

Local Government Reforms in Eastern Europe after the Collapse of the Soviet Union: Some Observations

*Fred Lazin**

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This paper explores the building of administrative and democratic institutions of local government in newly emerging democracies in parts of the former Soviet Union and its satellite states in Eastern Europe. It covers the period through 2005. It studies the main objectives and achievements of the various reforms aimed at local government systems in Russia, Poland and Romania. The overall findings in the several countries are all but homogeneous and unidirectional: though democratization and decentralization are claimed by many central governments as non-negotiable, the analysis clearly demonstrates how their actual policies are implemented over time and across nations in an often inconsistent manner.

Key words: local government, Russia, Poland, Romania, Eastern Europe

* Fred Lazin, Professor Emeritus, Ben Gurion University, Israel (profesor emeritus, Sveučilište Ben Gurion, Izrael, e-mail: lazin@bgu.ac.il)

1. Introduction¹

The end of the Cold War and increased globalization has affected governance around the world. The decline and virtual disappearance of centralized socialist forms of rule has led many countries toward increasingly minimalist government and reliance on the free market. Modern liberal democracy has become increasingly influential as the dominant model for government.

These trends have had a significant impact on local government. In an effort to slim down and foster good governance, national governments have shed responsibility for providing citizens with basic services and implemented policies favouring decentralization. This increased the role for local governments who increasingly provide services that citizens have come to expect.

This paper explores the building of administrative and democratic institutions of local government in newly emerging democracies in parts of the former Soviet Union and its satellite states in Eastern Europe. It covers the period through 2005. It studies the main objectives and achievements of the various reforms aimed at local government systems in Russia, Poland and Romania. The overall findings in the several countries are all but homogeneous and unidirectional: though democratization and decentralization are claimed by many central governments as non-negotiable, the analysis clearly demonstrates how their actual policies are implemented over time and across nations in an often inconsistent manner.²

The research reported on here focussed on the process of reform at the local level; the formation and development of specific local bodies along a specific institutional design, central-local relationships, bureaucratic differentiation, influence, transfer and implementation of external/ foreign experiences, and setting up of a local financial system.

Over the past two decades Russia, Poland and Romania have embarked upon the build-up of democratic constitutional states after the breakdown

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² The case studies are based on papers presented at an international conference *Reform and Democracy in Local Government of Countries in Transformation* held in Israel in 2004. The IPSA Research Committees on Local Government and Politics and Public Policy and Administration sponsored the conference. The papers later appeared in a book published in 2007 (Lazin et al., 2007).

of centralist communist regimes. In most cases, local government was assigned a crucial function to provide greater political accountability and administrative structure.

2. Russia

In his article, Vladimir Gel'man (2007) argues that the problems of local government reform in post-communist Russia are part of the general complexity of Russia's protracted »triple transition« of democratization, marketization, and state-building. Perhaps in no other area of reform is the contrast between stated principles and reality sharper than in the endless declarations of local autonomy and local democracy on one hand, and the realities of impoverished municipalities and their ruling »political machines«, on the other.

He reports on the post-Soviet municipal reform, including the ideas of local autonomy and local democracy, borrowed from the experience of Western liberal democracies. The new wave of local government reform initiated by President Vladimir Putin (after 2000) is also reviewed. The author addresses the issue of whether the reform of local government in Russia was »doomed« from the beginning or if its failure resulted from poorly chosen or inconsistent policies.

2.1. Russia's Local Government after the »Municipal Revolution«

In the 1990s, the government of Russia made an ostensible commitment to radical reforms in local government. The State Duma adopted major laws on local government, and in 1996 Russia pledged to adhere to the European Charter of Local Self-Government (ECLSG). By 2004, almost all municipalities across Russia had had two or three cycles of elections of local councils, and most of them had conducted elections of city mayors and heads of district administrations. At first glance, it seemed as if Russia had made a decisive step toward local autonomy and local democracy; the Soviet pattern of local government completely subordinated to Communist party rule had been abolished.

However, by 2005 the consequences of the »municipal revolution« in Russia had to be regarded as modest. Both the economic and political

dimensions of the autonomy of Russian local government were sharply limited. In fact, the political manifestation of local autonomy in Russia consisted largely of local elections, which often could not be classified as free and fair, and which had a record of much lower voter turnout than national and regional elections. Contrary to many declarations, the Russian state did not delegate its powers or its resources to local governments. At the same time, federal and regional authorities pursued a policy of shifting the state's social obligations to local governments, creating a heavier burden on local budgets. Municipal finances depended greatly on transfers from federal and regional budgets, while the types and size of local taxes were sharply limited by the Tax Code. This led to the decline of fiscal autonomy of local government. Finally, since August 2000 the President of Russia and regional governors could dismiss local assemblies and/or chief executives for violations of federal or regional laws. The period since the early 2000s could be regarded as a »municipal counter-revolution«, characterized by the partial restoration of the subordinate status of local government that had been typical in the Soviet era.

