

Department of Economic and Social Affairs
Division for Public Economics
and Public Administration

Decentralization: Conditions for Success

*Lessons from Central and Eastern Europe and the
Commonwealth of Independent States*



United Nations New York, 2000

Notes

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Foreword

For more than a decade, decentralization has been a central theme in the debate on governance worldwide. Its paramount importance in the context of transition to democracy became the starting point of the deliberations in a Regional Conference entitled *Decentralization: Conditions for Success*, organized by the United Nations Department of Economic and Social Affairs (UNDESA) and the United Nations Development Programme (UNDP/Management Development and Governance Division and the Regional Bureau for Europe and the CIS) in Yerevan, Armenia from 26 to 28 April 1999. The Conference was hosted by the Government and Parliament of Armenia.

The Conference brought into sharp relief the value and the need for closer cooperation among the Member States of Central and Eastern Europe and the Commonwealth of Independent States (CIS). With this in mind, in his keynote address, the Speaker of the National Assembly of the Armenian Republic emphasized the contribution of decentralization and democratization to macro-economic stability, civil consent, social cohesion and peace in the region.

The Conference concluded its debate with a declaration, which underlined the presence of a rich pool of experience and expertise in several countries of Central and Eastern Europe and the CIS. Such expertise and experience, including information on best practices in the region and beyond can prove a useful tool and assist the process of planning and implementing decentralization and local government reform. The declaration called for greater intra-regional exchange of information, using the latest technologies. By fostering the establishment and maintenance of information networks and clearinghouse facilities on a global and regional basis, the United Nations can play a critical role in the growth and operations of virtual communities of practitioners and scholars dedicated to the purposes of decentralization, administrative reform, promoting citizen participation and democratization. (paragraph 8)

The Conference was one of several sponsored by UNDESA during the past decade and, more recently, as a sequel to the resumed 50th session of the General Assembly on Public Administration and Development and the subsequent Meeting of Experts on the United Nations Programme in Public Administration and

Abbreviations

Finance. Its findings are summarized in the chapter entitled *The Conference: an Overview*.

The body of the report is divided in four parts. Part I explores the accomplishments of decentralization in Central and Eastern Europe and the CIS, providing an account of legislative frameworks that were put in place for this purpose. It also draws comparisons with trends in Western Europe. Part II dwells on the problems of financial decentralization and safeguarding accountability in local administration. Part III concerns itself with the human factor in local governments, including civil society, which is of growing importance in this context. Part IV contains a summary of the findings and recommendations of the Conference working groups.

Presentations on these subjects by experts and practitioners from several parts of the world occasioned a lively debate, which was highly appreciated by participants. The following, in particular, provided major inputs to the debate, which are reflected in this report of the Conference: Dr. Michal Illner, Dr. Hellmut Wollmann, Dr. Natascha Fuechtner, Dr. Gertrude Schlicker, Dr. Mikhail M. Prusak, Dr. Vitali Koshkine, Dr. Lyle Dwight Wray, Mr. Bolot Kulnazarov, Dr. Leonid Vardomsky, Dr. Dorothy Rosenberg and Dr. Michael Kelly. The organizers of the Conference thank all of the participants and presenters for the outstanding contributions which they made to this compendium. They also express their gratitude to the Armenian Parliament and Government for making the Conference possible. A special word of thanks is also due to the staff of UNDP in New York and Yerevan, who worked hard to make this Conference a great success.

This volume was prepared for publication by the Governance and Public Administration Branch of the Division for Public Economics and Public Administration of UNDESA. Special mention in this regard is made of contributions received from the General Rapporteur, Mr. Demetrios Argyriades, and Mr. Garegin Manukyan, staff member of UNDESA, who played a major part in the organization of this event.

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BSEC	Black Sea Economic Cooperation
CEE	Central and Eastern Europe
CIS	Commonwealth of Independent States
CBO	Community-based organization
CSO	Civil society organization
DESA	Department of Economic and Social Affairs
DPEPA	Division for Public Economics and Public Administration
DSE	German Foundation for International Development
EIPA	European Institute of Public Administration
EU	European Union
IDEA	International Institute for Democracy and Electoral Assistance
IIAS	International Institute of Administrative Sciences
ILO	International Labour Organization
INTOSAI	International Organization of Supreme Audit Institutions
IULA	International Union of Local Authorities
LIFE	Local Initiative Facility for Urban Environment programme (UNDP)
MDGD	Management Development and Governance Division (UNDP)
NGO	Non-governmental organization
NHDR	National Human Development Report
OECD	Organization for Economic Cooperation and Development
OSCE	Organization for Security and Cooperation in Europe
RBEC	Regional Bureau for Europe and the Commonwealth of Independent States (UNDP)
SIGMA	Programme of Support for Improvement in Governance and Management in Central and East European Countries (OECD)
UNCHS	United Nations Center for Human Settlements (Habitat)
UNDP	United Nations Development Programme
VAT	Value added tax

CONTENTS

Foreword	iii
Executive Summary	1
The Yerevan Declaration on Decentralization	3
Opening Address by H.E. Mr. Khosrov Haroutiunian, Speaker of the National Assembly of Armenia	5
Opening Address by Mr. Guido Bertucci, Director, Division for Public Economics and Public Administration, on behalf of the Under-Secretary-General, United Nations Department of Economic and Social Affairs	7
Message by Mr. Anton Kruiderink, Assistant Administrator and Director, Regional Bureau for Europe and the CIS, United Nations Development Programme	9
The Conference: An Overview	11

Part I

The Nature, Overall Context and Legislative Frameworks of Decentralization

Decentralization Reforms in Central and Eastern Europe and the CIS after 1989: Aims, Problems and Solutions	23
The Legislative Aspects of Decentralization	39
Decentralization in the European Union	49

Part II

Financial Decentralization: Establishing the Necessary Resource Base

Financial Aspects of Decentralization under Conditions of Transition to a Market Economy	59
Interdependence and the Balance between Centralization and Decentralization of Financial Resources in Russia	68
A Framework of Success for Government Audit in a Decentralized State	75

Part III
The Human Factor in Local Governance

Human Resources Development for Decentralization	85
Mobilizing Civic Participation in Local Governance: What, Why and How?	94

Part IV

Summary of the Findings and Recommendations of the Working Groups.....	107
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Annexes

Annex 1 The LIFE Programme in Kyrgyzstan: a Case Study.....	115
Annex 2 Annotated Programme.....	120
Annex 3 List of Participants	125

Executive summary

In April 1996, the United Nations General Assembly, at its resumed 50th session, adopted resolution 50/225 on Public Administration and Development. The resolution confirmed the importance of reinforcing public administration for development and emphasized the need for cooperation among United Nations departments and agencies in supporting capacity-building in the broad areas of governance, public administration and finance. In paragraph 9, the resolution encouraged, where appropriate, decentralization of public institutions and services.

In 1997 and 1998, the subsequent Meetings of Experts on the United Nations Programme in Public Administration and Finance accorded great importance to decentralization which, in the experts' view, must go *in tandem* with new approaches exemplifying adaptability, participation, flexibility and responsiveness.

Significantly, however, both meetings, in their reports, warned against the pitfalls of hastily conceived and poorly implemented decentralization programmes, which not only had failed to achieve the hoped-for results, but sometimes had been known to favour corrupt practices and the power of local elites.

Decentralization was part of the debate at the United Nations Conference on Public Service in Transition: Enhancing its Role, Professionalism, Ethical Values and Standards, held in Thessaloniki, Greece, in November 1997. This regional high-level Conference highlighted decentralization as one of the critical facets of the transition process and one of the conditions for democratization and successful integration into the broader community of nations.

The importance of decentralization as a critical part of reform was underscored at several recent meetings of the United Nations and, most recently, at the United Nations Development Programme's First Workshop on Decentralization of Governance in Central and Eastern Europe and the CIS, held in Prague, the Czech Republic, in October 1997.

In light of the above-mentioned considerations and mandates, the United Nations Department of Economic and Social Affairs (Division for Public Economics and Public Administration), in close cooperation with the United Nations Development Programme (Regional Bureau for Europe and the CIS and Management Development and Governance Division), decided to

The Conference participants stressed the importance of creating an adequate and secure tax and revenue base, in order to safeguard the autonomy and accountability of local government. They further emphasized that functions and responsibilities should be commensurate

avail themselves of the invitation of the Armenian Government to host a regional conference on the subject of decentralization in the context of transition, with a focus on requirements and conditions for success.

The Conference was held in Yerevan, Armenia, from 26 to 28 April 1999. Its deliberations were focused on decentralization as an ongoing process and the requirements needed to make it a success. The discussions were structured around four building blocs: the legislative framework and process; financial decentralization; human resources development; and mobilizing civic participation.

The legislative framework and process

What are the institutional structures and policies that must be developed and how can they be put in place to constitute an enabling framework for decentralization?

The Conference participants concluded that, given the complexities of the transition process, it was necessary to think of decentralization in terms of a series of steps that must be adjusted carefully to varying situations. Decentralization is not an end in itself. It should be combined with other overarching goals: safeguarding the proper and efficient functioning of the State as a whole; preventing its disintegration; and respecting the principle of the equality of all citizens within the State.

The participants espoused the principle of subsidiarity, already widely applied in the countries of the European Union. It emphasized the importance of proper coordination, cooperation and synergy between the several levels of government, as well as close relations with the legislative assemblies. The importance of legality was emphasized. Law provides the basic framework, which must be complemented by regulations, subject to two conditions: the power to make regulations has to be circumscribed by the law itself; and this power must be exercised under the supervision of the courts, which ought to ensure that these regulations remain within the framework of the law.

Financial decentralization

What are the requirements for devolution of power; what are the alternative methods and strategies for building an adequate financial base for the operations of local government, and what are the conditions for safeguarding efficiency, transparency and accountability?

to resources. Powers of revenue raising and expenditure should be matched by duties to account. Access to information was viewed as all important. Yet, in the majority of countries, it is still the exception rather than the rule. Financial control and accountability are

hampered by lack of skills and availability of data, but also by a certain attitude of secretiveness, which represents the legacy of the past. Other adverse conditions discussed include the inadequacy of existing structures, the poor economic performance in the region as a whole, and conditions of political and social instability.

According to participants, adverse conditions could lead to and did, in fact, engender growing economic inequalities within and among regions; growing corruption and organized crime; and economic mismanagement in some countries. There is a need, accordingly, to review the policies pursued in order to avoid repetition of policies that failed. There is also a need to strike a balance between centre and periphery, as well as between government and non-governmental organizations.

Transfers from central government, in most cases, represent a major source of finance for local authorities. In most countries, central governments reserve the right to specify the targets for which those grants may be expended, as well as the manner in which this may be done. It should be emphasized, on the other hand, that such a system is clearly predicated on central and local capacity to administer it carefully, especially as regards performance monitoring and evaluation of results. An issue that was raised was that of user charges. More and more, in the West, these are applied not only for reasons of efficiency and effectiveness, but also on account of the incremental value accorded by the citizens to services paid for and, therefore, to discourage waste. Participants noted, however, that user charges might have adverse effects on vulnerable segments of the population, especially those living below the poverty level. Any user charge, accordingly, should be applied in a manner sensitive to their needs.

Human resources development

How can the central government help meet the pressing needs of local government in staffing, training, career structures and personnel management; how can the performance and professionalism, including ethical values, of local government servants be enhanced?

Participants concluded that decentralization and local government reform requires the cooperation and synergy of three types of people: elected representatives and incumbents of posts reserved for discretionary appointments; core professional staff; and civil society groups or citizens, who act not only as promoters and partners in local decision-making processes,

but also as monitors and evaluators of local government performance. Human resources management and development should address the needs of all three types. Often mixed groups of the above categories could be trained together. Developing the skills, values and attitudes of responsible citizenship is a generic need, which requires considerable effort of civic education and training.

Mobilizing civic participation

What are the structures and strategies required to encourage support and enlist active participation from the local community; how can local NGOs and grassroots organizations provide support for decentralization?

As the participants saw it, democracies require responsible, well-informed and proactive citizens. The passivity of citizens is a barrier to stronger local democracy and to the reinforcement of civil society. The countries of the region are rich in human resources; they can make real progress once citizens develop new and constructive ways of thinking and taking initiative on issues that matter to all.

Legal frameworks may be helpful, but are not enough to help civil society organizations work at the local government level. In all too many cases, laws have been without effect. Much change needs to be face to face, involving training and support of citizens in addressing such issues as development planning for their community. What is of primary importance is to develop community capacity-building for problem-solving. As the pace of democratization picks up, the pace of development of self-help groups at the local level is also bound to grow.

Truly independent media support a strong democracy of informed citizens. Over the long term, information is critical to the empowerment of citizens and civil society, so that they may be effective partners in local self-government. The role of international organizations, both inter-governmental and non-governmental, points in the same direction. The exchange of information affords not only technical but also moral support.

The Conference concluded that a great deal could be gained by tapping the rich pool of expertise and experience available to the countries of Central and Eastern Europe and the Commonwealth of Independent States. Its most important findings and recommendations have been incorporated in a Declaration which was unanimously adopted at the final session. The text of the Declaration follows.

The Yerevan Declaration

1. Elected representatives and appointed officials both from local authorities and from the central governments of more than 20 countries of Central and Eastern Europe and the Commonwealth of Independent States met in Yerevan, from 26 to 28 April 1999, to exchange views on the progress of decentralization in their respective countries.
2. Participants acknowledged the catalytic role of decentralization in democratization and in accelerating the transformation process of the economy and society of their countries, particularly those that had been over-centralized and over-politicized.
3. Participants concluded that the challenges and problems are mostly common to all, although solutions may vary from country to country, according to specific socio-economic conditions and cultural particularities.
4. Common to all countries is the need for a strong supportive centre for successful decentralization. Based on the Constitution and other relevant texts, a clear and consistent legislative framework should establish the foundations for the distribution of functions and competencies both between the State and local self-government and among the various levels of local self-government. Such distribution of functions does not preclude a close cooperation among them.
5. Participants underlined that a financial resource base commensurate with the functions and the responsibilities of various levels of government and self-government should be secured. An effort must be made, accordingly, to establish and maintain financial flows for local authorities that broadly correspond to their particular needs, conditions and responsibilities. For this purpose, the development of institutional frameworks that encourage cooperation between central and local authorities and the enhancement of relevant skills are mandatory. Financial decentralization should stimulate and foster local responsibility and the efficient use of resources for quality service delivery and socio-economic development. In the context of financial decentralization, appropriate mechanisms are needed to ensure a fair equalization and distribution of revenues. At the same time, strong and transparent systems of accountability and control should be put into place.
6. To ensure sustainable progress in decentralization, human resources development will be required. To this end, a range of measures should be adopted aiming at

both elected and administrative staff. Human resources development encompasses training activities which target the refinement and reinforcement of skills, knowledge and ethical values, but also the promotion of organizational development and change. The Conference discussions reflected the existence of broad generic needs in policy analysis; in legislative drafting; in budgeting and financial management; in NGO resources management; in entrepreneurial development; in gender and environmental sensitivity training and in the training of trainers. However, training activities cannot be truly effective, if they are not properly integrated into and supported by coherent policies and programmes in recruitment, placement, motivation and career development.

7. A vibrant civil society and NGOs can play a major role in decentralization and local government reform. Strong democracies require well-informed proactive citizens. Effective citizens participation is predicated on a culture that will prompt them to play, to the full, their parts as stakeholders and partners in decision-making, as standard-setters and evaluators of performance in local government. Citizen education is important in this regard. There are several examples of curricular development for the education of citizens on their rights and responsibilities from the countries in the region. Citizens need to learn their rights, but also their obligations as members of a national society and of a community.

8. Participants recognized that there is a rich pool of experience and expertise in several countries of Central and Eastern Europe and the Commonwealth of Independent States. Such expertise and experience, including information on best practices in the region and beyond, can prove a useful tool, which can assist the process of planning and implementing decentralization and local government reform. This exchange of information can be enhanced by maximizing the use of modern information technologies, encouraging distance learning and building interactive rosters and networks for sharing information, ideas and expertise. By fostering the establishment and maintenance of information networks and clearinghouse facilities on a global and regional basis, the United Nations can play a critical role in the growth and operation of virtual communities of practitioners and scholars dedicated to the purposes of decentralization, administrative reform, promoting citizen participation and democratization.

9. Participants, therefore, requested the United Nations to continue, to encourage and to facilitate the ongoing dialogue on decentralization and overall administrative reform in the countries of Central and Eastern Europe and the Commonwealth of Independent States, by convening similar regional fora, by developing regional networks and by strengthening national, regional and local institutions dealing with decentralization issues.

10. Finally, participants expressed their heartfelt appreciation to the Parliament and Government of Armenia for hosting and organizing this Conference, and for the generous hospitality, which was extended to all. They also communicated their sincere thanks to the United Nations which, through the Department of Economic and Social Affairs and the UNDP, effectively and strongly supported the organization of the Conference.

Opening Address

*by His Excellency Mr. Khosrov Haroutiunian
Speaker of the National Assembly of Armenia¹*

We have come together today, in this hall, to discuss issues of decentralization. There has been a specific reason behind the idea to organize the Conference in Yerevan. This is not only the result of the last spring initiative of our Parliament, but also the outcome of large-scale activity undertaken with the assistance of international organizations for the creation of an adequate legal framework for the implementation of decentralization and the formation of local self-governance bodies. The issue is especially important for the countries of the post-socialist space that are currently under a complex transition from command, autocratic governance to a political, economic and social order based on the freedom of choice, competition and initiative.

It is obvious that under democratic decentralization, functions are devolved by federal bodies of governance to democratically established local self-governance entities. The delegation of responsibility and decision-making authority is an important part of the democratic process and the formation of civil society. It is a unique way of engaging enormous human resources, endowed with intellectual potential and initiative, in the local self-governance process and the establishment of new modalities and quality standards for public services delivery. Democratization is one of the main guarantees of macro-economic stability and a prerequisite of civil consent, as well as social cohesion.

However, these processes are accompanied by certain objective problems. There is not only an issue of providing a legal basis for the activities of the local self-governance bodies and the division of power between the federal and local authorities, but also an issue of developing a new mentality. This means the realization of responsibility vis-à-vis the community for the rational and targeted use of material and financial resources, ensuring transparency of activities, oversight mechanisms, etc.

The key issue, however, remains financial decentralization, as well as the degree and modality of participation

of the State in local affairs. Obviously, the transfer of power from the top down, without provision of adequate financial resources, dooms the process of decentralization to failure and devaluates its philosophy. It is especially important to ensure the budgetary autonomy and financial sustainability of the local self-governance bodies with regular, stable, reliable and commensurate appropriations from the federal budget that would inject predictability into local budgets. The formation of a rational system of financial equity becomes a key priority as a way to ensure a participatory approach and sense of responsibility in the government and the process of harmonious development of human settlements.

One more common issue that we all face is that of ensuring the adequacy of national legislation vis-à-vis the requirements of the European Charter on Local Self-Government. Such adequacy is essential not only for strengthening the process of integration into the European system, but also for economic cooperation among our countries.

In a nutshell, the problems and issues are legion. Our Conference is dedicated to the discussion of all the major issues. The programme is designed in such a way that we can only cover the most outstanding issues in depth, both during the plenary sessions and in the working groups. I hope that we will succeed in elaborating a framework declaration of the Conference on democratic decentralization.

We have received a unique opportunity not only to share experiences, successes and failures, but also to discuss conceptual issues that are pivotal and fundamental to decentralization. I am confident that the Conference will leave us satisfied with its deliberations and its creative atmosphere. It will also enrich us with new knowledge, approaches and solutions to the daunting issues of decentralization and the operation of local self-governance bodies.

¹ *Original in Russian.*

Such optimism on my part is inspired by the range of expertise brought by many participants of this Conference, including policy-makers from twenty-two countries of Eastern Europe and the CIS, as well as representatives of prominent international organizations that have made substantial contributions towards the creation of legal frameworks and have provided practical support to local self-governance bodies in countries with nascent democracies. Lastly, we count among us famous scholars and experts in the field, whose insights can greatly enhance the effectiveness of this Conference.

Its success has been assured by the joint efforts of both the United Nations Department of Economic and Social Affairs and the United Nations Development Programme. Their experience in the organization of such large-scale conferences, on a range of priority issues on the global agenda, is considerable.

Dear colleagues, let me thank you all for your response to our invitation and for making the time to participate in this Conference. I would like to express my special gratitude to the United Nations Secretariat, represented here by Mr. Guido Bertucci, Director of the Division for Public Economics and Public Administration, UNDESA. He has not only supported my initiative to

organize this Conference in Yerevan, but also has shown confidence in the success of our cooperation. This success was to a great extent due to the efforts of my good friends: Professor Demetrios Argyriades and Mr. Garegin Manukyan.

Let me also warmly thank the United Nations Development Programme, represented here by Mr. Anton Kruidrink, UNDP Assistant Administrator and RBEC Regional Director, and Ms. Katica Cekalovic, UNDP Resident Representative and United Nations Resident Coordinator. I also thank her staff, the UNDP Country Offices in the region, and all those who contributed to the successful organization of the Conference.

My friends, our Conference is taking place in the last days of April. This is the beautiful time of the Armenian spring, when nature awakens and blossoms inspiring a sense of beauty and harmony. We have tried to ensure that the programme of the Conference includes cultural activities. This will enable you to better know Armenia, with its unique culture and traditions.

I wish you and our Conference the best of luck. Thank you.

Opening Address

by Mr. Guido Bertucci

Director, Division for Public Economics and Public Administration

on behalf of the Under-Secretary-General

United Nations Department of Economic and Social Affairs

On behalf of Mr. Nitin Desai, Under-Secretary-General of the United Nations Department of Economic and Social Development, I thank you for your welcome, your strong words of encouragement and the praiseworthy initiative of the Armenian Parliament to organize this Conference in Yerevan. We, of the United Nations, are deeply grateful for the occasion it offers to meet with representatives of National Assemblies, as well as Executive Branches of Governments in the region, around a shared concern: the advancement of the goals of decentralization under conditions ensuring safe and sustainable progress.

The level and the numbers of country representatives, who chose to make the time in spite of busy schedules and pressing commitments at home, in order to be here with us in Yerevan, highlights the great importance and urgency of the topic which brought us all together. The General Assembly of the United Nations emphasized its relevance to the development effort when, in its resolution 50/225 of 19 April 1996, only three years ago, it called for decentralization of public institutions and services, often as a condition of enhanced efficiency and productivity, accountability and responsiveness.

The words of this resolution also suggest the goals of decentralization in the frame of contemporary governance. At times of limited resources, we look to decentralization to improve cost-effectiveness in the delivery of basic public services. More importantly, however, in an era of democratization, the growth of civil society and citizen participation, we expect decentralization to add a new dimension of respect for public wishes, responsiveness, transparency and accountability in the delivery of services and, more generally, the discharge of all the tasks of government.

More than increasing efficiency, decentralization seeks to bring government *back* and *closer* to the *citizen*, a feature that has made it one of the critical facets of the transition process and administrative reform in the countries of Central and Eastern Europe and Central Asia. It can also be considered as one of the conditions

for a successful integration of these states into the global society and economy.

Decentralization has taken many forms in different countries of the region, but mostly goes *in tandem* with a broader devolution of power, deconcentration, debureaucratization and novel approaches to government and public administration exemplifying the quest for greater flexibility, results-orientation, responsiveness to clients' needs and speedy adaptability to technological change.

As one of our presenters will show, decentralization is a key pillar of democratic government in that it gives citizens the right and opportunity to participate and to influence the processes of governance. Such political empowerment not only meets normative democratic principles, but also fosters the kind of political integration, identification and involvement required of political systems in order to endure and flourish, especially at times of economic hardship and social challenges, which the countries of this region have been facing.

Legislative initiatives in decentralization are the work of the parliamentarians and government officials. Today, they take on a singular importance in that they buttress constitutional government by diffusing power and balancing it between the central and the sub-national levels of government. They also provide the institutional framework and rationale for a range of actors on the regional and local levels to take active responsibility for regional and local development. It is this legitimacy, based on constitutional and legal provisions, that ensures a stable environment for democracy to thrive, the economy to develop and civil society to create productive partnerships through which a hopeful future can be built.

Particularly in regard to ethnically and culturally diverse societies, decentralization is very closely tied to the need to counter perceptions of marginalization, exclusion, discrimination and lack of representation. Carefully crafted democratic institutions, with appropriately decentralized structures, are crucial not only for the effective execution of the State's responsibility in the delivery of services, but also for preventing frus-

tration and disaffection from escalating into violent conflict or disintegration. Ultimately, it is an essential ingredient in sustaining a healthy State. Whichever model is used for power sharing, there is a broad range of public policies, consultative mechanisms, institution-building and human resources strengthening that need to be instituted in order to ensure that plans are implemented as intended and to greatest effect. It is the technical aspects of operationalizing such policies on which we hope this Conference will shed some light.

Accordingly, a reform for decentralization needs to address both the *structure* and *culture* of organizations and government at large. Structures must be reshaped to make way for the emergence of an enabling framework one in which local authorities may exercise their functions responsively, responsibly and to their fullest extent.

A change of the management culture is often necessary to make this transformation of local government structures both real and effective. In East and West alike, we are all heirs to a legacy of centralized control, which goes back 200 years or more. It was especially strong in the countries of this region, where it was underpinned by single party dominance and a centrally planned economy. It cannot be denied, on the other hand, that in many Western countries also, the prevalent trends during the post-war decades were mostly in the direction of centralization. This is no longer the case, as country after country has made decentralization to the local and regional levels a very important part of the reform effort.

We can benefit substantially from this rich menu of reforms that have been undertaken both in Western European countries and, since 1989, in the countries of Central and Eastern Europe and the CIS. Comparative experience can shed light on the path of institution-building and help us solve some of the problems of reform with which we are currently grappling. This is one of the principal benefits of a meeting of this nature and the reason why we invited representatives and specialists from other regions to participate.

We look to a cross-fertilization of knowledge and experience to illuminate some of the critical areas of decentralization those areas, in other words, where progress and success largely condition the outcome of the whole enterprise. In close consultation with our colleagues from the UNDP and our Armenian hosts, we identified four such areas:

First, the critical role that legislative bodies perform as prompters, initiators, monitors and guides of the process of decentralization; the part they play in shaping what I term an enabling institutional framework and setting it in motion;

Second, financial decentralization and creation, for local government, of an adequate resource base;

Third, the human factor, which brings institutions to life. By common accord, human resources management and human resources development represent a critical need, but also a field of activity which offers great potential for regional cooperation. This includes in-service training, but also personnel systems, which must be put in place so that capacity-building may yield all possible benefits; and

Fourth, civil society.

Non-governmental organizations and other community-based organizations can and do play a major role in initiating the process of decentralization and keeping it on course. Here again, the cooperation of partners in the region presents a lot of advantages in terms of mutual enrichment, synergy and economies of scale. The NGO resource and training centres that have demonstrated successful operations in some countries could be adopted by others and all could choose to share in the design, development and implementation of appropriate courses for the training of effective NGO managers.

