

Drivers of Inter-Municipal Cooperation as a Vehicle for Smart Local Development

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Abstract

Smart strategies, smart initiatives and creative policy design can lead to success of good governance, but only with an assessment of current state, to recognize the exact needs which are to be improved. In this context, local governments have to choose the most appropriate delivery mechanism of local public services. Smaller municipalities are often faced with the problem that they are not large enough or do not have sufficient resources in order to effectively and efficiently perform their tasks. Therefore, local governments have to respond with smart management approaches, where they will have a good vision about the costs of services delivery and about the outcomes of the delivery. A possible pragmatic solution is inter-municipal cooperation, where local governments achieve the necessary size and scope of activities and are therefore able to reduce provision costs per unit, which leads to more efficient and rational performance of their functions. The paper focuses on IMC and its drivers as a vehicle for smart local development. The paper presents the research on IMC in the field of water and wastewater utilities in Slovenia. It tries to get an insight into the current state of IMC and also into the advantages and disadvantages of IMC in the field studied. The paper presents results based on the primary data collection through an online survey, sent to Slovenian municipalities. The results of the research show us that in the field studied IMC is found in smaller extent, there are a few joint concessions. Despite that, results also show that IMC has many advantages, the most important advantage is in the transfer and exchange of knowledge and practices. Disadvantages of IMC are also present. The biggest disadvantage presents difficulties in reaching a consensus among the cooperating participants. However, following the concept of smart local development, e.g. focusing on solutions to achieve higher efficiency in the delivery of public utilities, lowering costs, improving the quality of residents' life etc., IMC presents a smart solution.

Points for practitioners:

The results bring useful information to municipalities and public policymakers to formulate smart initiatives and better policy proposals, to implement good governance and to be able to manage delivery of public utilities more effectively.

Keywords: local public services, public policy, inter-municipal cooperation, good governance, smart development

1 Introduction

Local governments are put under a pressure of resource allocation and service delivery with the goals to meet the needs of the local population, and at the same time to do this in a cost-efficient way. These are also some of the goals of smart local development. Smart strategies, smart initiatives and creative policy design can lead to success of good governance, but only with an assessment of current state, to recognize the exact needs which are to be improved. In this context, local governments have to choose the most appropriate delivery mechanism of local public services. Municipalities have to decide whether to provide services and utilities on its own or to externalize their provision to the private contractor. Especially smaller municipalities are often faced with the problem that they are not large enough or do not have sufficient resources in order to effectively and efficiently perform their tasks. Therefore, local governments have to respond with smart management approaches, where they will have a good vision about the costs of services delivery and about the outcomes of the delivery. Innovative methods or at least alternative delivery mechanisms are essential to achieve higher efficiency gains. Also, collaboration between local governments is more and more important, due to fiscal constraints, to successfully respond to emerging needs of local population. Therefore, as a possible pragmatic solution inter-municipal cooperation (IMC) in the performance of certain tasks occurs. With such cooperation, local

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governments achieve the necessary size and scope of activities and are therefore able to reduce provision costs per unit, which leads to more efficient and rational performance of their functions.

The paper focuses on IMC and its drivers as a vehicle for smart local development. IMC as an alternative delivery mechanism of local public services enables the provision of more local public services, delivered in more efficient way, with lower costs, giving benefits for local governments and for local population and at the same time it reaches one of the most important goals of smart local development. Specifically, the paper presents the research on IMC in the field of water and wastewater utilities in Slovenia. It tries to get an insight into the current state of IMC and also into the advantages and disadvantages of IMC in the field studied. In Slovenia, water and wastewater utilities are managed at the municipal level. The paper presents results based on the primary data collection through an online survey, sent to Slovenian municipalities. The results of the research first give information about cooperation between municipalities with awarding joint concessions, and second they give evidence about the experience of municipalities with inter-municipal cooperation, what are the drivers and barriers of such cooperation in local public utilities delivery. These results give also a general conclusion, whether local governments in Slovenia, in the field of water and wastewater utilities, follow the concept of smart local development – whether they focus on solutions to achieve higher efficiency in the delivery of these utilities, to lower costs, to improve the quality of residents' life etc.