2.2. Local Government and National Democratization in Russia

Post-Soviet Russian reformers faced the task of reorganizing Soviet local governments that had been ineffective, unpopular, and subordinate to higher levels of power. They opted for the »revolutionary« mode of discontinuous institutional changes, which aimed to install local autonomy and local democracy in Russia from scratch.

Local autonomy is an important feature of the model of reform local government. Apparently, local democracy is necessary for local autonomy in transforming societies, including Russia. Although the collapse of the Communist party in August 1991 opened some prospects for local democracy, by late 1991 Boris Yeltsin and the Russian Congress of People's Deputies imposed a moratorium on local and regional elections and restored the hierarchical subordination of local executive bodies to higher ones, which survived over time and strengthened under Putin. The political regime that emerged in Russia after 1993 was far from being democratic. Democratic institutions were tolerated as long as they did not give rise to a threat that the ruling group would lose power: the practices of permanent conduct of free but unfair elections (national, regional, and local) are examples of the elite's manoeuvres to subvert democratic con-

testation and accountability. Since December 2004, when direct elections of regional governors in Russia were abolished, the development of democratic institutions in Russia's regions has been stopped if not reversed.

2.3. Russia's Transformation and Local Government

The weakness of the post-Soviet Russian state has had various consequences. The vertical dimension of the decline of state capacity is exhibited in the federal authorities' lack of control over regional institution-building processes. This resulted in great variation in the degree of autonomy permitted to local governments and in the degree of democracy that has been attained at the local level (Gel'man et al., 2002).

Russia's economic crisis of 1990s also exerted an unfavourable influence on the effort to achieve local autonomy. First, the fiscal crisis of the national government led to the chronic under-financing of the principal municipal expenditures. Second, since the early 1990s, the national government has sought to shift responsibility for social benefits to the regional and local governments. Third, under existing regulations and practices, the potential for local governments to finance operations through reliance on their own sources of taxation is highly limited.

According to some estimates, among the 12,000 local governments in Russia, over 75 per cent cannot maintain their budgets without financial support from the federal or regional governments. This subordinates them to higher levels of authority (Gil'chenko, 2000).

In the course of Russia's transformation, several large cities showed some signs of local autonomy and stimulated some hope for the emergence of local democracy. While big cities and their metropolitan areas served as centres of political, economic, and social modernization, the surrounding areas of most regions faded into semi-peripheries or hopeless peripheries (see Ioffe et al., 2001: 77–78).

The large cities of Russia (mainly the regional centres) play a crucial role in the country's adaptation to the process of globalization. They fulfil a mediating and civilizing mission, pulling the less developed periphery up to a more contemporary level of development. That mission could not be carried out by the large cities unless they acquired political autonomy from the peripheries. However, the performance of that function became more difficult if not impossible due to the growing dependence of the centres on the peripheries as a result of the forced redistribution of economic

resources from cities in favour of small towns and rural areas. Therefore, the innovative potential of cities as centres of modernization is being dissipated through redistributive practices, reducing the larger cities to the level of the peripheries.

Thus, the unfavourable outcomes of the »triple transition« have reinforced the shortcomings of initial reforms in local government in post-Soviet Russia. Limited and inconsistent democratization, ineffective marketization, and the formation of a weak state contributed to the crisis of local government in 1990s – early 2000s.

2.4. New Reforms of Local Government: One Step Forward, Two Steps Back?

After Putin took power as President of Russia, he sought to end the fragmentation of the Russian state (Stoner-Weiss, 2001). He initiated a policy of recentralization of administration. In addition, a decade of deep economic recession and social crisis was followed by stirrings of economic growth, while market-oriented transformation of the economy began to move beyond the »partial reform equilibrium« of the Yeltsin years and seemed to acquire a new dynamism. The policy of recentralization (»federal reform«) consisted of a series of steps toward the rehabilitation of state capacity.

The Tax and Budget Codes that were adopted in 2000 led to the centralization of financial resources in the federal budget. During the first two years of the Putin administration, the share of tax receipts received by local governments decreased, at the same time that their share in the total spending of governments in Russia remained quite high (see Blair, 1991: 43). That disparity led to chronic deficits in municipal budgets, and deepened the cities' dependence on subsidies from the federal and regional governments (Kurlyandskaya, 2001; Shvetsov, 2001; Cherniavskii, Vartapetov, 2003). The tendency of development after 2000, in contrast, was conditioned by the centre's intention to provide for the economic subsistence of local governments »from above« while decreasing their level of political autonomy »from below«.

In September 2001, President Putin formed a commission headed by Dmitrii Kozak to propose changes in legislation concerning regional and local government. The central direction of the Putin administration policy on intergovernmental relations was to structure a single unified hierarchy

of authority, the »executive vertical«: local governments would lose their status of self-government and would be included in the vertical structuring of power, assuming the character of the lowest level of the state administration.