Our hope, in other words, is that the exchange of views and information which during these few days will take place in these halls, thanks to our Armenian hosts, may open possibilities for future collaboration and regional follow-up actions. The Department of Economic and Social Affairs and the Division for Public Economics and Public Administration, which I am honoured to represent, will be very happy indeed to support and participate in such a collective endeavour. In this age of globalization, international cooperation and cross-fertilization are part of everyday life and an essential condition of sustainable progress. Established to promote such peaceful cooperation among its Member States fifty-four years ago, the United Nations remains the best and most viable framework for such fruitful cooperation.

Message

by Mr. Anton Kruidierink

Assistant Administrator and

Director, Regional Bureau for Europe and the CIS

United Nations Development Programme

At the dawn of a new millennium, the region of Eastern Europe and the CIS is having to reflect on the realities of the latest experiment in social engineering with people, once again, the objects, instead of participants in shaping policies that affect their daily lives. Many people in the region will look back on the 1990s as a decade of social and economic upheaval that neither they nor those offering advice or financial assistance had anticipated. What had been centrally planned and managed economies, which provided most people with basic goods and services but without political choice or respect for individual rights, has been replaced by policies seemingly incapable of caring for those left behind by the market forces. All power to the State was exchanged for all power to the market; the visible hand of centralized authority replaced by the invisible hand of the market.

Although both ideologies claimed that they would provide the best for the people, the promise of the market ideology that it would also ensure a civil society capable of correcting the distortions of the market proved disappointing. Of their own, neither blind trust in centralized authority, nor the claim of the market as the panacea provided opportunities to build up those democratic instruments needed to correct the distortions that both ideologies produced. The ideological focus of shrinking the State followed in this region, instead of promoting an activist State, may well prove the biggest departing mistake of this millennium.

A viable, dynamic and reasonably equitable market economy requires an effective State, where the instruments for strengthening the nation-state obviously needed in a region where overnight so many countries found independence have to be balanced with adequate decentralized policies. This is partly to respond to the expectations of groups aspiring to administer their own cultures and traditions as part of newly formed national entities. The greatest challenge, while moving into the next millennium, will prove to be the building of viable political institutions for the new nation-states of the region, capable of respecting the aspirations of minorities that are part of these nations, of balancing between what is dictated by economic logic and

clamoured for in political expectations. The political process of breaking up the Soviet Union has been remarkably peaceful but, in its aftermath, the forces of ethnicity and minority, of the periphery in relation to the centre, ask for political leadership in promoting policies that are all-inclusive, a rare commodity even in normal times and for sure harder to come by when the economic and social data point down.

Those who applauded the lifting of the Iron Curtain that separated peoples between countries never expected Glass Curtains to descend that separate people within countries. We now look at the uncomfortable reality of achieving political rights in an environment of growing economic insecurity, with the latter capable to turn the ideology of fuller choice into one of fewer choices for many. Human insecurity breeds human violence, making it even more necessary for economic growth to aim at enriching human development.

In its work, the UNDP prides itself on involving all the countries of the region, relying on their technical capacities in selecting their own path to a better future, in building a strong civil society, in seeking a private sector that accepts its responsibility to contribute to the common good, and in building an activist State, unlike the old Soviet States.

In each country, UNDP seeks to promote a policy dialogue, in the context of preparing an annual National Human Development Report. In each country, the UNDP draws on a team of national professionals, recognizing that global visions need local voices. Governments should be assessed by their own people, on how successful the transition has been, in safeguarding achievements resulting from earlier policies, as well as in expanding investment in a market-driven environment. As such, UNDP closely identifies with policies aiming to revive economic growth, a growth that should benefit the majority of the people, commensurate with the objectives of social equity. What is urgently needed is a shift from private consumption to investment and human capital formation, and within private consumption, from luxury con-

sumption of the new rich to the necessities of the new poor. There is now ample evidence that there is no automatic link between economic growth and human progress. While the latter needs to be nourished by economic growth, resources must be allocated so that society also unleashes the energies of people, i.e. the building up of civil society and supporting democratic instruments to give people a voice. It was with this in mind that UNDP formulated its human development strategy, focusing on how to enlarge people's choices. Human development is not only about the formation of human capabilities, where the countries in transition previously did quite well, but is about the use people can make of their acquired capabilities. If these two sides do not move in unison, human frustration will spread. Economic growth must include equity. If it does not, what is promoted as the best will prove to be the enemy of the good.

Although human development indicators remain better than would seem consistent with economic data, in much of the region it is likely that economic recovery will be slow, while regional inequalities within countries will increasingly become a matter of the utmost concern. These are linked to the issue of minorities. Whatever is promoted from the perspective of econo-

poor.

mic growth must go hand in hand with a governance flexibility that recognizes the importance of involving local and sub-regional levels to the greatest extent, if only to protect the new nation-state structures. For governments, there is a stark choice between artificial stability, resting on an autocratic, centralized approach, and sustainable stability based on decentralized structures and consistent respect for basic human rights.

National markets are held together by shared values. In the face of economic transition and insecurity, people know that if the worst comes to the worst, they can rely on the expectation that certain minimum standards will prevail. However, in the global market, people do not yet have that confidence. Until they do have it, the global economy will be fragile and vulnerable vulnerable to backlash from all the isms of our post-cold-war world: protectionism, populism, nationalism, ethnic chauvinism, fanaticism and terrorism... The more wretched and insecure people there are, the more those isms will continue to gain ground. Kofi Annan, Secretary-General of the United Nations, from his speech to the World Economic Forum, January 1999.

The Conference: an Overview

A. Background and organization

In April 1996, the United Nations General Assembly, at its resumed 50th session, adopted resolution 50/225 on Public Administration and Development. The resolution confirmed the vital importance of strengthening public administration for development and emphasized the need for cooperation among United Nations departments and agencies in supporting capacity-building in the broad areas of governance, public administration and finance. Specifically, the resolution confirmed the need for public administration systems to be sound and efficient and acknowledged that the role of the United Nations activities and programmes in public administration and development is to assist Governments, at their request, and to focus *inter alia* on strengthening government capacity for policy development, administrative restructuring, civil service reform, human resources development and public administration training. In paragraph 9 of the above resolution, moreover, the General Assembly invited

Governments to strengthen their public administrative and financial management capacities through public-sector reforms, with emphasis on enhanced efficiency and productivity, accountability and responsiveness and encouraged, where appropriate, decentralization of public institutions and services.

In 1997 and 1998, the subsequent Meetings of Experts on the United Nations Programme in Public Administration and Finance accorded great importance to decentralization which, in the experts' view, must go *in tandem* with new approaches exemplifying adaptability, participation, flexibility and responsiveness.¹

Significantly, however, both meetings, in their reports, warned against the pitfalls of hastily conceived and poorly implemented decentralization programmes, which not only had failed to achieve the hoped-for results, but sometimes had been known to favour corrupt practices and the power of local elites.²

Decentralization was part of the debate at the United Nations Conference on Public Service in Transition: Enhancing its Role, Professionalism, Ethical Values

¹ United Nations document E/1998/77, p.2.

² E/1997/86 p.2.

and Standards, held in Thessaloniki, Greece, in November 1997.³ This regional high-level Conference, in which most of the countries of Eastern and Central Europe participated, recognized decentralization as one of the critical facets of the transition process and one of the conditions for successful integration into the broader community of nations. The Conference concluded that enhancing ethics and professionalism in the public service should not be limited to central government establishments, but equally extended to the staff of local authorities.

The importance of decentralization as a critical part of reform was underscored at the United Nations Development Programme's First Workshop on Decentralization of Governance in Central and Eastern Europe and the CIS, held in Prague, Czech Republic, in October 1997. The final report of this Conference called for support and sharing of experience in the field of decentralization, with a particular focus on its political, economic and administrative dimensions.

In light of the above-mentioned considerations and mandates, the United Nations Department of Economic and Social Affairs (Division for Public Economics and Public Administration), in close cooperation with the United Nations Development Programme (Regional Bureau for Europe and the CIS and Management Development and Governance Division), decided to avail themselves of the invitation of the Armenian Government to host a regional conference on the subject of decentralization in the context of transition, with a focus on requirements and conditions for success. The title of the Conference, accordingly, was set as Decentralization in Eastern and Central Europe and the CIS: Conditions for Success.

More than one hundred people from twenty-one regional countries, four other Member States and twelve organizations, other than the United Nations and the UNDP, took part in the proceedings of this high-level conference. They included members of parliament, mayors, politicians and civil servants from both the central government and local administration, as well as academics and leading representatives of NGOs

³ United Nations document ST/ESA/PAD/SER.E/77.

active in the promotion of decentralization and The Conference was held in Yerevan, Armenia, from 26 to 28 April 1999. The National Assembly of the host country joined forces with the offices of the United Nations and UNDP in Yerevan and New York to make the necessary arrangements and provide the requisite logistic support. The Conference was focused on decentralization as an ongoing process and the requirements needed to make it a success. The stress was laid on four dimensions and discussion structured, accordingly, around four building blocs:

- The legislative framework and process;
- Financial decentralization;
- Human resources development for decentralization and local government improvement; and
- Mobilizing civic participation in local government.

democratic governance.

Each theme was introduced by an expert, selected for this purpose by the United Nations and UNDP, and other leading specialists from the region and beyond. The purpose was to achieve a balanced presentation of the several parameters and viewpoints and thus prepare the ground for what indeed became an open and participative, yet well-focused debate. Presented in the plenary sessions, the papers reproduced in this report, were thus explored in depth in discussions that shed light on national perspectives. There were also working group sessions on each of the above themes, which helped showcase current decentralization measures, policies and practices, analyze the lessons learned and synthesize the outcomes of plenary discussions. A limited number of case studies were commissioned and presented at these working group panels.

B. Issues, concerns and focus

Almost by definition, a highly centralized system of government is less democratic than one in which there is a network of local and regional authorities complementing the national authority, with clearly delineated powers and responsibilities.⁴

These words of the UNDP Regional Report draw attention to the features of decentralization which emerged as the dominant issues of the three-day debate and served to underscore the underlying concerns that were present in all four of the major areas covered. What the Conference emphasized was the fact that decentralization in Central and Eastern Europe and the CIS formed an integral part of a much broader and complex movement of truly global dimensions. The quest for more democracy, which the Report highlighted, has been coupled in most places by attempts to graduate from a highly centralized, tightly controlled, often paternalistic and authoritarian bureaucratic system into one exemplifying the merits of individual initiative and citizen participation in the affairs of government.

A new pattern of governance has been emerging gradually which points in the direction of the diffusion of

power and authority among multiple stakeholders at several layers of government supra-national, national, regional and local. The Conference participants agreed that this move represented a positive trend. It was recognized, however, that this emergent pattern, though clearly more in tune with current expectations of the majority of citizens, would not yield its full benefits, indeed might well result in disappointing outcomes, if it were not accompanied by measures that produced a system of accountable, efficient and effective governance, which delivered what it promised.

The participants acknowledged that such considerations had not been given due prominence during the initial phase of the reform in the majority of cases. During the years that followed the fall of Soviet Communism, the push to decentralize was principally driven by a desire to overhaul and to democratize the political system, dismantle the power base of an autocratic regime which was on its way out and alter the top-heavy authoritarian structures which it had used to rule. By comparison, considerations of functional expediency were accorded little weight.

Coming a full decade after this spate of reforms, the Conference in Yerevan afforded to its participants the occasion to revisit their accomplishments, but in so doing also to concede a number of drawbacks or shortcomings which these reforms carried in their trail. One of the major flaws of those reforms, as many participants saw it, was a perceptible tendency towards

⁴ *The Shrinking State: Governance and Human Development in Eastern Europe and the Commonwealth of Independent States*, a report of the UNDP Regional Bureau for Europe and the CIS, New York, 1997, p. 23.

pulverization or fragmentation. Contrary to the trend towards the amalgamation of small communities or settlements into larger administrative units, which had been pursued forcefully under the previous regime, a fragmentation process produced local authorities which lacked the critical mass or the resources to be administratively viable and economically self-sufficient. Frequently, this proclivity resulted from the ambitions of local power elites. However that may be, the net outcome, as one participant put it, was *disproportionality* between the tasks at hand and the resources available, both human and financial, at the local community level. Such disproportionality of ends and means further exacerbated the problems of service delivery which decline or disappearance of traditional providers (state agencies or enterprises) had brought in their trail. The loss of vital services, like health or education, which had been offered gratis under the previous regime, expectedly aggravated the cost-of-living problems confronting groups of citizens who were unable to afford the price of newly privatized services.

The ensuing new inequalities were compounded by disparities in the quality of the services provided by local authorities, in the measure that the affluent and well-equipped communes have been decidedly more in a position to fend for themselves than the rest. Disparity of resources, both human and financial, as many participants saw it, was frequently compounded by a serious *capacity deficit*. A concept hard to define, capacity to govern can best be represented as the coefficient of institutional adequacy and the effective use of skills for the purposes of local self-government. Capacity to govern is still in short supply and unevenly distributed in most of the regional countries. Reflected in the cost and quality of service delivery, it has influenced people's attitudes to decentralization and ultimately, therefore, to the progress of reform.

As someone aptly put it, the will to decentralize was tempered, in some cases, by the voice of reality, when delivery capacity was manifestly lacking.

Proving worth remained a factor, in the West and the East alike, and value added was now prominently featured in debates on the pace and the progress of decentralization. The issue of capacity highlighted the role of the State in the process of decentralization. As most participants saw it and as stated in the text of the declaration which was adopted at the conclusion of the Conference, a strong State is in no way incompatible with decentralization and the empowerment of local authorities.

Worldwide, decentralization represents a firm response to citizens' demand to take charge of their lives and make their own decisions in ways that add vitality to democratic governance. Precisely for that reason, on the other hand, we need to be reminded that a strong State does not entail big government and certainly is not synonymous with bureaucracy and centralization. Quite on the contrary, as the course of the debate in Yerevan demonstrated, reinforcing the State may be an important prerequisite for both decentralization and democratization.

Discussion at the Conference helped to delineate the profile of the State that is required: a strong strategic State that intervenes selectively to foster growth and to correct dysfunctional, illicit or other undesirable practices and trends. A strong, strategic State refrains from micro-managing the world of local authorities. Rather, it sets the scene and acts as process-manager, creating and sustaining an enabling environment for decentralization and local self-government. It actively seeks out ways that promote those purposes and helps remove the hurdles that stand in the way. It acts *as equalizer, facilitator and watchdog*. It is an arbiter that intervenes strategically to limit or contain disparities of wealth that, left unchecked, might well prove detrimental to the development of the country as a whole. It helps with capacity-building, promoting the development of institutional structures and legislative frameworks and fostering the growth of managerial skills, without which institutions cannot come to life. Last, but not least, the State must take the lead in the fight against corruption, organized crime and the abuse of power, which remain ever-present perils endangering the progress of decentralization. The State is, after all, the power of last resort, the guarantor of both national unity the integrity of the country and law and order.

The importance of a strong enabling centre was repeatedly emphasized by several participants, notably representatives from Hungary and Kazakhstan, but also the representatives of the international organizations who were present. A corollary of this point was that, far from being antithetical, decentralization and deconcentration were truly complementary. According to some of the participants, including those from Ukraine, Armenia and Belarus, deconcentration created a supportive framework for local self-government and helped the coordinated implementation of laws on the local level. Of course, in this regard, much depends on the quality and strength of local leadership, as well as on the establishment of a clear division of functions, authority and responsibility between the centre and the

periphery, in order to avoid overlapping jurisdictions. In several parts of the region, the progress of deconcentration and decentralization had received a boost from democratization, globalization and the prospects of association with/or integration into the European Union. The European Charter on Local Self-Government offered a model and a cardinal principle, *subsidiarity*, which most of the countries concerned aspired to follow closely. Still, participants remarked that, such common ground notwithstanding, comparative experience during this past decade had shown significant variations in national practice. Most countries in the region had found it more effective to initiate reform at the local self-government level. At the *meso* level, by contrast, administrative regions had been established, but few, other than Poland and Russia, had moved to the following stage, of endowing regional entities with representative institutions.

The reason for this tendency varied from place to place. Comparisons between Eastern and Western experiences highlighted the catalytic influence of supra-national institutions, in this regard. Mr. Michael Kelly from the European Institute of Public Administration (EIPA) made the point that a Europe of the regions was emerging very gradually, making that *meso* level a major beneficiary of integration. The reason for this trend may be found in diverse factors, including democratization and the growth of civil society, the impact of the New Public Management school of thought and, more than anything else, some of the regional programmes of the European Union and the Commission in their quest for effective partners in implementing those programmes.

In the West, the growth of regions was seen as a counterweight to both a dominant State and over-centralization of power in Brussels. In Central and Eastern Europe and the CIS, by contrast, the *meso* level had often been squeezed out by the competing interests of State and local government. The progress of deconcentration had favoured the development of administrative regions. However, as participants from Armenia and other countries showed, relations of those regions to the authorities of local self-government

and the ensuing confusion.

remained to be determined or improved. Still, considerable progress had been achieved, in the space of a single decade, so much that now the process of decentralization might be considered as well nigh irreversible.

Very broadly, as a member from Hungary put it, reform has followed two stages: *transformation* and *consolidation*. Several countries have moved from the earlier stage to a new level of maturity, at which consolidation of the outcomes of the first phase appeared to be secure. Both decentralization and deconcentration owed their success to their intrinsic merits. The representative from the Swedish Association of Local Authorities recounted them, saying that they brought government back and closer to the people, creating the conditions for the realization of government by the people, from the people, for the people. Local government especially strengthened the citizens' sense of identity and ownership, adding meaning to democracy, broadening public choice and restoring to the citizens the ability to influence the course of those events which affected their daily lives. Most importantly, it contributed to the building or reinforcement of *trust* and *social capital*.

Still, comparative experience and the progress of ten years in the countries of Eastern and Central Europe and the CIS has demonstrated that the process of reform is not a one-way street. It is a complex trend, which forms part of a broader movement of universal dimensions. Its scope adds value and relevance to comparative research and the exchange of information on lessons and best practices that can be gleaned from the experience of the countries in the region. As several speakers stressed, deconcentration and decentralization must be viewed from many perspectives: administrative and political, as well as socio-cultural, legal and economic. The variety of requirements and aspirations in a region as diverse as Europe and the CIS precludes the possibility of blanket solutions to problems in all of the countries concerned. However, this very diversity also greatly adds to the benefits of cooperation between them.

C. Conditions for success

A focus on prerequisites for the success of reform added substance to the Conference debate and gave the whole event a distinctly practical bent, which most

Legislative concerns

On behalf of Dr. Wollman, Dr. Fuechtner emphasized the complexity of the process and diversity of concerns, warning against the dangers of straight jacketing reality in the quest for global models. Experience has demonstrated that there are no ready-made answers which would provide solutions to the problems of all countries and situations. Still, lessons could be drawn by looking at the practices of Member States in the region, as well as in Western Europe, to which most of those States were closely bound. Rejecting any blueprint, whatever its source, it was however possible to establish some guidelines which tentatively chart the course that must be followed.

Legislative frameworks are needed to reinforce the legitimacy of reform and to provide coherence, direction and purpose to the whole exercise. This very need, however, highlighted the significance of executive-legislature relationships in decentralization. It further underscored the primary responsibility which rests with the executive branch of government to take the initiative in this regard and the importance of providing a locus of initiative for the reform at an early stage.

Do not leave it to chance was the message. A collegial structure should be established from the start to orchestrate the process. A broad representation of many points of views, diverse organizations and many different skills are necessary to ensure the right approach and optimize the prospect of success. In particular, representation of the business community and trade union organizations is considered necessary.

Making the system work has not always been easy. Participatory processes, however necessary, often prove time-consuming, especially in those countries where a supportive culture has not yet been developed. In Kyrgyzstan, for instance, according to one participant, the collegial principle is still imperfectly understood. Appropriate legislation has to be devised to cope with this situation. Still, in light of the discussion, too much time has been spent on the substantive issues of legislative frameworks and, by comparison, not enough attention paid to implementation problems, which surged in several countries. In Ukraine, for instance, a rich menu of laws had been assembled,

participants welcomed. The free exchange of views and open discussion among them centred on the problems of decentralization encountered in the four theme areas.

but insufficient capacity mustered to put them into effect.

Though participants agreed with their colleagues from Kyrgyzstan that the establishment of legal frameworks is a priority, they also took the view that failure to address the issue of *capacity* served to perpetuate the bottlenecks observable on many levels. Most of them became apparent at the implementation phase, prompting Conference participants to urge that more attention be paid to the machinery required for monitoring the progress of decentralization and the enforcement of pertinent laws. The role and responsibility of the central government was reviewed in this connection and alternative structures explored, such as a Ministry for Decentralization or a Secretary of State at the Prime Minister's Office. The need for the evaluation of projects of reform at regular five-year intervals also received attention. Participants, however, conceded that the incidence of a serious capacity deficit could also affect performance in the upstream phase of reform. In a number of countries, for instance, poor performance has been due to a shortage of skilled legislative draftsmen and policy-development capacity in Parliament. Recommendations, accordingly, were made in favour of the establishment of parliamentary libraries and the conduct of more courses for legislative draftsmen.

Financial decentralization and resource mobilization

The problem of resource constraints loomed large on the horizon, as the Conference considered the major set of conditions for success. These issues were discussed in light of the twin need of building a secure and adequate revenue base for local government, as well as an enabling environment for both private investment and income-generating or job-creating activities. Comparative experience of the transition process, during the past ten years brought into sharp relief the hurdles on the way to those objectives at times of resource scarcity or slow economic growth, compounded in both cases by centralization of business and financial activity in the capital area.

The Russian Federation was a case in point. Historically, Moscow has been the powerful hub of foreign trade and transportation/communication networks. The transition process has, if anything, reinforced Moscow's financial dominance as the foremost banking centre and greatly exacerbated the inherited disparities in income and opportunities. Of the regions, the Novgorod region had been relatively successful in attracting foreign capital. However, its record of success has not been widely shared. Broadly speaking, the periphery has proved less prepared to weather a recession or reach out to opportunities when they presented themselves. The result of this condition has been continued dependence on the centre for sustenance in many cases. Unaccompanied by measures to stimulate development of the less affluent regions, decentralization reforms could not alter this situation.

The importance of development as an enabling factor in decentralization underscored the role of the State in this regard. Participants agreed that State and central government performed essential functions of a proactive nature and of control, both requiring a strong presence at the helm. Most countries in transition were all too well aware of the pitfalls and excesses of high-handed central planning and bureaucratic controls. Eschewing those excesses, they appeared equally anxious to avoid the other extremes. The visible effects of crime and corruption and their impact on recovery were too pressing and too real to be ignored. Participants also detected dangers in regions and municipalities being allowed to borrow freely on world financial markets to meet their budget needs.

Most participants agreed with the representative of the Czech Republic that devolution of powers and financial resources should invariably be accompanied by controls and accountability. A presentation made on behalf of the International Organization of Supreme Audit Institutions (INTOSAI) illustrated how controls and accountability operated at the federal or central and local or regional levels.

In a related context, participants insisted on the need for State support in setting and sustaining an enabling policy framework which promotes economic recovery and growth. They emphasized its duty to assist local authorities develop the physical and institutional infrastructure and skills which, according to a representative from Kazakhstan, would prepare the ground for effective decentralization.

Last but not least, participants acknowledged a responsibility of the State to restore a measure of

equality among local authorities, some of which were better endowed with resources than others. However, as a participant from Denmark remarked, Even taking from the rich to give to the poor has its limits. The objective in financial decentralization is to provide local authorities with a reliable tax base. The task was multi-faceted and national practices differ. Though several participants subscribed to the proposition that the right to level taxes and fix the rates of taxes represented an expression of local autonomy, many also saw problems in the unfettered application of this principle. The Danish representative reminded the participants that, even in her country, there are certain limitations to the powers of local authorities in this regard. Another representative warned against the dangers of what he described as horizontal tax competition among local authorities seeking to attract investments and to induce corporations to relocate.

The right to levy taxes has not so far been granted to all local authorities in the countries of the region. Examples were cited of VAT and a sales tax applied in Belarus, and property taxes introduced in some other countries. It was conceded that often good intentions and basically sound systems run foul of populist politics, especially at the time of elections. Low taxing capacity also remained a problem, notably in weak economies. The issue of tax collection was raised in this connection. Though it was pointed out that, predictably, local government capacity was unevenly spread in the region, participants agreed that building such capacity did not represent a priority. Collection of some taxes could be *outsourced* or left to the central government.

Transfers of funds from the State were another source of finance. Discussion demonstrated that, in the majority of countries, local authorities depended heavily on these as revenue sources. In Romania, for example, they accounted for 50 per cent of the State budget, some 35 per cent going to municipalities and 15 per cent to districts. The extent of central government participation in the budget of local authorities explains its disposition to supervise and control them.

As frequently remarked in the course of the debate, local budgets and finances could not be fully autonomous. They represented public funds and also played a part in the national economy. Central governments, accordingly, had an interest in ensuring that local authorities did not overspend their revenue and did not lightly resort to deficit financing. The State, as already mentioned, plays an equalizing role. However, over-

doing it or, conversely, local authorities becoming too dependent on the State might diminish their autonomy and jeopardize the vitality of decentralization.

Human resources development

The deliberations of the Conference highlighted human resources development as a critical component of a coherent strategy on decentralization and local government reform. As participants saw it, the issue of human resources was intimately linked to that of local budgets. Due to lack of financial means, local authorities find it extremely difficult to attract, retain, develop and motivate personnel of the needed level of competence, commitment and integrity. The problems of transition and the poor state of the economy in some of the countries concerned created a situation in which local government jobs were popular, but sought for the wrong reasons, as employment of last resort. The effects on work performance were further aggravated by clientelist practices and political patronage around the time of elections especially.

Given this set of conditions, the road of reform might seem uphill for many local authorities. Considering the immensity, complexity and urgency of this task, the Conference participants explored certain priority objectives, which seem to be generally feasible and likely to produce a salutary effect on the conduct of local self-government at large.

First in the order of business would be the separation of public service posts from those that are truly political, or so treated by the leadership. Such separation of posts was generally considered as a necessary first step towards the *reprofessionalization* of the local government service, which participants regarded as central to any lasting improvement of personnel performance.

Two concepts that participants most commonly associated with public service professionalism were those of *meritocracy* and *political neutrality*. The first was understood to mean that public servants, those at least who were employed in non-political posts, ought to be assessed on the basis of strictly substantive criteria by reference to proven capacity, competence and performance. The second signified that, in order to safeguard the prevalence of merit in personnel management, public servants should exemplify truly professional standards, be impartial and objective, respectful of the wishes of their elected leaders and guided by a desire to serve the general interest, the welfare of the citizens and the public good.