2 Literature review on smart local development and inter-municipal cooperation

Smart local development, smart cities, smart rural development etc. is becoming more and more popular topic. The concept of smart development is also included in the document "Europe 2020", as one of the key elements of the European economic policy, which aims for faster economic growth and reduction of social inequalities (Budziewicz-Guzlecka, 2019, p. 23). We can find different definitions for each of the mentioned terms, the common content of these definitions is the use of digital and innovative approaches to enable more efficient local public services delivery (OECD, 2020, p. 8). There are specific emphasis on technological solutions, presenting a key factor for driving the economic development and at the same time also for improving the quality of life (Budziewicz-Guzlecka, 2019, p. 23). To be more specific, OECD, for example, defines smart cities as "initiatives or approaches that effectively leverage digitalization to boost citizen well-being and deliver more efficient, sustainable and inclusive urban services and environments as part of a collaborative, multi-stakeholder process" (OECD, 2020, p. 8). Łazniewska et al. (2021, pp. 128-129) point out to involvement of innovative processes, the role of knowledge in the concept, the focus on competitiveness, the relevance of caring for the natural environment, and the focus on the quality of human capital. Smart development and growth intend to balance the competing demands of regional and local development, economic development and environmental protection. In other words it serves the community, economy and environment (Krueger and Gibbs, 2008, p. 1265). Noori et al. (2021, p. 76) connected smart cities and smart local development policy with following dimensions: modern ICT infrastructure and data, financial resources, governance, human infrastructure and entrepreneurial capital, smart citizens and applications, and sustainability and high quality of life.

OECD (2020, p. 8) stresses the importance of stakeholder engagement in local governance and collaborative partnerships, collaboration within or between cities, local communities. Therefore, smart governance should be identified as social participation in decision making, transparency of action, quality and accessibility of public services. Civic participation has an important role, in the sense of direct participation of citizens in social, public and political life, as well as community participation, as participation of members of the local community in collective activities (Budziewicz-Guzlecka, 2019, p. 26). But, not only cooperation inside the city, village, local community is essential, more and more important becomes also cooperation between cities, villages, municipalities, regions. Therefore, inter-municipal cooperation is definitely one of the very important dimensions of smart local development, in terms of more efficient public services delivery, lower costs of public services delivery, benefits and more satisfaction for local population, easier to overcome barriers and challenges of smart development and easier to reach opportunities offered by smart development.

Despite many benefits and opportunities offered by smart local development, there are also barriers and challenges to overcome. A recent research (Mondschein et al., 2021) points to barriers such as different objectives between stakeholders, information asymmetry, regulatory incoherence, government challenges within and between municipalities. Vidasova et al. (2019, p.28) divide risks and challenges to internal and external. Internal presenting organizational capabilities (human capital, proper use of data and technology) and external relating to environmental circumstances (social, political, economic). Mondschein et al. (2021) and Vidasova et al. (2019) point to the fact that a collective action is presented as an option to best overcome the challenges

and maximize the benefits and common good. A multi-stakeholder perspective has to be included to solve problems, meaning cooperation among citizens, entrepreneurs, civic organizations and governments.

In the last decades local governments have begun cooperating more frequently with each other, to save money by sharing services, to reach a common goal for economic development and to solve similar local problems (Hefetz, Warner and Vigoda-Gadot, 2012, p. 675; Rubado, 2014, p. 1). When seeking an optimum scale of production for a local public service, and at the same time achieving scale economies with lower transaction costs, inter-municipal cooperation could be an alternative to in-house production or to privatization (Bel, Fageda and Mur, 2013, p. 437). According to Steiner (2003, p. 553) inter-municipal cooperation is defined as “fulfillment of a public municipal task by an individual municipality, by two or more municipalities jointly or by a third legal entity, whereby the task fulfillment simultaneously serves at least two municipalities and the participating municipalities participate directly (‘performing’) or indirectly (‘organizing’)”. Bel, Fageda and Mur (2012, p. 87) highlight the difference in the context of inter-municipal cooperation between Europe and United States. In United States the agreement is usually a contract, which assigns the responsibility for the service to just one of the municipalities. Therefore, their system of inter-municipal cooperation is seen more like inter-municipal contracting. Spicer (2015, p. 558) introduces five groups of core variables influencing inter-municipal cooperation – social capital, group composition, geographic density, power asymmetry and political leadership. He argues that cooperation increases when potential benefits are high and transaction costs low. Transaction costs are explained as costs of coordinating, negotiating, monitoring and enforcing arrangements.