The Kremlin had hoped to decrease regional governors' influence over local governments as a means of further consolidating power in the central government. This resulted in municipalities becoming more dependent on Moscow than on the governors of their regions.

2.5. The Politics of Local Finance: In Search of Lost Money

The proposed Kozak legislation was far more generous in assigning tasks to local governments than in assuring the necessary financing to support the performance of those tasks, leading to a massive volume of »unfunded mandates« every year. A key element of reform was to give each level of government sufficient financial resources to enable it to handle the responsibilities that have been assigned to it. In effect, federal grants and subsidies were to fill the coffers of local budgets.

At the same time, the new law emphasized budgetary equalization among different cities or districts, which may require sacrificing the financial autonomy of municipalities based on their independent sources of income. The legislation proposed the compulsory removal of revenue from municipalities with relatively high per capita income in order to provide financial assistance to less fortunate localities. This would adversely affect the larger cities that usually have stronger economic bases.

Another controversial element of the proposed Kozak reform was the mechanism for determining the financial bankruptcy of a local government. If the municipality's debts exceed 30 per cent of its current budget, then the regional authorities can replace municipal authorities. Under separate legislation, the Centre would have the right to take similar measures if the government of a region exceeded the limits of its debt obligations.

2.6. New Local Politics: Possible Implications and Concluding Remarks

It is apparent that the acceptance of those laws would centralize the *regulation* of the powers and responsibilities of local governments, by shift-

ing the greater part of legislative authority over those matters from the regional governments to the central government. The crucial question in deciding the full consequences of the reform is the issue of the adequacy of financial support for the functions of lower levels of government. On the one hand, local governments would be assigned broader responsibilities under the new legislation, and most of them might suffer from even greater shortfalls because of their lack of funding other than subsidies. On the other hand, governors would have ample opportunities to take over the running of many districts and cities, just as the governors of most regions would be merely subject to direct control by the federal centre, especially after the elimination of popular elections of governors in 2004. It is very likely that if the Putin administration is successful in continuing on the course it has chosen, the degree of local autonomy in Russia will decrease as the national executive leadership consolidates its control over the hierarchy of administration.

Certainly, the future of local government in Russia is inseparable from the outcome of the country's »triple transition«. It is difficult to imagine the success of local autonomy and democracy without full-fledged national democratization, an effective market economy, and successful state building, based on the principle of the rule of law. However, in a broader perspective on political and economic development, the issues of local autonomy and local democracy are crucial for Russia's »triple transition«. The persistence of the political subordination of impoverished local governments as well as the compulsory redistribution of local resources from urban centres to peripheral areas will not facilitate the growth of an effective market economy and the building of authoritative political institutions on the local level. Furthermore, there is little hope of democratization in Russia when local democracy is reduced to elections that take the form of non-competitive voting for the »party of power«.

Twice in Russian history, the state has chosen a variant of development favouring independent local government. The first time was during the zemstvo reforms in 1860s, which, despite their partial and limited character, imparted momentum to the political and economic achievements of late tsarist Russia. The second time came with the post-Soviet municipal reforms of the early 1990s. Due to the country's economic and political crises, these reforms were not successfully implemented. Has a third attempt to introduce a policy favouring local autonomy and local democracy in Russia arrived in the twenty-first century? Alternatively, will this time be remembered as a period of further centralization of control? The answer to that question will be of crucial importance not only for the future

of local government in Russia, but also for the prospects for revitalization of the country as a whole. The »municipal revolution« in Russia seems to have come to an end, but the politics of post-Soviet local government is still in an early stage of development.

3. Poland

3.1. The Tortuous Paths of the Territorial Reforms in Poland

In his article on Poland, Hakim Aissaoui (2007) explores the question of local and regional government in post-Communist Poland in the context of the European Union (EU). He focuses on territorial development and multi-level governance. Whereas the extension of the EU regional policy to Poland contributes formally toward multi-level cooperation, the implementation of the Structural Funds contributes to a recentralization of the public sector, leading to a weakening of Polish sub-national governments. Since 1989, two different phases in the process of decentralization in Poland can be distinguished. The first applied to the local level that has been rapidly autonomous since 1990. The second concerned the intermediate level and occurred later, in 1998-99. Nevertheless, the movement for decentralization has been counterbalanced by a trend to recentralization.

3.2. The Reform of Local Government (March 1990): Improving Democracy at the Local Level

Until 2005, the local level government reforms moved toward effective local autonomy. According to the political program of Solidarity, the local reform had to be viewed as the main step in the implementation of the self-managed Republic of Poland (Bafoil, 1997). While the macro-economic stabilization was brought to completion, the plans of privatization and administrative reform were delayed. The macro-economic stabilization implied a strong decentralization both for firms and for local government which was to be in charge of these firms.

In accordance with the Local Self-Government Act, on 19 March 1990, the rural and urban *gminy* (commune-municipality) became autonomous. They enjoyed free democratically elected functioning councils. Their autonomy was also financial since the budget of *gminas* was provided by local taxes and financial donations from the central state.