Professionalization of the local government service emerged from the discussion as a critical component of personnel reform and human resources development. For the participants from Kazakhstan and Romania, in particular, it signified the establishment of merit and the strict enforcement of a code of ethical conduct, duties and rights. Combating corruption and crime was seen as a derivative of this approach, but also a vital facet of the reform. In Kazakhstan, local government reform had carried in its trail downsizing of the staff. Initially decentralized, human resources development was later recentralized, precisely in order to limit the incidence of nepotism and corruption.

Training and career development were other major facets of the required reform. The paucity of resources in Belarus and elsewhere added a note of urgency to this task. To ensure sustainability on the requisite scale, a programme of *training of trainers* was strongly recommended by a participant from Greece, among others. Moreover, on the initiative of the representative of the International Union of Local Authorities (IULA), the Conference considered a range of possible strategies for international cooperation in this broad area.

One such modality applied by the IULA is known as municipal international cooperation. The idea behind it consists of using the experience of local authorities, which have had a long tradition in local self-government, to provide technical and managerial support to their counterparts in countries with a more recent experience of local government. Concretely, this cooperation facilitates the exchange of municipal staff, the training of municipal officials and staff education. Activities are run on two levels:

Technical skills, for local government service delivery (e.g. waste management); and

Management of power/governance and decision-making processes.

IULA helps in this respect, by:

First, encouraging members to engage in city-to-city cooperation (twinning) and cooperation among local government associations;

Second, organizing meetings at regional and global levels. The most important of these meetings is the biennial World Congress, which brings together hundreds of local government practitioners and officials from all around the world. The latest one, which took place in Barcelona, attracted 1,800

participants, among whom were about 400 mayors. Relevant topics included ethics in local government, modernizing local government, women in local government, municipal international cooperation and capacity-building;

Third, organizing training of local government officials and practitioners. Courses are held mainly at the regional level, to be closest to the relevant issues of the area. Two facets should be stressed:

Training sessions are run by local government practitioners, for their peers; and

Training of trainers is encouraged at the regional level, so that knowledge learned during the

Women in local government;

Information technology as a tool for development cooperation; and

The strengthening of national associations of local government.

The CIB Platform is a unique international source of expertise on local government by local governments.

Analogous initiatives have also emerged on the national level. An example of such efforts is the creation of the Centre of Municipal Management in Ukraine. This non-governmental, non-profit organization was created in 1993 with financial support from local councils. The mission of this Centre is to help local government bodies develop and implement new management approaches and techniques in public administration, taking into account UNCHS (Habitat) recommendations.

Discussion at the Conference brought into sharp relief the several dimensions and ramifications of human resources development. It emphasized the fact that training, however important, forms part of a much larger whole. It is necessary to counter the obsolescence that comes from rapid progress of science and technology. It helps smooth out adjustments to organizational change. Experience demonstrates, on the other hand, that training unaccompanied by a host of other measures can be unproductive at best. To be effective, training depends on a supportive framework of institutions, strategies, policies, programmes and practices. Such a supportive framework reflects a long-term approach, seriousness of intent and careful study. It

session can be replicated within several countries at a reduced cost; and

Fourth, developing a very specific tool to support municipal cooperation: the *Capacity and Institution Building (CIB) Platform*. This serves the exchange of information, experience and know-how between local government practitioners. Members include national associations of local government and seven regional sections of IULA. They meet only once a year, but interface on a constant basis through electronic mailing lists, and thus promote best practices. They also recommend experts from among the network for international programmes. The Platform has three task forces, focused on specific priorities:

should be merit-driven, results-oriented and characterized by coherence, consistency, equity and continuity.

The role of civil society

The role of civil society in decentralization is a topic as new to the region as it is of momentous importance. In the space of a decade, a weak and ineffective civil society is rapidly ceding its place to one that shows potential of actively contributing to the process of change and reform. The Conference explored two groups of related concerns:

First, the form or modalities of civil society intervention; and

Second, the skills and organization needed by civil society to make such intervention as meaningful and effective as possible.

The Conference debate called for a redefinition of and a new approach to *citizenship*. After decades of passivity as the subjects of an authoritarian, paternalistic and bureaucratic State, citizens are slowly emerging as a force and major factor in the complex web of contemporary governance. In many parts of the world, individually and collectively, citizens are assuming important new roles, which are also redefining decision-making processes in the public sphere.

As the discussion showed, the citizen profile that is slowly taking shape comprises the following new features:

The citizen as client;

The citizen as prompter;

The citizen as advocate;

The citizen as an agenda-setter;

The citizen as monitor; and

The citizen as evaluator.

Increasingly, however, private citizens have come to assume a role in governance as advisers, problem-solvers and as providers of services. Such new responsibilities have prompted private citizens to organize in order to be more effective. Going under different names NGOs, CBOs, CSOs citizens associations serve a range of purposes and operate with various degrees of autonomy from the government, depending, most of the time, on their financial status and independence. Still, within the limitations which legislative frameworks and resources at their disposal impose upon them, NGOs or CSOs are effective in In response to such requirements, as the discussion showed, modules and model courses have been designed to answer pressing needs for training and development of managers especially. A similar response that has been tried, with some degree of success, is the *NGO Forum and NGO Resource and Training Centre*, a set of institutions created in different countries of the region. The Forum and the Centre have proved valuable in many ways. To governments and the donor community they have afforded a formula of institution-building offering short-term prospects of success and sustainability. To the NGO community they have provided a framework enabling them collectively to do what single-handed they would find it difficult to accomplish. More importantly, the Forum and the Centre afford a cost-effective and user-friendly framework for long-term institution development, autonomy and influence.

exerting an impact on the national community. Though, to be sure, effectiveness depends to a degree on broader public opinion, much is also predicated on organizational competence, institutional capacity and the availability of skills at least commensurate to those which the government commands.

This is precisely the challenge with which civil society has been confronted during the past few years. Its sudden growth in size, prominence and visibility has not been without problems. Issues of scale, complexity and accountability have risen in importance, calling for the development of commensurate organizational and managerial skills to deal with them effectively.

The participants agreed that institutional growth conditioned the capacity of the emerging civil society in countries in transition to play a role in reform and decentralization. During the past decade decentralization has drawn support from policies promoting democratization, debureaucratization, deconcentration, deregulation and even privatization. In their different ways, these several trends have triggered the devolution of powers and responsibilities down from the top and the centre to authorities and groups active in the periphery. First and foremost, these include local authorities, which for several decades had been denied initiative, as well as real autonomy. However, more and more, this trend has also benefited voluntary organizations and the private sector. In one way or another, decentralization and other similar trends have been instrumental in giving local communities and groups of private citizens more voice in decisions on matters that directly affect their lives.

D. Summary

It is clear that rapid decentralization, in the wake of many decades of centralized autocratic government will not be an easy task. The dearth of autonomous local authorities under the Communist system added impetus to decentralization when the old regime collapsed. However, the priority accorded to decentralization did not mean that conditions for success have been invariably present, or that the process itself has been properly planned or managed cost-effectively. Complete reversal of policies and management ideology entails a veritable shift of paradigms and sudden adoption of models significantly different from those previously in place.

Though surely here to stay, decentralization still pits conflicting interests against each other, as each endeavours to pull the course of the reform in its preferred direction. The analysis of the forces with an impact in the arena of reform was the subject of lively debate at the Conference. According to a participant from Hungary, centralizing forces include the Ministry of Finance, trade unions and the bulk of the bureaucracy, in the capital district especially. On the other side of the fence are the Local Government Ministry, local government associations, the press and civil society. A victorious strategy is one that mobilizes support and builds coalitions of forces among like-

minded groups. The role of the Prime Ministry is critical in this regard.

The Polish representative disputed this position. She felt that, while line Ministries opposed all devolution which threatened to diminish their measure of control, the Ministry of Finance seldom objected to measures of decentralization which left the level of appropriations unchanged. Given the balance of forces, the role of civil society could play a critical role in swaying public opinion, and government accordingly, in favour or against decentralization.

What emerged from the debate was that decentralization is a process which takes time, requires continuous attention and needs to be implemented in stages. It is also a complex process, which has not only major political and legal, but also economic and cultural components, all of which are interconnected. To succeed, decentralization reforms should pay due attention to all these constituent parts.

Financial decentralization and human resources development go together. Both call for thoughtful management, skill, competence, integrity, transparency and accountability. Both call for the education and training of stakeholders and partners in these processes. These include elected and appointed officials, but also citizens, who need to internalize the fact that paying of taxes is part of their responsibility as citizens in a democracy.

Participants concluded that, due to its practical bent and action-orientation, the Conference on Decentralization: Conditions for Success had been especially useful. They strongly felt, however, that its benefits to the regional countries still needed to be secured and consolidated. This calls for follow-up action, for which the support of the United Nations system organizations and agencies, as well as other donors, will be required.

Follow-up action needs to be well planned, taking fully into account not only the resources available to donor countries, but also *the rich experience and expertise already accumulated in Eastern and Central Europe and the CIS.* Participants noted, in this regard, that this

While the generic goals of decentralization – promotion of democracy and effectiveness at the international level – are universal, the methods of implementation, as well as time and sequencing, are contingent on many country-specific circumstances. Therefore, no one best model of decentralization can be prescribed. Each country is free to craft a model of its own, consistent with its proper political and socio-economic situation, its traditions and culture. In the last analysis, the legitimacy of local governments and public support for decentralization hinge on their ability to deliver services that satisfy the needs of the local citizenry.

To cope with their new tasks, local authorities must have appropriate powers, competent human resources and sufficient financial means. Country reports presented at the Conference indicated that the basic legislation is already in place in most countries, although further elaboration is still pending in many cases. The scarcity of resources, both human and financial, on the other hand, remains a serious problem.

is a region of great diversity, but also commonalities, in terms of needs. *Such experience should be tapped and used to maximum effectiveness* for the purposes of decentralization and local government reform. This calls for the establishment and maintenance of networks of institutions, agencies and organizations, national and international, governmental and non-governmental, which exist in the region and beyond.

Policy advisory services and human resources development are also necessary for the improvement of legislative frameworks and processes. They can help in smoothing the implementation of legislative texts and other reforms already undertaken. The diversity of the region precludes omnibus models, indiscriminately applied. Full consideration ought to be given to the particular needs of each country, region or municipality.

Most of the points which were debated at the Conference at length have been reflected in the Yerevan Declaration on Decentralization, which the Conference adopted by consensus at its concluding session. The text of the Declaration appears on page 3.

Part I:

The Nature, Overall Context and
Legislative Frameworks of
Decentralization

Decentralization Reforms in Central and Eastern Europe and the CIS after 1989: Aims, Problems and Solutions¹

A. Introduction

Decentralization of governance is an important part of the process of transformation in the countries of Central and Eastern Europe and the CIS. Decentralization brings government closer to citizens, creating conditions for the democratization of governance and for increasing its effectiveness. Introducing a functional system of decentralized governance is a demanding task that must be crafted carefully. It cannot be completed within a short time by a one-off legislative act. Rather, the reform requires continuous attention and permanent fine-tuning and has to be implemented in several stages. To succeed, it requires determined political support from the central government.

Decentralization is also a complex process whose dimensions and prerequisites are not just political, legal and administrative, but also economic, social and cultural. Moreover, there does not exist any one single

model of decentralized governance which can be prescribed to all countries and which would be applicable in all circumstances. Pragmatic approaches to decentralization are to some degree country-specific and they heavily depend on time and context.

The present paper discusses some of the general problems and intricacies of the decentralization reforms in the countries of Central and Eastern Europe and the CIS. Suggestions are also made concerning their strategy. Of course, not all the relevant issues could be covered in this paper, which is intended to generate discussion during the Conference. It is assumed, moreover, that more specific problems will be discussed in the other, more specialized presentations. Because of the author's primary exposure to the Eastern and Central European experience, issues of this sub-region are given particular attention.

B. Decentralization the concept and some principles

As a rule, institutions of government are designed so as to act on more than just one level they are organized into several territorially defined tiers. Beside the national institutions, there also exist institutions operating at sub-national levels typically a regional (intermediary) level and local level. Hence the term local government is used to denote institutions of governments operating at the lowest level of the territorial administrative structure, i.e. in the rural and the urban municipalities, while for institutions of governments in districts, counties, regions or provinces the term inter-

mediary government is applied. Collectively, the two are labeled sub-national government.

In order to attain higher levels of efficiency, national governments devolve some of their functions downwards along the geographical scale. Deconcentration, accordingly, implies a process whereby governmental functions are shifted downwards within the hierarchical system of the state bureaucracy. However, this is accomplished without weakening the hierarchy of the system: deconcentrated units remain vertically subordinated to the central authorities. Internal admini-

¹ By Mr. Michal Illner, Director, Institute of Sociology, Academy of Sciences, Prague, The Czech Republic. Several of the ideas mentioned in this paper were elaborated jointly by the author and Professor Hellmut Wollmann of the Humboldt University in Berlin.

strative efficiency and the efficiency of service provision are both supposed to be improved by deconcentration. Deconcentrated government units, being closer to the field of operation than the core units, can act with a better knowledge of the situation, better communicate with the parties concerned and better implement administrative decisions.

Moreover central governments devolve some of their functions to sub-national governments, primarily in order to enhance their legitimacy. Decentralization means devolution of the State's functions to autonomous territorial units, which can act on their own behalf within the scope of the decentralized functions without recourse to higher-standing authorities. Local or regional autonomy is promoted in this way. Therefore, decentralization is a process of changing the balance of power from the central to the sub-national (local or regional) levels. It relates to the role of and the relationship between central and sub-national institutions.

Deconcentration, also known as administrative decentralization, deals primarily with the government's administrative nature. It encourages reform of the hierarchical and functional distribution of functions between the central and non-central government units. Decentralization, by contrast, concerns the political side of government. Political decentralization means the transfer or devolution of decision-making power to lower-level governmental units and to citizens or their elected representatives. Execution of this autonomous decision-making power is the act of local or regional self-government. The decisive level for political decentralization is usually the intermediary or regional level. International experience indicates that there can be a two-tier system of local government. In such an arrangement, self-government can pick up functions that would otherwise remain under the jurisdiction of the state administration.

Efficiency and legitimacy are two considerations that are closely related to the processes of territorial deconcentration and decentralization of government. The two are functionally coupled and reinforce one another. Efficiency enhances the government's legitimacy and, vice versa, legitimacy is a factor in bolstering efficiency.

Beside administrative and political decentralization, spatial decentralization may also take place. It aims at reducing excessive urban concentration. There is, moreover, market decentralization, which promotes action that facilitates the creation of conditions which

favour market mechanisms. However, this paper focuses on political and administrative decentralization.

As a rule, decentralization reforms must tackle the following two issues concerning the territorial aspects of government:

Territorial tiers of government their number, character, functions and mutual relations (inter-governmental relations); and

Territorial units (government areas) representing each tier their character, number and delimitation.

Given the widely different contexts within which reforms are designed and implemented in individual countries, no fixed general rules can be formulated as to how to proceed in resolving the above tasks. However, certain principles can be formulated concerning the spatial or geographical aspects of the reform:

Respect for the geographical and demographic characteristics of the country

Several parameters of country's geography and demography should be identified for purposes of sub-national government and they should be respected in the reforms: size of the country (in both demographic and spatial terms), characteristics of its settlement system (population density, number and size distribution of the settlements, their spatial distribution and the level of urbanization) and the presence and distribution of ethnic groups. Theoretically, in a larger country, more tiers of government could be organized and more territorial units could exist on each level. In a highly urbanized country, the system of sub-national government must cope with the existence of metropolitan areas and city agglomerations. A form of government must be found which is appropriate to them. In countries with sizeable and spatially concentrated ethnic minorities, how administrative boundaries are drawn is not without relevance.

The natural area principle

The natural area principle demands that some relationship should be maintained between the territorial structures of public administration and those of society. The delimitation of the areas of government must correspond to functional requirements. More concretely, each government area should extend over a territory that contains the activity systems which relate to its functions and to the problems it must deal with. Components of the activity systems may be demographic potentials (e.g. sufficiently large populations for schools, hospitals and other institutions to be able to

function), infrastructure, sets of activities, etc. To use the language of metaphor, government areas should be *natural* in a functional sense. This implies that they should also be *natural* in an economic sense, i.e. that they should take into consideration the existing economic spatial relations.

An important organizing factor of public administration is the settlement system, which has basically a hierarchical nature. Therefore, in designing the structure and functions of government, it is important to consider the character of the settlement unit or of the settlement sub-system that constitutes the government area. The diversity of settlement systems calls for a corresponding diversity of government types.

A government area should, as far as possible, contain a population that has shared interests and a sense of community, i.e. the area should represent a unit which is *natural* in a social and cultural sense. If possible, it should be designed in such a way as to take into account the existing cultural regions, linguistic patterns and regional self-identity of the population. Observance of the historical/territorial structures may contribute to this goal.

A government area should also be designed in such a way as to make administrative services reasonably accessible for the majority of citizens. Geographical distance to administrative centres and the frequency of citizens' contacts with different administrative services play an important role. No areas should be isolated from administrative centres. This means that the geographical characteristics of the region and transportation networks should be considered carefully.

Sustainability

To mobilize resources for the performance of functions over long period of time, *sustainability* should be observed in designing government areas. In particular, government units should be able to generate a major part of revenue which they require for their respective functions. It is assumed here that inter-governmental transfers should be minimized. Typically, this requires the creation of an adequate tax-base. A government area should also be large enough to guarantee the rational performance of the administrative functions assigned to it. It should be able to afford properly qualified administrative personnel, specialized departments and the necessary equipment.

Delimitation of government areas administrative regionalization should be as stable as possible. Any potential merits of redesigning should be carefully

balanced against the economic, political and social costs incurred by the change: besides the administration itself, regionalization is also relevant to the structuring of services, political institutions, civic associations and the like. Therefore, it has considerable relevance to people's everyday lives. Any change of government areas destabilizes a much broader set of phenomena than just the operation of government.

The intergovernmental relations principle

A government unit should be designed in such a way that co-operation among units at the same territorial level should be facilitated, and relations with higher and lower-level units should be made manageable. This requirement is easier to fulfil if government units at the same territorial level have approximately the same geographical and population size.

Practical implementation of the above principles is complicated by two sets of circumstances. Firstly, some of the principles are mutually incompatible and their practical application must, therefore, represent a compromise, unless one set of criteria gets the priority. For instance, solutions founded on the demand for socially and culturally *natural* regions, or on the accessibility principle favour small-sized government areas, while the sustainability principle would rather support large administrative areas. There is also contradiction between solutions favouring universal administrative areas intended to accommodate different administrative functions within the same territorial framework and profiting from the economies of scale (increasing thus the user's comfort), and solutions proposing functionally specific and, therefore, mutually distinct areas in which the efficiency of individual services may be higher. Also, the delimitation of territorial units suitable for the performance of self-government (smaller and *natural* government areas) often does not overlap with that which is functional for an efficient performance of state administration (larger areas following the sustainability principle). Compromises must be sought if the same territorial structure must accommodate both functions. An alternative would be to allow for two different territorial divisions one for self-government, the other for state administration.

However, in decisions concerning the territorial aspects of decentralization, the above criteria of geographical, economic, administrative and socio-technical rationality are, as a rule, of secondary importance. The primacy belongs to political considerations. This should come

as no surprise, because by modifying the administrative division of the country and thus the central-local relations, public administration reforms can influence the territorial distribution of political power.

Another facet of reform is its supra-national dimension. For example, in the countries of Eastern and Central Europe which endeavour to be integrated into the European Union, the territorial-administrative structures, particularly at the regional level, should be so designed as to be compatible with the regions of Western Europe. (The size and functions of the regions were meant to be relevant factors.) This is considered important in terms of their ability to cooperate within

The supra-national dimension

the framework of European inter-regional relationships and the European regional programmes. The vision of the future Europe of the regions has been fueling such considerations and has produced another strong set of expectations concerning the decentralizing effects of the reform. The practical conclusion relevant to the design of intermediary government is that the new regional units should be large and equipped with effective powers.

C. Decentralization as the important component of democratic reforms

In the sea change which they have been experiencing since 1989/1990, the countries of Central and Eastern Europe and the CIS have had to cope with three fundamental transformations:

From a centrally planned state economy to a private market economy;

From authoritarian centralized rule to a pluralist democracy; and

From party and state-dominated societal organization to a relatively autonomous civil society.

Additionally, some countries have also faced the challenge of nation-building.

Transformation of the territorial structure of government and its decentralization were considered an important part of the process of establishing a pluralist democracy and building a civil society. Reforms of territorial administration followed closely after the collapse of the Communist regimes and the transformation of the constitutional bodies and of the central government in 1990.

Decentralization contributes in at least five different ways to the democratization process:

Firstly, it provides opportunities for large segments of the population to participate directly in government through elective offices or more indirectly through local elections or through watching government at work at close quarters. This also helps diffuse the learning of new political roles and practices.

Secondly, it provides opportunities for the development of new elites at the sub-national level, which could require political skills in order to participate effectively in national political life.

Thirdly, sub-national governments act, to some degree at least, as a check or countervailing force to national governments.

Fourthly, decentralization prompts local and regional actors to become involved in local and regional economic and social development.

Fifthly, the devolution of functions to local governments prevents an overload developing at the centre.

The importance of decentralization of governance within an overall transformation process taking place in their countries was acknowledged by participants of the recent UNDP Workshop on Decentralization of Governance in Central and Eastern Europe and the CIS, which was convened in Prague, in October 1997.

It must be stressed, however, that decentralization is not an end in itself. It is promoted as an institutional prerequisite to a democratic and efficient government, and it is justified only to the extent that it serves this purpose. In democratizing reforms, decentralization is a matter of degree, i.e. choosing the optimum level and variant of decentralization, relative to circumstances. In particular, decentralization is not tantamount to democratization. Although the two usually go hand in hand, situations can arise when decentralization may actually delay the pace of democratization, conserve or even strengthen the position of anti-democratic forces.

In Eastern and Central Europe, the reform of territorial government, or rather its first stage, closely followed the change of regime after 1989. Expediency was an important situational factor in the implementation of the reform measures: the need to build a new system of territorial administration was viewed as a political task that could not be postponed. A delay would have hindered the economic and political components of the reform. While the overall function which the reform fulfilled in the political transformation was more or less the same in the individual countries, its more immediate situational contexts were different in each of them. For example, in Hungary the reform was preceded by several years of discussion and preparatory legislative work that had taken place since 1987, still under the Communist regime, and was supported by the reform wing of the Communist Party as well as by the bold reform attempts of the regime. The post-Communist reform of the sub-national level was a continuous, negotiated and relatively well-prepared effort,

transformation. The reform and local elections were intended to facilitate the displacement of the old local and regional political elites and thus to undermine the residual Communist power bases in the provinces. Moreover, the reform had a strong symbolic meaning, as it was a way to legitimize the new power, to demonstrate that things have moved away from the previous circumstances.

It was implemented mostly by consensus. It was marked by a well-formulated economic component. On the other hand, in former Czechoslovakia, no serious steps toward decentralization were taken before the fall of the Communist regime in 1989. The reason was the rigidity of the regime, which was the least prepared for institutional reform among the East Central European countries. Preparation for reform had to be compressed in Czechoslovakia into the nine months between the fall of the Communist regime and the local elections of November 1990.

D. The legacies of the past

The post-1989/1990 decentralization reforms in the CEE/CIS countries have called for the revamping of the former soviet system of sub-national government, which had been more or less common to them all. This system constituted the initial context of the reforms from which the individual countries have managed to depart in various degrees. Its legacies political, administrative and cultural can still be felt even within the already reformed sub-national governments.

The Communist regimes were institutionally characterized by the omnipresence of a totalitarian State which, in order to serve the Communist Party as an instrument of centralized rule, encompassed the state-run economy and also permeated the entire societal sphere. State administration was made up of a political and administrative apparatus which, following the doctrine of the unity of state power and so-called democratic centralism, was organized and ruled in a strictly centralized, hierarchical and top down manner. It did not allow any autonomy at the sub-national levels and prevented the emergence of any independent economic and societal organization. Under these circumstances, local authorities were hardly more than the extended arms of the central government. Accountability of the local and regional administrative bodies to the local elected councils was perfunctory, as their collective territorial responsibilities for their

respective units were superseded by sectoral fragmentation. The following can be seen as characteristics of that system:

It was undemocratic. The elected assemblies were created more by nomination than by veritable elections. Although elections were held regularly and a democratic facade was maintained, they were in reality a more or less formal affair; more a manifestation of political loyalty than the exercise of voters choice.

Real decision-making power resided with the Communist Party bureaucracy. Territorial governments, their functionaries and personnel were under the permanent control of the Communist Party bodies, which instructed them how to act on important and politically sensitive issues and which could intervene at any moment in the decision-making process.

The system was centralized. Authentic territorial self-government was excluded. Important issues of local and regional development were decided and financed by higher-level territorial administrations or by central ministries. Higher levels of authority could suspend decisions or even dissolve a local council (the principle of double subordination).

Public administration and self-government were amalgamated into a single system based on the ideology of democratic centralism. A single political and administrative body was made locally responsible for the defence of both local and central interests.

Territorial government lacked economic and financial foundations. Local finances were part of the state budget, the bulk of local revenues were central grants, and financial resources left in the hands of territorial governments were extremely restricted. Communal property did not exist. Lands, buildings and infrastructure were just part of state property administered by territorial governments.

Horizontal integration within and among administrative areas was mostly weak. This was due to the preponderance of vertical relationships both in politics and the economy, where also a sectoral perspective was the most important. As a result, a territorial unit was administered more as an aggregate of local or regional outposts of economic and administrative agencies, than as a complex socio-economic organization. The consequences were a vertical segmentation of territorial units with little cooperation among them, as well as non-systemic solutions to local problems.

There was, of course, a difference between the official model of territorial government and its real-life face. Neither was the system entirely static during the years of Communist rule. In each of the countries of the region several reform steps were introduced. They were intended to adapt it to a shifting political climate and to newly emerging functional needs. The reforms featured both centralizing and decentralizing tendencies. For example, the Czechoslovak reform of 1960 and the Polish reforms of 1973-1975 fundamentally changed the territorial structures of public administration of those countries, contributing to centralization. On the other hand, some other reforms introduced modest elements of decentralization and democratization: the first attempts at decentralization started in Hungary in 1971. Yet the changes were never such that would touch the fundamentals of the system.

Aside from the above institutional and political legacies of the Communist system of territorial government, the post-1989 reforms also faced the legacies of its political and administrative cultures. The local political culture in Communist society was marked by:

- Separation of the private and the public spheres, popular distrust of institutions, of political representation and of formal procedures, as well as citizens' unwillingness to get involved in public matters or to hold public office;

- Paternalism reinforcing the belief that local needs should and would be taken care of by extra-local actors, usually higher authorities – the state or the region – and that the proper strategy to have the needs attended is to mobilize support of external patrons; and

- The popular feeling of being chronically disadvantaged and neglected by authorities, be they central or regional, and handicapped vis-à-vis the neighbours;

In turn, the administrative culture was characterized by:

- Paternalistic and even authoritarian attitudes of officials toward the citizens;

- Disregard of legal propriety in favour of political goals or considerations of expediency;

- Secretiveness of administrative operations; and

- Lack of accountability to the elected organs.

