU funding model

This case study exemplifies the theoretical principles of the European Union's Polycentric Growth Pole development model, which identifies national centres (such as Cluj-Napoca), as well as intra-regional urban poles producing spillover effects to provide a foundation for sustainable, regional economic growth and development. "The concept of polycentricity first appeared at the European level with the adoption of the Leipzig principles in 1994" (ESPON 2005, 3) and relates to both the morphology of quantitative distributions (such as city size and firm employment levels) and a "network of flows", or relations in terms of proximity and interdepend-

ence regardless of distance, which was the classical polycentrism model initially adopted in the ESDP (European Spatial Development Perspective) process.

In outlining its Regional Operational Programme for Romania, the European Commission approved a European Regional Development Fund (ERDF) for the country from 2007 to 2013 with a budget of approximately EUR 4.38 billion and community assistance of EUR 3.7 billion, “approximately 19% of the total EU money invested in Romania under Cohesion policy 2007–2013” (European Commission 2013). Funding in the country varies, depending on the “economic, social, territorially balanced and sustainable development of Romanian regions, according to their specific needs and resources, focusing on urban growth poles ... The strategy will give priority to the regions lagging behind and, at the same time, special focus will be given to supporting urban growth poles, which can contribute to a polycentric development of the Romanian territory” (EC 2013).

For regional economic development, the Romanian regional organisation of counties is currently being realigned to match the new 2014–2020 EU programme and funding structures based on regional Polycentric Growth Poles. “Polycentric development thus runs parallel to the shift in regional policies towards an emphasis on the development of specialised regional competencies ... through regional networks of suppliers, specialised education and labour markets” (ESPON 2005, 5). Promoting policies on the basis of polycentricity in the EU enables cities to “act on the global scenes” (ESPON 2005, 111), helps in “overcoming disparities in the urban system” (ESPON 2005, 209) and promotes “inter-regional cooperation” (ESPON 2005, 205).

2.2 Theories of economic development

In addition to Polycentric Growth Pole theories, further theoretical lenses through which this research evaluated the Nokia case, included Linear Stages (Rostow 1960, 4–16; Harrod 1939, 14–32; Domar 1946, 137–147; Sato 1964, 380–387), Structural Pattern Change Models (Lewis 1954; Chenery 1960), Exogenous/Dependence Theories (such as Neocolonialism, False Paradigm and Dualistic Development), and Neoclassical or New Growth Theories (such as Free Markets, Public Choice and Solow’s model).

2.2.1 *Linear stages*

According to Rostow (1960, 4–16), greater economic growth can only be achieved if economies go through a number of developmental stages, which have to be followed in a logical sequence and where each stage cannot be reached without the completion of the previous one. The five stages through which an economy has to pass are: (1) traditional society (limited technology, subsistence on agriculture, hunting and gathering, rigid society), (2) pre-conditions to take-off (external demand for resources, commercial crops, use of technology and individual social mo-

bility), (3) take-off (manufacturing, goods producing sector increases, more social mobility), (4) drive to maturity (industrial base is diversified, transportation and social infrastructure, domestic consumption) and (5) mass consumption (industry dominates the economy, high-value consumer goods, consumers have disposable income). As such, the region under analysis (and Romania in general) can be situated somewhere between phases 4 and 5, thus higher development would be a feasible goal and the next logical or natural step.

The Harrod-Domar model (Harrod 1939, 14–32; Domar 1946, 137–147; Sato 1964, 380–387) argues that growth is conditioned by the quantity of labour and capital available and that more investments in the economy will lead to capital accumulation, which will further generate economic growth. The corollary (and what applies for our case study) is that local, regional or national public policies should promote savings and investments and those investments become more efficient through technological advances.

2.2.2 *Structural pattern change*

Lewis (1954, 2003) explains the growth of a developing economy by referring to a labour transition between the subsistence sector (defined by low wages, abundance of labour and low productivity despite being labour intensive) and the capitalist sector (higher wages than in the subsistence sector, needs more workers and higher marginal productivity). The model argues that workers will transition from the subsistence/agricultural sector to the capitalist/industrial sector until the marginal productivity of the two sectors equilibrate, at which point both sectors will try to become more competitive, leading the economy to a stage of self-sustaining growth. For the time being, the Romanian labour force is still transitioning to the capitalist sector, but as the Cluj region becomes more and more oriented toward services (finance, banking, outsourcing) and high end industries (such as IT), the model estimates that the two sectors will equilibrate and the region will enter the stage of self-sustaining growth.

A similar theoretical framework for understanding economic development is proposed by Chenery (1960, 624–654) and Chenery and Taylor (1968, 391–416) who argue that different trajectories can be followed to ensure/achieve national wealth. The pattern by which a particular country will achieve economic development is determined by its size and resources; patterns can also be influenced by other factors such as current income level and comparative advantages relative to other nations, thus there is no single way to ensure higher economic growth. For the time being, the region's comparative advantage seems to rotate around universities and high skilled labour force, while size and other local resources (land, labour and capital) seem to indicate high development potential.

2.2.3 *Dependency, false paradigm and dualistic development*

The Dependency theory is an economic current rooted in the Marxist theory which argues that the international economic system is dominated by unequal power relationships between the centre (the developed nations) and the periphery (the less developed countries). As such, power relations and struggles continue, rich countries extract and appropriate human and natural resources of peripheral (poor) countries, thus the poverty of the peripheral countries is explained by the way in which they are integrated in the global economic system (Wallerstein 1980; Mamalakis 1969; Mamalakis 1971; Polanyi 2001; Cardoso and Faletto 1979). As the region around Cluj is more advanced than most other Romanian regions, but less advanced than Western Europe (the core), it would be unwise to position the region in one of these two extreme categories; the semi-periphery (a middle category) seems to be a more adequate characterisation.

A lighter version of neocolonialism, the false paradigm model attributes underdevelopment to misjudgement and not to malevolent intentions, as faulty and inappropriate advice is provided to developing countries by well-meaning (but often uninformed, biased, and ethnocentric) international advisers from assistance agencies of developed countries and multinational donor organisations (Weller 2012). The problem is further exacerbated by public officials from underdeveloped countries who are trained abroad and end up working together with international experts, often forgetting, misinterpreting or misjudging the empirical realities of developing countries. In these lines, the IMF acknowledged that the austerity measures championed in the case of Greece's bailout were ill-advised (Komal 2013); similar measures proposed by the IMF and EU were followed in Romania, thus the false paradigm model might actually still be in play.

According to the dualistic development thesis, persistent and increasing divergences exist on various levels at both the international level (in relations between richer and poorer countries) and the national (within developing and developed countries regarding the rich and the poor), thus the lack of economic development can be perceived as the result of an interplay (power struggle) between rich and poor, national and international actors (Singer 1970).

2.2.4 *Neoclassical or new growth theories*

The market friendly approach, free-market analysis and public choice theory argue for the supremacy of market-driven growth as the market is seen as a more efficient mechanism for economic development and governments are assumed to be unable to do anything right (as politicians, bureaucrats, citizens and states act mostly from a self-interest perspective, using their powers and government authority for their own needs). Such an approach would rather generally characterise the Romanian national government in relation to local economic development, but since Cluj local public officials have strong connections with the national government (the cur-

rent mayor of Cluj-Napoca is a former prime minister) and the most important local development initiative (Tetarom – a publicly owned NGO-like entity focused on creating and managing industrial parks as well on attracting FDI) is led by the local government (county and multiple cities), the market focused approach of economic development is less adequate to characterise this region.

The new growth theory assumes that economic growth results from the increasing returns associated with new knowledge, and since knowledge is a fundamentally different type of good, “the ability to grow the economy by increasing knowledge, rather than labour or capital, creates opportunities for nearly boundless growth” (Cortright 2001, ii). A similar view is expressed by Solow (1956, 1957) who distinguished between new and old (vintage) capital; assuming that capital is produced, based on known technology and technology improves with time, he argues that new capital will be more productive (valuable) than old capital. Bringing the discussion back to our case study, bottom-up endeavours such as the Cluj IT cluster (28 companies with 3500+ employees and 100+ million EURO export revenue; 4 universities with more than 85000 students; 6 public institutions and catalyst organisations; 4 continents covered by direct deliveries; 500+ IT graduates each year; more than 15 years’ experience in delivering IT solutions; 15 % average yearly growth and more than 9 domains of expertise) seem to indicate the prevalence of knowledge and new capital, both of which are enticing for economic development (Cluj IT Cluster, undated).

Each of these theories offered some clarification of the underlying issues; however, they were not included as the primary theoretical tools for the qualitative analysis because they did not best fit the activities observed in the case study’s timeline of Nokia and its resulting (or perhaps causal) regional effects.

2.3 Gargantua versus Polycentric government and economic growth

However, one theory outside the development literature emerged in this Case Study as applicable in the particular intra- and inter-regional dynamics of Romania was the work of Ostrom, Tiebout and Warren as presented in *The Organisation of Government in Metropolitan Areas: A Theoretical Inquiry* (1961). Their inquiry compared two fundamentally different scales of governance: the highly centralised and bureaucratic “Gargantua” and the decentralised local decision-making approach of “Polycentrism”. This case study identified a balance of influence between polycentrism, in accordance with EU theory, and the national structures of Romania, rather than the overwhelming dominance over time of Gargantua, predicted by their theory of governance. However, their construct was incredibly descriptive of the forces observed in the Nokia case study.

Finally, through the methodology described below, a Grounded Theory emerged from the final affinity analysis of our qualitative data to produce a differentiated theory of how large, multinational firms, centred near Growth Poles through

regional cooperation, produce residual positive development effects in excess of negative externalities and potential employment losses. This case study suggests how regional collaborations in Romania foster sustainable development practices, even after the initial catalytic project ends, as Nokia did when it left the Cluj region.

Developing nations often combine resources in regional efforts of academic institutions, community organisations, local governments, national ministries, international bodies, donors and local/foreign business investors. However, this mix is not always successful. Post-communist Romania, however, is clearly emerging as a leader in community-based engagement, as divergent groups grapple together with the issues and the impacts of emerging development efforts. These regional collaborations affect decisions and build leadership capacity toward sustainable community strategies as demonstrated by this study of the Nokia project in Transylvania, Romania. Here diverse actors forged or improved regional structures in line with the prescribed EU model goal for regional Polycentric Growth Poles, to aggregate and target resources. The result was a mixture of rural and urban development that continues to ripple throughout the region's surrounding communities.

In line with these various theories, our research discovered that communities and institutions in the Transylvania region cooperated to form a new NGO focused on projects ranging from small business incubators to large industry/construction projects to higher education integration in local business training needs. These collaborations resulted in many successes, chief among them remaining the large Nokia plant built in a rural area, 20 km outside the region's primary urban centre of Cluj-Napoca. Nokia brought thousands of jobs and €100 million in investments to a commune of five villages. Because Nokia moved away 4 years later, our interviews revealed that some residents and leaders view the investment as an embarrassing or "taboo" subject, possibly proof that multinationals are harmful. However, a widespread consensus throughout the region views Nokia as a catalyst for community development that resulted in improved personal opportunities, increased household incomes, and additional tax revenues, as the EU's Polycentric Growth Pole theory predicts.

3. Methodological aspects

The mixed research method employed in this Case Study uses qualitative and quantitative data, collected as primary and secondary data. Content analysis was used for official local/state documents and international/national newspapers, while semi-structured interview guides were used to collect information from local stakeholders.

The Nokia case study began with detailed interviews of 18 local leaders from government, industry and the third sector. Twenty hours of qualitative comments were carefully transcribed and coded using *a priori* categories based on a combina-

tion of Polycentric Growth Poles and the Bolman-Deal Organisational Structure Model. Bolman-Deal offers a framework to analyse organisation Structure, Human Resources, Politics and Symbolic elements (Bolman and Deal 2008, 18). Adding descriptive categories such as firm size, the resulting *a priori* categories (with 24 classes) were reduced after the interviews to four classes (source, impact, firm characteristics, and economic drivers) with a total of nine codes. This method considered many development theories which proved informative but less applicable, as described above, for this particular case and the conditions represented by Nokia's Project in Romania.

The first category is the source of comments: whether interviewees represented a local government agency, a private sector society, an academic institution, or an NGO organisation. The second category was Nokia's impact: project benefits, shortcomings and lessons learned. The third category was the more general issues of development: large/driver firms like Nokia compared with smaller firms, differentiated based on domestic versus foreign origin. Frequent issues within this category of comments were how these different firm traits related to wages and skill-levels of employees. The fourth category analysed economic development support: infrastructure, human capital development, and government services or regulations. Here, government is viewed as either a catalyst or deterrent for growth.

The research team included three graduate students of American, Hungarian and Romanian descent who interviewed local village residents in the immediate affected area as well as many local leaders, government officials, NGO staff and private sector business managers to evaluate how this international Nokia effort resulted in locating such a large project in the Transylvania region and how the local economy responded and fared after Nokia moved to Asia.

4. NOKIA – always moving forward: Bochum to Cluj and beyond

“We must take painful, yet necessary, steps to align our workforce and operations with our path forward.”

Stephen Elop, President and CEO, Nokia Corporation
(Giles-Olivarez 2011)

Mid-January 2008 was a shocking period for the North Rhine Westphalia's Bochum, as the mobile giant Nokia decided to shut down an existing plant after 20 years of operations. The company had received over €60 million in subsidies from the North Rhine Westphalia between 1995 and 1999, and another €28 million from the federal government between 1998 and 2007 (Henning 2008). After the company declared its intention to move to Romania, a general outrage spread throughout Germany. Local, federal and national authorities tried to keep the company, sug-

gesting that the plant was already profitable for the company and did not need to close because it required only a small investment (€14 million) to make Bochum competitive (Helsingin Sanomat 2008b). Despite these arguments and the intense public outrage, Nokia did not reverse its decision. Therefore, the local German authorities pushed forward to demand repayment of subsidies. This strategy relied on the appearance that the company had violated its contract with the government in which Nokia guaranteed 2800 jobs, while only 2300 permanent jobs apparently were created (“Nokia, we Want...” 2008).