Mohr, Halstead and Deller (2010, p. 894) highlight that inter-municipal cooperation, among the other benefits, offers bigger local decision-making capacity, scale economies, cost effectiveness and increased access to external resources. Externalities and economies of scale gradually motivate governing units to cooperate. As municipalities experience more and more externalities, there are bigger incentives to cooperate and to jointly find solutions to problems (Rubado, 2014, p. 3; Spicer, 2015, pp. 551-552). Not just such cooperation ensures the benefits of economies of scale, but it also allows local governments to retain public control and local identity in service delivery (Hefetz and Warner, 2011, p. 292). National legislation and incentive structures play an important role in the scope of inter-municipal cooperation. If national legislation favors one administrative form, this will have an impact on the patterns of cooperation. On the other hand, if it leaves the decision to the municipalities themselves, they will usually go for arrangements that best meet the actual local needs. Nevertheless, institutional context or environmental factors can alter the preference structure (Hulst et al., 2009, p. 280). Nowadays, there are institutional shifts in inter-municipal cooperation, moving toward more flexible and hybrid solutions. Previous structured patterns of inter-municipal cooperation have been replaced with light associations, networks and contracts. Even private actors are becoming partners in cooperation with municipalities (Citroni, Lippi and Profeti, 2013, pp. 210-211). For successful inter-municipal cooperation a proper management is needed, too. Management of such cooperation is based mostly on financial and human resources. Financial autonomy is generally required. Regarding the human resources, inter-municipal bodies can employ public or private staff, depending on whether cooperation is public or private (Wolfe and Nelles, 2009, pp. 13-17).

Municipalities usually decide for inter-municipal cooperation with expectations on cost reduction and improvement of local services. Reducing costs and improving services are therefore generally seen as the main motivating factors for entering into a cooperative relationship with another municipality (Spicer, 2015, p. 565). To obtain cost savings from inter-municipal cooperation several factors need to be taken into consideration, for example the type of service, the size of output/population, and the transaction costs imposed by the institutional design of the cooperative governance arrangement. Bel and Warner (2014, pp. 60, 62) document these factors with examples from existing studies, like solid waste is more prone to scale economies, small municipalities can benefit more from exploiting scale economies as bigger ones, single separated governments are more likely to have lower transaction costs than multi-government bodies. Both, the contractor municipality and the contracting municipality can benefit from the joint provision of services (Blaeschke and Haug, 2014, pp. 9-10). Inter-municipal cooperation may be more likely when there is not too complex supervision of the service and when the coordination with the other partner municipality is not too complex. (Bel, Fageda and Mur, 2012, p. 99).

Blaeschke (2014, pp. 9-10) explains two types of efficiency gains from inter-municipal cooperation. One type refers to cost reduction that is provided through exploiting economies of scale and scope in municipal service delivery, as inter-municipal cooperation extends the number of service users. This is relevant especially for small municipalities, as some services require a minimum number of users to be provided at all. Similarly, Citroni, Lippi and Profeti (2013, p. 210) state that inter-municipal cooperation allows smaller municipalities to capture economies of scale in the provision of public services and reduces the transaction costs associated with

contracting-out. Regarding the size of municipalities, inter-municipal cooperation is considered as a suitable instrument to overcome shortages linked to a fragmented structure of local governments and can lead to improvement of both quality of local services and efficiency of their delivery (Klimovský et al., 2014, pp. 647-648). Steiner (2003, p. 555) also argues that inter-municipal cooperation in many cases happens due to sub-optimal size of municipalities that does not enable them to fulfill their tasks in professional manner. When cooperating, small municipalities can achieve advantages from administrative size and also greater professionalism. Greater professionalism afterwards leads to better services, offered at lower costs (De Mello and Lago-Peñas, 2012, pp. 2, 4; Pérez-Lópe, Zafra-Gómez and Prior-Jiménez, 2013, p. 7). The other type of efficiency gains by Blaeschke (2014, pp. 9-10) refers to internalization of efficiency losses due to free-riding on spatial externalities - spillover effects. This is important especially for metropolitan areas and city-periphery settings. In such cases cooperation yields efficiency gains when it helps to improve fiscal equivalence. Further on, Bolgherini (2011, p. 7) divides key motivating factors for inter-municipal cooperation into three groups. The first group includes more efficient provision of local services, better quality of services, lower costs and greater administrative efficiency of municipal structures. The second group supports the fact that inter-municipal cooperation can be used both in urban and in rural municipalities. And the third group of motivating factors represents opportunities to participate in wide variety of activities and tasks.