Such legacies, firmly entrenched in the thinking of citizens and administrators, have functioned as powerful brakes in the implementation of decentralization reforms after 1989/1990 and have been receding only slowly in recent years.

E. Prerequisites to successful decentralization

In the CEE/CIS countries, decentralization qua devolution of powers and responsibilities to elected local authorities, hinges on the following factors:

Political commitment to decentralization;

Resources (financial, legal, organizational, human, physical and cognitive) which are at the disposal of local self-government for the purpose of fulfilling its tasks;

Capacity of local authorities to cope with these tasks in terms of democratic policy-making;

Local government's capacity in administrative policy-implementation;

The capability and readiness of the local government's administrative personnel to cope with the tasks; and

The cultural prerequisites, such as values, attitudes and behavioural patterns of ordinary citizens, as well as of local politicians and administrators, and the extent to which they are conducive to decentralized governance.

Democratic capacities at the sub-national level

In view of the soviet past of local administration when the political role of elected local councils was minimal, the decentralized government model marks a paradigmatic change. With regard to the capacity of local government to cope with democratic policy-making, the institutional provisions on the relations between the local population, the elected councils and the local administration are of the utmost relevance. In particular, the involvement of the local population deserves attention. This applies, not only to modalities for representative democracy, i.e. participation in local elections, but also to direct democratic procedures, such as local referenda and the direct election of the mayors. Beyond such legally institutionalized forms, informal practices of citizens' participation, for instance, in local planning processes, are also important.

With regard to the relation between the elected council and local administration, including its administrative head (possibly the mayor), strengthening the rights of the elected council vis-à-vis the administration and administrative head is important. The ongoing cooperation and interaction between local administration and representatives of civil society and the local business community are also relevant in this context.

Administrative capacities at the sub-regional level

Political commitment

Political commitment to decentralization, i.e. the will of the relevant political actors at the national as well as at the sub-national levels to go ahead with devolution, is a key prerequisite to decentralization. Declarations of those politicians, who sometimes pay lip service to devolution but in reality prolong the centralized system, should not be mistaken for commitment.

Resources for sub-regional government

The amount and modality of local-level financing, particularly the degree to which the local authorities dispose of local revenues of their own and to which they depend on central government grants, is pivotal for determining the scope of local autonomy or, conversely, the degree of dependency within which local authorities do operate. In addition to finances, other kinds of resources matter, such as legislation endowing local authorities with necessary powers; organizational arrangements that put them into effect; availability of qualified and motivated personnel; and necessary political, economic and administrative know-how.

Whereas under the Communist regime the organizational scheme of local administration was intended to virtually serve as the local office of the central level ministries, in the new model the organizational scheme is expected to respond to and mirror the new powers and responsibilities of the local authorities, such as economic promotion (of the emergent private sector, particularly of small and middle-sized enterprises), social service provision and urban planning. Thus, some basic adjustment of the local administrative structures is called for.

While in the first round of changes such organizational restructuring may follow the classical bureaucratic model, it would seem advisable, at a subsequent stage, to take into consideration the concepts of administrative modernization, which have been increasingly discussed internationally since the 1980s under the heading of 'New Public Management'. These concepts aim at increasing the efficiency of public administration by enhancing its cost-effectiveness and transparency, enlarging the autonomy, flexibility and accountability of intra-administrative units and introducing elements of market competition into administration, both internally and externally. With regard to the latter, strategies for contracting out and outsourcing have been envisioned, particularly with regard to the provision of social services.

Capability and readiness of the sub-national government's administrative personnel

The advancement and success of organizational changes hinge on the readiness and capability of the administrative personnel to translate organizational changes into viable administrative practice. As the personnel which was employed in local administration during the Communist regime was trained and worked in a completely different administrative environment, an enormous learning and adaptation process will be required to cope with the new administrative models.

Cultural prerequisites

Decentralization requires a strategy which virtually means revolutionizing not just the organizational structures, but also attitudinal and cultural patterns that have been inherited from the Communist era. It is conventional wisdom to say that it is much easier to change the institutional structures of organizations than the cognitive orientations and behavioural patterns of people. While the former may be affected by an act of parliament, the latter change more slowly. Often, they are entrenched in deeply grounded values, convictions, habits and practices, which yield only slowly, and

The core countries of the former USSR: Belarus, the Russian Federation and Ukraine;

The other republics of the former USSR, now linked with the above three countries in the Commonwealth of Independent States: Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, the Republic of Moldova, Tajikistan, Turkmenistan, and Uzbekistan;

The Southeastern European zone: Albania, Bulgaria, Croatia, the Former Yugoslav Republic of Macedonia, the Federal Republic of Yugoslavia and Romania;

hardly by command, but by persuasion and a process of acculturation.

Hence, efforts aimed at advancing decentralization in the former Communist countries and making it work have to be conceived as a two-pronged strategy which is directed at institutional change, but also at changing the professional qualifications, orientations and cognitive capacity of the people inside the organizations. The latter is the more demanding and the more tedious component of a modernization strategy: organizational development and personnel development must go hand in hand to make administrative reform and modernization work.

Considering the prerequisites to decentralization, it is important to take the specifics of different countries into account. Due attention must be paid to significant differences which exist among them as regards their political and economic circumstances, culture, tradition, the beginnings of reform and the stage which decentralization has reached, including possible setbacks.

In terms of their specifics regarding decentralization, the CEE and CIS countries may be grouped into the following categories:

The Baltic States: Estonia, Latvia and Lithuania; and

Eastern Central Europe: the Czech Republic, Hungary, Poland, Slovenia and the Slovak Republic.

Decentralization schemes must be sensitive to circumstances in these different countries and must refrain from recommending uniform models and strategies. There is no universal approach to decentralization according to which all countries should proceed or decentralization reforms should be evaluated.

F. The tasks of decentralization

The general objective of the decentralization reforms in the CEE/CIS countries is to create decentralized territorial government at the local and the regional levels, so that it will be capable of exercising democratic and effective local governance conducive to civic participation and a market economy. Consequently, decentralization, deregulation and destatization of public administration are their dominant aims.

Territorial self-government has to be introduced and separated from state administration.

Considering the grip of the Communist regime over sub-national levels, it is the devolution of powers to elected local regional authorities exercising local or regional self-government that overcomes decisively the former centralized structures. Decentralization in the constitutional democratic State, through devolution,

is characterized by the unambiguous assignment of powers and responsibilities to the various levels. This is particularly true of the devolution of tasks to the elected local and regional authorities. It is up to them to discharge the responsibilities devolved upon them, and state agencies cannot intervene except in order to review the legality of such local activities.

In exercising devolved activities within the local self-government model, local administration and its departments are subordinated administratively to the local chief executive, the mayor, as a rule, and politically to the elected local council. Thus, it is the locality as a territorial collectivity to which the local authorities are oriented and which they serve, not the sectoral and fragmented objectives and interests of the vertically superior branch ministries. This stands in contrast to the former soviet system in which the local authorities practically acted as local offices of the central government. However, within what is called the dual function model of local self-government (corresponding to the German tradition and implemented in some countries of East-Central Europe), local administration may also be responsible for locally exercising some activities of the central State and, in this respect, be subordinated to higher-standing administrative bodies.

Functions of sub-national government at each level;

Division of functions between the State and sub-national government;

Division of functions between levels of sub-national government and, at each level, between self-government and state administration;

The internal organization of sub-national government at each level, the structure of organs and their relationships; and

The electoral system.

Finances of sub-national government

Sources of revenue;

Predictability of local revenues;

State grants the policy and procedures of allocation;

Discretion of local government to collect local taxes and to determine tax rates;

Spending discretion; and

Financial management.

The current status, problems and perspectives of decentralization of governance in the CEE/CIS countries were discussed at the above-mentioned UNDP Workshop on Decentralization of Governance in Central and Eastern Europe and the CIS, which took place in Prague in October 1997. Participants from thirteen countries of the region exchanged information on the issues and perspectives of decentralization in the framework of the UNDP Democracy Governance Participation (DGP) Programme. During this workshop, the following were mentioned as important issues meriting attention in the context of decentralization reforms:

The status of sub-national government

Constitutional status;

Political status; and

Legislative environment.

Structure of sub-national government

Numbers of tiers of sub-national government; and

Size, number, and territorial delimitation of government areas.

System of sub-national government

Local economy and communal services

Municipal property its creation, scope and management;

Management of local infrastructure;

Provision of communal services what services should be provided locally, innovative ways of service delivery, service standards, methods of evaluation of communal services, provision of individual services (transport, welfare provision, etc.);

Local economic development;

Strategic planning of municipalities;

Public-private partnerships; and

Cooperation with local firms.

Welfare and public safety

Social policy assistance to the unemployed and the vulnerable segments of the population;

Maintenance of law and order; and

Police as a central or local responsibility.

Administrative issues

Administrative efficiency, good management practices and methods of evaluation;

Supervision, control and auditing in local government;

Information management;

Education and personnel training;

Ethics codes for public servants;

Relations between local politicians and officials; and

The role of the chief administrative officers.

Cooperation among municipalities

National and regional associations of municipalities and of mayors their role and activities; and

The search for partners, both at the national and international levels (e.g. twinning of municipalities).

Local democracy

Relationship and communication between local governments and citizens;

Transparency of local decision-making;

Accountability of local politicians and officials;

Local social policy is another issue which, in view of the lingering economic and social crisis, represents an important new policy field for local government. The local authorities should be ready to take responsibility for the provision of social safety nets, the components of which are managed by or contracted out by local authorities.

Considerable differences exist regarding the modalities of decentralization. In some countries, elected local authorities have been established on two or even three levels (Hungary has a two-tier system; Poland has recently established a three-tier system). In other coun-

tries (e.g. the Czech Republic and Slovakia), they exist so far on the local level only. Another difference regards the relationship between the deconcentrated offices of state administration and the elected bodies of sub-national government. In some countries, the two bodies exist in parallel as two independent structures. In other countries, they are functionally linked. Some countries (Slovakia and Hungary, in the smaller municipalities) have opted for directly elected mayors. In the Czech Republic, mayors are elected by the councils. The list of differences could be continued.

Ways of informing and educating citizens at the local level; and

Cooperation and networking with NGOs and other institutions of civil society.

Among the above topics concerning the local economy, financing local government, legal and administrative issues were singled out as particularly relevant. Local economic promotion is a task of local governments which highlights the paradigmatic change from a state-run economy to a private sector-based market economy. Under the new circumstances, local governments should be disposed to privatize the production of goods and delivery of services and, at the same time, refrain from assuming new activities which can better be discharged by the private sector. Breaking with the former practice by which the local authorities directly operated the provision of goods and services to the local population, the local authorities are called upon to become active in economic promotion. Of particular importance is the creation and maintenance of an infrastructure (physical, institutional and cultural) for privately-owned small and medium-sized enterprises and the assistance they should receive. In practical terms, this requires the creation of appropriate administrative units and the recruitment of personnel duly qualified and committed.

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G. Salient issues of decentralization

Decentralization has reached different stages of development in the several countries of the region. Although decentralization has been declared by the governments as a major programmatic goal everywhere in the region after 1989/1990, the actual process of decentralization has proved to be more complicated than originally anticipated. There are considerable differences among countries as far as the scope of decentralization and the pace of the reform are concerned. This is the result of differences in their political and economic development, their initial conditions, history and culture.

Decentralization, in terms of devolution, has been advanced in some countries where important steps of local and regional government reform have already been implemented. The inherited over-centralized structures of the totalitarian state were dismantled and the ground was broken for a democracy-oriented political and market-oriented economic system. The path of deconcentration, instead of the outright decentralization, was followed in others, while there are also countries where decentralization is still an open question and serious reforms have yet to be launched. In some countries decentralization has even receded *de facto*. Practically everywhere some important components of reform have remained unresolved and are in need of further measures.

Depending on the country, among the salient issues are legislation on sub-national government, strengthening of the role of elected bodies and specification of intergovernmental relations, facilitation of citizen participation, cooperation with civil society and local business communities, local government finances, provision of communal services, approaches to the economic development of municipalities, strategic planning of local governments, administrative efficiency and good management, selection and training of personnel.

Even in countries where considerable decentralization of governmental authority has already been implemented, notably in the Czech Republic, Estonia, Hungary, Lithuania, Poland and Slovakia, numerous problems persist. For example, in the Czech and Slovak Republics, devolution to the regional level is still pending. In both these countries and also Hungary and Estonia, it has been observed that the fragmented local governments in rural areas are too small to command meaningful resources. In Estonia, some recentralization of governmental functions has taken place.

In some countries, whatever the formal legal position, local authorities have continued to lack real autonomy from central control: the chairmen of local executive bodies are appointed by the president of the republic; local authorities have no legislative powers; the heads of local communities can be removed by the central government; financial resources are withheld from local governments; etc. In some cases, local authorities have yet to acquire clearly defined rights and duties, or elected local authorities have yet to be established.

Quite often the operations of elected local authorities as autonomous local self-governments seem to be in question. Their powers are insufficiently separated from those of the other levels. In some cases, state administrative agencies and elected bodies co-exist at the same level with an unclear delineation of functions or, notwithstanding such formal delineation, the local practitioners follow the practice inherited from the Communist regime, accepting, if not seeking, the direction and instruction of the upper levels of government. In any event, formally or informally, the *matrioshka-system*, which blurred the tasks and powers of the different levels of government, is still pervasive in the administrative practices of some countries.

Because of the economic and financial crisis which has been increasingly besetting the transition countries, local governments are confronted with a fiscal and budgetary plight which is increasing their indebtedness. This is widely seen as one of the most severe obstacles to decentralization. Moreover, local governments in several countries are not given sufficient legal space to raise and manage their finances independently.

In some countries of the region, recentralization tendencies have been observed. These were partly caused by fear that the central elites because of decentralization would have to give up some of their prerogatives. The idea of strong regional autonomy antagonizes centralizers. There are also well-founded concerns stemming from specific situations in the transition countries which caution against too radical and swift a decentralization, particularly at the regional level:

Central governments need to maintain control of the economic and political development in the country during the volatile situation of post-Communist transformation. They have to control the distribution of scarce resources in the circumstances of transformational stress.

Economic and social differences among territorial units have to be controlled by the State and kept within tolerable limits, using redistributive mechanisms, to prevent marginalization of some regions and resulting socio-political tensions.

National integration must be maintained in an atmosphere of societal fragmentation and vis-à-vis the tangle of conflicting interests. It is feared that the existence of strong provinces may encourage centrifugal tendencies.

There are instances when decentralization is clearly dysfunctional. This is the case when the government is decentralized to territorial units so small that they cannot operate efficiently, or when decentralization allows the central government to pass the financial burden to lower tiers which are unable to cope.

Proliferation of the so-called *decos* (deconcentrated offices and field agencies of the central government) in the regions strengthens the centralized tendencies in government. It also complicates the inter-governmental relations and partly duplicates the existing sub-national administration. The *decos*, which exist outside of sub-national government bodies, can be found in the fields of school administration, labour market services, financial administration and environmental protection. Proliferation of *decos* has also contributed to an excessive growth of employment in public administration in some countries during the last years.

The establishment of local self-governments in villages, towns and cities; three rounds of democratic local elections (in 1990, 1994 and 1998); increased local activism, as well as the generally approving attitudes of citizens toward the new local authorities witness to the fact that the most successful part of decentralization in Eastern and Central Europe was that dealing with local government. Sociological surveys indicated that confidence in the new local governments and satisfaction with their activity prevailed.

By contrast, a proper definition and institutionalization of the intermediary level of government is apparently still a controversial theme in many countries. This should come as no surprise. During the Communist era, the regional administrative level was the backbone of centralized rule. After the system change in 1989/1990, it was either quickly abolished or replaced by a form of elected regional self-government. In the Czech Republic, for instance, creation of the intermediate (provincial) level of government, though foreseen by the Constitution, is the most important missing

component of the decentralization reform. Its absence is detrimental for both functional and normative reasons. There are a number of regional problems which cannot be properly treated at the local or central levels and need an intermediary territorial framework. Furthermore, the absence of regional-level administration and self-government contributes to the growth and overload of central bureaucracies and excessive statization of the public sphere and justifies the establishment of the *decos* mentioned above.

In some countries, notably in the Czech Republic, Hungary and Slovakia, decentralization reforms have led to a far-reaching, albeit also spontaneous, fragmentation of the existing territorial administrative structure. Many municipalities which had been amalgamated in the earlier years under the Communist regime split again into their original parts. Thus, in Hungary, the number of municipalities nearly doubled in a short time after 1990. The previous amalgamation was rejected as an act of centralism by the municipalities involved, and the renewal of their political and administrative identity was viewed as a priority task in the restoration of local democracy. The post-1989 localism, together with the liberal provisions of the new legislation on local government (enabling an easy separation of those parts of the existing municipalities which decided in favour of administrative independence) contributed to this process.

Evaluation of the process of fragmentation is problematic. Splitting of municipalities and creation of smaller units fulfilled local ambitions and brought decision-making nearer to the citizens. It redressed the damages caused by earlier amalgamations and was an understandable, perhaps also unavoidable, component of the democratization process. However, in spite of the obvious advantages of smaller local governments, this trend had also its down side. Criteria of economic and functional rationality seldom played any role in the separation of local governments. There is reason to doubt whether small municipalities are really capable of performing all the functions which they have been assigned. Tiny units as a rule are too small to operate efficiently. They cannot mobilize financial, personnel, organizational and political resources to launch development projects or to have a diversified local political life.

Economies of scale cannot be achieved within the framework of very small communities; too narrow municipal boundaries constrain or impede the provision of municipal services, which are thus frequently

duplicated and difficult to coordinate. With a fragmented structure, disparities in the provision of services increase and equity suffers. What in the small rural communities seems to be a well-functioning neighbourhood, might in reality become an oligarchic rule of a few families or of a small number of local notables. Small communities are usually weak partners in negotiations with regional and state offices and their weakness enhances centralized tendencies.

Overcoming the fragmentation of local governments will be the precondition to further success of reform in the mentioned countries. However, the consolidation of local governments cannot be accomplished within a short period of time and it cannot be decreed; any externally imposed amalgamation would be politically untenable. The issue is to strike a proper balance between the participatory aspects of local government, which argue in favour of smaller municipalities, and the principles of efficacy and representativity, which favour larger units. Any change can only be stepwise and has to be carefully prepared in a democratic way. A way to overcome extreme fragmentation is to design, encourage and support inter-municipal cooperation, which might later lead to genuine amalgamation. Only indirect methods can be used for this purpose.

The structure of sub-national government does not answer the needs of urbanization. In many of the CEE countries, the existing system of sub-national government is not sufficiently versatile to accommodate the different types of settlement structures existing in these countries. In several instances, the same legal framework applies to rural and urban; to large and small municipalities. With some exceptions (e.g. town-rural municipalities or the Warsaw metropolitan government in Poland), the system does not offer a wide enough variety of administrative forms to accommodate highly urbanized settlements like city regions, agglomerations and metropolitan areas, although such structures are gaining in importance and are a natural matrix for intensive inter-municipal cooperation.

Not altogether surprisingly, surveys have indicated that the population's initially favourable acceptance of the new local governments has been somewhat dampened. While confidence in local governments has persisted, the willingness of citizens to participate in the local councils has been low, with growing scepticism regarding the relevance of local politics and the sense of local political efficacy. Participation in local elections has also been rather low and declining in all CEE countries. Alienation of citizens from politics and their

reluctance to participate in public life is part of the syndrome inherited from the previous regimes and such attitudes can change only slowly. Negative phenomena in contemporary local politics – non-transparent decision-making, clientelism, corruption, interpenetration of politics and business and the like – may strengthen the degree of alienation of citizens. The inefficiency of units too small to guarantee local development may also contribute to the prevalence of such stereotypes.

In 1988-1990, when decentralization reforms were contemplated and their first stage implemented in many countries, localism and regionalism were influential public attitudes. They were marked by a strong desire for autonomy and self-government, by the high value attributed to local community and local things in general. While, on the one hand, they gave an impetus to the decentralization reforms, they also generated many unrealistic expectations toward the potential benefits of decentralization, autonomy and territorial self-government. Commenting on the situation in his own country, the Polish geographer G. Gorzelak identified several kinds of unrealistic expectations (he called them *myths*) that were shared by the public and the local politicians:

The myth of local autonomy (unrealistic expectations regarding the potential for local autonomy and rejection of any central interference in local affairs);

The myth of prosperity (belief that economic autarky would guarantee prosperity for the local communities);

The myth of property (belief that restoration of municipal property would in itself guarantee local development);

The myth of omnipotence (belief that municipalities are both entitled and capable of deciding all local problems by themselves);

The myth of eagerness (belief that zeal can compensate for knowledge and skills in local politics and administration); and

The myth of stability (belief that stable conditions is what local governments should and can attempt to reach).

Such unrealistic expectations have been the concomitants of the initial stages of decentralization. They have usually receded during the further course of the reform.

H. The strategy of decentralization

Both tasks and appropriate strategies are relevant to the success of decentralization reform. Here are some comments on this issue:

Learning from best practices

An important component of the decentralization implementation strategy is to seek out and showcase good practices of decentralized governance in individual countries, as well as in other countries of the region. The need for know-how is particularly acute in the areas of implementation of the general rules and national principles of decentralized governance by sub-governments, the ways sub-national governments design their policies and organizational structures and tackle concrete problems. Therefore, instances of successful solutions to such problems must be actively looked for and publicized.

The search for optimum strategies of decentralization

The question of optimum strategies for decentralization is sometimes raised. Specifically, is it preferable in some countries first to centralize in order to implement democratic changes at the central level and only then to decentralize? Among the circumstances under which this could be an advisable sequence, some have been mentioned already: indebtedness, poor state of the economy or the mentality of the people. The sequencing of the transformation steps is, indeed, a real problem, and situations may exist when hasty decentralization could be counter-productive. This might be the case, for instance, when decentralization to the intermediary level would be tantamount to strengthening the position of authoritarian regional strongmen. Other such circumstances have also been mentioned.

Decentralization at any cost should certainly not be the goal. However, one has to be cautious against the misuse of such arguments by national politicians, who fear that their power might be endangered by the advancement of decentralization. Doubts may also exist about the extent to which citizens and administrations are ready for decentralization. Decreasing citizens participation in public matters, which can be observed in some countries, suggests that along with the institutional changes, more attention should be paid to the education of people about decentralization and civic virtues.

Transfer of decentralization know-how from more advanced democracies

The transfer of experiences and institutional solutions from the mature democracies may contribute to reforms in the CEE/CIS countries and, indeed, much has been done already in this respect. Many tasks that must be accomplished in the former socialist countries are standard problems that were encountered in decentralization reforms elsewhere and for which, therefore, known solutions exist and can be used as inspiration.

However, post-socialist reforms must also deal with the tasks which result from the specific historical conditions of transition from the soviet-type sub-national government to the variety of democratic paths that were chosen by the individual countries of the region. Some paths may be unique, with no precedent in previous decentralization reforms. As an example, one can mention the choice to build a democratic system of local government and, at the same time, create its economic and financial infrastructure, as well as develop the corresponding system of economic and financial management of such infrastructure.

In advanced democracies, there exist different systems of sub-national government, each having certain advantages as well as weaknesses (e.g. the dual system of local government versus the system of clear institutional separation of local self-government and state administration). Each is the compound result of country-specific historical developments and more contemporary circumstances. Advantages and disadvantages of the different existing systems of sub-national government have to be explored before designing a decentralization reform in one's own country. Such an evaluation can provide useful inspiration. It is, however, doubtful that any system of sub-national government can be transferred to its full extent from one country to another, irrespective of the local needs, traditions, political and social circumstances. Such borrowing of whole government systems does not appear to be a realistic solution to the challenges of reforming sub-national government. However, this does not preclude the borrowing of individual institutions, to the extent that they are compatible with the domestic system.

Intra-regional information exchange

While the transfer of models and experience from well-established democracies has proved to be inspirational for the post-Communist countries, the application of such models and approaches often encounters difficulties. Therefore, the West-East information flow should be supplemented by a parallel intra-regional East-East transfer of knowledge and experience among the post-Communist countries.

Experience generated in a post-Communist country in transition lends itself to learning because of the similarity of the real-socialist heritage and current circumstances. By contrast, experience transplanted or imported from a Western country may often seem questionable to begin with because of the greatly different political and economic environment in which it originates. Also, actors from the region share a common background (notwithstanding considerable cultural and other differences existing in the region) and their communication can be rooted to a significant degree in mutual understanding and mutual trust, whereas Western experts and practitioners often stay quite remote from grasping the complex realities in the countries concerned. Cooperation can be established on

the basis of common experience and analogous tasks facing countries of the region. Best use should be made of resources that have been accumulated in the region, involving as providers of knowledge and experience those countries which have already managed to implement decentralization reforms or have made significant steps in this direction. In this context, it will be useful to draw on and include the experience in East Germany with decentralization and the build-up of local government.

Learning from the history of one's own country

The lessons of experience in a country and its history may be considered as inspiration. In some countries, like those of Eastern Central Europe, there existed systems of more or less modern sub-national government prior to the Communist take-over in the late 1940s. These were later eroded and substituted by the soviet-type system. Here and there some patterns, mostly informal, as well as memories of this distant past have survived until the present, mixed with the Communist heritage, which can be recalled and exploited in the reforms to support the present democratization and decentralization effort.

I. The Decentralization Information System

In their recommendations at the UNDP Workshop on Decentralization of Governance in Central and Eastern Europe and the CIS, which took place in Prague in 1997, participants stressed that the exchange of information, knowledge, experience and documents, networking, training, technical assistance and other modes of cooperation are the activities that will accelerate the decentralization process in their respective countries. They also acknowledged the importance of the decentralized governance component of the DGP Programme, provided advice concerning its concept and recommended that a project on decentralization be launched within its framework, focusing on intra-regional cooperation.

As a means of supporting decentralization reforms in the CEE and CIS countries, it was proposed to create and put into effect, within the region and among the relevant actors, an information and communication system in order to collect, disseminate and share knowledge, information, experience and expertise concerning decentralized governance and to stimulate intra-regional cooperation. As the project's main vehicles, a *Decentralization Observatory*, a *Decen-*

Decentralization Learning Loops would facilitate learning through examples of good practices, preferably in the fields of the local economy, local finance, provision of local services and enhancing citizens participation.

tralization Network and *Decentralization Learning Loops* have been proposed.

A *Decentralization Observatory* would monitor, store, update, summarize, analyze and disseminate information concerning the decentralization of governance in the individual countries of the region. The Observatory would generate an updated pool of data on decentralization, which would be used for institutional learning.

A *Decentralization Network* would consist of actors both individuals and organizations responsible at the central, regional and local levels for decentralization reforms and their implementation, as well as associations of local and regional authorities. Actors will be approached on several levels. At the national level, decision-makers who are responsible for providing the institutional setting of decentralized structures will be involved. At the sub-national, i.e. local and regional levels, actors who are responsible for making decentralized government work (particularly leading members of elected councils, prominent executive and administrative officials, associations of local and regional governments of mayors, etc.) will be engaged. The Network's participants will act both as sources, receivers and beneficiaries of the information shared.