The Germans’ outrage manifested itself in many ways. Nokia was labelled as a subsidy locust (Smith-David 2008), caravan capitalism (AFP 2008; Williamson 2008) and so on. Furthermore, dozens of hate messages were registered at the Finnish Embassy (Helsingin Sanomat 2008a) in Germany and the emotional wave reached its peak as hundreds of employees went on the streets to protest (Smith-David 2008). Besides rage, the company’s decision caused more than 4000 people to lose their jobs: 2300 directly and the remainder being indirectly employed in Nokia supply chains (Smith-David 2008). The official argument offered by Nokia for leaving Bochum was that “unfortunately, the costs of labour, including non-wage labour costs, in Germany are not competitive enough for the mass-production of Nokia products”, as Nokia Chairman Olli-Pekka Kallasvuo told the Frankfurt Allgemeine Zeitung (“Nokia, we Want...” 2008).

Bochum has still not recovered from the departure of the Nokia factory and it is still suffering from a huge unemployment rate (around 10%). 2300 people worked at Nokia’s Bochum plant. Each worker received up to €125,000 in redundancy payments, and, in addition, Nokia has to pay two-thirds of the unemployed former Nokia workers for a period of up to one year. Around one-third of the workers who were made redundant by Nokia remain unemployed. Nokia’s payments in relation to the Bochum factory’s closure are not public information, but conservative estimates put the cost of repairing the company’s image at more than €200 million (Yle 2011).

Nokia began to search for a new site in Eastern Europe in 2007 and sent teams of consultants to many locations. When Nokia expressed its intent and interest in the Cluj-Napoca region, it sounded very promising. According to Cluj prefect, Marius Nicoara, around 15,000 jobs would eventually be created and the company was expected to invest around €200 million. Besides the company’s share, local authorities and the national government also contributed to the realisation of the plant. Local authorities provided 159 hectares of land and installed utilities and other infrastructures while the government’s responsibility would be to support the investor with subsidies of around €33 million (Georgescu 2007).

As “expectations were very high at the beginning”, the company invested €60 million in building the actual plant in no more than 7 months in the industrial park called Tetarom III, later dubbed “Nokia Village”. Furthermore, Nokia’s new plant

outside the Village of Jucu, received all the pledged support of the local authorities (in land and utilities), and of the government which also kept its promise by giving €37 million to Nokia in subsidies (Spanu 2008). A promising and bright future also awaited potential employees as the Nokia Executive Vice President (Anssi Vanjoki) stressed that there were no plans for a relocation more eastward of the Jucu factory, as had happened with Bochum (Popescu 2008).

What was behind this promise and why did the company shift its production from Bochum, Germany to Cluj, Romania? Nokia's Vice President, Juha Putkiranta, claimed that "Cluj County was chosen for the Nokia factory because the labour was skilled and the area was close to the selling markets targeted by Nokia, namely Eastern Europe, Africa and the Middle East" (Spanu 2008). In addition, other stated factors included: lower operating costs, ten times lower wages (with an average salary around €220 a month), technical universities, and people eager to work for a multinational company offering opportunities for training and advancement (Toma and Salzmann 2011). All these attractive aspects outweighed the single weak point of Cluj, its transportation infrastructure which impeded getting supplies into Cluj smoothly and access to global markets (Ewing 2008).

The plant was finalised by March 2008. The site began its operations with 350 people (Spanu 2008) but 8000 people applied for jobs; the company projected expanding its labour force up to 3500 in 2009 (Ewing 2008). By 2010, Nokia became the fourth largest company in Romania, making 7.8% of the total exports of the country and contributing €21.8 million to the state budget ("Nokia Sends Romanian..." 2011). According to Stelian Samson, (the Director of the Romanian Centre for Trade and Investment) Nokia "hit the jackpot in Romania" (Stanciulescu 2011).

In 2008, Marius-Petre Nicoara (the top official of Cluj County) expressed his belief that "Nokia will stay 20 to 30 years" (Ahtiainen 2008), but unfortunately his belief did not come true. After less than 4 years Nokia "did a Bochum" on Cluj, moving from this western location for a more eastern one. When Nokia announced it would leave and move its production lines closer to customers in Asia, what happened in Romania was not just protests against the company, but authorities such as the Prefect began to blame the Government that it could not keep the investor inside the country (Lerintiu 2011). The protests of the people were not as visible as in Germany, but rumours surfaced that employees were "threatened" not to protest if they did not want to lose their jobs prematurely: "We were told that whoever wants to participate in the protest organised by PSD in Jucu can go, but risked being fired prematurely" (Toma 2011). The operation of the plant continued until 31 December 2011, although the last days in the plant were without production orders and much activity, until the plant was completely shut down. After this point in time Nokia provided compensation packages until April 2012, and it promised retraining programmes for its former employees (Toma and Salzmann 2011).

However, despite the initial negative public opinion, Nokia did not leave an empty site as the company immediately began talking to other investors to take its position at the location as a leading economic actor in the region. Nokia officials recruited De'Longhi to purchase its building and as a result of that dialogue this Italian multinational now operates in the former Nokia plant (Nokia 2012) continuing cooperation with the same initial group of local and regional entities. "During the assessment of interest in the Nokia factory, we made efforts to find a significant investor with clear plans for growth and for job creation here, in the near future. DeLonghi was the ideal candidate from both points of view..." said Robert Anderson, Senior Vice President of Nokia (ACTMedia 2012).

Currently, the Tetarom III industrial park (where the former Nokia plant was located) is home to the following FDI operations: De'Longhi SRL, Robert Bosch SRL, Transcarpatica SA, Imperial SRL, Holzart SRL, Karl Heinz Dietrich International Exped SRL, MRL Logistik Invest SRL and Star Storage SRL (TETAROM website).

Worth noting is that Nokia's decision was not limited only to Cluj. Because of their changing market environment, Nokia also relocated their plants from Mexico, Hungary and Finland, while more job cuts were forecast worldwide for 2012 (Rönsberg 2011). However, local views did not necessarily place Nokia's decision in a global or market context as this decision was felt personally in the region.

The immediate consequences of Nokia's decision to leave Romania were anger and confusion from both the local authorities and employees. Directly, 2200 people lost their jobs, while indirectly many other firms which served as supply chains for the company were affected by this decision. Some say that around 8000 people felt the weight of the company's decision to shut down the plant (Lerintiu 2011). Why would the company want to leave Jucu since this site generated millions of profits for the company? These are the same initial feelings expressed in Germany when Nokia left there. However, in 2008, when the mayor of Jucu was questioned about what would happen if Nokia left, he answered, "Even if Nokia leaves in five years, we will retain lots of good things, roads, indoor plumbing, etc. Since its arrival, there is a prosperous future ahead of us" (Lerintiu 2011). Yet, at the immediate point of departure, most seemed to forget the direct and indirect benefits Nokia had brought.

5. Analysis of the economic sector in Cluj-Napoca

The majority (4695) of active companies that have registered their head offices in Cluj-Napoca can be included in the category of microenterprises. Small-to-medium enterprises (SMEs) are situated in second place (1558), whilst only 11 economic entities are in the category of Large and very large companies (Table 1).

Table 1

Distribution of Companies Registered as having Head Offices in Cluj-Napoca

Type	No. of firms	Main characteristics
Micro	4695	<ul style="list-style-type: none"> • between 0 and 9 employees; • annual turnover/revenue or total assets below 2 million Euros;
SMEs	1558	<ul style="list-style-type: none"> • between 10 and 249 employees; • annual turnover/revenue or total assets below 43 million Euros;
Large	11	<ul style="list-style-type: none"> • above 250 employees; • annual turnover/revenue or total assets at or above 43 million Euros;

Source: Cluj Regional Office of the National Trade Register Office⁵

While SME's provide a certain degree of stability and growth for the local economy (Table 2), the total economic and social impact of large companies is superior to the prior two categories. Microenterprises which are more deeply rooted in their immediate community are three times more numerous than SME's and large companies combined. Together, the three types of economic organisations provide a healthy balance of production and employment opportunities for the city and region alike.

Table 2

Evolution of SMEs with Headquarter Offices Registered in Cluj-Napoca (2006–2011)

Year	No. of companies	Annual turnover (€)	Profit before taxes (€)	Profit after taxes (€)	No. of employees
2006	1466	2420623917	178815337	150691218	50369
2007	1684	3283754942	234793260	197789032	55284
2008	1523	3141026332	197483478	166007611	51327
2009	1533	2531235447	148688425	125194825	50793
2010	1488	2558715651	166768774	142520689	49938
2011	1558	2673043548	163782317	140505813	51924

Source: National Statistics Institute⁶

The number of SMEs provides some measure of flexibility and diversity for the economy that can be a basis for sustainable development. This consistency occurs most in employment. According to Chart 1, for SMEs registered in Cluj-Napoca from 2006 to 2011, total turnover fluctuated up to 136% of 2006 levels in 2007 and down to 105% in 2010. Similarly, the number of companies rose to 115% in 2006 down to 101.5% in 2010. After-tax profits experienced a surge in 2007 to 131% of

5 The data was received by the authors after submitting a petition to the aforementioned institution.

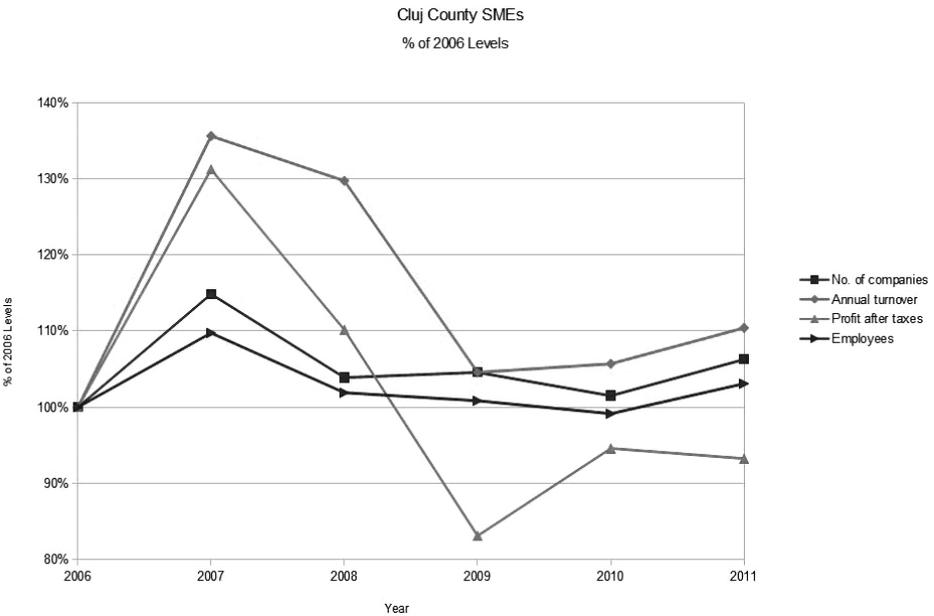
6 The data was received by the authors after submitting a petition to the aforementioned institution.

2006 levels and then plummeted down to 83 % of 2006 levels by 2009. Compared to these components (annual turnover, number of firms and profit), the number of employees hired by SMEs remained much more constant, rising to 110 % of 2006 levels in 2007 and falling to 99 % in 2010.

Employment consistency appears to be a relative strength of SME aggregate activities (Chart 1). The stability they provide, even during a period of economic crisis, originates from the large number of SMEs, their diversified aggregate revenues (annual turnover), generated net profits and on-going investment in capital expenditures and current inventories that use local suppliers. Within this construct, the number of employees remains relatively steady overall.

Furthermore, looking at the period prior to the economic crises (2006–2007), SMEs as a group did not significantly change their behaviour. Perhaps their more limited resources restrained them from over-leveraging themselves or overheating like other economic sectors (such as banking and construction) so they had limited exposure to the effects of an economic downturn. And while they were still affected by crisis, SMEs are large enough, compared with Micros to weather some crises without going out of business and are more adaptable than large and very large companies.

Chart 1
Cluj-Napoca SME Fluctuation (2006 levels = 100 %)



Source: National Statistics Institute

While the addition or loss of a few SMEs affects many employees, customers and vendors, the economy as a whole does not usually feel such disparate impacts. This is different with large corporations, and in order to emphasise the importance of the stability of SMEs for the local economy, this case study of Nokia contrasts SMEs with one of the biggest international economic entities that conducted economic activities in Romania. Fortunately, after Nokia left Cluj-Napoca, the local industrial site was quickly filled by another large corporation. However, the loss in employment and prestige presented a noticeable dilemma for the region. In contrast, a random sample of approximately 8 % of the SMEs would likely equal the total employment of Nokia but are very much less likely to all disappear at once or even less likely to decline as much in one year as when Nokia ceased operations and was replaced by another large employer.

The impact of the company was significant. In 2010, it represented 30 % of the county's GDP, 1.3 % of the nation's, 60 % of the county's exports and 4 % of the nation's exports. Their 2500 employees equalled 5 % of total SME employees for Cluj-Napoca. Nevertheless, the arrival of the company and its departure generated adverse effects at the level of the population, local budget and also for other economic agents from the neighbourhood, and these adverse effects would not have occurred from a similar investment in aggregate SMEs. As such, this section draws attention to the fact that even if large companies (such as Nokia) represent a considerable source of income for the local economy, SMEs provide greater stability through employment opportunities and the financial resources they contribute to local budgets, both for the population and the local authorities.

Whilst relatively small in size – individually – as a target of regional economic development initiatives, SMEs offer an aggregate economic strength that remains a very important part of the county's economy and tend to be more flexible and adaptable than other types of economic agents.

According to the National Agency of Fiscal Administration (NAFA), Cluj-Napoca hosts fewer than 870 companies with foreign capital (Table 3). Together, these 870 companies create a total turnover of 180 Billion Euros (with a medium turnover of 207 Million Euros). They are also very important for the local economy because they hire a total of 3734 employees, with an average of 7 employees for each company. However, 21 % of these companies do not have any hired employees, 24 % have only a single employee and 85 % of the total number of foreign investors has less than 9 employees (thus being included in the microenterprises category).

So, largely, the Cluj region can benefit from Foreign Investment without relying on large employers – “big fish” – who cost a great deal to entice to the region and who can leave after a few years, without giving back to the community the equivalent of what they received.

Table 3
Origin of Foreign Direct Investment, 2011

Country of origin	Final balance (million €)	Country of origin	Final balance (million €)
Italy	215	Hungary	48
The Netherlands	196	Austria	43
Cyprus	97	Denmark	41
Germany	58	Spain	35
Others		139	
Total		872	

Source: Cluj-Napoca City Hall⁷

About 5 % of companies with foreign capital from Cluj-Napoca have a large number of employees and large scale economic activities. Foreign Investment remains a vibrant part of the local economy and a worthy target of local economic development initiatives. In 2011 (Table 3), the number of foreign direct investments in Cluj-Napoca increased by 872 Million Euros from which almost 50 % came from Italy and The Netherlands, followed by Cyprus (above 10 %) and Germany (above 5 %).