3 Analysis of IMC in water and wastewater utilities in Slovenia

3.1 Research sample and methodology

The majority of public utilities in Slovenia in the field of water and wastewater is managed locally, on municipal level. Because of the new legislative provisions set in 2013, the regulation of local public utilities was transferred from central to municipal level. Therefore, municipal administration is now responsible for local public utilities regulation, including also water supply and wastewater treatment (Cerkvenik, 2015). The municipality prescribes the form of local public service provision by the decree, which regulates conditions for the provision and use of public goods; sources of funding and the manner of their formation; rights and obligations of users; position of the infrastructure for the public service (Grafenauer, 2009, p. 213).

As water and wastewater utilities are managed at the municipal level, the research sample includes all 212 Slovenian municipalities. A municipality is the basic self-governing local community. Of total 212 municipalities, 11 municipalities present the so-called urban municipalities. In accordance with the Constitution and within their competence, urban municipalities may also perform tasks under state competence stipulated by law, which refer to the development of the city. Municipalities, in accordance with the Constitution and laws, autonomously regulate and perform matters, duties and functions assigned to them by law (Pevcin, 2012, p. 706; Vljaj, 2010, p. 7). Municipal administration in Slovenia is organized by the municipal representative body or the mayor. The organization of municipal administration depends on the competencies of a municipality, its size and its ability to organize and provide sufficient funding for the administration. The problem arises with a very small size of some municipalities and their provision of obligatory public services (Haček & Bačlija, 2014, pp. 88-89). Although Local Self-Government Act in Slovenia stipulates that a municipality has at least 5,000 residents, they are not all formed in accordance with the legal standards. More than a half of municipalities have a population less than 5,000 residents, some of them also less than 1,000 residents. The size problem of smaller municipalities offers an opportunity for IMC which gives the possibility or solution to overcome or to easier face the challenges with lacking financial resources, human capital etc, which can also lead to smart development of these municipalities. Therefore, our research focuses on IMC in Slovenian local self-government. To be more specific, the research tries to get an insight into the current state of IMC (awarding joint concessions, establishment of joint public enterprise etc.) and also into the advantages and disadvantages of IMC in the field of water and wastewater management in Slovenia.

The empirical research was done with primary data collection through online survey, sent to all Slovenian municipalities. A combination of multiple-choice answers and Likert scale 1 – 5 is used (1 – I totally disagree, 2 – I disagree, 3 – I neither agree nor disagree, 4 – I agree, 5 – I totally agree). The answers were collected in the period from 2018 till 2020. The survey covers a broader field of water and wastewater management in Slovenia and IMC, presenting in this paper, is only one part of the survey. It is a detailed and structured online questionnaire, developed by the authors. As the survey is rather long, the relatively low response rate is not surprising. In total, 42 municipalities (19.8% of total sample) responded to the survey, but only 28 municipalities fully or almost fully completed the survey. The actual response rate (fully and almost fully completed surveys) is 13.2%. However, this input should be considered in a sufficient manner to extrapolate the

field experiences. In the results analysis we utilize also the data obtained from the surveys not fully completed, therefore the total number of responses differs between the presented results.

3.2 Research results

Municipalities can cooperate with each other to jointly arrange and conduct local public affairs by pooling resources, setting up joint bodies and joint municipal administrations, by establishing and managing funds, public institutes, public enterprises. Due to more cost-effective and efficient provision of local public utilities, two or more municipalities can establish a joint public institut or a joint public enterprise. For the provision of joint public utility, municipalities can award joint concession (Inštitut za javne službe, 2016, p. 4).

Responding municipalities (in total 27) mostly have not yet been involved in awarding a joint concession with another one or more municipalities in the field of water and wastewater management. Table 1 shows that only 15% of responding municipalities have been involved in awarding joint concession for drinking water supply, only 7.5% municipalities for urban wastewater and sewage treatment and only 3.7% municipalities for sewage and wastewater discharges. At this point, more incentives should be done to recognize the benefits of joint concession instead of each municipality awards its own concession. Of course, first a thorough analysis should be done between municipalities to find the factors enabling cost efficiency and effectiveness of joint concession to justify such cooperation.