Despite the financial autonomy of communes, the level of spending per commune was generally quite low, amounting to less than 15 per cent of total public expenditure (Cielecka, Gibson, 1996). Moreover, communes exempted farmers from paying local property tax, so that rural communes often faced a lack of local tax revenues. These authorities were also in charge of large social and economic problems without adequate funding. This led to pressure for an intermediate level of authority between the state and local governments to deal with economic development.

3.3. In Search of the Intermediate Level: The Unsuccessful Decentralization (1993–1998)

Two factors contributed to a slowdown of the decentralization process through 1998. First, the Polish central administration that was marginally destabilized during the transition process, tried to preserve a large part of its power. It blocked local self-management, either by a financial freeze of gmina or by recentralizing the policies in strategic sectors such as labour administration.

Second, numerous political parties were against further decentralization. Until 1997, the different plans of regional decentralization were stopped by the new post-communist coalition of the Democratic Left Alliance (DLA), the successor of the previous Communist Party and the Polish Peasant Party (PPP), which won the general elections in September 1993. The conflict revealed the increasing imbalance after 1998 between the urban and rural space of Poland. On the one side were the rural communes and medium-sized towns whose economic activities had become unprofitable after the fall of the collectivized system (Michta, 1997). On the other side stood the eight major towns of western Poland (Warsaw, Katowice, Gdańsk, Poznań, Kraków, Wrocław, Szczecin and Łódź) that enjoyed an ascending economic development thanks to strong private activities based in services and in western export markets.

3.4. The Administrative and Territorial Reform of July 1998: the European Integration in Perspective

Other factors led to change. The EU pressured for decentralization. In discussions between the EU and Poland following the Luxembourg European Council (December 1997), *Agenda 2000* (CEC, 1997) required

Poland and other candidate countries to have appropriate territorial structures for receiving the Structural and Cohesion Funds and for implementing regional development strategies in accordance with the EU policies. The haziness of the European regulation about the Structural Funds allowed the Polish government to define its own spatial and administrative organization (Marcou, 2002). Poland took care to adapt their territorial system to the European nomenclature of territorial units for statistics (NUTS) framework; on the other hand, internal political considerations also played an important role in the achievement of such a reform (Wollmann, Lankina, 2003). The outcome led to the emerging of a complex territorial system.

The defeat of the left wing SLD-PSL coalition by the right wing coalition EAS-UF at the parliamentary elections of 1997 facilitated the preparation of a new administrative and territorial (decentralization) reform programme. The model was in part borrowed from the French system of decentralization as far as intermediate levels were concerned. Sixteen new decentralized regions (*Wojewódstwa*) have been established, each with a regional council (*Urząd Marszałkowski* or Marshall Office) which is mainly in charge of regional development. At the same regional level, there still exists the deconcentrated institution (*Urząd Wojewódzki* or *Regional Office*), which is ruled by the »prefect-type *wojewod*« (Wollmann, Lankina, 2003: 106) who is the official representative of central state at the territorial level. The *wojewod* is responsible for ensuring that national policies are executed and enforced within the voivodship, and that state institutions operating in the region perform their functions appropriately. The *wojewod* is accountable to the central state and focuses on the legal supervision of the activities of commune, powiat and voivodship self-governments. He/she can cancel decisions pronounced by these different autonomous structures if they are inconsistent with the statutory law.

3.5. The Polish Decentralization in the Eyes of European Policy: Real Change or New Potemkin Façade?

With the present integration of Poland in the EU, the real stake of the Structural Funds is based on the ability of the different territorial institutions »to play the game« in accordance with the rules defined at the European level, mainly as regards the governance and partnership principles. Even if the last Polish territorial reform results to a large extent from the EU Structural Funds regulations, the political weakness of the new ter-

ritorial institutions is strongly contrasted with the hegemonic position of the Polish central state.

The Polish government has repeatedly refused to implement the European programme *Leader* that was conceived to favour local and collective initiatives emanating from a bottom up perspective. Moreover, the Polish Ministry of the Economy implemented most of the Structural Funds; the Polish government argued that the Marshall Offices lacked the time, experience and financial capacity to programme and manage the Structural Funds at the regional and local levels.

The Polish territorial authorities have been invested with important responsibilities, without having, at same time, the appropriate financial means. In global level terms, financial resources of territorial authorities are abnormally weak (in absolute terms): Silesia has financial resources that are 15 to 20 times smaller than its western European counterparts with similar or superior competencies. The level of transferred funds coming from the central state is still extremely weak. These centre investments allocated to the regional budget are insufficient to execute the decentralized responsibilities. Finally, the lack of human resources weakens the decentralized regional tier; they lack the numbers and expertise to administer the Structural Funds.