Perhaps the most intriguing question from this Case Study, one answered positively by many of the local economic development experts, is “Did the infrastructure and recruitment efforts required to bring Nokia to Cluj – even though this particular plant was subsequently lost – encourage and facilitate a significant portion of this 872 Million Euro increase in Foreign Direct Investment?” The answer seems to be, “Yes”. Nokia, it is often said, put “Cluj on the Map” and brought this dynamic economic region to the attention of investors (of all sizes) around the world.

6. Empirical results: qualitative analysis of regional cooperation in the Nokia project

“Nokia put us on the map.”

Anonymous interviewee (2013)

That one clear statement, more than any other, epitomises the impact of Nokia’s successful installation in Transylvania and the residual benefits after its early exit. Nokia was significant and its recruitment required the development of sophistication at the local level. The local communities proved more than adequate and stepped up to this challenge. Finally, once “on the map”, the region, led by vari-

⁷ The data was received by the authors after submitting a petition to the aforementioned institution.

ous organisations in Cluj County and Cluj-Napoca, continues to participate fully in the global competitive market. Analysis of Nokia's actions indicates four important findings. The result of these findings is a simple, but not simplistic, recommended proposal that the success of Tetarom be duplicated and expanded on a multi-county regional basis, with clear access to government economic development incentives and predictable funding streams.

First, this proposed organisation would be a vehicle to continue the recruitment and expansion of large multi-national, Romanian and international SMEs within the European Union's polycentric growth pole model and regional alignments. This entity would serve as a new Transylvanian Economic Development Society, or TEDS. TEDS would facilitate cooperation amongst a number of entities within the Transylvanian region, including local governments, the local prefect's office of the national government, universities, chambers of commerce, infrastructure and utility providers, private industrial park development speculators, consultancy firms and other economic development actors. This possible strategy seems viable based on the Transylvanian experiences with Nokia and after Nokia left Transylvania. This recommendation is based on four key observations from the analysis of qualitative interview data. First, TEDS should build on multi-county assets, recognising that businesses operate with regional resources ranging from airports to roadways to water and an internet service to universities and labour pool commuting patterns.

Second, going forward, a new organisational structure is needed, one more nimble and better financed, to compete with fast-paced competitors such as the Polish regions. TEDS can act in line with the inter-agency cooperation demonstrated with Nokia, but with an alacrity that fulfils the vision of Transylvania competing as a world class area. Specific tactics for implementing a multi-county strategy to implement a competitive vision would call for an even further move away from the "Gargantuan" scales of bureaucratic governance described by Ostrom et al. (1961) towards new constructs which internalise the dimensions of decentralised, "Polycentric" local decision-making. This would require the institutionalisation of economic development incentives being accessed by a regional authority without going through the long process required to form a coalition with Bucharest and others. The bottom line recommendation is that where the Romanian system requires a year to approve an incentive package, other regions act within months or weeks.

Third, the result would be the formation of a new organisation, with its own funding stream and ability to access capital markets, which can act as a regional Economic Development Corporation promoting the recruitment, expansion and retention of public and private sector employers who improve the immediate and long-term prospects of the Transylvanian people. This new EDC would be staff managed and board led, similar in form though larger in scope and scales than the Tetarom entity that worked to locate Nokia in Cluj County. Currently, Tetarom and

private park developers finance speculative building with operational profits and EU matching grants. Private sector societies also have access to equity and bank financing. A regional economic development organisation needs similar avenues of funding, including contribution investments from area governments and university partnerships, as well as borrowing capacities, either through banks or publicly-backed bond issues.

Finally, the EDC board would be constituted with representatives of partner organisations which would include the offices of local Prefects from the metropolitan counties as national representatives, some form of local representation to speak on behalf of the county, city and village interests, and a variety of professional, speciality members from the business, academic and NGO leadership in the region. This degree of collaboration has been fruitfully exercised in the Nokia case study. These representatives from local, Transylvanian and Romanian government bodies, public institutions and private sector actors would model Regional Partnerships in line with the European Commission ERDF's operations programme funds for 2014–2020 to continue to recruit and employ more Foreign Investments in expanding Local Economic Development by building on the successes demonstrated, weaknesses revealed and opportunities exemplified by the processes and outcomes of the Nokia project.

Three key findings from our interviews indicate that the Nokia Project (1) enhanced both regional cooperation and economic potential and that those residual benefits not only remained after Nokia left, but also continue to increase; (2) suggested an experience that was a deeply personal and emotional event for both the individual professionals who spoke with us and possibly for the nation or at least region as a whole, especially for a relatively new post-Communist EU member exploring the re-development of its historic democratic-capitalist roots as an emerging world-class economy; and (3) revealed that even a small area such as Transylvania stands within an intra-national, EU/regional and global framework which cannot be avoided or ignored. Those places best equipped to exploit the cooperative economic development potential and face the reality of a competitive international market with a growing sense of maturity can prepare to capture gains and minimise the effects of losses, regardless of individual firm decisions or broader economic environments. These three key findings can be summarised as the benefits of cooperation, the risk of sentiment, and the context of globalisation. These three emerged from the following analysis to suggest the creation of a regional TEDS.

Both this proposal for a regional TEDS and the three broad findings emerged from analysing the qualitative interview data of almost 20 hours of interviews. As discussed in the methodological section above, interview comments were grouped into nine categories based on current economic development theories. Then, after the results began to crystallise, a form of grounded theory pointed to the necessity for including the Gargantuan-Polycentric theory. The recurring

themes of regional cooperation, EU programme funding and Bucharest bureaucracy converged to suggest that to be fully competitive going forward, the Transylvania region would have to incorporate all three in a nimble network. After an initial review of the data and underlying theories, the qualitative data was reorganised into four analysis categories.

The most striking debate amongst interviewees was a comment discussed passionately at almost every interview, especially from the public and NGO sectors. The heart of the matter was curiosity about Nokia's intentions. Did Nokia plan to leave from the start? Did they want to stay? This issue was important enough for many interviewees to insist that "Nokia officials told us they did not leave because of anything that was wrong with Cluj." Local leaders seem to have accepted this assurance, and yet many people still repeated the perception that Nokia intended to leave from the start. However, all indications are that, based on export certificate records, Nokia genuinely lost business in the broader European, African and Middle East region served by the Transylvanian plant, and as their business migrated to Asia, their operations had to move in order to reduce transportation costs.

But rather than dismiss this question as a concern based on a low regional self-esteem, we evaluated the comments as the courage to evaluate the leaders' own region and the confidence to accept Nokia's positive answer. As the region's officials have more dealings with companies and competitor regions abroad, that confidence seems only to grow, grounded in an honest comparison of the Transylvanian region's competitive strengths. As one spokesperson so poignantly said, "The more I travel abroad, the more proud I am of Romania and Cluj."

And the sentiment was clear that the emotional impact of losing a large employer was not limited to Nokia, just as it would be felt in any locality if a major firm closed. In fact, while the community was shocked by the departure of Nokia, they were most concerned by the announcement that ING was closing a financial services centre. Local officials called a meeting with many multinational company officials and asked them point-blank, "Are we doing something wrong?" When they heard from their other corporate guest-residents that the region was not doing anything wrong but that ING just had a company-specific market issue, Cluj leaders were greatly relieved. This is not a culture that spends much time doing post mortem reflections on failures, but they are willing and eager to address potential problems head-on and find out if there is some underlying issue with which they should be concerned. In general, it is our judgment that the intense feelings of rejection felt at Nokia's leaving is normal and a result of how much this region genuinely cares about the success of its people and firms.

Significantly, the question of that self-identity came out top within all four categories. The consensus seems to be that, even although Romania is still an emerging international player, Cluj-Napoca is a special case. "No foreign company comes here to pay high wages, but we are no longer a low-cost or low-skill location ... Cluj

is a best-cost location.” The best illustration of this is that of the American manufacturer Emerson, which has a very open, Romanian-appropriate corporate style whereas the Nokia organisation was seen as quite closed and stand-offish to local interests. Emerson, it is said, “found a gold mine here”. They hired 800 engineers from excellent local universities and pay well.

Cluj also exhibits, from the interviewees’ perspectives, a uniquely unified political structure. Local university and city officials are particularly well-connected with the national government and local ministry offices, including the Prefect and the Cluj-Napoca mayor who was, until recently, the Prime Minister of Romania and continues to be a member of the local academic community. The consistent picture is one where “national politicians and ministry people from Cluj work together in Bucharest to bring money to Cluj.” In a post-communist government with a Prefect form of administration, Bucharest could easily be seen as a bureaucratic Gargantuan holding Cluj back. However, normal subjective comments about feeling distant from or resentful of the strong national government were all but totally absent in this study. And the region’s ability to build coalitions and achieve results in Bucharest is seen as a particular resource and strength.

Another significant, although not readily visible strength, is the limited but growing support structure. The Human Capital aspects of the many regional universities were highlighted by almost every interviewee, as the existence of well-trained students and willing workers with a reasonable cost of living is seen as the engine of development flowing from the Cluj-Napoca region. However, officials are working behind the scenes to improve the hard infrastructure systems to support this potential. Internet connectivity is cited as an above-average strength and the aggressive expansion of the Cluj regional airport to include a long cargo runway was often mentioned. But the interviewers had to press repeatedly to gain information about utilities such as water, sewage and electricity. As with the current airport limits, some constraints on utility provision exist, but the nation has an excellent system implemented at the county and regional levels by semi-public societies to address these concerns.

Finally, the broad discussion of development centred on whether foreign companies were beneficial, especially in light of Nokia leaving, or whether large companies were “unstable”. Whilst most respondents expressed clear scepticism of the reliability of large multinationals, for every comment of concern, the same speaker often listed several other examples of both the benefits of multinationals and the desirability for large firms. In general, FDI is seen as providing the people with personal opportunities not available in small or local firms and the economic potential of large plants like Nokia is clearly embraced and understood. This is remarkable in a region with a recent history of specifically implementing policies against foreign investment. That debate seems to have been decidedly settled in favour of continuing a balanced approach to incubating small, locally-owned companies, supporting

a wide policy of infrastructure and services to recruit and expand SMEs operations in the region and participating in the hunt for big fish like Nokia.

7. Conclusion

Considering the complexity of the topic covered in this paper, as well as the methodology adopted and the diverse information collected, it comes as no surprise that conclusions will also vary across a wide range. First and foremost, considering the complexity of the current economic environment, with international developments that affect local economies, Local Economic Development as a conscious activity cannot remain in the form of disparate attempts made by local stakeholders. The need to see the big picture, to establish goals (maybe even a vision of sustainable economic development) and coordinate actions that will achieve those goals, is more than obvious. Current collaboration and networking actions need to pass the informal phase and be institutionalised under the form of Transylvanian Economic Development Society, comprising all possible stakeholders.

Secondly, although local economic development, as a goal, can be achieved by following multiple paths, every path comes with its own unique characteristics under the form of benefits and losses. As such, the SMEs' path will be longer but more stable (thus leading to sustainability), while the Big Fish path (such as Nokia) may be shorter, present more short-term gains but many detours might be required before arriving at the destination (and without learning from mistakes and successes, arrival is not necessarily a certain fact for any path). The overall idea is that both paths are viable, but those that aim to reach the destination must analyse in detail both paths and decide upon embarking on a certain path (having full information) before beginning the journey.

Thirdly, focusing on the essence of this case study, Nokia's actions in the region:

- 1) enhanced both regional cooperation and economic potential and those residual benefits not only remained after Nokia left, but also continue to increase;
- 2) suggested that the experience was a deeply personal and emotional event for both individuals and possibly for the nation (or at least the region as a whole), especially considering the context of a relatively new post-Communist EU member exploring re-development; and
- 3) revealed that even a small area, such as Transylvania, stands within an intra-national, EU/regional and global framework which cannot be avoided or ignored if long-term goals are to be achieved.

Last but not least, all evidence points towards the necessity for adopting a strategic approach when considering local economic development, both at the planning phase (What types of investors should be attracted? What type of incentives should

be used to connect them to the community?) and the implementation phase (How can we reduce institutional frictions and bureaucratic limitations? What services should we provide to investors and how can we have discussions with them on an equal footing?).

However, strategic thinking and actions require local decision-makers to move beyond petty political feuds and personal options and alternatives in order to establish the underlining thread of economic development (or a long-term plan) and follow it (independent of what happens with the initial decision-makers who established the vision). However, consistency must not constitute the ultimate goal as the plan/vision/path must take into account internal and external developments; thus we must always adapt to the empirical realities that define the community, as well as the larger context (referring here to national and international economic trends). All in all, consistency and adaptation must be carefully balanced in order to promote the interests of the community and ensure not only economic development, but sustainable economic development.

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Regional Governance and Community-Led Local Development: Miles Apart?

Frans Jorna¹

1. Introduction

All across Central and Eastern Europe (CEE), local governments struggle to maintain their autonomy. Twenty years after regaining their independence, they have become a central foundation of modern public administration and are part and parcel of national government's programmes and ambitions. While this has enhanced their share in public expenditure, it has also led to an increased dependence on external finance, be it national, regional or European.

The current financial crisis has induced an ongoing round of austerity measures and budget-cuts, and it seems local governments are paying the price. Their budgets are affected to a stronger degree than those of other administrations. Regional cooperation and regional governance seem to be the only way forward to maintain service delivery, cut operating costs and safeguard local self-government without having to resort to massive outsourcing. Territorial consolidation has become a buzzword all across Central Europe.

The question this article attempts to answer is how this type of efficiency-driven regional governance relates to (local) self-government. With the term "regional governance", I do not mean the formal subnational forms of state administration and regional government. Rather I focus on the efforts of subnational public authorities to coordinate and cooperate on their efforts at a regional level. Recent public debates in western and central European countries seem to suggest new regional governance seriously threatens the autonomy of local self-government and is directly at odds with the essence of democratic governance that was re-established throughout CEE some twenty years ago. Based on an analysis of local/regional governance debates in Europe, the article offers a theoretical framework that relates

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the Neo-Weberian state model of local government with the theory of territorial consolidation.