If implemented, the Decentralization Information System might become an important vehicle of the decentralization reforms in the CEE/CIS countries.

J. Criteria for the assessment of decentralization reforms

The most important general criterion according to which success of a decentralization reform should be assessed is its contribution to the country's democratic transformation and to the social and economic development of the country as a whole, as well as of its individual regions, cities and rural communes. It depends on the specific situation of each country how this general criterion is translated into more concrete measures. No all-encompassing, universal and mandatory set of concrete success measures exists or should be imposed.

Below are some criteria which have been used to describe, compare and evaluate systems of decentralized governance in Western democracies. They can at least serve as tentative guidelines on methodology for similar efforts in the CEE/CIS countries.

Which levels of sub-national government exist?

Which bodies of government exist at each level?

Which of them are deconcentrated agencies of central government and which are elected sub-national governments?

What is the election system; how democratic is it?

What is the relationship between elected bodies of sub-national governments (the councils) and the deconcentrated state authorities at each level of sub-national government?

Which are the most important responsibilities of each level of government, and if so, to whom are these governments accountable?

How are sub-national governments financed? Are they authorized to collect local taxes and to fix the tax rates?

What is the long-term policy of the central government toward decentralization?

As for criteria of outcomes (effectiveness) of decentralization reforms, the following can be mentioned:

The share of local or regional government spending in the overall public spending;

The share of local or regional governments' own revenues in their total available revenues;

Predictability of local or regional revenues;

Voters' turn-out in local or regional elections;

Citizens' satisfaction with the performance of local or regional governments;

Citizens' satisfaction with the provision of local services; and

Citizens' trust in local or regional government.

Neither of these two lists is comprehensive. Other criteria can be used as well.

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The Legislative Aspects of Decentralization¹

A. Concepts and approaches to decentralization

Why decentralization is indispensable

In discussing the institutional design of modern government, the distinction is usually made between *deconcentration* and *decentralization*. The former refers to an essentially *administrative* process of shifting administrative responsibilities from an upper to a lower level of state administration. By contrast, *decentralization* denotes the intrinsically *political* process of devolving *political* powers, as well as administrative functions, to lower sub-national levels and units of government which, by acting through democratically elected regional or local councils, possess a significant degree of political and administrative autonomy in relation to the central government. It goes without saying that, in order to truly do away with overly centralized state structures, measures of *deconcentration* do not suffice and, accordingly, that moves towards effective political as well as administrative *decentralization* are mandatory.

Three reasons of fundamental importance for an *institution policy* focusing on decentralization of the political and administrative structures should be highlighted:

First, decentralization is a pillar of *democratic* government, that gives its citizens the right and opportunity of exercising political influence and participation through the creation of sub-national layers of government on the regional and local levels. Such political empowerment of citizens on the regional and local levels not only meets normative democratic principles, but also fosters the kind of political integration, identification and involvement of citizens without which, as the collapse of the Communist regime has shown, a political system cannot endure.

An institutional policy which targets the decentralization of political and administrative structures should depart from a broad understanding and correspondingly envisage a comprehensive strategy which includes both the *vertical* and *horizontal* dimensions. Under the former, we understand the *vertical* organization of the politico-administrative system, particularly the inter-

Second, decentralization also buttresses *constitutional* government by vertically separating the power between the central/national and the sub-national levels of government and, through a variant of checks and balances, safeguarding the political system against the emergence of an overly centripetal and potentially authoritarian rule.

Third, the decentralization of political and administrative structures provides the *institutional framework and precondition* for the emergence of political, administrative, economic and societal actors on the regional and local levels and their active involvement in initiating, promoting and implementing sustainable regional and local development. Hence, political and administrative decentralization must be seen as the institutional prerequisite for bottom-up advances of the *private sector economy*, as well as of *civil society* at large.

Needless to say, such decentralized institutional policy is of the utmost importance in the former Communist countries. While it is true that early Marxist theory of the State and society envisaged basic democratic and decentralized structures along the lines of the Paris Commune, the Stalinist ideology and practice turned the Communist State into a nightmare version of centralized and authoritarian, if not totalitarian rule in the lands of central party leadership and the *nomenclatura* party elite under centralized party rule. The Communist State permeated and subdued almost all political, administrative, economic and societal spheres. Against this background, the task of transforming the former centralized Communist State, including its state economy, into a democratic government and market economy is shown in all its magnitude and importance.

The need for a broad institutional policy

governmental arrangement of the central, meso and local levels of government, their powers, responsibilities, financial resources, etc. By the *horizontal* dimension we mean the arrangement of the relevant institutions on the regional or local levels, particularly of the elected councils and administration or head of the administration. However, a *horizontal* perspective

should also include the internal organization and personnel of the administration and its modernization, because the successful pursuit and implementation of decentralization depends on whether viable political and administrative structures are being put into place on the regional and local levels and whether they are capable of carrying out the powers, responsibilities and tasks conferred upon them in the course of decentralization. These dimensions may be briefly mapped as follows.

Vertical dimension

The *vertical* (inter-governmental) dimension essentially pertains to the institutional setting and frame which sets the stage for the operation of the sub-national (regional and local) levels and units of government. One may speak of the *external constitution* of the sub-national levels as to their status in the overall political and administrative system. Five relevant aspects must be highlighted:

The institutionalization of a *regional/meso level*. This raises the question whether the regional level must be construed primarily as an *administrative* tier (for instance, headed by a state official, appointed by central government, of the former French perfect type), in a *deconcentration* strategy; or whether the regional level must be institutionally guided by the *devolution* of political powers and administrative responsibilities in a policy of political *decentralization*, including *federalization* of the country, as the most advanced modality of political regionalization (as it is the case, for instance, in Germany and in the Russian Federation);

The institutionalization of the *local level*. This poses the question whether the local level should be designed as a single-tier or as a two-tier system, the latter consisting of an upper level (e.g. the *Landkreis* in Germany, *megyék* in Hungary or the *rayon* in the Russian Federation) and a lower level (e.g. commune);

The *territorial format and size* of units at the regional and local government levels. This raises the question whether the existing territorial format of the regional and local government levels falls in line or should fall in line with the pattern of territorial amalgamation sometimes called the Northern European model. This model often results in the amalgamation of comparatively large counties/districts and/or municipalities/communes,

which is the case in Poland. Alternatively, the existing regional and local territorial boundaries follow and may continue to follow the traditional pattern of comparatively small-size units. This is sometimes called the Southern European model and seems to apply to most of the CEE countries.

The scope of the powers, responsibilities and also of the financial resources that constitute the autonomy (*self-administration, self-government*) of the sub-national local government units, on the one hand, and the scope of supervision and control by the central or national, on the other.

The relation between the political and administrative competence of the autonomous regional and local government level units, on the one hand, and the regional or local field offices of state administration, on the other. This raises the question whether the administrative functions performed by the regional/local field offices of the central level state ministries still prevail or whether a significant part of the administrative functions has been transferred to regional/local government units. A variant of such transfer of state functions can be seen in an institutional model characteristic of the German administrative tradition, in which the local administration has a double function: carrying out tasks of local self-government, on the one hand, and discharging tasks delegated by the State, on the other.

Horizontal dimension

The internal constitution of the regional/local government levels regulates the powers and responsibilities assigned to the elected regional/local councils or parliaments, on the one hand, and the regional/local administration, mainly its chief executive, on the other. The European Charter on Local Self-Government has provided an important stimulus and guideline in this regard. The crucial question is whether the power relations between the elected council and the head of administration should be regulated in a *monistic* or *dualistic* modality. In principle, at any rate, the *monistic* modality gives all powers to the elected council, somewhat following the classical call for all power to the council/soviet. The *dualistic* modality, by contrast, is based on the concept of separation of powers. It divides the local powers and duties, particularly in regard to the major decision-making powers, between the elected council, on the one hand, and the administration, on the other.

Within the dualistic model, the administrative leadership may, in turn, be institutionalized essentially in two ways, either by having a *collegiate* body consisting of a number of councillors/officials or by having a *monocratic* executive position-holder (e.g. *maire* in France, *Bürgermeister* in Germany) as single head of the administration. Within the monocratic option, the distinction can be made between a system in which the chief executive is elected by the elected council (which has been the classical *maire* tradition in France, somewhat reminiscent of a local parliamentary system) and a system in which the mayor is *directly elected* by the local population (which is the case of a strong mayor constitution in some of the US States and since recently in almost all German *Länder*) resembling the presidential system. Complementing the direct election of the chief executive may come recall procedures, through which the elected mayor may be removed by referendum voted by the local population (which, again, is the case in some US States and in some German *Länder*).

In another crucial dimension, decentralization policy should be concerned with the internal organization of the regional/local administration in order to enable it to cope with growing administrative tasks and responsibilities, in the wake of decentralization. With regard to administrative modernization in Western countries in the last two decades, two main stages and movements may be distinguished. One has been rooted in the classical Weberian bureaucratic model. A hierarchical set-up with a tight control span, it is geared to standardized, legal rule-bound activities and functions of public administration.

Emerging and progressing in the Anglo-Saxon countries and propagated under the banner of *New Public Management*, the most recent modernization wave has been directed at transferring organizational and operational principles from the private business sector to the public sector. New Public Management strategically aims at doing away with the hierarchical rigidities of the traditional public sector bureaucracies. It seeks to instill flexibility and cost-consciousness by decentralizing substantive responsibilities within the administrative units and by exposing them to outside market competition.

Since the success of vertical decentralization hinges on the capacity of the sub-national levels and units to cope with the powers and responsibilities devolved upon them, the strengthening of human resources at the regional and local levels is of utmost importance. It is

conventional wisdom in organization theory and practice that organization development and *personnel development* are just two sides of the same coin; they are like Siamese twins. A well-understood and well-intended decentralization policy should also include the *reform of the public sector personnel system* and provide for appropriate vocational training and qualifications. Furthermore, decentralization policies should be closely connected and coordinated with the *privatization* of economic and other activities hitherto run by the State.

The outline should have demonstrated that, apart from the general consensus on the need for decentralization on account of compelling demands and reasons, there is a wide range of institutional options and ensuing components and measures when it comes to the design and implementation of a decentralization policy and programme. There is no one institutional blueprint nor a ready-made recipe to draw on. Instead, the institutional design, which is actually chosen and implemented in individual countries is largely influenced and guided by the specific historical, political, cultural and economic conditions of that country and by the political intentions and interests of the actors involved.

In deciding on the design and the implementation of decentralization, individual countries and their respective actors may draw on the institutional options and models already in place in other countries, as well as on the experience and good practices observable in these countries. The process of institutional learning, if not institutional transfer, has rightly gained great importance. Yet there are limits and dangers implied in such a learning process. Mention should be made in particular of what has been termed the *ecological fallacy*, that is, the error which occurs if institutional options are transferred, indeed, transplanted from one country to another without taking into consideration that the circumstances under which such institutional options have been decided upon may be entirely different. This kind of ecological fallacy can easily doom such institutional transfers.

In decentralization policy which, for good reasons, turns to international learning, two analytical steps are particularly important:

The historical, political, institutional, cultural and economic circumstances under which decentralization will be undertaken need to be studied carefully; and

If and when it is considered to draw on an institutional option, model or experience from another country, the historical, political and cultural circumstances under which it was introduced and has been operating in the country should also be investigated and discussed painstakingly.

Preconditions, pace and range of decentralization

The centralized structure of the Communist State was well entrenched in the institutions and in the minds of the actors. It has continued to act as a legacy which contributes inertia instead of momentum to the transformation process.

In embarking on a period of transition and transformation, the countries have been facing a paradox inherent to wholesale system transformation. During the early stages, transformation seems to call for retaining and even strengthening the central government structures, powers and policies, in order to cope with the socio-economic crisis and problems arising in the wake of transforming the former command economy and opening it to world market competition.

While strong factors are at work which tend to retain a significant role for central/national politics and structures, the regional and local levels often still lack the political, administrative, financial and economic muscle which would allow them to assert themselves as a counterpart and counterweight to the central level.

It can be seen that policies and measures of decentralization and institutional change have often been necessarily cautious, tentative and fragmented instead of being determined, conclusive and comprehensive. The institutional options which have been made or are under consideration often constitute temporary and imperfect solutions which reflect the conflicts and compromises among political, administrative and economic actors at all levels and sectors. Considering the fact that the decentralization of the political and administrative structures is liable to establish a new balance of power, responsibilities and resources between the central government and the national elites, on the one hand, and the sub-national government levels and the regional/local elites, on the other, the following issues seem to be particularly critical.

One crucial question is the degree to which central government ministries and agencies continue to have regional and local field offices of their own or to which powers and responsibilities have been assigned to regional/local government levels to be carried out by them autonomously, that is, in regional/local self-

From its beginning in the late 1980s, attempts to overcome the centralized structures of the Communist State and of its state economy have been influenced by a number of powerful factors which have shaped and also slowed down the pace and direction of institutional transformation.

government/administration. It can be assumed that the less the overall political and economic transformation has advanced and the more the central elites still prevail, the more the central government agencies may insist on maintaining and retaining the scope of central ministry-subordinated state administration on all levels and the less powers may be granted to the regional/local levels. Conversely, it can be seen as an indication of the move of a country towards political/democratic and economic change when the scope of central ministry-subordinated regional and local field offices is being reduced in favour of expanded self-government/administration powers and responsibilities of regional and/or local government units.

Another indicator may be seen in the extent to which the regional and/or local government units, insofar as they exercise self-government/administration powers and responsibilities, are subject to supervision and control by central/upper government levels. As the status of self-government/administration is established and safeguarded, supervision of the regional/local levels by central government/upper levels is restricted to the review of the *legality* of decisions and activities of the regional/local authorities instead of also relating to their *merits*. The definitional and legal distinction between the *legality* review (in German: *Rechtsaufsicht*) and a *merits* control (in German: *Fachaufsicht*) and its strict application in the central/sub-national government relations should be particularly salient in the CEE and CIS countries. This is because in the Communist State system, mirroring the complete subordination of regional and local levels administration to central level administration, such distinction was not made and thus marks a fundamental rupture from this administrative past.

In this context, it might be appropriate to refer to the double functions model (characteristic of the German administrative tradition), in which local administration carries out local self-government matters as well as delegated state matters. It may offer an interesting institutional compromise between the interests of the (central) State and those of local government. While

local government strengthens the local responsibilities by taking on delegated responsibilities which would otherwise be carried out by local field offices of the state administration, the State maintains control over these delegated tasks through merit control (*Fachaufsicht*).

A third important indicator is the extent to which, in financing their tasks and related expenditures, the regional/local government units dispose of local revenues of their own, i.e. local taxes or revenue-sharing, or depend on grants and contributions from the central/national budget.

In view of the unprecedented historical, political, cultural and economic circumstances in which the system transformation has taken place in the CEE and CIS countries, it goes almost without saying that adopting Western institutional models in a direct and unreflected manner would certainly run the risk of committing the above-mentioned ecological fallacy, that is, of transferring institutions from one country to another without paying sufficient attention to their different contexts and circumstances. Hence, when it comes to learning and adopting institutional options from advanced Western democracies, careful analysis of the preconditions of such institutional transfer is doubly necessary.

By contrast, it appears very promising to initiate and entertain a process of mutual learning among the CEE and CIS countries, because the similarity of circumstances and problems facilitates the exchange of experience and of lessons to be learnt. In this connection, reference should be made to East Germany and the institutional experience made there in fundamentally revamping the political and administrative structures. It is true that the transformation which occurred in East Germany was strongly influenced by the unique events of German reunification. However, in as much as East Germany had to cope with the dismantling and transforming of a centralized Communist State, this may provide a body of experience deserving to be examined by the other former Communist countries in their ongoing attempt to restructure and modernize their institutional worlds.

Legal provisions

Under the premises of the *constitutional* democratic State, the political and administrative institutions are rooted in *legal* legitimacy. Accordingly, political and administrative institutions are created, altered or abolished through the process of *constitutional or*

ordinary legislation and by the constitutionally required parliamentary majorities. Since political actors, regardless of their interests, conflicts and political rivalries, agree that major institutional moves may be brought about only by legislative or constitutional provisions, this *legitimacy by procedure* confers on the institutions, once they are created by legislation or constitution, the recognition as being democratically legitimate. Furthermore, it ensures their existence and permanence until they are changed, in due process, by new legislative or constitutional provisions. In this sense, institutions in a constitutional State are also covered by the *rule of law and not of men*, as the constitutional democracy has been described. The basic principle of the rule of law stands, of course, in glaring contrast to the Communist State, where political and administrative institutions depended, first of all, on the political *will* of the ruling party elite and on the personalized power of men.

Under the circumstances of the countries in transition, it is the legitimacy and continuity of institutions, based on constitutional and legal provisions, that promise to provide the kind of stable and predictable institutional environment which is an indispensable precondition for the development of a viable democracy, as well as market economy and civil society.

Sources of law

Regarding decentralization, the following sources of law may be distinguished:

- Parliamentary law;
- Written Constitution;
- Ordinary statute law;
- Presidential decrees (in case there is a President disposing of the power to issue decrees);
- Legal provisions passed by regional/local councils (regional/local legislation);

Constitutional law

Constitutional law, the amendment of which usually requires a qualified majority, should be the locus of provisions that are basic to decentralization, such as:

- The creation of sub-national levels (e.g. regions, single-tier or two-tier local government levels);
- The status of the regions requiring particular constitutional treatment, if strong regions are created that come close to the federalization of the country;

The principle of local self-government/administration in terms of a general competence; and

Regional/local finance (assignment of certain tax revenues or revenue-sharing formula).

In this context, the existence of a Constitutional Court has considerable bearing also on decentralization, in as much as the sub-national government units may be given the right to question the constitutionality of certain decisions and acts of the central/national government by bringing matters to the Constitutional Court. In

The scope and procedures of central/national government supervision and control over the activities of the sub-national government levels and units;

The internal constitution of the regional/local governments, such as municipal charters; and

The detailed provisions of the sub-national finance system, including budgets, accounting systems, etc.;

It should be recalled that regulation of the status of the public/municipal employees, their vocational training, etc. should be seen *in tandem* with institutional decentralization.

Presidential decrees

If under the existing constitution, the President has the power to issue decrees as a source of law equal to parliamentary (statute) law in the field of decentralization, it should be exercised with utmost restraint. As the issue of decentralization touches upon basic questions of the constitutional and political set-up of the

order to safeguard the dignity of constitution-based law, it should be solely the basic legal provisions that are laid down in the Constitution.

Ordinary statute law

The bulk of legal provisions should be regulated through ordinary statute law. This relates particularly to:

The distribution and detailed enumeration of powers and responsibilities among the sub-national levels;

country and is bound to be conflict-prone, these decisions should be left to the parliament and the parliamentary process as the main stage of political decision-making and conflict-resolution.

Local legislation

Resulting from the decentralization of powers and responsibilities and from the ensuing regional/local autonomy, the regional/local self-government units should have the right to pass legal provisions (local legislation) on all matters within their competence. This relates to the regulation of issues which are left undecided, for instance, in the (centrally/nationally enacted) municipal charters, which may give them a choice among different local government options, such as the mayor being elected by the local council or by the local population at large. Similarly it would be largely up to the local self-government units to decide on the organization and modernization of their administration within the guidelines which national/central governments may choose to set.

B. Crucial issues of the legislative process

In the second part of this paper, some key issues of the legislative process will be explored. While focusing on the decentralization theme, the treatment of the legislative process will be more general.

Information-gathering and conflict-resolving

In discussing the legislative process and the factors that promote the enactment of legislation on decentralization, two features in which parliament is the decisive actor should be highlighted. In preparing the legislative decision of parliament, the legislative process may be seen as having two particular functions:

First, it has a crucial *information gathering* function. In order to dispose of as much information as

possible, parliament (as well as government) should activate all information sources and networks, including scientists and practitioners.

Second, it has a critical *compromise-seeking and conflict-resolving* function. Since in a significant policy such as decentralization, many political, administrative and economic interests and power positions on all levels may be challenged by the draft legislation, the legislative process has the task of getting all relevant actors involved, including particularly those from the regional and local levels. Acceptance by the political and administrative actors at large of the finally enacted piece of legislation depends heavily on the kind of negotiations and compromises which have preceded and accompanied the legislative process. It also depends on the kind of coalitions which have been formed in order to overcome opposing stakeholders and to pave the ground for the institutional innovation.

Relevant constitutional actors

The relevant constitutional actors in the legislative process are:

The parliament (which may consist of one chamber only); and

The government/executive (which may be constitutionally set up as a parliamentary or as a presidential system).

While, in formal constitutional prescription, parliament is the real master of the legislative process, in the political and constitutional reality, government, in both parliamentary and presidential systems, plays a strong, if not sometimes dominant part for at least two reasons:

Making use of its constitutional right to *initiate* legislative drafts, government is the initiator of many, if not most of the bills with which parliament deals. In so doing, government can capitalize on the expert assistance of its ministries and full-time personnel, as well as on the other information sources which government has at hand.

Since in parliamentary democracy, the real separation of power lies between government and its parliamentary majority, on the one hand, and the parliamentary minority in opposition, on the other, even legislative drafts which are formally introduced by members of the parliamentary majority have been worked out under the guidance of the executive ministries.

This situation makes for a precarious imbalance between parliament and government. While this imbalance has been evident in advanced Western democracies, it seems significantly more pronounced in the

developing political systems in CEE and CIS countries, which still lack parliamentary experience. The question of how to remedy this imbalance in the field of legislation on decentralization deserves particular attention.

Parliament

In modern parliaments, the *parliamentary political party groups* are the main actors. Made up of the members of parliament that belong to the same party, the parliamentary party groups represent, in the parliamentary arena, the political parties at large. In their legislative work, the individual members and the party groups are often seriously inhibited by the lack of technical skills and personnel that might support them in drafting bills, etc. In some countries steps have been taken to provide the individual members, or at least the parliamentary party groups, with funding in order to enable them to hire some staff. To strengthen the legislative capacity of the parliaments in CEE and CIS countries, the funding of staff assistance to the individual members and political party groups should be promoted. This is particularly important for the members and party groups in opposition, as they do not have easy access to governmental ministries.

Parliamentary committees play a key role in the legislative process, because it is there that the work on legislative drafts takes place. During the sessions of the committees, the individual members and party groups engage in detailed discussions and negotiations. It should be noted that, in many countries, civil servants and experts from the ministries attend the committee meetings and take part in their discussions. This makes for an important exchange between parliament and government in a decisive phase of the legislative process. The following organizational and procedural rules seem particularly relevant:

Each committee should have a secretariat with a *full-time highly qualified secretary*, who assists the committee members in organizing the session, procuring pertinent material and information.

The committees should hold *public hearings* on all relevant matters. Such public hearings provide a forum for interest groups and experts to voice their views. In as much as such hearings are covered by the mass media, they can be instrumental in instigating public discussion.

In the standing order of parliament, the opposition in each committee should be given the right to submit a minority report and include it in the committee's report to the plenary.

In view of the crucial importance which the committees have in the legislative process, it seems imperative that parliament set up a standing *Committee on Decentralization and Local Matters*.

As the technical and staff resources of the individual members and of the parliamentary party groups, particularly the opposition, are meager, parliament should be provided with *additional supportive facilities*.

The *parliamentary library* should be given attention. This relates to the relevant material, but also to expert assistance by librarian staff, including access to internet-based data banks and information archives.

Parliaments should also build up a *legislative service* which consists of a number of competent staff who can assist individual members in drafting bills by obtaining relevant data and writing research briefs. With regard to decentralization matters, this seems particularly necessary, including help in getting information on international developments in this area.

Government /Executive

In addressing the legislative function of the government/executive, the focus is on the latter's role in the parliamentary legislative process, rather than on the power to issue decrees.

In order to give the issue of decentralization and local self-government/administration an influential standing at the government level, it seems advisable in the current transitional period to create a separate *minister in charge of decentralization and local self-government matters*. In the face of the conflicts which are bound to arise between central government ministries/agencies that are interested to retain, if not extend, their sectoral administrative structures down to the local level, on the one hand, and the policy to decentralize the political and administrative structures, on the other, it is crucial to have the decentralization policy represented and defended at the cabinet level.

An alternative to establishing a separate ministry is the creation of a post, possibly in the Prime Minister's Office, with cabinet rank. The incumbent would be the advocate and watchdog for the entire administrative reform, including central level government moderni-

zation, as well as decentralization. The plenipotentiaries for administrative reform in the Prime Minister's Office in Poland and Hungary are good examples.

In either institutional modality, such institutional advocates for administrative reform, including decentralization, can play a key role in defining decentralization policies, formulating pertinent legislative drafts and getting involved in the legislative process, whilst the decentralization bill and measures are discussed and negotiated in parliament. Acting as a *liaison* between the government and parliament, incumbents of this post may play a critical part in getting the decentralization policy and legislation across both in government and in parliament.

Other actors

Scientific institutes, research groups and individual scientists working at universities and other academic institutions, including the academy of sciences, lawyers, political scientists, public finance and public administration experts should be involved in the legislative process.

To benefit from information and practical experience, as well as to seek compromises and secure support, a wide range of political, economic and societal actors should be involved in the legislative process at an early stage. This applies particularly to the *local government/municipal associations* which represent the interests of the cities and towns, as well as other regional or local associations. The same holds true for *trade unions*, particularly the public employees union, and *business sector associations*, which also have a stake in decentralization and whose support should be sought.

Finally, information, advice and support should be sought from international organizations which offer expertise and support in the field of organization and personnel in public sector development and modernization. Western experts and consultants need to be keenly aware of the risk of the ecological fallacy when drawing on institutional models.

C. Suggested steps towards decentralization

It has been argued consistently throughout this paper that the circumstances and contexts in which the CEE and CIS countries find themselves in the present period of transition rule out any approach which would aim at employing one conceptual blueprint or one institutional recipe. Instead, careful analysis of the specific historical, political, cultural and economic situation must precede any policy formulation and action. This applies to the extremely complex issue of decentralizing the political and administrative structures more than in any other field. Although an attempt should be made to learn from other countries, including Western countries, one should avoid the risk of the ecological fallacy, that is the erroneous transfer of solutions from one context to another. A good chance of mutual learning can be seen, because of their common political and economic past and of the commonalities in system transformation, particularly among the former Communist countries, including East Germany.

Long-term goals and short-term measures

In a number of CEE and CIS countries it would be unrealistic, in the current state of political and economic transformation, to push for far-ranging or radical concepts of decentralization. Therefore, it might be more expedient for these countries, in the short term, to embark upon a path of institutional reform in which there is still a strong element of *deconcentration*, that is of delegating state functions from upper to lower levels of state administration. The element of *decentralization*, that is, of devolving state functions to regional and local self-government/ administration levels would be less pronounced.