3.6. The Paradoxes of the EU Policies in Poland

Poland has been one of the main beneficiaries of EU assistance since 1989. It received 13.8 billion Euros of structural funds in 2004–2006 divided between different central ministries programmes and one integrated regional operation programme managed by the Polish Ministry of Economy. For the EU the implementation of a regional framework constituted a pre-requisite condition for the future accession of Poland to EU. It hoped that EU funds would counterbalance the domination of the central state. By virtue of the reception of the European Structural Funds by the Polish regions, this financial godsend was initially considered as an efficient means for increasing the political autonomy of the regional institutions from state supervision. Territorial development was viewed as the favourite instrument of this territorial autonomy, while the representation of the local social interests would be performed inside the sub – national self-government units and the different steering committees dealing with such a question.

However, the central administrations and ministers became rapidly the favourite partner of the European Commission (EC) in the implementation of the different assistance programmes for Poland since 1989. Previous surveys about the Structural Funds in the Western Europe had already concluded that the EC was not necessarily the champion of the so-called »Europe of regions« since this institution was much more interested in finding credible partners (and whatever the territorial level concerned) than in the necessary promotion of the regional units (Smith, 1996). In Poland, the EC allowed the implementation of the structural assistance in such a way that it contributed to a recentralization of the decisions at the central tier because of the deliberate incompleteness of the decentralisation process.

3.7. Conclusion

The reform of local government *stricto sensu* (i.e. communes) was achieved. The recent trends in territorial economy seem to favour great economic conurbations that are able to fit into the new networks of economic development. Ten cities are involved in this process, most are located in the western part of the territory, not far from the European trade axes. At the opposite side, small urban communes and rural municipalities, mainly in the eastern part, are lagging behind. They suffer from low fiscal incomes, poor economic development, geographical distance from the development networks and weakness of the spirit of enterprise.

The needs of the eastern regions together with the accession to the EU, contributed to the implementation of new self-government units, in an intermediary position between the local and state levels. Less than six years after the latest reform of 1998, the results were not very encouraging. Main responsibility lay with the central state that systematically tried to control the process of decentralization, mostly thanks to the fiscal weapon, and, to a lesser degree, thanks to a political control exerted by the voivods over the self-government authorities. Territorial governments were only in charge of executing central policies, and paradoxically, this trend was also fostered by the entropic way the EU functions with Poland.

Does it mean that the EU is working against the territorial self-government in Poland and in the rest of CEE? Such an assertion is by far not confirmed at all, unless we overestimate the real political power of the European partner. Like in the Western Europe, the »Europe des Régions«

concept is deeply virtual since we must mainly take into account the fact that the Structural Funds provoke strong political changes only if the traditional relations between the central state and the local units were already strongly destabilized (Smith, 2000). Such a situation is by far not confirmed at all in Poland. Here, on the contrary, whereas the central state was driven out by door in 1989, it tends now to return by the window thanks to the Structural Funds that it succeeded to manage in close connection with the EU.

4. Romania

In her article, Sandra Wells (2007) assesses the transformation of local government in post-communist Romania in the context of reforms associated with its candidacy to join the EU. She assumes that there is a general EU trend for fostering New Public Management (NPM) in local government as part of the »Europeanization process« (Radaelli, 2003: 30).

For member states, the process is a two-way through mechanisms of transnational cooperation and EU policy-making. For the candidate countries, the process is more intrusive and one-directional. Their bargaining position is much weaker as the EU controls accession (Treaty of Rome, 1957).

Since 1997, the EU has placed administrative issues high on the enlargement agenda. For the public administration sphere, it provides certain alternative models for serving its »unity through diversity« mission. However, there is neither an agreed-upon organizational model nor a coherent reform policy in the EU. Reforms of the current Central and Eastern European (CEE) countries' administrative systems and improved capabilities are desirable, but exactly what kind of administration and capabilities are needed has not been clear. Inconsistent signals have also been sent by EU to applicant countries (Grabbe, 2001). The only codification of European principles with regard to democratic power-sharing formula between central authorities and decentralised local or regional ones (Levrat, 1996: 115) is currently ECLSG of 1985.

4.1. Between Structure and Culture – Stages of the Europeanization Process in Romania

Romania had traditional ties with the EU since the 1970s and associate membership since 1995. Accession talks began in December 1999. The

2004 EU Country Report confirmed that a functional Romanian market economy had been achieved, but still had some reservations about Romania's chances of efficiently managing the competitive pressure and market forces within the Union. Administration had constantly been one of Romania's weakest points. Hence, a major program of administrative reform was declared a priority. Romania acknowledged the need for »a structural and functional reform of the public administration in order to increase the flexibility, the efficiency and the coherence of the administrative activities ... to increase the degree of compatibility with the administrations of the EU members« (Statement of the Romanian Ministry of Foreign Affairs, www.mie.ro/integrare.html).

Changes to the Romanian local government system by the Europeanization process aimed at greater administrative decentralisation and increased responsibilities for local governments. If the local authorities are autonomous, then the existing supervisory mechanisms become dialogue. Meaning, their final task is not to enforce the central government's will, rather to encourage local initiatives.