2. Territorial consolidation: the drive for the perfect match

Local governance is of increasing importance to the European nation states (Sellers 2010). Across the continent, more central government taxes are spent locally. At the same time, central governments increase their grip: the increase in local spending does not correspond to an increase in local autonomy (Blöchliger and King 2006). On the contrary, comparative studies indicate that local governments are ever more dependent on national legislation (Bach et al. 2009, 1). More and more, local governance is integrated into the national state administrative network, to such an extent that the two can hardly be distinguished. The penetration of the national state seems to prevail across the board.

The drive for consolidation and congruence leads to important questions. The centralisation/decentralisation debate (does deconcentration actually contribute to decentralisation or does it constitute another wave of centralisation?) seems to be concluded.

At the same time, observers discuss the dissolution of the national state into more or less loosely federated city-states (Bach et al. 2009, 1). Global diversification and simultaneously localisation lead to debates on “globalisation” and the end of the state. Frontiers have become obsolete, capitals move around without borders, and time is no longer an issue. Regional diversification can take on strong traits. Prospering well-to-do cities, integrated in the global fabric, may be next door to neighbouring cities that have lost out on global completion. Thus, on the axis Paris-Brussels for instance, economic segregation has left a strong imprint on the region, laying waste to some (Charleroi) while promoting others (Lille). More than ever, territorial cohesion has become an issue (Swianiewicz 2010). In 2012, concepts such as “congruence” and “territorial consolidation” dominate many of the debates on regional integration in Europe. Reinforcing internal coherence, both administratively and democratically, is on the top of the political agenda in The Netherlands, France, Belgium, Poland, the United Kingdom – and many more.

Somehow, the region has retaken its position at centre stage. After years of national integration (1960s to 1980s) and urban renaissance (1990s), regional governance dominates the European administrative debate (Hausner 2001). Subsuming national integration and local alignment, regions appear to represent the mid-range, best of both worlds practical orientation on public administration that dominates European Public Administration. In many Neo-Weberian states, the regional level has been the scene of huge institutional innovation, such as Poland (the introduction of the regional district, 2002) and the German Länder (territorial communal and regional reforms, 2002–2008). Regional consolidation allows for enhanced ser-

vice provision and increased efficiency. It prepares non-national (self-) administration for the execution of national government tasks whilst improving local and regional accountability to the national governments. While local budgets double, local autonomy dwindles, up to a level where locally elected councils hardly have the possibility to amend local government budgets, because such large parts of that budget have been subcontracted, and are subject to national government control.

The question which this article addresses is:

How does regionalisation affect local (self-)governance?

3. Regionalisation and self-government: opposites attract?

Although global integration (centralisation) and local accountability (decentralisation) appear to be at odds, there are indications that the two may be two sides of the same coin. The one variable influencing the two is the demise of formal local democracy and the advent of urban governance – informal, networked, oriented towards safeguards and the capacity to replicate rather than control, transcending the old region-city divide, fostering congruence. In this post-modernist version of local governance, it is not nationally oriented public administration that takes the fore, but civil society. Urban governance networks resemble fungus rhizome: multi-connected, heterogeneous, self-generating, holographic and borderless. Civil society organisations occupy the central nodes and the connections within the system. In such systems, local governments' main task is to stimulate resilience. Social capital is the common ratio.

Following the fungus paradigm, it makes perfect sense to integrate and simultaneously diversify. Integration reinforces the ability of the entire system to make more efficient and effective use of scarce resources. Diversification stimulates the ability of the fungus to adapt, amend and improve whatever the conditions may be. The question therefore is: does the same apply to regionalisation within the Neo-Weberian state? Does regional consolidation lead to democratic voids, or mend them? Does European multi-level governance enhance local autonomy or limit it? To answer these questions, I first review the regional dimension within the Neo-Weberian concept of the state and then discuss the concept of Community-led Local Development (CLLD). Next, I try to operationalise the two in a study of Potsdam in Brandenburg territorial reform and citizen participation between 2003 and 2009. On the basis of this litmus test, I try to answer the research question.

4. The Neo Weberian State: the regional dimension

The empirical evidence on regionalisation and local governance is mixed. Most literature in comparative administration focuses on public sector reform (for instance

Peters 2006; Pollitt and Bouckaert 2011) or local government (e.g. Denters and Rose 2005). Intergovernmental relations and multi-level governance do constitute a critical element of most studies (for an overview see Goldsmith in: Denters and Rose 2005, 228–245), but most of these studies exclusively focus on intergovernmental relations between national states and the disappearance of the national state. For countries in CEE recently recreating their independence, with a positivist statehood tradition, three characteristics stand out in the discourse on subnational governance: the machinery of government, power relationships in administrative systems and instrumental rationality. These three are constitutive of the “Neo Weberian state” ideal type (for its description and critique see Lynn 2008).

The Neo-Weberian discourse on regional and local governance has been particularly fruitful in the analysis of territorial reform, public-private partnerships, and the study of political elites, political-administrative relations, public service delivery and democratic self-governance. It takes the law as its primal point of reference, presumes a double bind between state and society and focuses on the translation of law into state capabilities and subsequent control and accountability procedures.

It does not, however, problematise the diminishing grip of the national state over local life, due to globalisation, integration, the loss of the monopoly of the state on expertise through informatisation. Digital era governance destroys many of our traditional administrative institutions. It constitutes a transition to a “... more genuinely integrated, agile, and holistic government, whose organisational operations are visible in detail both to the personnel operating in the fewer, broader public agencies and to citizens and civil society organisations” (Dunleavy et al. 2006, 489).

In such systems, I contend that the interaction between the state and its citizens can best be studied at meso-level: the regional level. With regionalisation sweeping CEE, I focus on the relationship between regionalisation and local government. With Swianiewicz I posit that “if the focus is on the ‘natural’ perspective of local government being an emanation of the local community, (as in Southern Europe), then there is a case to defend territorial fragmentation” (Swianiewicz 2010, 7). It is on the regional level that changes in the government machine are “closely meshed with and run strictly in parallel with increases in citizens’ autonomous capabilities for solving social problems”, to paraphrase Dunleavy et al. (2006, 488–489). From such a perspective, analyses of regional governance do not only focus on the intended (instrumental) effects of regional governance that have been so central in the debate about the regional level and public reform in European governance since the 1990s (Geelhoed et al. 2009).

5. Community led development

This article adds a second, bottom up perspective: that of local communities and citizens trying to organise safety and security in the face of globalisation, multi-level governance and the administrative instability these lead to in terms of the effectiveness of state-led, top-down reform. This perspective might account for the apparent ease with which, after so many years of stagnation in decentralisation, deconcentration and regionalisation, local communities, cities, and municipalities have adopted the call for regional (often voluntary) cooperation and even amalgamation. This is more than an effort to better gear up towards integration into the European Union and the assumption of European funds (as is often argued from the more peripheral regions of Europe (e.g. Bafoil 2010). It is an effort to cope with the crippling effects of territorial and political fragmentation and the effects it had on the construction of a civil society, cooperation between the national and local level, public-private partnerships and the relations between urban centres and their periphery (Swianiewicz 2010, 1–29).

Despite the apparent friction between the economy of scales that favour efficient and effective government and the direct involvement of citizens in their administration, some analysts suggest that “in some cases, amalgamation (of municipalities FJ) may also have a positive impact on local democracy, or at least that potential positive economic effects of the reform, would not be accompanied by negative social and political side-effects” (Swianiewicz 2010, 17; Blom-Hansen et al. 2011).

What does seem to matter is the involvement of national states in the sphere of welfare. The more involved states become, the more elaborate local and regional schemes are, and (subsequently) the more local organising for safety on a local level becomes (Sellers 2010). Scarcity of funds and the need to manage social risks have a strong effect on the establishment and proliferation of regional arrangements between local governments. Coordination relies on strong, active governments alongside other institutions at the local level to carry out agendas for training, labour markets and innovation (Pierre 2000). As such, the current economic crisis, combined with a stronger state penetration of society, could be hypothesised to generate inter-local and regional cooperation and amalgamation. Popularly put: communes and municipalities cannot take the risk of having their budgets inflated while simultaneously being put under increased surveillance.

Here Community Led Local Development (CLLD) comes in. Community led development is the European Commission's response to demographic change, the inability of public authorities to draw local and social actors into European programmes and the need to construct truly regional public-social-private partnerships in order to offer a financial and organisational framework for reacting to European challenges (see for instance Kuepper 2010). The Commission identifies the need to bring grass-roots organisations to the table in order to achieve ownership

of Community funded projects and develop financial arrangements that guarantee projects, once they are formally ended, to be sustained and maintained.

CLLD extends the application of the “LEADER approach”, hitherto limited to the current rural development programmes. In the past few years, local (non-public) actors have complained about too much interference from public administrations, too little room for local decision-making, too narrow scope of eligible projects and activities, and the dwindling voluntary engagement of citizens. The Dutch “Other government” programme responded to the same challenges that programmes such as “Big Government” (United Kingdom), “the Modernisation” (France) or the “Pro-ficient State” (Poland) were designed for. In all of these programmes, government sought to ally themselves with social alliances and subsequently step back.

These programmes could constitute a new phase of ever widening application of subsidiarity, coupled with the administrative penetration of the state into society (Trommel 2010). They might, on the other hand, hail the advent of truly new forms of democratic participation with participatory budgeting and *Solidarkommune* as prime examples (Bevir 2012; Steinbach 2010). Whatever their meaning, what is relevant at this point is that the regional dimension has been brought back to the fore. Often, local communities are too small in scale to provide a basis for alliances in all relevant dimensions. More often than not, the social-economic dimensions in the way citizens lead their lives do not neatly correspond to administrative borders. Diversification and differentiation further increase complexity. Increasingly, local actors act on and turn to regional arenas to safeguard their future and escape the overburdened formal political-apparatuses (Herzberg 2008).

6. Reforming local and regional government in Brandenburg (Germany)

What does this do to the trade-off we signalled earlier, between efficiency/effectiveness and formal democratic governance? Do local governments truly achieve regional cooperation and overcome their differences? This article does not constitute the place or time to answer such questions. It does provide a short case description of the territorial reforms in the Land Brandenburg (Germany) (further on abbreviated to “Brandenburg”), as a first test for the hypotheses posited.

Local government in Brandenburg was a product of the German “*Wende*”: the fall of the Berlin Wall, the demise of the German Democratic Republic and the process of German reunification. Local government was perceived as the ultimate opposite of Democratic centralism, and the perfect antidote to any anti-democratic sentiment ever originating again. In an effort to establish true local democracy, local government was to be as close to the citizens as possible.

The establishment of local democracy coincided with that other phenomenon so characteristic of the new Bundesländer: the adoption of ready West-German

administrative regional arrangements to cope with the possible negative effects of diversification. Before very long, tensions between small local governments and the obligatory regional districts ran high. In an effort to solve this tension, a sweeping local government reform was implemented in 1999 to upgrade and simultaneously merge Brandenburg's municipalities, in such a way that they would have the adequate scale and professionalism to implement and uphold all of the devolved tasks.

"One size fits all" solutions never hold, and this one did not either. Not before long, municipalities started complaining. Demographic change affected the population's size and thereby municipal finances, in such a way that the existing effort to maintain a unified administrative scheme no longer held. Some of the poorer cities which were seeing their population drastically reduced, pleaded for a second phase of amalgamation. Their pleas were contrasted with more rural local governments opposing a further upscaling because of the probable distances to centrally located services such as fire brigades, medical surgeries etc. Richer cities, such as Potsdam, were opposed too, out of fear of having to settle the debt of poorer neighbours in the process of a merger.

Central in this debate about the scale of local government was the concern about the relationship between citizens and their local governments. Reunification had brought genuine local government, but it had not resulted in an increase of citizenship in terms of active participation. The bickering between neighbouring communities had only been intensified, while the centralist strategy of enforcing cooperation resulted in bitter arguments over who was worst off, and allowed no leeway for locally developed arrangements that fitted local circumstances.

Now that the first phase of reunification was over and the funds for further territorial changes started to dry up, many municipalities feared they would not be able to maintain the essential minimum services that citizens require. The first phase of reunification had brought much investment in local and regional infrastructure, but restructuring towns, transforming existing urban areas and exploiting extraordinary sites such as castles, is an entirely different matter. The Treuhand succeeded in privatising many of these objects and businesses, but it seldom had an eye for the durability of the exploitation. More often than not, within a few years after privatisation, businesses would file for bankruptcy and the community would still have to pay the price. Attracting West-German capital sure helped, but it had its limits. Many smaller communities discovered that decisions about profits and investments were still made out West. Only by involving local capital and local people could a sustainable development be guaranteed.

Financial scarcity, ever-growing complexity and a growing rift between citizens and authorities made a number of municipalities within Berlin, such as the Berlin-Lichtenberg experiment with *Bürgerkommune* (Citizen Municipalities) (Steinbach 2010). Replicating Porto Alegre (Brasil) and other participatory initiatives closer to home, many East-German municipalities believed that the huge social tasks of

restructuring could only be fulfilled if the inhabitants were actively involved. Part of the reasons for this interest in involving participants was the lack of trust in and interest for formal democracy.

Ten years of efficiency reform had greatly modernised German municipalities, but also resulted in an increasing rift between citizens and their authorities (Steinbach 2010). The efficiency-driven New Steering Model had not delivered the results that had been promised. Municipalities that had adopted it, set strategic goals, implemented monitoring systems and contract-relations between the city council, the city government and the city administration. This contractualisation did not produce the gains politicians and managers believed they would have (Bogumil et alii 2006).

Many municipalities therefore opted for the other road to modernisation: solidary local government (*Solidargemeinde*) and civic municipalities (*Bürgerkommunen*). Many of these experiments initially focused on the budgetary processes, in an effort to economise. The inhabitants would be given some say over the way the municipal budget would be spent in their municipality. This phenomenon is not uncommon in other countries in Europe. What is special about the *Bürgerkommune*, however, is the extent of citizen control (in terms of part of the city budget) and the rights that the *Bürgerkommune* has.

The *Bürgerkommunen* was especially promoted by parties identifying themselves with the working class tradition of East-Germany. Being rooted in the city suburbs, with strong membership amongst worker-associations, such parties could count on their supporters to come and participate in participatory decision-making. For the same reason, more conservative parties harboured suspicion and reticence, favouring a bolstering of formal indirect democracy by the creation of “strong municipalities” instead – that is, bigger municipalities, strong enough to carry out the whole spectre of devolved programmes and at the same time, maintain a direct line to local constituents.