At the same time, measures should be taken to strengthen the organizational, personnel and management capacities of the regional and local self-government/ administration levels in order to enable them to take over powers and responsibilities which could be

devolved upon them in the *next* round of institutional reforms. Such a combination and integration of long-term goals and short-term measures should be laid down in a *ten-year programme* aimed at comprehensive policy directed at decentralizing the political and administrative structures and functions is bound to stir up interests and touch stakeholders at all levels of the political system, the creation of a *Decentralization Reform Commission* is recommended. This should comprise representatives from all levels (regional, local) and all sectors (labour, business, science, etc.). It should provide a forum at which the different views

sive *public sector modernization*, of which decentralization must be a key part. In other countries which have progressed further in the political and economic transformation, an accelerated schedule for decentralization would be appropriate with more far-reaching short-term steps towards decentralization.

Institutional advocates and watchdogs

In the present situation in most CEE and CIS countries, the relation between parliament and executive government is often marked by a power imbalance. Parliament has yet to rise to its constitutionally and politically mandated position, while government, relying on superior personnel and technical resources, prevails. In this critical constellation, an institutional and procedural arrangement should be sought which allows the government, in the short term, to take and to maintain the lead in pushing for decentralization, while parliament should be enabled to play the decisive role it has as the country's legislature and supreme constitutional power.

On the government side, a position should be created, arguably with cabinet rank in the Prime Minister's/ President's Office, to play a leading role, as an advocate and watchdog, in initiating public sector reforms, including decentralization. As an active participant in cabinet meetings and parliamentary sessions, as well as in negotiating with regional and local political chieftains, such a governmental plenipotentiary for public sector reforms would act as a key figure in coordinating and energizing the decentralization drive.

On the parliamentary side, a committee on public sector reform/decentralization should be established to provide a parliamentary arena as well as a public forum for the debate on those issues. In the legislative process on decentralization, the committee would play a key role and would be the main parliamentary counterpart and counterweight to the government.

Decentralization Reform Commission

and interests may be voiced and compromises sought. This advisory commission should be created at the very outset of the legislative process and should monitor the implementation of legislation for the duration of, say, ten years. The advisory commission should appoint a scientific sub-commission made up of leading legal, political science, public administration and public finance experts from the country's universities and

other academic institutions. The sub-commission's mandate would be to work out expert opinions and briefs on the decentralization reform.

Additionally, an evaluation sub-commission should be established with the task of monitoring the ongoing implementation of the decentralization reform. The evaluation sub-commission should have two main tasks. Firstly, through on-going evaluation, it should monitor the implementation process of the decentralization measures, identify successes as well as difficulties and shortcomings in the process and report back to the relevant political and administrative actors. Secondly,

after five years, it should submit an interim report and, after ten years, a final report on the first decade of decentralization.

Experience in other countries shows that such advisory commissions, including an evaluation component, can provide considerable support to a major reform and modernization effort because it not only brings in valuable information during the different stages of the reform process, but also contributes to the building of reform coalitions comprising political, administrative, scientific and economic actors, which may provide the needed momentum to the ongoing reform.

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Decentralization in the European Union¹

Since its establishment over 40 years ago, the European Union (EU) has evolved a system of multi-national governance which is unique. The system has evolved gradually over the years, in response to the challenges and opportunities which appeared at different stages in its development. It has come to represent a rather complicated set of arrangements, under international treaties, which involve some measure of surrender of national sovereignty to supra-national organizations, in carefully defined policy sectors and under arrangements which differ substantially from sector to sector.

However, in general terms, it is possible to represent the current Union as a system which involves, for most of its citizens, four distinct layers of governance (see Table 1). At the European level, there is an assemblage of supra-national bodies, with specified roles and responsibilities, which to some extent mirrors the normal arrangements at the national level. There are:

The European Council of Ministers, which in some respects plays the role of a Government;

The European Parliament, which parallels some of the functions of national parliaments;

The European Commission, which is somewhat similar to a European Civil Service; and

Other bodies, such as the European Court of Justice, European Court of Auditors, European Statistical Office (Eurostat), which play roles similar to their national counterparts.

To claim that this has created a European State would be to exaggerate greatly, but the fact remains that there is a system of governance, at the European level, with important responsibilities and authority, which in some respects override the national authority and laws of the Member States.

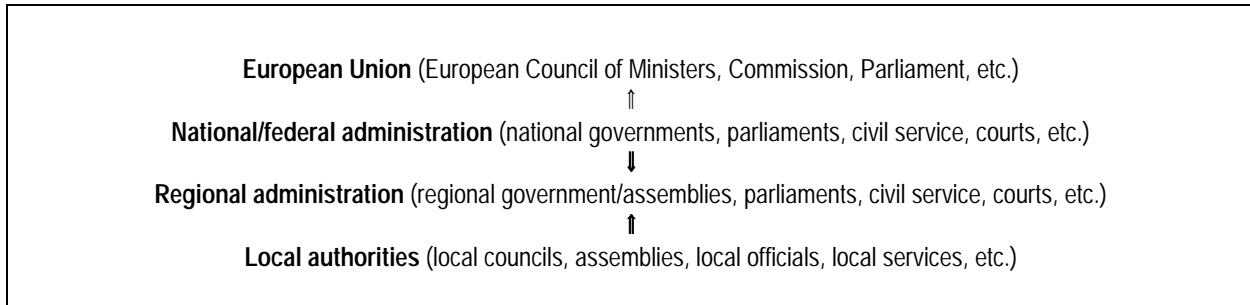
The principle of subsidiarity

Having such a multi-layered system of governance inevitably gives rise to questions of what responsibilities, authority and resources should be assigned to each of these layers should, for example, environmental protection be the responsibility of the EU, of national authorities, of regional authorities or of local authorities? To deal with this issue, the EU has adopted a principle which is disarmingly simple and yet quite effective. This is the principle of *subsidiarity*, which at its simplest states that every function should be assigned at the lowest level at which it can be undertaken effectively. This means in practice that any decision to allocate a function or responsibility at a higher level must be capable of being defended or explained on grounds that it could not be done effectively at a lower level.

This is a powerful device to counter the natural tendency in systems of management or administration to centralize responsibility and power. It has also provided a logical basis for agreement on allocation

¹ By Michael Kelly, European Institute of Public Administration. The contents of this paper are based on the research report *The Surplus of the Intermediate Level in Europe*, published by EIPA in 1998. This was the first output from a research project on the Intermediate Level of Government in the EU Member States, funded by the European Commission.

Table 1.
The European Union: Multi-Layered Governance



questions. It is clear, for example, that air pollution does not respect national borders, and that an international, EU-wide, policy and regulation will be more effective than a national one. At the other end of the spectrum, in dealing with oil pollution on a beach, the local authority seems much more appropriate as an affective agent than a European official in Brussels.

The structure of European public administration

Against this background, the fifteen Member States of the EU have organized their administrations along very different lines. The European Treaties convey no authority to the EU in relation to the organization and management of public administration in the Member States. This remains a national competence, under which each Member State is free to organize its administration in any way it wishes. These administrations are responsible for the implementation of EU policies, and can be penalized by the EU if they fail to do so, but the organizations and methods adopted can and do vary enormously.

In each Member State there is, obviously, a central or federal administration with important functions and, at the local level, local authorities with responsibilities for delivery of local services. But the greatest variety in structure arises between these two levels, in what may be called the intermediate level of government, or the regional level. In some Member States, this level is extremely important, and in others it is virtually absent. It is interesting to consider these differences and the reasons for them.

The intermediate level of government

In Table 2, the fifteen Member States of the EU are shown in descending order of population size, together with a broad indicator of the degree of development and importance of the intermediate level of govern-

ment. It is clear that there is some relationship between size and development of the intermediate level the smaller countries tend to have no such level, while the most developed include some of the larger countries. However, the correlation is far from perfect and there are obviously some influences at work apart from size.

In the United Kingdom, the traditional Westminster model of government was strongly centralized, and this has played a part in the relative underdevelopment of an intermediate level of government. This is now changing. As a result of recent political developments, there is a definite move towards regionalization, with local assemblies and administrations being established in Scotland, Wales and Northern Ireland, which will acquire significant responsibilities and powers. This will still, however, be a case of intermediate government, which will be very different from the examples of Germany or Spain.

In France, the administration was also traditionally centralized, but with a special feature of decentralization, which might more properly be called deconcentration. While the final authority and decision-making power remained at the centre, the administration was deconcentrated through the system of *départements* and *préfets*, who exercised the authority of the State locally, but under the authority of the centre. This long-standing arrangement has been modified since the early 1980s by a series of measures which have established new regional or territorial administrations with a mandate related largely to economic activities. This has reduced the power of the *préfets*, but on a selective basis.

In summary, the second and third largest countries in the EU are moving towards regionalization in some degree, but from highly centralized administrative traditions.

In Table 3, the regions or intermediate structures which exist in the different EU countries are listed in terms of average population and average geographical area. There is obviously a huge range involved. Nevertheless, it is interesting to note that countries seem to have adopted an administrative structure, which caters, on the average, to a population of around 0.5m to 2m higher in the larger countries and lower in the smaller ones. While the significance of this should not be exaggerated, it may contain some significance as an appropriate size for an administrative structure which delivers the range of services involved.

Geographical area provides less indication of a typical size. Apart from the range of sizes among the EU Member States, there is also a large range of population densities, which would be expected to represent an important factor in managing the delivery of services. The use of averages in Table 3 should not make us forget that there can also be a very large range of population densities within the individual countries, as well as between them, and it would require much more detailed data to study this question fully.

Table 2.
Population and degree of importance of the intermediate level
in the countries of the European Union

Country	Population (millions) ²	Importance of Intermediate Level
Germany	82.3	++
United Kingdom	59.2	-
France	58.9	-
Italy	57.6	+
Spain	39.4	++
The Netherlands	15.7	+
Greece	10.6	-
Belgium	10.2	++
Portugal	9.9	-
Sweden	8.9	+
Austria	8.1	+
Denmark	5.3	+
Finland	5.2	+
Ireland	3.7	-
Luxembourg	0.4	-

² Source: *European Economy*, No. 65, 1998.

Table 3.
Population size and area of regions
in the countries of the European Union³

Country	Population (millions)	Number of regions	Average population (000s)	Average size sq. km.
Germany	82.3	16	5.143	22.461
United Kingdom	59.2	34 ⁴	1.174	7.255
France	58.9	22	2.521	30.750
Italy	57.6	20	2.833	15.505
Spain	39.4	17	2.142	28.042
The Netherlands	15.7	12	1.308	3.535
Greece	10.6	16	1.081	14.660
Belgium	10.2	3	3.286	10.174
Portugal	9.9	8 ⁵	1.237	8.725
Sweden	8.9	24	358	18.741
Austria	8.1	9	900	9.890
Denmark	5.3	14	365	3.076
Finland	5.2	18	288	19.652
Ireland	3.7	8 ⁶	462	9.250
Luxembourg	0.4	-	-	-

³ Source: Basic data from *International Handbook of Local and Regional Government*, adapted and updated with more recent information.

⁴ Shire County Councils.

⁵ Mainland provided for in legislation.

⁶ Regional Health Boards.

Allocation of functions to regional and local government

There is a set of functions which are normally devolved to the sub-national level, although the distribution between intermediate and local levels varies further.

These are:

Physical planning and development;

Social housing (i.e. housing for underprivileged groups);

Roads (with local roads assigned to the local authorities and main or trunk roads to a regional or national authority);

Transport (provision, subsidization or regulation of public transport, such as bus services, and sometimes control or operation of ports, sea or river transport, etc.);

Education (with primary education normally a responsibility of local authorities and higher levels assigned to intermediate or national bodies);

Cultural and recreational services (libraries, museums, parks, etc.);

Health and social assistance (a very varied organization of services, with responsibilities at various levels);

Police (again varied a local authority function in many Latin or Germanic countries, but also assigned at intermediate and/or national levels);

Fire protection (generally a local authority function);

Development of the local economy (local authorities generally, but higher level responsibility in some countries);

Public utilities (water, electricity and gas supply, often undertaken at the local level);

Environmental protection (often at both local and intermediate levels); and

Tourist promotion (as above).

In addition to the issue of where a responsibility is assigned, there is the dimension of the degree of autonomy granted under each heading, which again is quite varied. In some cases the intermediate authorities have substantial authority to make policy and pass legislation, while in other cases an authority may have only a service delivery role.

Expenditure and funding

Naturally, the proportion of public expenditure undertaken at the intermediate or local levels will depend to some extent on the extent to which functions are devolved from the centre. Nevertheless, even in a highly decentralized country like Germany, the proportion attributed to central government is over 50 per cent. In most cases it is over 70 per cent. In countries which have active regional and local sectors, the distribution of expenditures tend to be about equal between the two levels.

The proportion of revenues raised by sub-national bodies through local taxation (local income tax, property taxes, etc.) varies widely, but remains below 100 per cent in all cases. European examples range from 70 per cent to 4 per cent, most of the remainder coming from national funds or from charges for services. One of the issues affecting local taxation is that of the redistribution factor income collected at the national level can be redistributed to poorer regions, whereas local revenue raising and expenditure tends to favour the richer regions. In the EU, the national policies in this connection operate *in tandem* with EU policies, and are affected by the development of regional policy and increased allocation to structural and cohesion funds, which are directed to the poorer regions of Europe.

The influence of tradition and culture

While some larger countries have less developed regionalization than might be expected, some of the smaller countries have more. Belgium is a case in point, with a very developed policy of decentralization and delegation to regions despite its relatively small size. This case highlights the fact that regionalization can be a reflection of differing traditions or culture, rather than a device of administration. In Belgium, the differing traditions, culture and languages between the Walloon region and the Flemish region have resulted in a highly regionalized administration. It is commonly regarded as something of a success for the EU that it has been possible to accommodate the regional aspirations within Member States for greater local autonomy and independence of distinct sub-national regions without threatening the security of the State and without leading to violent resistance.

The quite extensive decentralization which has taken place in Spain since it joined the EU in 1986, with the growth of autonomous regions throughout the country, has changed a tradition of tight central control from

Madrid, and has done something to ensure that public opinion in Spain is strongly in favour of EU membership.

In the case of the Netherlands, tradition has worked somewhat differently. The highly developed system of regional government is not the result of differing regional traditions or languages, but a reflection of the historical development of the country. The Netherlands was created originally by voluntary cooperation among city-states rather than by any central conquest or dominance, and continues this tradition in its current organization.

Germany represents a special case. The country came about during the 19th century as a process of unification of separate states, which provided an original regional pattern of tradition and culture. While this structure was lost before World War II, it was restored after the war (in the former West Germany) as a central feature of the new federal State with a very high degree of devolution and autonomy given to the *Länder*. While the sheer size of Germany would seem to make regionalization a natural policy, the practice also has a strong traditional and political background.

Attempts to solve the democratic deficit

The development of sub-national administrative structures is also very closely associated with the issues of improving democratic control and responsiveness to citizen needs. The potential for a devolved or decentralized system of governance to improve the State/citizen relationship is obvious, but has proven to be somewhat elusive in practice. In many EU countries it has been noticeable that voter turnout in local elections has been much lower than in general elections, which seems to indicate a lack of interest, despite the importance of local government.

This feature calls attention to the relationship between the devolved responsibilities of sub-national governance and the devolved authority the right to adopt and execute policies at the local level. A large range of functions at the local level, and a substantial budget, may serve to conceal a lack of real local autonomy and the democratic control which should accompany it. If a regional or local authority is perceived as being merely a service delivery agency, strictly bound by the policies and control of the central government, then it cannot expect to attract the interest or involvement which true local government would. In European countries where regional power is very real such as Germany or Spain the interest and involvement of citizens in

regional democracy seems to match the high levels of local autonomy.

The trend towards greater democratization at the regional and local levels within the EU is also influenced directly by the development of European integration. To some degree, the emergence of the centralized authority which the Union represents may have to be countered by a greater devolution of authority and representation to sub-national bodies. Despite the growing role and power of the European Parliament, it is difficult to develop a convincing sense of individual representation on a European stage, and the democratic deficit of the EU is a widely reported phenomenon. If European integration leads to a feeling of loss of democratic rights in the Member States, because of the sheer scale of the undertaking, then it becomes more important to develop new democratic institutions at the local level, responsive to local needs.

However, the encouragement which sub-national government has received under the EU operates in a more direct way as well. In pursuing its objectives of European integration and economic development, the Commission has seen the sub-national bodies as important allies, and it has framed some of its more important policies in such a way that the regions and local authorities have often been involved in policy-formulation and project delivery to a far greater extent than they would have been under their national political and administrative systems.

The search for efficiency and effectiveness

Many of the features of decentralization in EU administrations have been influenced, as we have seen, by factors such as administrative tradition and cultural or linguistic regionalization. But the objectives of achieving efficiency and effectiveness in administration have become more important in recent decades, in the debate about decentralization. There is no compelling evidence that administration is always more efficient or effective if conducted on a centralized, national basis (except, perhaps, when issues of economy of scale come into play see below), and there is no serious opposition to the principle of delegating responsibility and resources to decentralized administrative bodies. However, there is a countervailing tendency taking effect in many countries, resulting from the increasingly sophisticated demands of modern society.

As health services, for example, become more specialized, more technologically demanding and more expensive, it becomes less feasible to provide them

economically in a small-scale local administration, and more necessary to rationalize services into larger units. This has not generated any resistance to the devolution of functions from central to regional level, but it has caused a certain movement from the local to the regional level. In the Scandinavian countries, for example, there have been long-term programmes to amalgamate smaller local bodies into larger regional units.

In Ireland, this consideration led to the decision to establish regional health boards. Most of the local services remain in the hands of local authorities, but health services were rationalized into larger bodies, which could more economically operate hospitals and other health services.

A gradual redistribution of roles and resources is taking place within the administrative systems of the EU, which is indicated by the arrows in Figure 1.

The national authorities are ceding some aspects of sovereignty and policy-making to the supra-national level, and there is a relatively minor transfer of resources (set at a maximum of 1.27 per cent of GNP of the Member States). There is also, as we have seen, a trend towards greater devolution from the national level towards the regional level. At the lower end of the scale, considerations of efficiency are causing some rationalization of local administration towards a more agglomerated or regional level. If this can be regarded as a form of competition between the regional and local levels for power and resources, then the regional level seems, in general, to be winning. There is, however, a parallel development in some countries where the local authorities, recognizing the dangers of small scale and wishing to exert a greater influence in policy-making, are voluntarily forming associations of local authorities in order to pool resources and expertise and achieve economies of scale.

As a result, the regions have often been seen as the main beneficiaries, in terms of power and resources, from membership of the Union. This is evidenced by such factors as the role of the Committee of the Regions in EU decision-making, the significant transfers taking place under the EU Structural Funds (which are largely managed and spent by regional or local authorities) and the growing interest and participation by regional authorities in policy-making at the European level.

Conclusions

The Member States of the EU have very different administrative systems, and are under no obligation to comply with any standard system of organization. The very different histories, size and administrative traditions of the countries have given rise to a wide variety of structures of governance and administration below the national level, ranging from highly decentralized to highly centralized in terms of political power, resources and democratic control.

Nevertheless, there are some common trends resulting from the impact of European integration which can be seen across the Member States. The main effect has been increasing autonomy and authority of sub-national bodies, especially the regions in those countries which have such a structure. Combined with economic and financial considerations, the effect has been to support the development of a strong and influential intermediate level of government in many Member States and of increasing cooperation and association among smaller local authorities in others. The growing power of this level is seen to result in greater interest and involvement in local politics in many countries, which can be regarded as improvement in democratization. In general, the intermediate level of government in the Member States has benefited greatly from European integration, and some observers predict a Europe of the Regions, in which the regional governments and administrations will rival the nation-states in terms of political power, resources and democratic involvement.

Part II:

Financial Decentralization: Establishing the Necessary Resource Base

Financial Aspects of Decentralization under Conditions of Transition to a Market Economy¹

The implementation of market reforms in the countries of Eastern Europe and the Commonwealth of Independent States (CIS) has been accompanied by the formation of a new financial nexus between the federal centre and regional authorities, including local government bodies.

The problems of combining the principles for organizing a market economy with those of federalism and local government are among the most complicated, with socio-political, socio-economic, organizational and legal ramifications. The market economy and territorial organization of any country create particular requirements and constraints for one another. As a result, in each country with a system based on the principles of federalism and local government, a federally mediated system of economic relations and, at the same time, an economically mediated system of federal relations came into being. Financial decentralization and autonomy of territorial entities are characteristic traits of these systems.

The area of budgetary and tax relations is the basic sphere of state financial regulation of territorial development (financial decentralization). Here we encounter the concept of *budgetary federalism*, which has been accepted by the world community. Russian legislation defines budgetary federalism as relations between the state government bodies of the Russian Federation and the executive government bodies of subjects of the Russian Federation relating to the delimitation of budgetary powers, expenditures and revenue, as well as the allocation and reallocation of expenditures and revenue between the federal budget and the consolidated budgets of subjects of the Russian

Federation on the basis of the need to ensure the unity of the common State interests on the part of municipal entities, which are situated in the territory of subjects of the Russian Federation and are part of them .

Some of the basic requirements

In accordance with the basic provisions of federalism, the success of *budgetary federalism* depends on the fulfilment of the following requirements:

Allocation and legal provision of responsibility for discharging individual social and economic functions among the federal, sub-federal and local levels (the requirement of a sound allocation of expenditures);

Identification and legal provision of revenue sources for budgets at all levels, taking into account the resource potential of the territory in question (property, natural wealth, etc.), state support funds received previously, etc. (sound allocation of revenues);

Formulation and legal provision of the mandatory nature of a complete territorial breakdown of the federal budget (according to revenue and expenditures), reflecting both direct inter-budgetary and tax flows and the territorial allocation of all classification items in the federal budget for all federation subjects (territorial transparency of budgetary and tax relations);

Definition and legal provision of criteria for organizing inter-budgetary and tax flows in accordance with the territorial structure of expenditures and the combined financial potential of the territories

² By Dr. M. M. Prusak, Governor, Novgorod Region, Russian Federation, and Dr. V. I. Koshkine, Rector, College of Privatization and Entrepreneurship, Russian Federation. Original in Russian.

(sound and diverse forms of selective support for individual regions);

Elaboration and legal enactment of procedures for review and evaluation of the budgetary and tax implications of draft laws and government decisions (ensuring a stable budgetary and tax system); and

Development and legal enactment of mechanisms and procedures for ensuring the implementation of all the aforementioned provisions (establishing proper procedures).

In the Russian Federation at the present time, in the context of financial flows in the vertical centre-regions direction, funds are not allocated in accordance with the functions of the State at the federal and regional levels. First of all, the centre determines the total amount of money to be transferred to the federal level. Here, the specific modalities, according to which regions send these funds to the centre, are not defined. Therefore, there exist the so-called transfer relations, which do not reflect the country's real economic picture. In this way, at the beginning, all money flows to the centre; then the federal authorities attempt to find some plan for allocating the money to the regional level below.

In the opinion of the authors of this paper, it is necessary first to determine the functions of the State at the federal and regional levels and then determine the financial outlays in this light. If there are insufficient funds for expenditure items, then we provide supplements at all levels of economic management on a percentage basis (through the issuance of currency, loans, etc.).

The structural hierarchy of budgetary expenditures must naturally be determined by the specific allocation and assignment of responsibility among the various levels of government. In accordance with this theory, only after responsibility for expenditures has been apportioned and their overall amount has become known at all levels of government, should the questions of allocating and reallocating revenue between these levels be resolved.

Experience in many countries demonstrates that it is advisable to assign expenditure functions and the responsibility for the provision of services in accordance with the area of their application. Accordingly, it is preferable to leave budget-financed services that are generally used by local inhabitants under the jurisdiction of the local authorities. The corresponding services intended for a number of localities, for example,

the construction of inter-city highways, are traditionally provided by regional (*oblast*) authorities, while budget-financed expenditures which ensure the interests of the State as a whole, for example, defence expenditures, are the domain of the federal government.

Subsidiarity: its scope and limitations

It is generally considered axiomatic that an expenditure function will be carried out most effectively if it is assigned to the lowest level of authority that can discharge it properly. Thus, services provided at a specific level must be financed from the budget at that particular level. Exceptions to this rule are possible. It may be appropriate to centralize functions in providing specific budget-financed services if, for example, economies of scale or the prevention of duplication are possible in the provision of such services.

Experience in countries with developed market economies shows that it is normally the central government which is responsible for expenditures linked with social stabilization (e.g. unemployment benefits) and expenditures which influence income distribution (e.g. social welfare). Expenditures on services for which the effective investment of resources is particularly important are best transferred to various levels of authority, depending on possibilities for economies of scale or for expanding the area of application.

The following functions are generally assigned to the State: defence, postal services and communications systems, national highways and civil aviation. The performance of these functions is, of course, financed from the state budget. The legal system and the courts, the national law-enforcement bodies, foreign policy, scientific research and environmental protection are also financed by the State. For example, the formulation of rules and laws regulating industrial, business and commercial activities falls within this sphere.

Meanwhile, a distinction must be made between the provision of services and financing of those services. Many services can be provided at the local level, but are financed at the central level. For example, the delivery of social welfare programmes can be best organized by the local authorities, which have specific knowledge of the social situation in their respective areas. At the same time, the federal government, which is concerned that the social welfare system should meet state-wide standards, may reserve for itself the function of financing these programmes.

Traditionally, it has been considered advisable that the following should be financed at the local level: local

roads, the maintenance of law and order, hospitals and municipal services for sanitation and garbage collection, street lighting, sewage systems, the organization Expenditures which cannot be uniformly allocated only to the federal or only to the local level include expenditure on education, health care and social security. On the one hand, local schools and hospitals clearly serve the inhabitants of the locality in question. On the other hand, a well-educated and healthy population is an asset to the country as a whole. Considerations of equity also require the equalization of outlays on these items so that guaranteed social standards are established throughout the country. Accordingly, those functions are often transferred to regional authorities, or divided between them and the federal government.

The actual structure of the allocation of expenditure functions depends on a great number of regional variables and, therefore, each country tries to find its own model and work out its own approach to the allocation of expenditure functions at different levels. Another basic principle of the system of budgetary federalism is that after the expenditure load has been distributed among budgets at various levels, their revenue is regulated.

State regulation of revenue

The goal of state regulation of the revenue of various budgets is to achieve a distribution of taxes between the territorial links of the budgetary system of the federal State which would guarantee the financing of the expenditure prescribed by law for each of these links and thereby minimize the need for an additional redistribution of financial resources among them.

International practice shows three main approaches to solving the problem of distribution of taxes collected in the federal State:

Assignment of taxes to a specific level of power and delimitation of the authority to levy taxes, accordingly;

Joint use of the tax base; and

Proportional distribution of taxes.