The following analysis focuses on two principal periods: before and immediately after 1998, when the Romanian Parliament ratified the ECLSG and enacted a new Local Public Finance Law (L189/1998); and since 2001, when the new – modern and »more« European – Romanian Local Government Act (L215/2001) was adopted.

The indicators to be used for measuring the decentralisation process will be a comparison of locally derived revenues *versus* local revenues transferred from the centre (Lijphart, 2000) and national *versus* sub-national responsibilities of administrative authorities. One more indicator will be the freedom the local governments possess in fund allocations within the context of central government distributions (Almond, Verba, 1996: 146-147).

4.2. The Romanian Public Administration System

There are two tiers of local government: the first consists of 41 county councils; the second includes 2,948 local councils. Each county and local council is constituted as a legal entity, having all the rights, duties and obligations according to Romanian law. There is no real or presumed hierarchical relationship between these two tiers of local government. Bucharest municipality has a special status and functions as both a municipality and a county. The basic units of local government in Romania

perform both a legislative and an executive function. The first is carried out by democratically elected local councils, the latter by a mayor and a vice-mayor. The mayor is elected, while the vice-mayor is appointed by majority vote of the council. The county-level organizational structure mirrors municipalities but instead of a mayor, they have prefects, who are appointed by the government.

4.3. Local Allocation of Resources and Responsibilities 1991–2000

According to L 69/1991, local councils were to approve the local budget, credit transfers, loans and the closing account of the financial year. They were also entitled to »establish local rates and taxes as well as special taxes for a limited period of time«. This law already established a significant level of fiscal decentralization in Romania. However, local revenues/centrally-transferred to local revenues ratio gives a different picture. The higher the transfers the lower the financial autonomy of the local authorities is, and hence, the lower the fiscal decentralization level. Between 1991 and 1997, transfers accounted for between 71 per cent in 1991 and 81 per cent in 1997. Moreover, local governments did not learn the level of their revenues from national and local sources for any given year until after the state budget was approved and published (often in May or June for the fiscal year beginning in January).

Another indicator for the low degree of fiscal decentralization was the allocation of responsibilities between central government and the periphery. Prior to 1996, the main responsibilities of local authorities concerned water supply, local transportation and district heating, and some other minor activities in social assistance, municipal service, culture and arts, public investment and maintenance. The Romanian central government was responsible for education and health. Public security and fire protection were also provided throughout Romania by local branches of the Ministry of Internal Affairs.

In 1996, the modified Local Government Act mandated local governments to act within local economic development, local urban development, land administration and development, cemetery administration, protection of environment, housing, water supply, sewerage, local public roads and local transportation.

To conclude, in 1996 Romania, administrative decentralization was present; yet financial autonomy was entirely absent, and therefore, any ar-

gument concerning the closeness of decision-making to the citizens was hardly sustained.

In October 1998, the Romanian Parliament adopted a new Law on Local Public Finance (L189/1998) which meant a significant restructuring of the administrative system. The principle of financial responsibility of local authorities became a legal matter and the local authorities were endowed with new responsibilities including the setting of expenditure priorities, the approval of investments, long-term budgeting, access to credit from the internal or external capital markets and assessing and collecting revenues from local taxes and fees.

The context, in which this radical change took shape, was Romania's Declaration of Ratification of the ECLSG. It appears that the new and improved financial responsibilities became essential to a fair, just and »local democracy«-type government, the moment Romania joined *European standards* in local public administration. The formal changes that the Charter brought to the Romanian administrative system had major consequences on the local own revenues/central-transferred local revenues ratio.

Table 1: Local Government Revenue/Expenditure Structure

| | 1996 | 1997 | 1998 | 1999 | 2000 |
|--|-------|-------|-------|-------|--------------|
| Ratios by major sources in % | | | | | |
| Own revenues | 22.60 | 19.00 | 24.70 | 69.70 | 72.10 |
| Revenues from the state budget (total) | 76.40 | 80.60 | 74.70 | 28.60 | 27.90 |
| Loans | 0.90 | 0.50 | 0.50 | 1.60 | <i>N. a.</i> |

Sources: World Bank, MOF and IMF

The initial impact L189/1998 had on local budgeting was to increase the amounts to be placed under the »own revenues« label, while decreasing the share of state transfers. Revenues from local taxes and fees increased in real terms in 1998 relative to 1997. Local government expenditures declined both in real terms and relative to the overall economy from 1996 to 1998. Fiscal transfers (including subsidies) had followed a negative trend over the five-year period. They were equivalent to 3.5 per cent of GDP in 1996 and were less than one per cent in 2000.