Thus, direct and indirect democracy clashed all over Eastern-Germany. The clashes were especially bitter in areas where worker-oriented parties had their strongholds, such as Brandenburg and Sachsen-Anhalt. One of those cities was Potsdam. Among the cities in Brandenburg, Potsdam had always held a rather privileged position, with many of Berlin’s more wealthy inhabitants (and companies) choosing to live (and pay their taxes) in Potsdam instead of the big city itself. Potsdam was rather fearful of the efforts of nearby neighbours to achieve further amalgamation, fearing it would have to settle the negative balances of its neighbours.

Potsdam itself was in a relatively safe position. Because of the demographic change, it would gain in importance and grow with some 15,000 inhabitants becoming 20,000. Nonetheless, it saw the negative effects coming too. Many of its regional neighbours saw themselves sliding off into the abyss at an amazing speed. Potsdam itself saw many of the signs in terms of the labour market, city develop-

ment, social and technological infrastructure, cultural venues and city finances. The average age of its inhabitants was on the rise; urban growth would be in pensioners, not in working people. The six city-districts within Potsdam followed very different tracts: some were shrinking, others still growing. In terms of average age, relation to the labour market and origin, diversification loomed large. How to battle such differentiation?

In 2005, Potsdam (being the regional capital) decided to act decisively on two fronts: to strengthen regional coordination and reinforce local democracy by implementing the *Bürgerkommune*. Diversification and flexibility were keywords. By combining the regionalisation of services with the leeway for each of the municipalities to strike its own balance, Potsdam broke explicitly with the Grand-Reform debate that was being waged on the Landes-level of Brandenburg. Isolation was not considered an option. If the surrounding Havelland depopulates, Potsdam is affected too.

The city government of Potsdam adopted its guideline to participatory city government. The existing participatory arrangements were integrated, enlarged, and supplemented with a participatory city budget (*Bürgerhaushalt*). When the Socialdemocrat and Left parties gained the majority in the Brandenburg parliament in 2009, they began a process of adapting legislative reviews to promote participatory government. Passive information obligations were replaced by information rights and the duty to actively inform. In legislation on the financial relations between Land and municipality, monitoring and reporting-procedures were adapted in such a way that municipalities could allow their citizens more leeway.

In-depth research into the effects of the introduction of *Bürgerkommune* in Potsdam is lacking. The scant evidence there is suggests that in weaker parts of the city the experiment is working in amassing social capital and engaging social action. In suburbs like Drewitz, citizens have used the new platform to engage in a strategic planning process for their own neighbourhoods. If anything, therefore, participatory city government reinforces diversification. The city council of Brandenburg is trying to redevelop its position.

It is clear to everyone that direct democracy directly affects the importance of indirect, representative democracy: its domain is limited, and local accountability processes are reinforced. Equally clear is that the city council continues to perform the central and crucial function of safeguarding a harmonious and integrated development of the entire city. Transaction costs are huge, the participation and choice of topics by *Bürgerkommune* is selective and prone to capture. At the end of a direct citizen's initiative, more often than not, the City council is required to end a debate, come to conclusions, formulate a decision, adopt it and order its implementation. Thus, direct and indirect democracy goes hand in hand.

An obstacle to increasing local accountability is the amalgamation between the public and private sector. In an effort to respond to the appeal for an "active" lo-

cal government, many municipalities (Potsdam included) have engaged themselves in public-private partnerships and have founded private-law companies in public ownership to further its interests, often in close cooperation with other public regional parties. These hybrid public-private organisations formally operate outside of the public sphere, but the risks entailed do end up in the small print of the municipal budget. As long as local and regional developments are harmonious and a reflection of earlier assumptions, there is no problem, but that has not been the case.

Since the last all-encompassing administrative reform, demographic changes and migration have started to take on real life effects. The number of inhabitants dwindles, to such an extent that fifteen newly created municipalities already operate below the minimal threshold of inhabitants, and that number of fifteen will only increase. Since 2008, Brandenburg has gone through one of its worst economic depressions, which is greatly affecting the administrative and financial capabilities of its local governments. The financial risks of entrepreneurial government have become manifest, and many smaller municipalities operate within the financial danger zone.

Lower costs and increasing investment are paramount, but how? Amalgamation of municipalities has not lived up to its promises: costs have not decreased, economies of scale have not materialised, and an improved administrative capacity can be assumed but not proven. The enforced inter-municipal cooperation does not help, but hinders the genesis of arrangements, including local stakeholders that work. Diversification on the local and regional level makes it impossible to apply general administrative schemes. Wollmann speaks of a “symbiotic” institutional arrangement of small-size municipalities plus a layer of inter-communal bodies, established by the Land governments through a “carrot and stick” strategy, in the last resort via compelling legislation (Wollmann 2010, 18).

The debate over how to reform the reform is intense. Many favour the establishment of territorially enlarged “integrated” municipalities to allow for municipalities that are able to fulfil all of their functions, including commissioned tasks from the Land. They point to similar trends in The Netherlands and Denmark, where only municipalities with a number of inhabitants of 30,000 to 40,000 are deemed viable. Others point to the fear of over-sizing the municipality. They are backed by a 2011 ruling of the Constitutional Court of Mecklenburg-Vorpommern, whereby a further amalgamation of municipalities jeopardises the appropriate functioning of local democracy in a politically and constitutionally unacceptable manner.

7. Conclusions

How does regionalisation affect local governance? The theoretical debate and the Potsdam case show a couple of provisional conclusions that would be interesting to take up in a more structurally designed research.

First and foremost, the two seem to be two sides of the same coin. One variable in the background is strongly connected to both of them: the “discomfiture” of formal democratic institutions and administrative arrangements that are so constitutive of the Neo-Weberian State. The Neo-Weberian State is, according to Peters (Peters 2009), a hybrid between the managerial state and the hollowed out state that had been created during the reform era. It is geared towards improving efficiency as well as probity.

Under conditions of globalisation, fiscal scarcity and irreversible structural societal changes, however, these are no longer the prime values that citizens expect their governments to maximise. The public service provision that was so central from the 1970s throughout the 1990s has given way to a state paradigm that closely resembles what I call the “Reconstructivist State” of the 1950s, whose prime task it was to provide a new moral basis for the relationship between state and society, renegotiate the relationship between state and the global community and adapt to fast technological innovations while simultaneously alleviating the dire needs that World War II had created. I do not mean that social security, pensions, housing etc. have become unimportant; the only thing I do contend is that citizens are fully aware that the state can no longer provide, let alone guarantee, these essential needs on its own. They should therefore look to other ways to secure their lives. To paraphrase Esping Andersen et al. (2002): “now that the state has shown its limitations and the market its unreliability, citizens are turning to communities as a source of refuge, be it traditional ones (families, neighbourhoods, villages) or E-communities.”

Crucial cornerstones of the NWS are becoming obsolete (Institute for Government 2012). Globalisation and informatisation render officially ordered jurisdiction, borders and frontiers obsolete. Formal hierarchical structures give way to horizontally structured fields that are at least partly dominated by private, not public law. Functional specialisation is replaced by versatility and connectedness. Rule-controlled behaviour, geared towards effectiveness and efficiency, is replaced by trial and error and the increase of redundancy to maintain robustness and resilience. Not written documents, but e-data in the cloud, owned by no-one, determine what is true and what is not. Framing and trust are the basis for effective administration, not the application of written rules. Last but not least, there are no longer general applicable rules, **general rules** which are more or less stable, more or less exhaustive, and which can be learned.

Connectivity is the new buzz word, and in this domain, the region has much to say about it. Regions are the new nexuses in social, financial, technological and political networks. It is to regions that citizens look to, to safeguard their future. Citizens, companies, and social actors constitute regional networks that provide shelter and security. From safe grids (power), urban redevelopment, job security to urban mining (resources) – more and more, all primal resources that citizens need are provided and produced at the regional level.

The effects that this development has on formal political institutions are complex. Local government does not disappear, but it is subsumed in and constitutive of this regionalisation. Gone seems to be the time of grand scale amalgamation, because it rested on the premises that a “one-size-fits-all” arrangement could be found for each possible social need. Scaling has become an important topic for most administrations, and the buzz word is “scale sensitive”. Through scaling, local communities connect with global issues and changes while maintaining robustness and resilience. Thus, regionalisation might reinforce local self-governance.

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New Approaches and Instruments for Specific Territories' Management in Bulgaria: Key Points of the Regional Policy under Reformation

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1. Introduction

Particular challenges regarding the European regions with specific territorial characteristics (city agglomerations; rural and mountain areas; coastal and border areas, and central and peripheral – lagging behind in their development) represent a strategic element of the European Parliament debate on the future of the cohesion policy and coordination of sectoral policies. A number of European initiatives and documents have been approved on improving the management of these territories, whereas individual member states, including Bulgaria, declared their political will-power to cope with this process.

Establishing territories with specific characteristics represents a common instrument for spatial allocation of policies and programmes, aiming at achieving the desired objectives set. An overview of such territories in Bulgaria has evinced various criteria, applied in defining those territories, as well as considerable overlapping. It has been adopted in the National Spatial Development Concept (NSDC)³

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- 3 The NSDC for the period 2013–2024 constitutes a mid-term strategic document, setting out the guidelines for structuring, managing and preserving the national territory, creating preconditions for spatial orientation and coordination of sectoral policies. Together with the National Strategy for Regional Development 2012–2022, it constitutes an underlying document in the latest Bulgarian legislation and is a long-awaited instrument for integrated planning and sustainable spatial, economic and social development. Unlike the Spatial development plans, NSDC does not impose any norms and regulations. NSDC provides coordination and advice. Its guidelines lead to a conflict-free implementation of its functions, making rational use of resources and good organization and structuring of the national space. Against the background of the markedly sectoral approach to planning and investment in the recent decades, a philosophy of “voluntary cooperation” and “integrated investments” is in contrast.

that those parts of the national territory be treated as specific characteristic areas, for which specific policies of structuring and development have to be applied. The following areas have been designated as such territories: coastal municipalities and territories (Black Sea and Danube areas); rural municipalities and territories; municipalities and territories within city agglomerations; mountainous municipalities and territories; border municipalities; central and peripheral municipalities (lagging in their development), and municipalities of specific local potential and comparative advantages. Most of the municipalities fall within more of one of the above groups, whereas falling within three or even four of the groups is not exceptional.

Specific territories have been designated as informal regions. Two of those, the Danube riverside areas and the Black Sea coastal area, have been defined and institutionalised, having been furnished with internationally recognised strategic development documents. The Black Sea coastal area is subject to a special law: Law on the structure of the Black Sea Coastline (LSBSC).

Designating specific characteristic territories allows for bringing the territorial priorities of sectoral policies and future operational programmes for the period 2014–2020 into focus, as well as increasing the probability of the implementation of the respective regional strategies. Thus, instruments and approaches will be established for determining and carrying out a purposeful and integrated policy on preserving their specifics and overcoming certain problems which have accumulated over time.

Subject to analysis and evaluation, the new approaches and instruments for management and development of specific priority territories of Bulgaria, within the context of the European and national regional policy in the process of reformation, are contained in the report. Particular emphasis is given to the analysis of the specific territory of the “Black Sea Municipalities”.

2. Methodological approach

The methodological approach adopted in studying the specifics of the territorial characteristics of the Black Sea Municipalities involves the use of various sets of indexes: the territorial area (population and the territory of a specific group of municipalities as compared to that of the country, distribution of the respective group of municipalities in terms of regions belonging to NUTS 2); basic socio-economic characteristics (based on a generalised evaluation, including a set of indexes regarding: economic condition, property and income status of the population, the condition of the infrastructure and level of public services; changes in the number of the population); the differentiation within the group of Black Sea Municipalities, based on the composite rating of their socio-economic development in comparison to the average of the country and at a NUTS 2 level; barriers and opportunities for the socio-economic growth of the Black Sea Municipalities, the comparative ad-

vantages they dispose of, whereas opportunities will be taken to provide separate funding to them.

3. Territorial area of the specific territory of the “Black Sea Municipalities”

The LSBSC limits the coastal area to the littoral beach strip, as well as the territories, which span up to 2 km into the coast. The territories of coastal municipalities have also been envisaged as subject to territorial and structural planning.

In a socio-economic analysis, elaborated to meet the needs of the operational programme for regional development, for the programme period of 2014–2020⁴, 21 municipalities have been designated as Black Sea municipalities, 14 of which are littoral. The remaining 7 municipalities have their territories connected to the littoral municipalities and fall within the active impact of the Black Sea. The same territorial area of the specific territory of the “Black Sea Municipalities” is adopted in the National Spatial Development Concept (NSDC) 2013–2025.

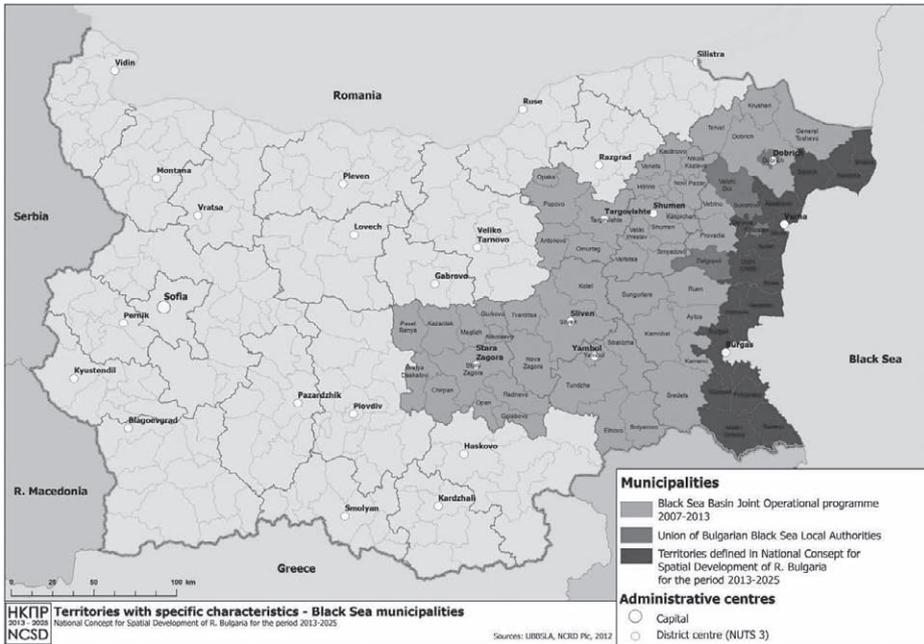
Pursuant to the common operational programme “Black Sea 2007–2013”⁵ the entire NER (north-eastern region) and SER (south-eastern region) of level NUTS 2 have been designated as coastal areas. These borders far exceed the area of active impact of the Black Sea, which has lower shores and plain topography in some areas, reaching up to 40 km.⁶

4 Socio-economic analysis in relation to the needs, set out in the operational programme for regional development for the programme period 2014–2020. http://www.bgregion.eu/media/files/Programiran&%20ocenska/Programirane%202014-2020/FINAL_BG_MRDWP%20comments_31_01_2011.pdf (accessible as at 20 March 2013). The denomination of the new operational programme for the regional development of Bulgaria for the period 2013–2020 is “Regions of Growth”.