Table 1: Involvement in awarding a joint concession

Answer Choices	Drinking water supply		Sewage and wastewater discharges		Urban wastewater and sewage treatment	
	Response %	Response No.	Response %	Response No.	Response %	Response No.
No	85.19%	23	96.30%	26	92.59%	25
Yes	14.81%	4	3.70%	1	7.41%	2

N = 27

The responding municipalities, which have been already involved in awarding joint concession, have in most cases (3 responding municipalities in the field of drinking water supply, 1 respondent in the field of sewage and wastewater discharges and 2 respondents in the field of urban wastewater and sewage treatment) established a joint public enterprise and in one case (in the field of drinking water supply) they have established a body of joint municipal administration. A joint public enterprise is an enterprise established by two or more municipalities. The right to regulate a public utility by a general act still remains in individual municipality and therefore, public utilities can be provided under different regime in individual municipality (Pirnat, p.14). Collaborative municipalities can by a decree establish one or more bodies of joint municipal administration, which must act a body of the municipality to which territorial jurisdiction the matter falls. For the coordination of the decisions for the provision of public utilities, the municipal councils of the involved municipalities establish a council of grantors. They have to determine the tasks, organization of work, decision-making process, financing and sharing costs between municipalities. Two or more municipalities can establish single-purpose or multi-purpose interest association of municipalities for joint regulation and implementation of administrative tasks or for the implementation of joint development and investments programs. Inter-municipal agreement is also an approach in concession relationship, where the basic rules of the relationship are determined in order to avoid subsequent disputes (Inštitut za javne službe, 2016, p. 5-7).

As already written, municipalities award a joint concession to provide public utilities more cost-efficient and effective. This cost efficiency and effectiveness can be for example based on geographically rounded supply area, estimated lower costs of providing commercial public utilities due to economies of scale, estimated lower costs of awarding and monitoring concessions (cost sharing) etc. The responding municipalities mostly decide for awarding joint concession because of geographically rounded supply area (75% in the field of drinking water supply, 100% in the field of sewage and wastewater discharges and 50% in the field of urban wastewater and sewage treatment) and surprisingly not because of lower costs.

The responding municipalities do not see any other options for awarding a joint concession in the near future (see Table 2). Only one responding municipality see a possibility in inter-municipal network that will be built/renovated with the inclusion of cohesion grants.

Table 2: Future options for awarding a joint concession

Answer Choices	Drinking water supply, Sewage and wastewater discharges, Urban wastewater and sewage treatment	
No	96,15%	25
Yes	3,85%	1

N = 26

Inter-municipal cooperation has many advantages which can lead municipalities in different forms of cooperation. These advantages are in many aspects connected also to smart local development and therefore we can easily anticipate that IMC itself is a driver of smart local development or it enables more favorable conditions for smart local development. Among the advantages listed in Table 3, responding municipalities find the biggest advantages of IMC in the transfer and exchange of knowledge, experience, good and bad practices; achieving advantages due to the size of municipalities (smaller municipalities) and achieving greater professionalism in the provision of utilities. Knowledge transfer is also a positive effect of cooperation found in literature, for example Gil (2016, p. 7) states that knowledge sharing presents a positive mechanism for policymakers to take quick decisions in today's changing socio-political environment. However, all the mentioned advantages are also motivating factors for smart local development, as they are centered to more efficient and effective public utilities provision on one hand, and on the other hand we also find important advantages of IMC and motivating factors for smart local development, which are lower price of services for end users and higher quality of utilities.

Table 3: Advantages of IMC

Answer Choices	Drinking water supply, Sewage and wastewater discharges, Urban wastewater and sewage treatment
	Weighted Average*
Exploiting economies of scale	3,74
Lower transaction costs	3,36
Lower price of utilities for end users	3,74
Higher quality of utilities	3,7
Transfer and exchange of knowledge, experience, good and bad practices	4
Less pressure on the budget funds	3,39
Easier access to external sources of funding	3,61
Achieving greater professionalism in the provision of utilities	3,78
Achieving advantages due to the size of municipalities (smaller municipalities)	3,87
Joint infrastructure management	3,74

N = 23

*A Likert scale 1 – 5 was used: 1 – I totally disagree, 2 – I disagree, 3 – I neither agree nor disagree, 4 – I agree, 5 – I totally agree.