While L189/1998 had a general favourable influence over the fiscal decentralization process, it did not correct some major inconveniences of

L69/1991. To be more specific, L 69/1991 listed the »tasks« of the local governments. However, these tasks were not functional competencies, but authorities to act. The functional responsibilities (services provided by the local self-governments) were in fact determined yearly through an Annex to the Annual Budget Law which reflected the lack of an overall consensus or »vision« of the role of local government in Romania.

4.4. Local Allocation of Resources and Responsibilities after 2001

A brief analysis of the reforming act of the local public administration (Ionita, 2001; Giurgiu, 2002; Alexandru et al., 2002: 94–98) contains three dimensions of the decentralization process – administrative, fiscal and political decentralization. However, a closer look at the competencies recognised to current local authorities – as far as the main public services are concerned – shows that L215/2001 again fails in giving financial power to local authorities.

The items which are financed by local own revenues and very little or not at all regulated from the centre level are: culture, religious activities, health (nurseries), public services, local public transport, public community services, housing and social welfare.

The domains where the state intervention is still present are *general administration* and *education*. The first is probably the most important item in the structure of Romanian local administration, and is funded both by local and central money. There are juridical restrictions imposed by the state, since the salaries for civil servants are set by the Civil Service Statute (L188/1999), the maximum number of staff is set by law and there are several legally binding guidelines that limit certain types of expenditures. Funding for primary and secondary state education is provided from the local budgets. There are still some constraints in this area too, because the central government sets the general guidelines for the educational system (e.g. curricula or payments). Education remains a service delegated from the centre to the periphery, and not a decentralized one.

What conclusion may be drawn from these brief data concerning the responsibilities' transfer between different tiers of government? On one hand, many functions were delegated *via* L215/2001 from the centre to the periphery, without any state mandate for the latter. On the other hand, the increase of local revenues and expenditures does not yet indi-

cate a high level of financial autonomy, especially in a system where the fiscal powers of the national government have not been entirely coordinated with the delegated local responsibilities of the »closest to citizens« authorities. As such, though between 1998 and 2003 the decentralization *lato sensu* was substantial, it might still be considered as an incomplete process, the local financial autonomy being rather restricted (Lazaroiu et al., 2001: 21, 35–36, 41–42). Going further, by limiting the exclusive financial local control, the principle of subsidiarity itself is under threat. This is because in light of Article 7.1 and 7.2 of L215/2001, the state intervention at the local levels appears to be legitimate when the nature and the extent of the responsibility belonging to the local authorities require it or when efficiency and efficacy demand it. Thus, decisional power seems to be quite discrete in the Romanian local administration; and the legal provisions that enshrined the subsidiarity principle are just the ones that now restrict its application.

4.5. Conclusion

In terms of the tendencies discussed in the first part of the paper, and based on the data presented about the particular case of Romania, the conclusion that appears quite clearly is that there is a firm commitment to Europeanize the public administration system, and substantial alterations of the administrative structures and legislation in this direction have been made in the last few years. Basically, fiscal decentralization is less extensive than claimed, and as such, local autonomy is rather limited. The Romanian local governments do have new functions in financial and legal matters, but they still receive lots of subsidies and transfers from the central authorities. As a direct consequence, the autonomy enacted in the new Romanian Local Government Act is still formal and needs to be further internalized.

This also suggests that if we look at the reforms of Romanian public administration from the point of view of NPM – there is very little to be seen. The very idea of central control is foreign to NPM. However, practically speaking, the range of services and of firms providing them is very limited, especially in smaller localities, and competition and out-contracting are hardly possible. In larger towns and cities, where attempts in this direction have been made (for instance, for maintenance of public roads, water supply and garbage collection), accusations of contracts being signed

in exchange for bribes for the representatives of the local authority have filled the pages of central or local press.

In conclusion, we can say that the Europeanization of the Romanian local government system had been under way and continued for the period left until the moment of accession. It has proceeded after that moment in a new and more demanding environment. Nevertheless, what is also obvious is that the model of the reform is much closer to a classical Weberian one than to NPM.

In Romania, in spite the formally enacted Charter principles, fiscal decentralization is still little promoted, thus making local autonomy rather limited. Although the Romanian local governments do have new functions, they still receive lots of subsidies and transfers from the central authorities in education, health, public roads and sanitation. As a direct consequence of this, the autonomy enacted in the new Romanian Local Government Act is still formal yet not visible.

5. Conclusion

The findings of the three case studies are interesting. One should keep in mind that they are valid for the period through 2005 and not thereafter. They suggest that change in the authority of lower level governments is a slow process and often does not occur as expected.

Under the Communist systems in the Soviet Union and in its satellites in CEE, municipal level governments lost their legal autonomy. They became part of a single state system controlled from the top down. In all three case studies, the initial reaction to the ending of the Communist regimes was to re-establish a degree of legal autonomy for the municipal level of government. Later EU influence played a significant and influential role in this process in Poland and Romania. However, by 2005, in all three cases, recentralization of national over local authority was the dominant trend. According to Gel'man, recentralization occurred fairly early on and the national government of Russia has reasserted its dominance at the expense of municipal autonomy. He described an executive vertical administrative pyramid with local government being the lowest link.