5 The Black Sea regions are subject to a special EU programme (common operational programme of the Black Sea Basin 2007–2013). This programme is financed by the European Neighbourhood and Partnership Instrument (ENPI). It aims at facilitating a “sustainable economic and social development of the regions of the Black Sea Basin” through economic support and common struggles with the challenges through direct partnership.

6 The analysis in the proposed paper is limited to the 21 municipalities (14 of which are littoral and 7 connected and falling within the active impact of the Black Sea), designated in the socio-economic analysis commented on above and elaborated to meet the needs of the operational programme for regional development, for the programme period of 2014–2020.

Figure 1
Territories with specific characteristics – Black Sea Municipalities



Source: National Spatial Development Concept of Bulgaria for the period 2013–2025, (2013), 101 <http://www.bgregio.eu/media/files/Programirane%20&%20ocnka/Programirane%202014-2020/NKPR%20proekt.pdf>

A little over 850,000 citizens live in the Black Sea municipalities. They make up 11.6 % of the total population of the country. The territory of the Black Sea municipalities occupies 7973.3 sq. km, or 7.2 % of the total territory of the country.

Due to the geographical criterion used in grouping these municipalities, they are concentrated in two country regions of level NUTS 2 only – NER and SER, whereas the total territory of the Black Sea municipalities is divided between these two regions in the ratio 56 %:44 %, whereas the ratio of the population is: 66 %:34 %.

Relating the Black Sea municipalities’ data to the total population and territory of the respective regions shows that a larger share has been allocated to the NER in comparison with the SER.

Table 1

Share of the Black Sea municipalities vis à vis the population and the territory of the NUTS 2 regions

	Population	Territory
NER	58,2%	30,7%
SER	26,8%	17,8%

Source: NSI

The municipalities from the agglomeration areas of Varna, Burgas and Dobrich fall within the category of “central” areas. The remaining municipalities fall within the category of peripheral areas, within the group of “rural” and/or border municipalities (See Table 2).

Table 2

Black Sea Municipalities, falling within other specific territorial groups

Black Sea Municipalities	Rural Area Municipalities	City Agglomeration Municipalities	Border Municipalities
Burgas		X	X
Malko Turnovo	X		X
Nesebar	X		X
Pomorie	X	X	X
Primorsko	X		X
Sozopol	X	X	X
Tsarevo	X		X
Avren	X	X	X
Aksakovo	X	X	X
Beloslav	X	X	
Byala	X		X
Varna		X	X
Valchi Dol	X		
Devnya	X	X	
Dolni Chiflik	X		X
Dalgopol	X		
Suvorovo	X		
Balchik	X	X	X
Dobrich		X	
Kavarna	X		X
Shabla	X		X

Source: Own systematisation based on information from the socio-economic analysis of the needs of the operational programme for regional development for the programme period 2014–2020, 255–260.

4. Evaluation of the socio-economic development of the specific territory of the “Black Sea Municipalities”

Tables 3 and 4 provide the evaluations of the socio-economic development of the municipalities located on the specific territory, based on which the analysis has been carried out.

Table 3
Ranging of the Black Sea Municipalities based on composite rating⁷

	Composite Rating	Evaluation of the Demographic condition	Evaluation of the Economic condition	Evaluation of Income status	Evaluation of the Infrastructure condition	Evaluation of the Public Services Level	Change in the number of the population 2011/1995
Nesebar	66.5	84.6	79.3	56.4	43.8	35.1	100.0
Primorsko	47.1	64.7	38.1	27.8	48.9	29.6	73.4
Varna	45.8	77.1	34.4	35.6	16.8	29.2	81.5
Byala	44.4	59.5	52.0	30.8	26.2	38.6	59.2
Sozopol	44.4	74.3	39.6	21.9	28.7	28.1	73.5
Balchik	43.8	68.9	37.8	31.5	21.9	42.0	60.6
Burgas	40.4	74.9	30.6	26.7	14.2	28.8	67.4
Pomorie	39.7	67.3	36.3	18.7	15.9	30.8	69.0
Kavarna	38.6	64.9	34.9	22.6	18.8	38.3	52.4
Tsarevo	38.6	68.3	34.9	31.4	27.5	25.4	43.8
Devnya	38.5	68.0	25.9	25.5	12.0	41.6	58.0
Aksakovo	37.8	68.3	26.3	14.1	9.9	23.4	85.1

⁷ Each of the 6 groups of indexes provided has an equal share in the composite rating. This rating has been carried out in two stages. At the first stage the value of group indexes has been calculated – on demographic development, economic growth, infrastructure, etc. During the second stage and based on these group indexes, a calculation of the composite rating has been carried out regarding the socio-economic development of individual municipalities. Indexes have been referenced to a common unit of measurement, by relating them to the highest index value calculated for an individual municipality. Thus the levels of each index are presented in per cent, whereas the municipality to have achieved the highest level is allocated 100%, whilst the remaining – a percentage commensurate to the relation of their value to the highest value achieved. For example, provided the municipality of X, under a certain index, has achieved a value of 20, whereas the highest value in relation to this index has been achieved by the municipality Y, and it is equal to 80, then the municipality Y shall be allocated 100%, whereas the municipality of X shall receive 25% (20:80). Group indexes represent the average values of the indexes included in the group, whereas the composite rating includes the average of the group values. See: Socio-economic analysis in relation to the needs, set out in the operational programme for regional development for the programme period 2014–2020. http://www.bgregio.eu/media/files/Programiran%20ocenka/Programirane%202014-2020/FINAL_BG_MRD PW%20comments_31_01_2011.pdf, 17–19, 45–48, 261–266.

	Composite Rating	Evaluation of the Demographic condition	Evaluation of the Economic condition	Evaluation of Income status	Evaluation of the Infrastructure condition	Evaluation of the Public Services Level	Change in the number of the population 2011 / 1995
Dobrich – Town area	37.0	72.7	25.3	24.6	12.0	32.7	54.9
Beloslav	36.5	70.2	22.5	18.9	18.0	31.6	57.4
BULGARIA – average	36.4	69.5	26.5	24.0	15.0	28.5	54.8
Suvorovo	35.7	67.4	24.3	15.0	15.1	31.4	61.0
Avren	35.4	59.0	30.3	17.0	9.7	29.0	67.6
Shabla	35.1	54.9	34.8	17.2	22.2	43.2	38.2
Dolni Chiflik	32.2	65.0	20.0	15.6	7.2	23.2	62.2
Dalgopol	30.4	62.5	18.7	15.6	4.9	21.2	59.6
Malko Turnovo	28.8	51.0	21.2	13.6	19.5	39.4	28.3
Valchi Dol	28.8	52.8	29.3	18.0	7.6	28.1	37.1

Source: Own systematisation based on information from the socio-economic analysis of the needs of the operational programme for regional development for the programme period of 2014–2020, 261–266.

Table 4
Evaluation of the Socio-economic condition of the Black Sea Municipalities

	Composite Rating	Evaluation of the demographic condition	Evaluation of the changes to the number of population	Evaluation of the Economic condition	Evaluation of property and income status	Evaluation of the infrastructure condition	Evaluation of the public services level
1. Republic of Bulgaria – average	36.4	69.5	54.8	26.5	24	15	28.5
2. Black Sea Municipalities	41.9	73.7	69.7	33.0	29.3	15.9	30.0
Difference (1–2)	–5.5	–4.2	–14.9	–6.5	–5.3	–0.9	–1.5
% of the average for the Republic of Bulgaria (2/1*100)	115%	106%	127%	125%	122%	106%	105%

Source: Own systematisation based on information from the socio-economic analysis of the needs of the operational programme for regional development for the programme period 2014–2020, 45–48.

4.1 General socio-economic condition

The analysis of the result shows that the composite rating of the socio-economic condition of all 21 Black Sea municipalities is considerably higher (by 15 %) compared to the average for the country (36.4). This is a logical corollary, based on the content and structure of the economics of this specific territory, dominated by tourism, which in the last decade “boomed” dramatically, all positive and negative impacts being inevitably concomitant to it. Parallel to that, key city agglomerations of national significance are included (Varna, Burgas, Dobrich – town area), which also is a factor for the overall good socio-economic positioning of this specific territory.

4.2 Specific aspects of the social and economic condition

Demographic condition

The evaluation of the demographic condition of the Black Sea Municipalities Groups is higher than the country’s average (69.5) – by about 6 %. This means that this particular territory is less affected by the unpropitious demographic processes, typical of the country and the majority of territorial units across the board.

Changes in the number of the population

The good socio-economic condition of the specific territory analysed on the whole and of a considerable part of its constituent municipalities, has turned them into an attractive place to live. This is the reason why the change in the number of the population living in them is favourable – about 27 % higher than the average for the country, which is 54.8.

Economic condition

The evaluation of the economic condition of the specific territory under consideration is 33.0, which is notably above the average for the country – about 26.5. As noted above, the evaluation includes a number of municipalities, which are leading in terms of composite rating, not only within the group of Black Sea municipalities, but amongst all municipalities across the board as well – for example: Varna, Sozopol, Blachik, Byala, Burgas, Pomorie, Devnya, Kavarna, etc.

Property and income status of the population

The very good overall (average) socio-economic condition of the group of municipalities analysed reflects the high property and income status of the people living in them: the average estimate of their status within the specific territory is about 22% higher than the average for the country, which is 24. Against the background of good economic conditions, this is an indicator of the comparative equal distribution of the final results achieved from their development. This could be considered to be an additional factor of attractiveness in relation to this particular territory.

Condition of the infrastructure

The evaluation of the infrastructure condition is considerably higher than the average for the country (15.0) – by about 6%. This, together with the good property and income status, for example, leads to improved living conditions and conducting business in the majority of the municipalities in this specific area, as well as to increasing the appeal of this territory.

Level of Public Services

The evaluation of the level of public services rendered in this particular territory is also higher than the average for the country. This adds up to the overall propitious condition of the municipalities in this specific territory.

4.3 In-group differentiation of municipalities

Based on the level of the composite rating and socio-economic development evaluation, against the average composite rating for the country, the municipalities in this specific territory fall within three groups:

- *Group One* – with a composite rating above the average (i.e. higher than the average for the country), includes 6 municipalities (28.6% of all municipalities on the territory);
- *Group Two* – with a composite rating between the average for the specific territory and the critical threshold for the particular group of municipalities, includes 10 municipalities (47.6% of all municipalities on the territory);
- *Group Three* – with a composite rating under the critical threshold, includes 5 municipalities (23.8% of all municipalities on the territory).

These groups reflect the differences in the level of development of individual rural area municipalities.

These differences reflect the presence of insignificant polarisation in the rating of the Black Sea municipalities: a little over 50% of the constituent municipalities are on opposite poles (above average for the country and under the critical threshold).

However, at the same time, the coefficient of variation (24%), as well as the span value (38 units difference between the maximum and minimum composite rating) in the group of municipalities shows the presence of moderate differences between their levels of development. This is largely due to the inclusion of underdeveloped municipalities such as Valchi Dol, Dalgopol, Dolni Chiflik, which appear in the second half of the overall rating of Bulgarian municipalities, based on their composite development rating.

The degree of development of almost 30% of the Black Sea municipalities is above average for the country, which is a remarkable idiosyncratic feature of this

specific territory. It is supported by the limited scope of “critical” (based on the threshold for the group) municipalities.

As mentioned above, groups one and two include municipalities whose economic structure is dominated either by tourism or by comparatively well-developed industry, supported by a network of established university and educational institutions (in Varna, Burgas and Dobrich). These municipalities form key agglomerations of national significance (Varna and Burgas). The final group consists of a limited number of under-developed municipalities, mainly rural and mountain area municipalities, which are significantly and unfavourably affected by all factors and processes – demographic, economic and social.

5. Generalised conclusions and suggestions for the implementation of new approaches and instruments for managing specific territories

- The overall socio-economic conditions of the group of 21 municipalities in this particular territory are considerably better than the average for the country and the composite rating is above average for the country. This has transpired as a result of the economic structure of the municipalities in this specific territory, dominated by tourism, which, in the last decade has “boomed” dramatically, all positive and negative impacts being inevitably concomitant to it. In parallel to this, the territory includes city agglomerations of national significance (Varna, Burgas).
- The evaluations of all aspects of development of the Black Sea municipalities are considerably positive: all six investigated aspects of the territorial conditions scored higher than the average for the country. In general, this reflects relatively better living conditions for the population inhabiting this particular territory.
- The differentiation between the socio-economic development of the Black Sea municipalities can be designated as being relatively small. A more unfavourable position is commanded by municipalities, such as Valchi Dol, Dalgopol, Dolni Chiflik, which appear in the second half of the overall rating of Bulgarian municipalities, based on their composite development rating. The small territory is characterised by the limited number of “critical” (based on the threshold for this group) municipalities.
- The differences in the level of development of the municipalities, rating above this critical threshold, are relatively small, whereas about 30% of the Black Sea municipalities occupy composite rating positions above average for the country. This is yet another positive characteristic of this specific territory.
- From the point of view of regional policy, oriented to bridging the gap between the internal regional differences, the positioning of the Black Sea municipalities

in the regions of Level 2 prompts the necessity of possibly stronger support for “internal” municipalities (i.e. those not having immediate borders by the sea) from the NER and SER areas. From the point of view of securing development vehicles – specific support/stimuli – those will be provided to comparatively less developed municipalities.

In this context, the development of the Black Sea municipalities will create conditions for the integrated management of the Bulgarian coast line, with focus on the common European areas of importance – portals to the country and the EU.

Movement towards this new milestone requires implementing **new approaches** to the management of Bulgarian regions, including specific territories, namely:

- To change the way of thinking and behaviour – from competition between administrations, to cooperating in achieving common objectives within the same areas;
- New mechanisms for coordination between the management levels – new “multi-level” system of management;
- New system of programming, focused on a limited number of problems;
- New institutional framework, allowing effective implementation of the spatial strategy;
- An integrated system of programming, instead of sectoral, implementing state policies and programmes, together with territorial/spatial changes and amendments.