However, there are also disadvantages of IMC, the most common disadvantages are listed in Table 4. The responding municipalities see the biggest disadvantages in difficulties in reaching a consensus among the participants; complexity of joint management and lack of trust between participating municipalities, which can again present also a barrier or challenge for smart local development. As Wiberg and Limani (2015, p. 67) say, cooperation involves different approaches and complexity and only with exact and detailed inter-municipal

agreements an efficient and effective cooperation with good results can be achieved. A big challenge presents also achieving large scale advantages and better access to relevant skills (Wiberg and Limani, 2015, pp. 68).

Table 4: Disadvantages of IMC

Answer Choices	Drinking water supply, Sewage and wastewater discharges, Urban wastewater and sewage treatment
	Weighted Average*
Lack of professionalism in joint service management	2,48
Complexity of joint management	3,33
Difficulties in reaching a consensus among the participants	3,67
Regional questions	3,14
Lack of transparency	2,81
Difficulties in defining responsibilities	3,1
Lack of trust between participating municipalities	3,33
Disputes between municipal officials	2,9
Inexperience in the field of cooperation	2,9
Lack of legal knowledge	2,76
Other (specify and range 1 - 5): Same as for drinking water supply	

N = 21

*A Likert scale 1 – 5 was used: 1 – I totally disagree, 2 – I disagree, 3 – I neither agree nor disagree, 4 – I agree, 5 – I totally agree.

Despite the list of possible disadvantages or barriers of inter-municipal cooperation, similar problems, challenges can again bring cooperation back together and at the end the main purpose of cooperation and also smart local development can be achieved no matter what, which is more efficient and sustainable local public utilities solution arrangements, meeting necessary quality requirements, stability, safety and security of local people (Wiberg and Limani, 2015, pp. 64).

4 Conclusion

Inter-municipal cooperation can be the basis for municipalities to reach greater economies of scale, achieve greater cost savings, eliminate duplicative efforts, maximize available resources, gain possibility of using the latest technology etc. Inter-municipal cooperation is also one of the solutions to drive smart local development, especially because of the mentioned maximizing available resources, achieving cost savings, which enables municipalities to provide public utilities more efficiently and of better quality and at the same time enables a better quality of life of local people. As Masik et al. (2021, pp. 2, 8) state, also citizen involvement and their knowledge empower more direct cooperation and create economic growth, efficiency gains, environmental improvements etc.

Inter-municipal cooperation is in smaller extent detected also in Slovenian local government in the field of water and wastewater management. With primary data collection through online survey, sent to slovenian municipalities we found out that there are a few examples of joint concessions, where cooperation in most cases designed in the form of joint public enterprise. The initiative to award a joint concession was mostly due to geographically rounded supply area of municipalities. Even though, the responding municipalities do not see many future opportunities for awarding a joint concession, they, however, see many advantages in inter-municipal cooperation.

The biggest advantages of IMC are seen in the transfer and exchange of knowledge, experience, good and bad practices; achieving advantages due to the size of municipalities (smaller municipalities) and achieving greater

professionalism in the provision of utilities. Of course, also disadvantages are found. The responding municipalities see the biggest disadvantages in difficulties in reaching a consensus among the participants; complexity of joint management and lack of trust between participating municipalities. Here, a simple solution is available, a written agreement, which can prevent cooperating municipalities from misunderstandings that could threaten their cooperation.

Inter-municipal cooperation has more advantages for smaller municipalities. Smaller municipalities are in bigger extent financially dependent from the central government, are less competitive in the global sense, are facing a lack of human resources etc, which at the end leads to problems with provision of local public utilities and meeting the needs of local population. Meet the needs of local population and ensure a better quality of their lives on one side and make greater cost savings and greater economies of scale on the other side, is possible with inter-municipal cooperation, which gives opportunity also for smart local development that smaller municipalities may not be able to afford otherwise. Slovenia still needs to do more in the field of inter-municipal cooperation and smart development. As we have many small municipalities, cooperation would be a very smart solution.

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