The essence of the first approach is that each level of government in the State is fully entitled to establish and collect its own taxes, and bears full responsibility for so doing. Thus, several separate levels of taxes are found in the State, for example, federal, federal entities and local. In principle, enterprises and organizations must pay into each budget only the types of taxes which are intended for that budget. Under this approach, taxes

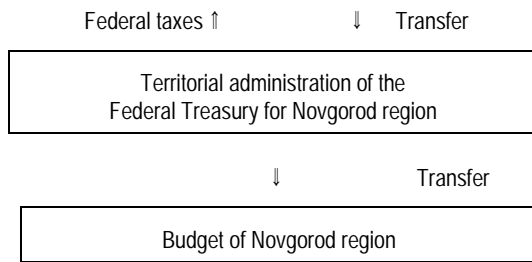
of the retail trade, local transport, land registration, registration of property rights and the issue of building permits.

established separately by each level of power are collected only within the bounds of the territory concerned and must be deposited in the budget of that level of power. A given level of power receives exclusive rights to collect and use these taxes, as well as to establish tax rates and to determine the tax base.

The second approach is based on a combination of several rates established independently by various levels of authority (federal, regional and local) within the framework of a certain type of state tax. This means that enterprises and organizations are required to pay a given type of tax simultaneously into several budgets at various rates. As a result, any one type of tax enters the budgets at various levels simultaneously. The incoming amounts are determined by the quotas of those taxes in the territory in question (within the borders of the entire country, within the borders of a federal entity and so forth), on the basis of the tax rates established by the relevant organs of power. This method essentially consists in granting regional and local organs of power the right to collect from the taxpayer, as a supplement to state taxes, identical taxes, the amounts of which are, as a rule, restricted to certain limits. This system of regional tax supplements collected on the state tax base is noteworthy for its simplicity. It operates more effectively if an agreed definition of the tax base is used for the organs of power at all levels. The advantage of this method is that, when collecting these supplementary taxes, the regional organs of power may use the established administrative mechanisms of the federal government.

It may be noted that both the federal government and the regional authorities may levy tax on the same tax base, but the base may be defined differently. Switzerland is an example of this. The federal government and the cantons levy taxes on the same tax base, but this base (personal income, corporate profits and so forth) is defined differently at the national level than at the level of the cantons. A similar system of levying tax on personal income and on the income of corporations also operates in the United States of America.

The third approach involves the use of the mechanism of proportional distribution among the budgets at different levels of revenue from specific types of taxes levied at unified rates throughout the territory of the country. In this case, the budget at a given level of power is entitled to receive a legally determined share



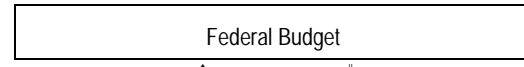
of the total of a specific tax which is to be collected in the territory concerned on the basis of the common tax rate (for all those paying that tax in the State). The merits of this method include simplicity and the fact that the regional organs of power are assured of receiving a certain share of the revenue. There are two basic methods of transferring to regional budgets the share of taxes due to them. One of them is that the taxes remain at the disposal of the administrative unit of the territory in which they were collected (the principle of attachment to the territory in which the tax was collected). Under the second method, the revenue may be sent to a central fund and subsequently distributed proportionately for example, on the basis of the size of the population, the degree of urbanization, average per capita income or other indicators.

The actual budgetary systems of states with a complex territorial structure are generally established by means of combining all three approaches, so as to ensure the stability and reliability of these systems and achieve an acceptable compromise among the numerous and often contradictory interests in the country as a whole and its component regions.

International experience shows that both at the regional level and at the federal level, various sources of tax are normally used. As a rule, the federal government tries to control those taxes which are more closely linked to the macro-economic policy of stabilization and resource and income distribution. The lower-level organs of power, in turn, need relatively stable sources of revenue, such as personal income, land, property and so forth.

Inter-budgetary relations are based on a redistribution of financial resources between weak and strong regions. The regulator of financial flows between entities of the Russian Federation is the federal budget and between local government entities, the regional budget. At the same time, transfers of funds between the budgets at different levels must be avoided, so that the taxes collected in a territory are left there to fulfil the objectives of the budget for the benefit of that entity.

This thesis is illustrated by the federal system of financial flows, which is in operation in the Novgorod region.



Total federal taxes for 1998 = 368 million roubles

Total transfer for 1998 = 304 million roubles

Thus, the financial flows are roughly equivalent.

The provision of financial assistance to subjects of the Russian Federation should be geared towards equalizing the standards of living of the population as a whole, in keeping with the established minimum social standards applicable throughout the country.

Given the shortcomings of the current federal system of inter-budgetary relations, subjects of the Russian Federation may, within the scope of their authority, adopt their own regional strategies. The main points for developing inter-budgetary relations in the territory of Novgorod region are the following:

Transfer of property to municipalities in order to provide the inhabitants of a territory with social and administrative services;

Transfer of sources of income to municipal budgets:

Allocations from federal taxes within the authority of a subject of the Federation; and

Allocations from regional taxes;

Creation of a fund for the financial support of local government on the basis of a federal transfer and the tax revenues of a region's budget; and

Gradual transition to standard budgeting (standard allocations for education, health care, housing and the communal economy).

The taxation system currently in force in the Russian Federation is geared primarily to the State's fiscal interests, with high taxes on the incomes of commodity producers and, consequently, entails a low level of tax collection.

The partly adopted Tax Code, which has inherited the shortcomings of the current system, will not be able to alter the existing situation, even though it proposes a number of radical decisions.

Directions of reform

In order to change the existing situation, the tax system must be reformed primarily in the directions of:

Offering incentives to commodity producers who invest their own and attracted resources in the development of production;

Shifting the tax burden from producers to consumers, that is, to physical persons;

Improving the system of property taxation;

Collecting income tax from physical persons, based on their expenditure and major acquisitions of property;

Using a fixed tax for small entrepreneurs, with differentiated rates depending on the nature of the enterprise's activity and its location (town, village) and so forth; and

Creating a more transparent tax system with respect to the imposition of excise duties on alcohol and the production of wine and spirits, thereby encouraging the legal production of alcoholic products.

In order to carry out their functions, each level of government is given sources of income, as a result of which all taxes are divided into federal, regional and local taxes. Each higher level of government, within the scope of its authority, has the right to transfer part of its own taxes to a lower budget.

Budgetary federalism is only in the developmental stage. The rights of the subjects of the Federation and local government bodies to draw up their own budgets cannot be based on clear rules from above, which often do not exist. The adoption of federal legislation, requiring the allocation of significant amounts of budgetary funds, is not accompanied by a transfer of sources of income. As a result, a situation arises in which each region seeks to manage the income of the territory, without reckoning with the Federation or with neighbouring regions. The situation becomes particularly critical when high-income donor regions refuse to transfer taxes to the federal budget.

The solution lies in the legislative delimitation of authority, including the management of state property, between the Federation and subjects of the Russian Federation, and between subjects of the Russian Federation and municipal bodies, as well as in the fixing of income for each level of the budgetary system, accordingly. The rates for allocations from federal taxes to budgets of subjects of the Russian Federation and from regional taxes to local budgets, should be fixed for a few (three to five) years. This will encourage government bodies to make long-term forecasts regarding the development of a territory.

The most important means of promoting financial decentralization is to strengthen the financial base of local government bodies. The strengthening of the financial base of local government bodies could be facilitated by giving those bodies the right to approve flat tax rates for imputable income, a right that subjects of the Federation now have. Retail trade, everyday services and transport, public catering and paid services, on which a tax is introduced on imputable income, are dynamic branches of the economy that serve the population. These branches are evenly distributed throughout the municipal territories and guarantee stable incomes; local government bodies have the best information both about the conditions under which these branches operate and about the results of their activities; in a town or district it is easier to adjust, when necessary, the tax rates in question. At the same time, it is necessary to return to a schedule of local taxes, by substantially expanding it (*inter alia* through a reduction of regional taxes), ensuring in the process the real financial independence of local government bodies.

It is of fundamental importance to include in local budgets sources of income that ensure stability of tax revenues. At the same time, the main emphasis in local taxation should be on property and income taxes. In this regard, the first step is to give local government bodies the right to tax property belonging to enterprises, substantially increasing the maximum rate of such tax. The land tax should be local not only in form but in substance; this means that it must be fully included in local budgets. After the aforementioned taxes are replaced with a flat tax on immovable property, the flat tax should be made municipal and not regional (as the Tax Code, unfortunately, stipulates). In addition to this, it would be economically justifiable to introduce a special local tax on the purchase of land. In countries with developed market economies, such a tax has been highly effective as a means of regulating the price of land and its rational use. It is also, of course, a means of replenishing local funds. The basis for calculating the tax could be the purchase price of the parcel of land taxed at a rate of about 20 per cent. Clearly, a number of taxes on consumers should also be local, including excise duties on individual goods.

This also applies to the tax on individual income, calculated in a declaration submitted at the end of the fiscal year, and also on the incomes of individual entrepreneurs. This approach will encourage local government bodies to tighten controls on such incomes and improve their methods of collecting the relevant taxes.

For the best implementation of this approach, it is important to make the public aware that income taxes are used to finance municipal economic and social programmes.

Finally, the local taxation system should also include a tax on forms of consumption that are harmful to the environment. The introduction of local taxes that encourage environmental protection will undoubtedly receive public support.

The procedure for introducing and implementing various non-tax revenues received into local budgets must be fully reviewed. Most of these revenues are from municipal property. In the development of a market economy, greater emphasis must be placed on the formation of the municipal sector in trade (particularly the wholesale trade), housing construction, everyday services and the like. One can also count on the effect of the establishment of a network of municipal banks, trust and investment companies and insurance and pension funds. This will facilitate, on the one hand, the development of a local market infrastructure and, on the other hand, a broadening of the tax base and types of tax revenue.

The role of the banking system

The banking system has an important role to play in financial decentralization. The two-tier banking system, which emerged during the years of economic reform as a credit and financing mechanism for the development of the Russian economy, is on the verge of collapse. As a result of centralization and monopolization, over 80 per cent of bank capital has been concentrated in several large commercial banks in Moscow.

As the primary element of the banking system, the commercial banks initiated an outflow of money from the real sector of the economy, thereby sealing their own subsequent collapse. The structure of credits granted by commercial banks during the reform years shows that the amount of speculative (short-term) credits was many times greater than investment (long-term) credits. At the same time, there was large-scale siphoning-off of money from regions where the main part of the economy's industrial sector and the social sector serving it were situated. Commercial banks could not be trusted and stable institutions could not be developed to secure long-term accumulation of the population's spare cash in savings accounts, such that would have provided the banks with a source of investment. The result was widespread bankruptcies.

Today, it is important to create a banking system in the Russian Federation that is capable of responding to the national features and conditions of the current transitional economy. During the economic stabilization period, the two-tier banking system (the Central Bank and the commercial banks) should be strengthened at the level of specialized banks by granting them the status of state specialized banks. Such banks must be created or transformed from existing banks into state specialized banks (with the State holding the controlling share) for target-oriented financing of investment in industrial and agricultural production.

The main task of state centralized banks must be to invest state financial resources and financial resources attracted by the State into specific, strictly target-oriented national economic and regional investment programmes with a regulated interest rate. When necessary, state specialized banks may establish affiliates.

In their operations, state specialized banks should apply rates that take account of the regional features of agriculture. Foreign investments in these areas should be attracted with guarantees from the Government of the Russian Federation and the regional administrations. Additional resources for food and industrial investment programmes should come from customs duties on imported food and imported industrial products. Such resources should be accumulated by the appropriate state specialized banks and channelled to specific investment programmes for the replacement of imports with domestic goods.

The participation of commercial banks in operations involving state investment resources for programmes to develop industrial and agricultural production should be guaranteed by a pledge in the form of a block of shares in commercial banks (from 30 to 51 per cent), depending on the project's scope and importance. The basic interest rate of commercial banks investing in industrial projects should be correlated with the average rate of profitability of the industry.

The central element of the credit and investment system in a region during the period of economic stabilization should be the Regional Administration of the Central Bank of Russia, which should have the right to allocate and monitor the implementation of state investment programmes at the local level.

It is necessary to create conditions for the even distribution of bank capital among the regions by introducing attractive refinancing rates through the Regional

Administration of the Central Bank and the commercial banks forming the system, with a view to attracting disposable finance capital directly to the industries in the regions. It is necessary to begin to establish real commercial mortgage banks that provide loans against pledges of immovable property in the form of industrial enterprises that require financial resources to carry out their business plans. It is also necessary to fix the maximum interest rate on state treasury bonds and federal loan bonds at a level not exceeding the established rate on investments in the real sector. This will stimulate investment in the real sector.

With a view to regulating and strengthening regional financial sub-systems, it is necessary to create inter-bank investment pools of commercial banks with the participation of the Regional Administration of the Central Bank of Russia as mechanisms of consolidated responsibility for guaranteeing investments. The resources of such pools can be formed by reducing allocations to the obligatory reserve fund and from additional commercial bank fees established on the basis of a fixed share of their gross liabilities. Insurance companies should participate in the system of guarantees of such pools of commercial banks, since this will strengthen the positions of both these and other market subjects.

In order to restore people's faith in the banking system with respect to the safety of savings accounts in commercial banks, it is necessary to create a system of consolidated responsibility and guarantees based on the efficient interaction between the Central Bank of Russia, the Regional Administration of the Central Bank of Russia, the commercial banks forming the system, pools of commercial banks and insurance companies.

Today, all of the country's commercial banks engage in the so-called practice of reserving a certain amount of money in those banks, which is transferred to the Central Bank in Moscow. This practice should enable the Central Bank to become the guarantor of the commercial banks, if they fail. However, as the experience of the crisis that ensued after 17 August 1998 has shown, the Central Bank does not become the guarantor in such situations. The authors propose that the reserve funds should remain with the manager of the Central Bank in the territory of the subject of the Federation; that the money should be channelled into long-term investments in industry; and that local governments or only the local manager of the Central Bank in some way be involved in the management of such funds. As a

rule, such funds should not be transferred to the Central Bank in Moscow.

Promoting decentralization

In order to facilitate financial decentralization, the existing system of extra-budgetary funds (pension fund, social insurance fund, employment fund and so on) needs to be improved. In view of the need to carry out state objectives, extra-budgetary state funds should continue to be a centralized state institution. Just as in the budget process, there may be donor territories and recipient territories (that is to say, territories that are unable to provide social safety nets to the population from the region's own contributions). In order to ensure the collection of payments into state extra-budgetary funds, it is necessary to create a system of incentives for regions. Territories that collect 100 per cent of such payments should receive a full subsidy from federal funds, which would allow them to pay pensions and allowances in a timely fashion.

Experience shows that without financial assistance from the centre, territories are unable to provide their respective populations with social services independently.

	Millions of roubles	Per cent
Collected by the Novgorod region:	646	62
Subsidy from the federal fund:	<u>386</u>	<u>38</u>
Total:	1,032	100

Size of subsidies disbursed from federal extra-budgetary funds to the territorial divisions of the Novgorod region in 1998

	Thousands of roubles
Federal fund for compulsory medical insurance:	16,000
Federal fund for social insurance	472
Federal employment fund	1,525

The attraction of investment is essential for regional development. Today, there is no investment policy in the Russian Federation at the federal level. As a result, each region strives to create its own conditions for attracting investment. Each region develops its own specific investment policy in light of its natural resources, transport and geographical situation and other natural and economic factors. Even in the absence of federal legislation for creating a climate for investment in the Novgorod region, an effective investment-management system has been developed. The region has adopted an act on investment activity which guarantees the non-deterioration of the legislative conditions for the activities of enterprises that were agreed up on at the time such enterprises decided to invest in the region:

Creation of a system of guarantees for investors, for which the Guarantee Insurance Fund was created in the region's budget;

Investors are offered a wide choice of unused production areas with all the infrastructure for the investor's technical needs (gas, water, electricity, purification facilities and so on). A data bank of available production areas has been created for all towns and districts of the region; and

Support for prospective projects by regional, municipal and district administrations, which provide assistance in solving problems, including the problem of obtaining federal approval.

Presentation of projects takes place before the region's registration and monitoring of bodies. Project curators are appointed from among the leaders of the region and local government bodies. In order to facilitate the process of establishing an enterprise without interfering in the firm's internal affairs, these individuals work with the investor from the moment the decision to execute the project is taken. They continue such activities during the period following registration of the enterprise, but prior to commencement of the productive activity and, subsequently, when the enterprise is fully operational.

The creation of market infrastructures is a regional priority. Various structures for supporting the development of all forms of entrepreneurship are being created, including an agency for the development and attraction of investments; the Novgorod Business-Park joint stock company; the Novgorod Technopark joint stock company; the Novgorod Leasing Company joint stock company; the Centre for the Study of Entrepreneurship and Small Business, and others.

These organizations have been exempted from paying taxes to the region's budget.

All legislation can conventionally be divided into three groups: guarantees for investors; tax incentives; and measures to encourage investment in enterprises. The Novgorod region has implemented an act on tax incentives for enterprises and organizations situated in the territory of the Novgorod region. According to this act, enterprises with foreign investments engaged in productive activities and registered in the region are exempt, until their original investment is fully recouped, from paying to the region's budget those taxes with respect to which subjects of the Federation have the right of exemption. The method of calculating the period for the full recoupment of projects has been prepared by the Arthur Andersen consulting firm and has the force of law.

In addition, these enterprises are also exempt from paying part of their taxes to the territorial highway fund. Enterprises that have been re-established with the help of Russian and foreign investments are reimbursed for the portion of value-added tax included in the region's budget. Other legislative conditions that the region has created include:

Partial exemption from tax on profits of organizations that make outlays for marketing; and

Exemption of the bank income from the portion of the tax on profits included in the region's budget when resources are channelled to direct investments.

Thus, the Novgorod region's investment legislation is being developed through the systematic improvement of the provisions of federal normative acts to the extent which the competence of its authorities and available resources allow.

The social and economic principles of Novgorod's investment policy lie in the fact that, given the drop in production and the depressed state of the economy, any project that is profitable under such conditions, even when exempt from local taxes, provides income both to the budget and extra-budgetary funds. It also contributes to the recovery of the region's economy and the stabilization of the region's social conditions.

One current problem in the development of regions is the creation of equal conditions for obtaining investment resources. Until now, the budget authority of regions has been 50/50. This means that regional organizations had the right to keep 50 per cent of their tax revenues. Accordingly, they have the right to grant

privileges on this 50 per cent. The situation arises when an enterprise cannot pay its taxes in full, since there are regulations with respect to the federal 50 per cent. Regulations are being drafted to address such situations through the restructuring of budgetary arrears and so forth. In the opinion of the authors, it is necessary to establish a procedure for investment in the production sector of the economy that would give local bodies the right to decide on 100 per cent of the questions relating to the payment of taxes on behalf of the enterprises in their region.

The Tax Code should facilitate appropriate decentralization with respect to tax rates and their distribution. It should be kept in mind that, over the past seven important source of income. It is, therefore, necessary to take into account the money supply that goes to the centre. When we define the mutual relations between the centre and a subject, we should see not only a qualitative, but also a quantitative change. We should

years, the various territories have had different starting conditions and have, therefore, not experienced uniform development. Some territories did not make use of their considerable starting capabilities, while others used their small starting capabilities effectively, and thus, through the dynamics of development, were able to rise to a place higher than that of the donors. Regions that experienced development were those that managed to attract investment, which *de facto* changed the income structure of that territory. Income tax from physical persons, and not from value-added tax or the tax on the profits of enterprises, becomes the most

know which steps should be taken by the centre and which should not. Such knowledge is essential in order not to destroy a territory's prospects for economic growth.

Interdependence and the Balance between Centralization and Decentralization of Financial Resources in Russia¹

On closer inspection, decentralization reveals itself to be a multi-faceted and multi-level problem, as well as a matter of temporary phasing. It may also be regarded as a necessary condition in the transition from a highly centralized social order to a democratic, market-oriented society.

A central aspect of this issue is the problem of achieving an optimal balance between centralization and decentralization in a society's future development path. Transitional countries are finding this to be a tortuous process. As is reflected in their reform experience thus far, many countries have made slow progress in finding an acceptable balance. The search for national development toward stable democracy also depends upon scientific and technical progress, growth in the level of educational qualifications and improvements in the quality of life.

Learning to apply new resources for growth and the more effective application of traditional ones is only possible given a clear definition of the balance between centralization and decentralization, the level and character of state intervention into individual activities, the forms of institutional oversight, regulation, etc. In practice, it appears that waves of liberalization, closely associated with decentralizing processes, alternate with waves of increased state regulation, corresponding with increased centralization.

The most striking effect of the transition to a decentralized development model has been a cardinal change in the movement of financial flows within the national economy and between it and the world economy. This change has given rise to a plethora of acute social and economic problems, which, in one form or another, have been observed in all transitional and developing countries. In what follows, some of these problems in the Russian case are considered.

Results of liberalization

One of the obvious results of economic liberalization has been that the number of economic actors in the country has multiplied. The number of corporations registered between 1994 and 1997 increased from 1.25 million to 2.5 million, the number of small businesses also doubled from 480 thousand to 960 thousand. Today less than 17 per cent of all organizations and enterprises are registered as state or municipal property (although state, regional or municipal authorities continue to hold shares in a far larger number of enterprises registered as privately held).

Capital from federal, regional and local budget funds amounts to less than 20 per cent of total investment. Consolidated budget revenues as a percentage of GDP shrank from 30.6 per cent in 1993 to 27.2 per cent in 1997. Between 1992 and 1997, the share of total tax collection assigned to regional budgets increased from 44 to 53 per cent, while the federal budget's share shrank correspondingly from 56 to 47 per cent.

The better part of the country's GDP and the financial flows connected with it are now located beyond direct state influence. A higher level of decentralization in the country's financial resources, however, does not guarantee economic growth. The economic slump has been protracted to nearly a decade. The discussion of why this has been the case has taken on new intensity as the country moves toward legislative and presidential elections.

Supporters of the liberal approach argue that the decline was produced by a lack of consistency in the conduct of reform. This, together with excessive government expenditure and unrealistic budgets, led the

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country to construct financial pyramids and fall into a debt trap.

Supporters of increased government regulation think that Russia's economic misfortune is due to its unfortunate choice of reform model: strict financial policy. The authors of this paper do not intend to take either side of this argument. Time will tell whether the wrong reform strategy was chosen or whether the problem lay in its application. Instead, we would like to focus attention on a few of the effects of financial liberalization in the context of central-peripheral relations.

Decentralization and financial resource concentration

The defining characteristic of decentralization in Russia is that it has turned into increasing regional

based on an overestimation of the role of monetary instruments and excessive liberalization of foreign trade and hard currency financial operations.

concentration, that is to say, the centralization of financial resources in the capital.

The Moscow region's (i.e. the city of Moscow and the Moscow oblast) share of total banking system assets for the Russian Federation increased from 65 per cent at the beginning of 1993 to 85 per cent at the beginning of 1998. Moscow's dominant position in Russian financial flows is graphically reflected in the concentration of banking operations in the city. (Table 1)

Table 1.
Moscow's share of Russian banking operations in terms of % (excluding Sberbank accounts)

	1/10/96	1/11/97
Bank credits in rubles and hard currency	50.0	67.0
Bank credits in rubles	34.7	56.8
Bank credits in hard currency	69.9	80.7
Short-term credits	53.9	65.8
Long-term credits	35.6	45.9
Enterprise, organizational and institutional assets in savings and current accounts in rubles and hard currency	17.1	64.8

(Source: *Bulletin of Banking Statistics*, 1996 and 1997)

The increasing concentration of financial resources in the capital from 1992 to 1997 meant an increasing disjuncture in the regional distribution of the real and financial sectors of the economy (Table 2). Between 1991 and 1997, Moscow's share of industrial production shrank from 6.5 per cent to 3.7 per cent, while at the same time, it experienced a steady growth in financial flows. In 1997, the capital's share of banking operations rose above its share of GDP; investment in fixed capital increased by 5.5-5.7 times; and its share of industrial production rose 15-17 times. During the reform years, the capital's share of revenues to the federal budget more than tripled, from 11 per cent in 1993 to 36.1 per cent in 1998. In the wake of the

financial crisis and the collapse of a series of major banks, the situation changed slightly to the advantage of the regions. However, the financial predominance of the capital remains unaffected.

This extreme centralization of financial resources is the result of a number of specifically Russian factors, both objective and subjective. One of these is the legacy of previous development. As the capital of the Soviet Union, Moscow occupied a privileged position for over 70 years. Its role as the capital was shaped by a highly centralized administration and a state monopoly over most forms of social and economic activity. This, in turn, was reflected in an extremely high concentration

of management personnel, scientific information and cultural potential, as well as material and technical supply functions and trading services. Practically all foreign trade was conducted through Moscow. The city's function as the capital also required a significantly higher level of infrastructure development than that of other regions of the country. The

configuration of the transportation network, within which Moscow holds the key and correspondingly dominant position, underlines the capital's central position within the system of inter-regional and international trade and economic ties which Russia inherited from the Soviet Union.

Table 2.
The relationship between the real and the banking sectors in major Russian regions in 1997

Region	% of total regional GDP 1996	% of total industrial production	% of investment in fixed capital	% of bank credits	% of enterprise funds in payments and current accounts	% of credit institutions and branches
Moscow	11.8	3.7	13.0	67.1	64.8	16.1
Tyumen	8.0	7.4	14.2	1.7	2.0	2.9
Sverdlovsk	3.7	3.9	3.3	1.1	.9	2.5
St. Petersburg	3.3	1.7	2.7	2.9	3.1	2.3
Samara	3.1	3.3	2.5	1.0	1.1	2.3
Moscow region	3.1	2.0	3.8	1.3	1.2	3.5
Bashkortostan	2.9	2.8	3.3	0.7	0.7	2.0
Krasnoyarsk	2.9	2.8	2.4	0.3	0.3	2.1
Chelyabinsk	2.5	3.1	2.6	0.3	0.3	1.9
Kemerovo	2.4	2.4	2.3	0.6	0.5	1.2
Nizhny Novgorod region	2.4	2.3	1.5	0.5	0.8	2.0
Irkutsk	2.3	1.7	1.0	0.3	0.3	1.7
Krasnodar	2.3	0.9	2.4	0.4	0.7	3.2
Perm	2.2	2.2	2.0	0.3	0.5	1.7

(Source: *Bulletin of Banking Statistics*, 1997 No. 12; *Expert*, 1998, No. 39, p. 30-37)

All of these factors worked to channel an exceptionally intense growth in intermediary functions in trade and finance to the capital. More than one third of all foreign trade transactions takes place in Moscow (Table 3), the majority of which are intermediary (middle-man) operations. The growth in intermediary functions is also illustrated by the fact that, between 1991 and 1997, the capital's share in Russian retail trade rose from 11.6 to 27 percent.

The concentration of financial resources in Moscow and the rapid growth of its service sector reflect the character of the relationship taking shape between the centre and the periphery. This new polar opposition between the capital and the regions *reaches enormous proportions in peripheral areas*, as there are few major cities capable of playing the role of autonomous regional centres. Peripherality is characterized by factors such as sparsely populated territory; lagging economic development, educational levels and infra-

structure; the dominance of one or two types of traditional economic activity; low receptivity to innovation;

and an extremely limited financial base.

Table 3.