In Poland and Romania similar processes occurred although less formally. Both countries established regional authorities but in the end power shifted back to the central authorities at the expense of local or municipal independence to function in legally guaranteed areas of autonomy.

By 2004, in Poland the results of reforms favouring greater local self-government fell far short of expectations. The state remained in control despite policies of decentralization. It utilized fiscal authority and the power of the *voivods* over local government authorities. The implementation of EU funds for multi-level government authorities also strengthened the power of the central government.

In Romania, policies fostering fiscal decentralization achieved very little and local autonomy is limited. Local governments remain dependent on subsidies and transfers from central authorities. The autonomy enacted in the Romanian Local Government Act has yet to achieve local autonomy.

One finding of interest is the potential standing of large municipalities in both Russia and Poland. In Russia, they often were regional centres. For Gel'man, they exhibited signs of local autonomy and hope for local democracy. They also had the potential to serve as centres for modernization and the vanguard of globalization. However, their potential was undercut by regional authorities that favoured policies to redistribute urban wealth to the smaller urban areas and the rural communities. The large cities in turn became more dependent on the central government for resources to meet the needs of their citizens. To some extent the central government fostered the regional authorities at the expense of the large regional cities and then took control of both.

A similar process occurred in Poland according to Hakim. The ten large cities of Western Poland seemed particularly prepared to participate in Europeanization economically and culturally. Again, as in Russia, they were held back by regional authorities and in turn became more dependent on the national government for resources needed to provide services.

Finally, the studies of Poland and Romania provide evidence of the influence of the EU in pursuing a policy that formally fostered a degree of decentralization in the governmental system. In the Polish case, the central government undercut the autonomy of the regional authorities. When the EU wanted to foster decentralization by strengthening regional authorities it used the national government and ministries as a conduit for massive EU funding. They did so knowing that the government ministries opposed giving the regional authorities autonomy. This is reminiscent of Selznick's (1949) 'constituency relation' whereby a higher-level governmental unit seeks allies for implementing its policies at the lower level. It often chooses the most powerful local element and in exchange for its support it alters its policies to meet the needs and interests of its local ally even if the adjustments are contrary to the initial policy. In effect, the EU

channelled funding for regional decentralization in Poland through Polish ministries opposed to regional decentralization.

In Wollmann's (2007) terms of analysis of multidimensional institutional changes, distinguishing between country-specific (endogenous) versus external (exogenous) international currents involving »globalization and »Europeanization« the former seem to dominate in almost all of the case studies here. The national interests in Russia were unwilling to decentralize and fought for recentralization. In Poland the western cities seemed prepared to join the changes brought about by globalization and Europeanization. They clashed with rural and smaller urban interests who united with national interests to contain the independent aspirations of the cities. In Romania, the country itself was ill prepared for Europeanization and administrative change. While the EU and some national groups may have favoured administrative reforms based on NPM, the absence of local markets and institutions together with dominant central authority negated and contradicted the principles of NPM.

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LOCAL GOVERNMENT REFORMS IN EASTERN EUROPE
AFTER THE COLLAPSE OF THE SOVIET UNION:
SOME OBSERVATIONS

Summary

This paper explores the building of administrative and democratic institutions of local government in newly emerging democracies in parts of the former Soviet Union and its satellite states in Eastern Europe. It covers the period through 2005. It studies the main objectives and achievements of the various reforms aimed at local government systems in Russia, Poland and Romania. The overall findings in the several countries are all but homogeneous and unidirectional: though democratization and decentralization are claimed by many central governments as non-negotiable, the analysis clearly demonstrates how their actual policies are implemented over time and across nations in an often inconsistent manner.

Key words: *local government, Russia, Poland, Romania, Eastern Europe*

REFORME LOKALNE SAMOUPRAVE U ISTOČNOJ EUROPI
NAKON PROPASTI SOVJETSKOG SAVEZA:
NEKA ZAPAŽANJA

Sažetak

Analizira se stvaranje upravnih i demokratskih institucija lokalne samouprave u novim demokracijama u dijelovima bivšeg Sovjetskog Saveza i njegovih satelitskih država u istočnoj Europi, pri čemu se analiza odnosi na period do 2005. Utvrđuju se glavne svrhe i postignuća različitih reformi lokalnih sustava upravljanja u Rusiji, Poljskoj i Rumunjskoj. Opći zaključci o reformama u spomenutim zemljama nisu ujednačeni ni istosmjerni: premda su demokratizaciju i decentralizaciju središnje vlade tih zemalja utvrdile kao nesporne reformske ciljeve, analiza jasno pokazuje da stvarna provedba reformskih javnih politika u različito vrijeme i u različitim zemljama nije dosljedna.

Ključne riječi: lokalna samouprava, Rusija, Poljska, Rumunjska, Istočna Europa