The approaches referred to herein form the basis for reforming Bulgarian regional policy and have been reflected in the strategic regional development documents.⁸ The particular **instruments** for their implementation can be summarised as follows:

- *Agglomeration policy – key for prosperity.* Centres of level one and two, as well as their agglomeration areas⁹, have been in the focus of the economic policy and anticipation of innovations, clusters and growth areas. The agglomeration is one of the preferred forms of cooperation, underlying the basis of the imple-

8 National Spatial Development Concept (NSDC) of the Republic of Bulgaria for the period of 2013–2025, (2013), <http://www.bgregio.eu/media/files/Programirane%20%20ocenka/Programirane%202014-2020/NKPR%20proekt.pdf> (accessible as at 20 March 2013).; National Strategy for Regional Development of the Republic of Bulgaria for the period (2012), 2012–2022 r., MRDPW, <http://www.mrrb.government.bg/index.php?do=law&id=221&lang=bg&type=4>, (accessible as on 20 March 2013); National Reform Programme of the Republic of Bulgaria, in the implementation of the Strategy “Europe 2020”, version 2 (2011), Sofia, <http://www.minfin.bg/bg/page/573> (accessible as at 20 March 2013).

9 Agglomeration areas or city regions – such as territorial units for implementation of impacts, designated in Priority Axes 1: Sustainable and integrated town development of operational programme “Regional Development”. The supporting operations in these areas falls into the following spheres: social infrastructure; housing policy; organisation of economic activities; improvement of the physical environment and prevention of risk; systems of sustainable public transport.

mentation of the NSDC. The policy on stimulating agglomeration development as a form of association of municipalities enjoying equal rights, can be realised through establishing regulations for coordinated activities in achieving a common development, beginning with the elaboration and approval of common structure plans for the entire territorial span, as well as common development plans and regulations for town development and functional development of the areas of influence. Within the context of the new integrated plans on town reconstruction and development (PTRD)¹⁰, the city centres shall receive adequate support and stimuli for development.

The elaboration of integrated town development plans has the following specific objectives: to designate impact areas, including a system of interrelated activities, aiming at sustainable improvement of the economic, material and socio-ecological position of the town area and the town as a whole; to elaborate on the respective integrated plans on town reconstruction and development for specific areas, in support of the implementation of the long-term town development visions, through the realisation of projects on town territories and/or subsystems in unsatisfactory conditions, with negative trends in development and/or unrealised potential, through attracting and coordinating the management of heterogeneous investments and supported by the structural funds of the EU; to achieve synergy amongst the existing, or in the process of updating, strategic planning documents for integrated and sustainable regional and local development, sectoral policies, programme documents and development schemes, within the framework of designated impact areas.

- *Equality in the relationships between the rural areas and cities.* The second key message of the new strategic documents is related to decreasing the inequalities in the territorial development (also a principle of the regional policy) and utilisation of the potential of the town and rural regions. The biased opinion, that rural areas service city areas (or vice versa), is not supported by the new vision of the regional policy. Preserving their autonomy, cities and rural areas will collaborate through an integrated development space in achieving a sustainable economic growth, ecological and social balance. The “facial” idiosyncrasies of various areas, the specific material and non-material resources of cities and rural areas, shall be incorporated into the planned documents and implemented in all sectoral policies at all levels.
- Rural areas have different structures and problems. Those located in the area of influence of the larger cities, as well as those in developed tourist locations, are

10 IPTRD: an aggregate of policies, interconnected in time and space, projects, activities and investment intentions, implemented in certain town areas of impact. IPTRD coordinates policies and unifies heterogeneous participants for the purpose of common implementation, thus contributing to the realisation of the vision and strategy for the development of the city and particular development priorities, designated by the municipal development plan, the common spatial plan and other strategic municipal documents.

difficult to compare with peripheral rural areas, which cover about 60% of the national territory and about 30% of the Black Sea municipalities, thus ringing a serious alarm bell. Biased and unidirectional measures would hardly help them. It is necessary to establish new types of partnerships with the adjacent cities; partnerships providing work places and services on the spot and not requiring exhaustive commuting. At the same time, rural areas shall not be turned into functional extensions of the agglomerations. Without being thought of as panacea, the improved transport accessibility and providing public services in small town-centres could help develop the internal potential of rural areas, providing possibilities for employment in tourism, agriculture and forestry, as well as in the processing industry. Where the potential of active generations has been preserved, it would be advisable to launch projects on providing access to information technologies.

- *Strengthening the territorial projections of sectoral policies.* Sectoral policies with spatial dimensions shall accept the terminology of NSDC, making use of notions such as “space” and “spatial development” as a single object and problem. Creating a common viewpoint (including a common terminology) is a necessary step to the implementation of NSDC. This is absolutely necessary for planning transport routes and corridors (transport policy)¹¹, of localisations for extraction of raw materials (economic policy) and for the development of tourism (a tourist policy), etc.

The voluntarily accepted obligation for mutual information sharing and cooperating of administration in planning measures with spatial dimensions will help prevent contradictions and the unnecessary waste of resources.

The strengthening spatial and functional connections with the neighbouring countries are a good reason for the active inclusion of cross-border areas into the sectoral planning processes. The development and operation of the cross-border cooperation areas need specific management structures. Since these structures cannot appear of their own accord they shall be created and supported by the state.

The spatial policy has just now announced its intentions. Its cross-points with the sectoral policies will be determined in the near future. It is a well-known fact that spatial development is a direct function of sectoral planning. This particu-

11 By transferring those objectives, NSDC and the new operational programme “Regions of Growth” make a kind of territorially important element statement for the development of the territory of the Black Sea municipalities – the “Black Sea” motorway, which will have its main route at a sufficient distance from the sea shore. It has been proposed that this motorway continue as a first class, four-lane road northwards to Shabla, providing a connection to Constanta and Tulcha (Romania), whereas to the south it will provide a connection from Sozopol to Rezovo and Istanbul. Thus the strategic objective for improved “connectivity” will be implemented, creating conditions for the development of the specific potential of the area (tourism, farming, industry, pulsating labour market, and commerce, etc.).

larly holds true for the transport infrastructure, electricity grids, and product transportation ducts, etc. In conclusion, a common spatial orientation will be created in relation to the sectoral policies.

- *Partnerships – the new driving force of spatial development.* Each of the regional development objectives presupposes partnerships between several stakeholders and competent parties. Thus, the partnerships will turn into an indispensable instrument for spatial development. For reasons of the lack of actual experience, methodological guidelines will be elaborated for partnerships, expounding upon the idea, organisation and functioning of such partnerships.

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Administrative Conflicts in Bulgarian Regional Development Policy – Current Situation, Trends, Possible Solutions

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Introduction

The challenges of a globalising world and the approaching end of the current programming period require a timely examination of the EU's regional future shape. The member states and their regions now face the task of crafting adequate policies to prevent emerging crises and conflicts in structural reform, reassessment of comparative advantages, identification of new sources of growth and other eventual challenges.

The successful management of the regions and mastering subsequent conflicts of an administrative nature, during the next programming period, requires a well-timed, competent and responsible development of strategic documents based on contemporary political visions, goals and priorities adopted at supranational and national levels. The establishment of a long-term vision for the spatial development of the national territory will serve as a basis for drafting the planning documents for spatial and socio-economic development at regional and local levels, as well as for a focus of operational programmes for the next programming period 2014–2020.

The topic of analysis and assessment in the present paper are two of the specific conflicts of an administrative nature rising from the difficulties the regions face in promoting a long-term development vision to find adequate policies to solve the inadequacies due to an emerging global economy, demographic trends, impact of climate change on the environment and energy costs.

The paper puts forward the theory that despite the experience gained during the years of regional development policies' implementation, there are still significant dissensions, such as the low socio-economic performance of Bulgarian regions

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compared to the European level; inadequate connectivity to other regional systems and networks, and limited territorial cooperation. The improvement of the strategic planning tools for the management of such a complex and problematic area is an essential step in order to solve and control conflicts of an administrative nature.

Application in current affairs: the paper tries to offer a series of mechanisms in order to prevent conflicts of an administrative nature when applying strategic planning tools, namely based on the implementation of effective coordination and subordination in the drafting and development phases of programming documents and in executing supranational commitments, national priorities for integral development and the need for regional socio-economic and spatial development.

Research methods: analysis of strategic documents; problem analysis of analytical reports and papers of applied research; correlation analysis, and variance analysis.

1. Retrospective analysis concerning conflicts of an administrative nature caused by the specifics of Bulgarian regional policy

In day-to-day thinking, the term “conflict” causes some very unpleasant connotations and is linked to uncertainty, instability and even fear. However, conflicts, with their difficult-to-explain causal relationship, are an inevitable part of this rapidly changing world. Conflicts have been the subject of study since ancient times by social and natural sciences. The theoretical interest in conflicts may be explained by their importance for an effective management of the social system at the various stages of its operation and development (Dimitrov 2004). Are conflicts dangerous and do they have to be studied? Can they be controlled? Could the term “conflict” encompass any contradictions arising in an organised structure, be it a private or public company, corporation or entity of social and economic life? (Stoyneshka 1996)

Conflict is a clash, a collision of conflicting interests, aspirations or opinions and the generally accepted definition is that it is a struggle between opposing tendencies in a system.

Conflict can also be defined as a term which includes all types of opposition and antagonistic interactions. Conflicts are related to power struggles, resource allocation, social positions and differences in value systems and therefore occur in relation to aims or methods of achieving them (Dimitrov 2004). This is a situation of antagonistic (opposite) relationships between people as a result of irreconcilable differences (Paunov 2009). What is specific to conflict is that it is dynamic, i.e. it manifests itself, grows, ends, passes through dormant stages, then reappears and so on. Most scientists consider that a conflict is, in effect, only present in interactions between parties in disagreement, no matter who they are. The interaction is always dynamic, i.e. conflicts have specific stages (beginning, development and end). Con-

flicts reflect deep social differences, struggles between the old and the new, and a collision of contradictory points of views and interests (Stoyneshka 1996).

The administrative conflict may encompass any aspect of the entire range of administrative relationships and conflict situations; for example, on the one hand between the administration and the public authorities it is called upon to support, or on the other, between the administration, citizens and legal persons, and clients of public services (Pavlov et al. 2008).

Directing development in the desired direction implies the implementation of a corresponding policy. The present paper adopts the generally accepted definition that the regional policy is integral, comprehensive, and through the incorporated economic, legislative and administrative measures of state and local government, aims to accelerate regional economic growth and reduce disparities in regional development in Bulgaria (Geneshki 2000).

The specifics of social processes in various regions give rise to regional differences. A list of factors affecting the formation and intensity of such differences would include objective features such as resources allocation or historic development; regional policy efficient management as a whole and in specific issues, and development of crisis processes, which may add to regional distortion and deviate regional development from the initially defined parameters.

During the initial years of major transformations undertaken in Bulgarian society, the course of political and socio-economic changes were predominantly aimed at restructuring the economy towards a free market. The policy actions through the “shock-therapy” failed to take into consideration the historical and inertia momentum in the economy, thus causing mass closure of major industries, dissolution of planned technology relationships from the past, broken regional economic structures and accumulation of deficiencies in the social fabric of the nation. During the entire period since the beginning of democratic changes in Bulgaria, let us say between 1990 and 1998, there has been no comprehensive, financially secure, publicly declared and based on sound legislative conception, regional policy, which in turn has impeded any significant achievements. During this same period, the continuity in territorial development was severely damaged as the administrative restrictions on people’s mobility diminished, meaning that everyone was free to choose their place of work, or set up a business and also where to live.

In such a complex and unknown environment, the Bulgarian political elite failed to produce adequate tools and mechanisms quickly enough to manage the country’s regional development. At the same time, there was no private sector in the economy powerful enough to secure the grounds for competitive regional development. The activities of regional development partners, be they private companies, local government authorities, decentralised administrative organisations or non-governmental structures, are constrained by a lack of funding, administrative capacity and basic skills. In fact, the situation blocked any existing local potential

and failed to contribute to sustainable local development as the decisions taken were chaotic, sometimes even inconsistent with the conditions, thus intensifying the problems of transition and the emerging market economy.

However, during that period, the foundations of regional development policy were laid down. In 1991, a new Constitution of the Republic of Bulgaria was adopted and part of its stipulations was that the state assume a significant role for the spatial development of its territory, specifying the levels of regional governance, the authorities implementing such governance and similar issues (Constitution of the Republic of Bulgaria) which stimulated the discussions of specific regional problems, mostly for communities with inhibited socio-economic development and specific regions. The government has decided on the development of General Guidelines for the Regional Policy of the Republic of Bulgaria and Strategy for the Territorial Development of the Republic of Bulgaria. Work has also begun on the drafts of a Regional Development Act (RDA), a Spatial Planning Act (SPA), a Black Sea Coast Act, and a Mountain Areas Act.

In 1999, the RDA was adopted, which marked the beginning of the difficult process of transition to a comprehensive, conceptual, publicly proclaimed and pragmatic regional policy. The act aims to establish rules for the distribution and use of funds for regional development and to regulate relationships between the various stakeholders in regional development, including the conditions to be met, required by the European Union (EU), in terms of regional policy.

However, one important contradiction during its drafting, discussion, adoption and implementation is the fact that it is not at all consistent with the National Strategy for Regional Development. The main tenets of the 1999 RDA do not take into account the opportunities for access to EU Structural funds², which are a significant source for the regional development of Bulgaria. The inconsistencies in the RDA generate significant deficiencies in the regional development policy, which become the main factors generating conflicts of an administrative nature on following main issues:

- The system of planning documents established in the RDA fails to correspond with the requirements for integrated regional development, which is a cause of conflicts of an administrative nature. The regional development planning has, in fact, doubled³, which causes a lack of coordination and efficiency in applied policy. Moreover, there is a contradiction between the strategic and programme concept of RDA and the requirements of European legislation. The Bulgarian legislation requires the enlargement of national and regional plans for develop-

2 The terms and conditions for awarding amounts from the EU Structural Funds during the period concerned are stipulated in Regulation 1260/1999.

3 Two plans are developed in parallel: National Plan for Regional Development and National Plan for Economic Development.

ment, whilst the European Commission expects a National plan for the development and operative programmes for industry sectors and specific regions.

- The problems with financing regional development and its monitoring and evaluation system are not resolved, which appears as an additional factor in conflicts. There is no clear regulation for the mechanisms of sources and funding in regional development. Despite the discussions and attempts to preserve the Regional Development Fund it was revoked with the adoption of the RDA, thus causing the loss for regional development to operate with accumulated funds for interventions in this regard. Within the context of limited resources, funds are provided mainly by the state budget, which is not always appropriate for regional coordination. The main units defined in the RDA, responsible for the development of plans for regional development, do not have their own resources to implement planned regional interventions (Andonova 2012). Implemented actions are not based on clear criteria and indicators for assessing the degree of the fulfilment of objectives for various plans and programmes.
- Another premise for conflict is that the RDA fails to introduce clear, explicit rules regarding the functions and powers of the authorities implementing regional policy during the period. The situation requires the adoption of a number of regulations by the Council of Ministers, as well as various interpretive letters to ministries involved in the process, explaining how to implement the policy. This all makes the operation at lower levels of government very difficult, where in a negative way, the effect of lacking experience, tradition and continuity of actions implemented is strongly felt.
- Another aspect of deficiencies and conflicts at the institutional level concerned the process of the country's accession to the EU (Djildjov and Marinov 1998). On the one hand the requirements and imposed deadlines turned out to be a valuable reference for the formation of a comprehensive institutional and financial framework for regional development, which has been tested in other countries and is a prerequisite for the efficient use of EU funds. On the other hand, however, the requirements are not always sufficiently clear, and are sometimes even contradictory. Contradictions arise mainly from the changes in the EU concept of a cohesion policy and hence, in particular, statements concerning the organisation, management, access, and control of the absorption of EU funds. The reasons for corrections in regional policy are objective in nature, as each EU expansion is accompanied by significant changes in the socio-economic fabric of the EU and hence the need for the revision of integration policies.
- Last, but not least, is the fact that the governing class and the administration are under extreme pressure to comply simultaneously with requirements for the use of structural instruments and for the pre-accession instruments which, although designed as analogues, have their specific rulings. The insufficient capacity, both of the administration and the governing bodies, are the main causes of conflicts

of an administrative nature. The conclusion is that despite the identified conflict factors during the period, the main prerequisites for the implementation of regional policy in Bulgaria were created. The problems arising from the incomplete and contradictory framework of regional development require rethinking of the policy approach during the next programming periods. In order to overcome the conflict-causing factors, hard work is required to integrate in the most appropriate way all the opportunities that may provide positive results:

- Use of full support from EU Structural Funds, especially where the entire country is eligible for reducing socio-economic disparities, which is the case of Bulgaria, as these funds may be used to limit regional disparities and conflict-causing factors.
- Providing a solution for the legislative, institutional and financial deficiencies in regional policy and efficient measures, based on the legality and appropriateness in applying the funds for regional development as the main tool for the management and prevention of conflicts of an administrative nature.
- The establishment of administrative capacity⁴, in order to guarantee the stable and efficient management of EU funds and the improvement of administrative structures by constituting an independent authority with a clearly defined status, functions and qualified personnel for efficient legislative implementation in the field are of seminal importance for overcoming administrative conflicts.

2. Conflict areas during the drafting of the strategic planning documents for regional development during the programming period 2007–2013

It is well-known that regional problems are interwoven and complex and, for their solution, pragmatic and partial actions do not provide the desired results. The fact that problems are so complex and contradictions and conflicts related to them so comprehensive, requires that in order to solve them, the implementation of a variety of resources, a large numbers of experts, organisations or institutions, which require, of course, coordination through a unified document – programme, strategy, plan or concept. It is obvious that regional development management must be based on the tools indicated for drafting and implementing policies, i.e. to apply a structured strategic planning process.

The strategic approach may be defined as drafting a concept or platform for formulating optional development methods for adapting to ever-changing environmental conditions (internal and external) (Pavlov and Mihaleva 2008). Within its applied aspect, it relates to the integration of the following elements in a unified

4 1. Capacity of the national administrations to implement the EU law and to apply the provisions of it policies; 2. Capacity to draft and complete projects with good quality.

document: priority development goals (immediate and long-term), financial, management and organisational mechanism to accomplish the aims, planning activities on the basis of potential analyses and the factors influencing development. The strategic planning is seen as a major management tool because it allows the implementation over time, of adopted long-term aims or to define through them the actions to be undertaken at a specific time in accordance with the desired future development.

During the present programming period (2007–2013), and in accordance with the new RDA in force (Andonova 2012), the system of documents for strategic planning and programming has been significantly improved. The process of strategic planning and programme development at the various levels of government are now subject to a uniform logic. The grounds for the implementation of an integrated development approach combining national, industry sectors and regional priorities within a unified framework for planning and operation, have now been legally developed. In methodological terms the RDA sets out the following principles for implementing integrated development policy:

- unified approach to planning and programming;
- interagency coordination of competent authorities in planning, programming, resource provision, implementation, monitoring and evaluation;
- consistency with other structural policies, instruments and actions at international, national, regional and local level;
- partnership, openness and transparency at all levels of planning, programming, financing, monitoring and evaluation.

A comparison with the previous programming period indicates that the current framework for strategic planning creates a far more integrated foundation for regional development, which contributes greatly to the limitation of conflicts of an administrative nature. The coordination achieved demonstrates high correlation between the programming of interventions for regional development, including those co-financed with the EU. The steps undertaken to establish a coordination mechanism are a perfect example for this approach.

However, despite the progress, there are many dissonances in the current system for strategic planning which still create a conflict environment and prerequisites for conflicts of an administrative nature. The integration between planning of regional development and spatial territory planning is far from being seamless. Thus, the requirements for comprehensive development planning which integrate into one economic, social, environmental and spatial plan are violated.

The structure and layout of the living environment, together with the priorities of economic and social criteria, are subject to the rational use and development of the territory and effective functioning of its human related elements and systems

– work, housing, leisure, services and technical infrastructure. The need now is for integrated planning for socio-economic development, which may be accomplished through a system of planning documents for regional and spatial development in one integral system of planning documents for spatial management.

Both RDA and SPA have specific requirements for the integration of both processes by coordination in documentation flow and the authorities' tasks at all levels in space. However, as during the previous programming period, this provision is still on paper rather than a functional interaction and thus it is still a source of conflict. The only modification is the provision to coordinate the decisions of the national strategy documents with the National Expert in Spatial Planning and Regional Development appointed by the Minister of Regional Development and, only then, to submit such documents for adoption in the Council of Ministers.

Currently, there is no correspondence between the National Strategic Reference Framework (NSRF) and the vision for spatial development in the country. The requirement of the SPA for drafting and adopting a National Integrated Development Scheme (NIDS) is still not fulfilled. This is why, in 2005, the contents of NSRF included a section on *Territorial Development and Cohesion*, which is dedicated to the development of the network of towns and villages and the urban-spatial structure, as well as the specific types of territories – urban, peripheral, protected and other. However, this may not compensate for the lack of connection between the tasks and the objectives of spatial planning at national level and the overall sustainable socio-economic development.

In terms of addressing this long-standing problem and the emerging conflicts of an administrative nature, in the Ministry of Regional Development and Public Works (MRDPW) the discussion of a proposal to draft a simplified paper to replace NIDS and to provide for the most important, fundamental information and long-term vision for the country's spatial development is under way (Andonova 2012). This approach reflects the need to enhance the territorial context of strategic planning documents for regional development, and to find better opportunities for territorial pooling of resources to achieve greater efficiency in regional development. Such an approach will require legislative changes in the future.

The conflict-generating areas are also identified in governance at the local level. The findings indicate almost entirely a broken connection between the planning documents. The integrated regional development requires that the Regional Development Plans (RDP) and Municipal Development Strategies (MDS) should be elaborated, in collaboration and coordination with what is envisaged in the Regional Development Schemes (RDS) of both a general and specialised nature, if they are available. Those requirements are also not fulfilled.

There is currently no RDS draft covering the entire area within NUTS 2⁵, or a region in the country, but the only RDS includes some municipalities in the South Central region. This harms the strategic parts of the documents for regional development, since there is no spatial vision for their development, thus giving cause for conflicts of an administrative nature. The development of RDS is an urgent task as it will clarify the features and facilities currently needed for the future expansion or restriction of activities in order to achieve a more uniform planning and better use and conservation territory potential for integrated development. (Velikova 2008).

Not all communities have developed or enforced current communal plans. The reasons are mostly related to an insufficient capacity to implement comprehensive procedures for technical and scientific-exploratory design activities required by these documents. Delays are influenced by continued coordination procedures, including public discussions on coordination and defending diverse interests that are affected by the planned development activities. However, it is necessary to move quickly and simplify (where possible) these procedures, in order to regulate and control the opposing factors. Otherwise, in case of actual conflict, it would not be possible to ensure sustainable and integrated development of the cities and municipalities.

There are some substantive and organisational problems in terms of developing strategic planning documents at the regional level of government. For example, in terms of RDP there is no clarity on key projects and activities of regional importance, which must be implemented within the timeframe of the document. The definition of key development projects in a region and avoidance of administrative conflicts would have the following effects:

- Better coordination and synergy between regional development policy and projects and activities of industry sectors on the territory of the corresponding region;
- More efficient, transparent and motivated target of financial resources for regional development in corresponding areas.

Some possible solutions to limit administrative conflict zones, recommended by experts on regional development, are the expansion of document content, dealing with problematic issues and the inclusion of a strategy for related measures and activities, such as reducing emissions and greenhouse gases, adaptation of the area to climate change, improve relationships with vocational schools and colleges in the region and neighbouring regions, human capital development and innovation to enhance regional competitiveness and achieve higher economic growth etc.

The RDA creates a broad political and public platform for the discussion of conflicting factors associated with the RDP drafts in the Regional Development

5 Planning regions, called statistical regions. NUTS-2 area in Bulgaria covers six regions.

Councils. However, more active mechanisms could be applied for expanding partnerships at regional level using the opportunity to create special advisory committees in the field of public infrastructure, competitiveness, human resources and environmental protection, etc. Thus, the regional forum could be expanded for the discussion of topical regional issues and conflicts by providing more opportunities for inter-institutional coordination and ensuring compliance with the provisions of the RDP of industry sector policies in the region.

Another conflict zone is formed due to weaknesses in the design of the MDS in areas which fall within the territorial scope of the European Territorial Cooperation. On their territory, according to methodological guidelines, key projects are not required and therefore are not in the preparation for regional development, which could be implemented in cooperation with the neighbouring border region. Moreover, such projects could be eligible for the co-financing of European funds in the context of cross-border, transnational and interregional cooperation.

This deficiency may be compensated in the future by specifying requirements for the development of MDS in such areas, so as to more clearly address the issues of territorial cooperation with neighbouring zones. The effect of such an integrated approach will ease the logical links of planned activities and projects in a region within territorial cooperation as it will be reflected in the direction of mobilisation and potential development of the region, enhancing the convergence and overcome the intra- differences in them.

Some reserves may be expressed in terms of organising the development of various MDS. In some cases, insufficient specified responsibilities and obligations of participants in regional development planning causes uncoordinated actions that lead to administrative conflicts. A possible solution to overcome them is to improve the integrated strategic planning at district level through the development of an action plan for achieving the objectives of MDS by distributing tasks among government, central agencies, ministries, some government agencies and local authorities, representatives of business and NGOs. Such an approach would lead to shared responsibility and a more successful implementation of funding for feasibility studies for investment projects identified as key areas during the planning period.

Currently, valid and deeply inherited from the previous programming period conflict areas is the mismatch of responsibilities for planning at regional level and the ability to finance such proposed activities. Overcoming these challenges in the future requires the implementation of an integrated pragmatic policy – not as much direct allocation of resources to regions and areas, but as coordination of industry sector policies and actions directed to solve specific problems, and most importantly, the implementation of a decentralised approach to planning resources for targeted support within the district level.

Conflict zones in the course of the planning process at the municipal level did not relate to the current legal framework and methodological requirements

for the preparation, adoption and implementation of MDS. Compared to the first year in which these processes began, all municipalities now develop MDS. The problems are rooted in financial and personnel deficiencies that hamper preparing the necessary studies and design documents for the preparation of a planning document. This ensures an adequate integrated vision of development in the coming seven years.

Conclusion

The above analysis of conflicts of an administrative nature arising in the process of strategic planning for regional development suggest that the formulation of an adequate response to global and regional challenges in the next programming period (2014–2020) requires abandonment of the superficial preparation of strategic documents through apparently meeting the set European and national principles for integrated regional development. Applying the tools of strategic planning, based on the actual implementation of coordination and subordination in the process of drafting planning and programming documents provides consistency between supranational commitments and the national priorities for integrated development needs of regional socio-economic and spatial development. Overcoming conflicts through large aspects of connections may be achieved through:

- Creation of an optimal model for the allocation of management responsibilities among the executive, including effective decentralisation of government powers to local executive bodies;
- Establishment of a single programme framework of developmental policies at the national and regional level;
- Implementation of effective mechanisms and procedures for the development partnership, financial provision, implementation and evaluation of policies for regional development – ensuring internal, inter-, supra-national coordination;
- Establishment of a comprehensive platform for public consultation in the development and implementation of development policies and adequate information provision;
- Increasing the administrative capacity.

The implementation of integrated development policies is a challenging task that requires coordination at all political and expert levels and immense coordination work, but allows for the creation of a broad platform for the discussion and formulation of strategic decisions that involve a variety of resources, institutions and policies, which is a basic tool for adjusting and overcoming administrative conflicts.

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European territorial governance underwent a strong convergence process in the last decades relying on the relationships between the different tiers of governance as well as on common procedural and professional standards. The European cohesion policy has had an invasive effect on national administrations, especially in central and eastern European countries, where the territorial reforms were generated directly by the management regime of the Structural Funds.

However, the motivation for accessing and acquiring European resources had not provided sufficient motivation for the transformation of the territorial distribution of power. Regionalism and regionalisation is therefore not always identical to political decentralisation. National characteristics strongly differentiate the meso-tier administrations. The changing boundaries, scales and actors could be an innovation contributing to the modernisation and decentralisation of territorial governance, but these could also be the driving forces behind centralisation and client networks. The book provides insight into several national examples in how diverse way the European administrative space is shaping.

More tolerance, variable geometry of governance systems and tailor-made institutions can provide the opportunity for CEE countries to find their own “good” governance systems. The conference organised by NISPAcee in Belgrade in 2013 offered a platform for discussions on state-of-the-art and future regionalism, especially the points of view of central and south-eastern European countries and beyond.



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