Ten major regional participants in foreign trade during the first six months of 1998

Members of the Russian Federation	Exports			Imports			Turn-over
	\$ million	%	1 st 1998 as % of 1 st 1997	\$ million	%	1 st 1998 as % of 1 st 1997	\$ million
Moscow, city	952.7	28.9	88.7	9,553.1	39.8	122.0	19,077.8
Tyumen	433.2	13.1	96.0	714.7	3.0	69.7	5,051.9
St. Petersburg	755.0	2.3	54.3	2,311.5	9.6	97.3	3,066.5
Moscow region	658.1	2.0	90.2	1,171.7	4.9	110.6	1,829.8
Krasnoyarsk	1,419.9	4.3	94.6	373.9	1.6	104.5	1,793.8
Sverdlovsk	1,056.1	3.2	89.2	456.4	1.9	107.0	1,512.5
Irkutsk	1,031.8	3.1	97.1	335.9	1.4	115.4	1,367.7
Chelyabinsk	947.3	2.9	88.5	391.5	1.6	138.2	1,338.8
Samara	710.6	2.2	73.5	559.8	2.3	106.6	1,270.4
Perm	771.2	2.3	99.9	186.4	0.8	85.2	957.6
TOTAL	21,211.9	64.3	88.6	16,054.9	66.9	109.6	37,266.8

(Based on materials from the State Customs Committee of the Russian Federation)

Given the structural contrasts between the centre and the periphery in Russia, the application of liberal market reforms produced an increase in capital rents and the disengagement of Moscow from the rest of Russia. This has not been the result of any active pro-capital policy on the part of the federal centre, insofar as there has been no development programme whatsoever. Adoption of the Western transformation models has

instead led the federal government to abdicate its redistributive role.

The implementation of reform

The actual implementation of reform took the form of a dramatic effort to suppress inflation using strict regulation of the money supply and the exchange rate. It was assumed that stabilization of the financial system

together with the privatization of state property and the liberalization of economic activity would serve to spark economic growth. Unfortunately, this transformation scheme was applied despite serious delays in the creation of legally anchored market institutions, as well as instruments for the oversight of economic agents and the regulation of their activities.

In addition, the regional aspects of reform were effectively ignored. The question of regional development was simply subsumed by broadening the political and economic powers of the members of the Russian Federation within the framework of the new federalism. Regional administrations, however, were not given autonomous control over local financial flows sufficient to meet the costs of the provision of the social services transferred to them. Neither did they receive full or timely transfers of federally controlled funds as designated in annual federal budgets or pension and social welfare fund regulations. Faced with the immediate necessity of guaranteeing at least minimal levels of social services, few regional administrations have found themselves in the position to finance their own development programmes.

The liberalization of economic life and the privatization of property exposed the problem of high entrepreneurial risk in Russia. The sources of this risk include the frequent intervention of political interests in the economy (and vice versa); the fiscal priorities of federal and regional powers; the unstable financial situation; an inadequate banking system; the real sector's limited access to long-term credit; weak legal protection of investment; bureaucratic barriers to investment; an underdeveloped real property market; extensive criminalization of the economy; and other factors.

The underlying causes of these multiple risk factors lie in the objective realities of Russia's inherited economic structure. First and foremost among these is the extreme dependence of the country's balance of payments on energy and natural resource exports. Unstable domestic conditions serve to transmit the destabilizing impact of declining world market prices directly to the country's financial sector and the economy as a whole. In addition, the central continental location of key export production, far removed from external markets, objectively reduces profitability and increases commercial risk. The low competitiveness of processing facilities as a result of their technological backwardness is not easily addressed by a group of depressed enterprises and producers with forms of organization and

economic cooperation inherited from a sellers' market and inadequate to market conditions.

Seen from this perspective, the increasing concentration of capital in the Moscow region is also a reflection of the high level of entrepreneurial risk in Russia. Under conditions of general instability, the capital city enjoys the added advantage of allowing investors to reduce several aspects of risk. These include its better developed infrastructure, the volume of its market, the stability of its budget and its central location within European Russia, as well as its accelerated economic energy deriving from measures to promote the growth of market relations. Capital is invested in those types of activity for which risk is balanced by adequate premia (40 per cent or more). Until the August 1998 crisis, this activity was financial speculation in government bonds. The high concentration of foreign investment in the Moscow region—more than half of the national total (Table 4)—illustrates this thesis.

Thus, under the conditions prevailing in Russia, the decentralization of political and economic power has led to a significantly increased concentration of finance as well as other types of profitable and knowledge-based business activities in the capital. This problem must also be considered in the context of opening the Russian economy and its integration into the processes of globalization.

Effects of globalization: conclusions

The declining significance of industrial production can be regarded as a leading indicator of economic globalization. The production of knowledge and its transmission through technological application has become the major catalyst of growth. The commercial impact of the introduction of new technology is maximized by its global spread. Thus, advanced communications lead to the concentration of innovation in a limited number of centres, namely the major cities of the leading countries of the world, the majority of which hold the status of capitals. Successful and highly developed types of activities are concentrated in global metropolises. Thus, globalization produces growth in capital rents and at the same time increases the development potential of metropolises. *Simultaneously, it exacerbates the imbalance in regional development both on a global scale and within individual countries.*

After the opening of the Russian economy, Moscow entered into the process of globalization, but not as a creative centre (originating the introduction of new technology on a global scale), but as an adaptive-

transitional sub-centre. That is to say, it passively accommodates to the demands and opportunities of globalization and retranslates its influence to the rest of Russia. *In this sense, Moscow does not receive rents as*

a world city, but does so in full measure in relationship to the rest of the Russian Federation.

Table 4.

Ten major regions by volume of foreign investment 1993-1998

Region	Total Investment		Foreign Direct Investment	
	Volume in \$ millions	%	Volume in \$ millions	%
Moscow	19,371	54.1	6,133	43.6
Tatarstan	1,738	4.9	141	1.0
Moscow region	1,669	4.7	1,588	11.3
St. Petersburg	1,374	3.8	1,067	7.6
Tyumen	1,269	3.5	638	4.5
Omsk	819	2.3	16	0.1
Komi	583	1.6	226	1.6
St. Petersburg region	521	1.5	225	1.6
Nizhny Novgorod region	517	1.4	104	0.7
Krasnodar	484	1.4	298	2.1
Russian Federation	35,795		14,080	

(drawn from the statistical yearbook *Social and Economic Situation in Russia 1996-1999*, Goskomstat, RF)

The integration of the Russian economy into the global processes shows Russia to be *part of the world periphery* according to many social and economic

indicators, although its real status is higher than that of an ordinary country in the economic periphery. This is reflected in its technological backwardness, low com-

petitive capacity, limited ability to take in new technologies, export structure dominated by low value-added products, debt crisis, impoverished population and other serious social problems. A graphic manifestation of its essential peripherality is the large-scale legal and The integration of Russia into the world economic periphery intensified inter-regional polarization to a degree which, in turn, reflects its peripheral position within the world economy. The majority of Russian territory cannot be considered as more than a specially remote periphery of the European core. *Thus, a significant part of the country is the periphery of the periphery* .

The imbalance between Russia's central status in the defense policy and cultural spheres and its peripherality in the economic sphere creates serious contradictions in the current development of the country, which are graphically visible in its budgetary problems, domestic political and social conflicts, and the unsuccessful integration within the framework of the CIS.

In closing, we would like to present a few conclusions and suggestions:

Capital cities and major regional centers play the principal role in implementing market reforms. Given their infrastructure, innovational advantages and transformational dynamics, they outstrip the rest of the country, leading to financial drainage of the provinces and increasing divergence from them as measured by social and economic indicators. This results in an exacerbation of inter-regional contrasts and an intensification of social policy contradictions, which in turn produce obstacles to the pace of reform, an intensification of centrifugal tendencies and increasing social instability.

In applying market reform policies, especially in regard to the balance between centralizing and decentralizing processes in the area of managing the economy and its finances, the inherited structures of central-peripheral

illegal exports of capital, the yearly volume of which has, according to various estimates, fluctuated between 15 and 30 billion dollars per year since 1992. The major role in this export is played by the capital city's financial system.

relations must be taken into consideration. Given a relatively large periphery and a strong dominance of capital cities, liberalization of the economy should be combined with strict state control over financial flows. Macro-economic policy must incorporate mechanisms for the purpose of partially equalizing the conditions for entrepreneurial activities in central and peripheral regions of the country.

Given the traditional model of participation in the international division of labour, the integration of a country into the globalization process unavoidably increases the risk of financial crises. The movement of capital into and out of a country and/or the regions of a country and the areas of the economy to which it is applied are determined by the short-term interests of the owners and not by the long-term interests of the country. Thus, globalization increases regional contrasts. This means that countries with transitional economies should give preference to foreign capital flows into the real sector, which can be regulated through the tax system, legal guarantees and administrative controls.

Russia's experience shows that its acceptance of a standardized transition strategy, approved for various other transitional countries, did not produce the desired results. It can also be said that there were relatively uniform forms of macro-economic policy in Russia. As a result of their application, one region gained while others lost. A search for rational modifications of the received macro-economic regulators, suitable for application in different types of territories is now on the agenda. However, it needs to be added that a similar problem also confronts the world as a whole.

A Framework of Success for Government Audit in a Decentralized State¹

A. The situation under Austrian Constitutional Law

Historical development

As a consequence of the defeat suffered in World War I, the Austro-Hungarian monarchy, which had more than 50 million inhabitants, disintegrated in 1918. Subsequently, the Republic of Austria, then a State of just over 6 million, was founded. In 1920, Austria adopted its Constitution, which organized the State along federal lines. The Constitution has by and large remained effective until today. According to its Constitution, Austria is a federal State, consisting of the central State, or federal State, and nine constituent states, known as the provinces.

The territory of the federal State comprises the territories of the nine provinces and is thus identical with these. The nine Austrian provinces are: Burgenland, Carinthia, Lower Austria, Upper Austria, Salzburg, Styria, Tyrol, Vienna and Vorarlberg. The number of inhabitants in the provinces ranges from 275,000 (Burgenland) to 1,600,000 (Vienna).

The distribution of responsibilities between the federal State and the provinces

In accordance with the federal structure of the Republic of Austria, the responsibilities regarding the legislative and executive powers are assigned to the Federation, on the one hand, and the provinces on the other. Thus, there are legislative and executive bodies at the levels

of the Federation and the nine provinces. The judiciary is the sole responsibility of the Federation.

At the federal level, the legislative branch is organized according to a two-chamber system. The first chamber is the National Council, consisting of 183 members elected by the national electorate. The second chamber is the Federal Council, which currently has 64 members returned by the individual provinces. In each of the provinces, the legislature is in the hands of the Provincial Diet (provincial parliament) elected by the provincial electorate. There, the legislature is organized as a single chamber.

The supreme executive bodies at the federal level are the Federal President and the Federal Government, which is composed of several Federal Ministers and headed by the Federal Chancellor. In the provinces, the supreme executive power is exercised by the provincial government, headed by the Provincial Governor.

The power to approve the annual budget has been devolved upon the National Council at the federal level and upon the individual provincial parliaments. In the same way, these legislative bodies exercise the power of parliamentary budget control in their respective jurisdictions. That is to say, they monitor the execution of the budget by the federal and provincial executive powers, respectively.

B. The position of the Austrian Court of Audit within the federal constitutional system

Historical development

The first auditing body in Austria, the Court Accounting Chamber, was introduced during the reign of Maria Teresa in 1761. As the predecessor of today's Austrian Court of Audit, it is one of the oldest Supreme Audit Institutions in Europe.

When the monarchy came to an end, the Supreme Audit Institution of Austria also underwent fundamental changes. In 1920, an entire title (Title 5) of the Federal Constitutional Law was devoted to it, thus ensuring its constitutional foundations. As regards the legal position of the Court of Audit within the triad of powers (the legislative, executive and judicial branches), it is

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important to note that the federal Constitution assigns it to the legislative branch. The reason for this is that the Court of Audit is to support, by its activities, the legislature in fulfilling its sovereign task of controlling the executive branch.

When the Supreme Audit Institution of Austria was reorganized in 1920, the new federal structure of the State also had to be taken into consideration in the context of auditing. Therefore, the basic principles governing the auditing functions of the Court of Audit in the provinces were set forth in the Federal Constitutional Law of 1920, as were the related functions with regard to the Federation.

The current legal position

Under Austrian constitutional law, the Court of Audit acts as a body of the National Council in matters of the federal financial operations and as a body of the provincial parliaments in matters of provincial financial operations. Thus, the Austrian Court of Audit has a dual position in the federal structure of the Republic of Austria since, depending on the territory wherein the audit is to take place, it is either functioning as a body of the federal State or of the province concerned.

In the Federal Constitutional Law, it is expressly set forth that the Court of Audit is independent of the provincial governments and of the federal government and only subject to the provisions of the law. Thus, Austrian legislation conforms to the requirements of the Lima Declaration of Guidelines on Auditing Precepts adopted at the Ninth Congress of the International Organization of Supreme Audit Institutions (INTOSAI) in 1977. This stipulates, in Section 5, that Supreme Audit Institutions shall be independent of the governments they are to audit.

However, each provincial government is entitled to instruct the Court of Audit to carry out audits within the territory of its province, including the financial operations of the communities located within the relevant province. The Austrian Court of Audit must conform to such requests for audit. Apart from such requests for audit, the number of which has been low in the past few decades, the provincial governments cannot influence the audit programme, which the Court of Audit prepares autonomously. In particular, the provincial governments are not in a position to prohibit the Court of Audit from carrying out a planned audit. Even in the audits, which the Court of Audit carries out by order of a provincial government, the latter cannot influence the course of the audit, the choice of auditing

methods and reporting, so that the independence of the Court of Audit is guaranteed.

The position of the Court of Audit vis-à-vis the provincial parliament

While the Court of Audit acts as a body of a provincial parliament, according to the Constitution, the position of the Court of Audit vis-à-vis the provincial parliaments is somewhat different. Firstly, one has to recall that, in spite of being a body of the provincial parliament, the Court of Audit is far from being a dependent extension thereof. Rather, it functions as an institution in its own right, independent of the provincial parliaments, as is also the case in its relationship with the National Council. Vis-à-vis the Court of Audit, the provincial parliaments only have the rights explicitly accorded to them by the Constitution.

One such example is the right of the provincial parliaments to instruct the Court of Audit to carry out audits of the financial operations within the province. The right of the provincial parliaments to request audits is binding on the Court of Audit, which has to act accordingly, but it is also restricted within certain limits because each province may only give one order to audit to the Court of Audit at any given time. The next order is permissible only when the Court of Audit has reported the outcome of the previously ordered audit to the provincial parliament.

This restriction is intended to prevent the provincial parliaments from unduly influencing the independent audit planning of the Court of Audit with excessive numbers of audit orders. Subject to these conditions, a certain number of provincial parliament members, determined in the provincial constitution and not exceeding one third of the total number of provincial parliament members, also have the right to request an audit. This is a typical minority right of the parliamentary opposition, which is thus enabled to engage the Court of Audit in checks into the financial operations underlying the actions of the provincial executive branch.

In this context, it must be stressed that the provincial parliaments have no influence whatsoever on the further course of the audits conducted by the Court of Audit, or reporting thereon, so that the independence and objectivity of the audits is guaranteed. Like the provincial governments, the provincial parliaments have no say in the auditing programme of the Court of Audit, let alone the power to prevent such audits.

The Court of Audit is not even obliged to disclose its annual auditing programme in advance to any government. The provincial parliaments have no right to participate in the appointment of the President of the Court of Audit. The President of the Court of Audit is elected by the National Council only. Notwithstanding this provision, the President of the Court of Audit is constitutionally answerable to the provincial parliaments. This means that each provincial parliament may bring charges against the President of the Court of Audit before the Constitutional Court, if he has culpably infringed the law in the performance of his duties. By the same token, the National Council has a right to bring charges if the President of the Court of Audit is suspected of culpable infringements of the law in regards to audits of the federal budget. If the Constitutional Court considers the charges well-founded and condemns the President in its findings, he is

removed from office. However, this has so far never been the case in the history of the Austrian Court of Audit.

For the sake of completeness, it has to be mentioned that, in addition to his constitutional accountability, the President of the Court of Audit is also politically accountable, independently of any culpable behaviour and in analogy to ministerial responsibility. However, such political accountability can only be invoked by the National Council; if the worst comes to the worst, this may lead the National Council to dismissing the President of the Court of Audit by a majority resolution. The provincial parliaments have no comparable right because they have no right to participate in the appointment of the President of the Court of Audit.

C. The auditing competencies of the Austrian Court of Audit in the provinces

Scope

The Austrian Federal Constitution, and the Federal Law on the Court of Audit promulgated in 1948 in execution thereof, envisage the following auditing competencies in the provinces:

All the financial operations carried out within the scope of the autonomous authority of the provinces, in particular their public administration, including the provincial governments;

The financial operations of foundations, funds and institutions administered by the provinces;

The financial operations of enterprises of the provinces, provided that the share of public ownership is at least 50 per cent;

The financial operations of public corporate bodies involving funds of the provinces;

The financial operations of statutory professional bodies, to the extent that these are part of the provincial executive branch (in particular, this applies to chambers, such as Agricultural Chambers or the Provincial Chambers of Labour); and

The use of subsidies from provincial funds made available to a legal entity outside the provincial administration for designated purposes.

However, in contrast to other audits, the Court of Audit must not examine the entire operations of the legal entity here. It only audits the use of the provincial subsidies made available. In the framework of examining subsidies from provincial funds, the Court of Audit is also authorized to audit the use of subsidies paid to political parties from the provincial budgets.

The resolutions of the provincial parliaments underlying such financial operations are explicitly exempt from examination by the Court of Audit. As a matter of fact, such an audit would not make sense since the Court of Audit acts as an examining body of the provincial parliament and thus cannot audit its own principal. For this reason, such resolutions are not audit objects for the Court of Audit, but form the basis for the yardstick to be applied. In other words, the Court of Audit has to check whether the executive bodies in the provinces, in particular the provincial governments and its members, fulfil their administrative tasks according to the resolutions of the provincial parliaments that are relevant to financial operations.

Objectives of auditing

The audits conducted by the Court of Audit must extend to the correctness of accounting, compliance with existing regulations, as well as to the economy, efficiency and effectiveness of operations in the provinces. Thus, it is evident that the Austrian Court of

Audit carries out audits in the provinces on the basis of the *five classic audit objectives* that have become a general feature of most Supreme Audit Institutions and are also set forth in the Lima Declaration.

In fulfilling its auditing tasks, the Court of Audit is obliged to identify the potential for eliminating or reducing expenditures and for increasing existing or realizing new types of revenues. This also makes it clear that the contribution of the Court of Audit as an examining institution is not limited to the expenditure side, but also has a bearing on the revenue side. This is

in keeping with the common notion of a Supreme Audit Institution based on modern principles, as underscored by Section 20, sub-section 1, of the Lima Declaration.

It is significant that all audits conducted by the Court of Audit are post-audits reviews. That is to say, they relate to completed operations and are not concomitant audits or pre-audits (previews), as may be the case with some Supreme Audit Institutions. For audits in the provinces, the Court of Audit has a separate unit employing about 60 auditors.

D. The most important audit fields in the provinces

In auditing the provinces, the Court of Audit is specially concerned with the following areas:

- Provincial administrations;
- Enterprises of the provinces;
- Schools, to the extent that their administration is a task of the provinces;
- Hospitals owned by the provinces; and
- The statutory professional representations in the provinces.

The most important fields of auditing in provincial administration are as follows:

- Financial position of the province concerned, including:
 - The execution of the provincial budget;
 - Financial developments of the past years; and
 - The status of debts and development of debts.
- Organizational and operational set-up of the provincial administration, including the tasks related to administrative reform and the reduction of red tape;
- Human resources management, including the examination of:
 - The development of staffing levels; and
 - The salary schemes of provincial staff;
- Investment projects of the province concerned, particularly road and building construction;
- Administration of subsidies and the way these are handled, especially in the promotion of business

and in the social field, including European Union funds which are allocated via the budgets of the provinces;

Award of public contracts and compliance with the national and international rules applicable to such awards;

Collection of taxes and charges and the effectiveness of revenue administration, including the question as to whether the expenditure involved in collecting certain taxes exceeds the revenue thus generated;

Use and functionality of electronic data processing systems; and

Protection of the environment, which has been enshrined in the Austrian Federal Constitution since 1984, and is a task incumbent upon all regional and local authorities.

Magnitude of the financial operations of the provinces

The largest provincial budget that of the province of Vienna is approximately 130 billion Austrian schillings (approximately US\$10 billion), in terms of expenditures. The smallest is that of the Burgenland, which amounts to approximately 10 billion schillings (about US\$770 million).

The sum total of all provincial budgets is approximately 380 billion Austrian schillings (about US\$30 billion). If one adds the municipalities which are subject to the auditing competence of the Court of Audit, the sum total is about 430 billion Austrian schillings (approximately US\$33 billion). By comparison, the federal budget amounts to about 750 billion Austrian schillings (roughly US\$60 billion).

The staff of all the provinces and the communities subject to the auditing jurisdiction of the Court of Audit totals approximately 250,000. Together with the staff of the federal State and other legal entities subject to its

auditing competencies, the Court of Audit is in charge of examining the human resources management pertaining to some 750,000 persons in Austria.

E. The audit process in the provinces

Each audit is preceded by a preparatory period during which the Court of Audit compiles and screens the documentation about the audited entity that is required for field inspections, or collects the information needed so that it can conduct its auditing activities in a targeted manner. The actual auditing activities are carried out on site by an audit team of the Court of Audit. The number of people on the team depends on the size of the audited entity and usually varies from two to eight persons.

After completion of the audit activities, which basically take between one and six weeks to complete, the audit team and representatives of the audited entity hold a final meeting. The purpose of this meeting is to clarify any differences in opinion as may exist between the audit team and the audited entity, and to settle such differences, as far as possible.

During the weeks following the on-site audit activities, the auditing team draws up its audit findings which require the approval of the President of the Court of Audit, who is also responsible for these. Such approved audit findings are then passed on to the provincial

government concerned, which at the same time is requested to comment. The period allowed for such comments is three months. The comments procedure is constitutionally prescribed and serves as a guarantee that the principle of the mutual right to be heard is complied with. This also goes for the final meeting, which has already been mentioned. Thus, the audited entity has an opportunity to explain in writing any views differing from that of the Court of Audit. This is also in keeping with Section 17, paragraph 2, of the Lima Declaration, which stipulates that the point of view of the audited entity must be given due consideration.

The Court of Audit has the option to respond to these comments of the provincial government. If the provincial government acknowledges the findings of the Court of Audit or complies with its recommendations, the Court of Audit may also waive its right to make such a statement. The actual audit process is completed when the Court of Audit has made such a statement in response to comments.

F. Reporting of the Court of Audit to the provincial parliaments

By 31 December of each year, the Court of Audit must submit to each provincial parliament a report on its activities in the province concerned. This adds up to a total of nine activity reports. Furthermore, the Court of Audit may submit an unlimited number of special reports to the provincial parliaments at any time during the year. The Court of Audit avails itself of this right on a regular basis, whenever it is indicated that the report be submitted to the provincial parliament as quickly as possible for reasons of special topicality or the importance of the audit, so that it does not seem warranted to wait until the end of the year to submit the report.

No matter whether it is an annual activity report or a special report, what these reports have in common is that they are a summary of condensed audit findings, including the comments of the provincial governments and any statement in response thereto made by the Court of Audit. The Court of Audit is free to include suggestions for amendments of provincial legislation in its reports to the provincial parliaments. This will be

the case if the Court of Audit thinks that an amendment of legislation will result in more economical administrative action and that the existing laws are obstructing such action.

Furthermore, the Court of Audit will make use of its right to suggest to the provincial parliaments amendments of existing legislation if it is of the opinion that the legislative body ought to make improvements in the context of tax collection. This is also reflected in Section 20, paragraph 2, of the Lima Declaration.

Publication of reports

After the report has been received by the provincial parliament, it must be distributed to the members of the provincial parliament and be published at the same time. The constitutionally prescribed publication of the Court of Audit reports and access to the mass media thus attained keeps up with the requirements of accountability in a modern democracy and the corresponding right of responsible citizens to be informed. This ensures that the examination of financial opera-

tions is transparent, while also enabling citizens to obtain information on the use made of their taxes. Against this backdrop, it is clear why the Lima Declaration also calls for publication of reports by the Supreme Audit Institutions in Section 16, paragraph 3.

If, by publishing its reports, the Court of Audit succeeds in drawing the attention of taxpayers and the mass media to the way in which taxes are used and in shaping public opinion in this respect, public pressure may require those politically responsible to act accordingly. This is the great chance that comes with transparency in the auditing work of the Court of Audit; its importance must not be underestimated.

Report handling in the provincial parliaments

Although the rules for handling Court of Audit reports in the provincial parliaments vary from province to province, there are certain common features to the procedures. In principle, each Court of Audit report is assigned to a committee of the provincial parliament for preliminary discussion. The committee may invite representatives of the Court of Audit and the audited entity or the provincial government to join in its deliberations. The Rules of Procedure of the Burgenland provincial parliament even expressly state that the President of the Court of Audit is entitled to take part in the deliberations of the provincial parliament.

If auditors from the Court of Audit or its President, as the case may be, take part in the deliberations of the provincial parliament committees, the report of the Court of Audit is discussed by members of the provincial parliament, by representatives of the Court of Audit and of the executive branch of the province, which is usually represented by the responsible member of the provincial government. This enables the Court of Audit to present its point of view orally before the members of parliament on parliamentary premises, thus supplementing the written report, and to urge the implementation of the recommendations it has made.

This is of equal importance for the Austrian Court of Audit because, contrary to the Supreme Audit Institutions of some other countries, it does not have any executive powers, so that it has no way of enforcing that its recommendations be put into practice, against the wish of the audited entities. For this reason, it has to make efforts to rally the support of the provincial parliaments, or at least the majority of its members, so that these exert pressure on the executive branch of the provinces and help bring the Court of

Audit's point of view to fruition. In this context, the tools available to the provincial parliaments vis-à-vis the provincial governments comprise the entire range of classical parliamentary controls, such as interpellation, resolution and, in the worst case, motions of censure that may lead to the dismissal of the provincial government or individual members thereof.

To win the members of the provincial parliaments over to its concerns, the Court of Audit has to convince them and is thus required to present better factual arguments than the representatives of the audited entities. As a matter of fact, the Court of Audit has repeatedly been successful in deliberations on its reports in the committees of the provincial parliaments and has obtained the support of members of parliament for its concerns. This represents an optimization of cooperation between the provincial parliaments, as the bodies in charge of parliamentary control in the provinces, and the Court of Audit, as the auditing body acting on behalf of the provincial parliaments in the interest of the cost-effective use of public funds.

Deliberations in the committees of the provincial parliaments are concluded by voting on the report drawn up by the Court of Audit. The outcome of the vote can be either that notice is taken or that no notice is taken of the report. The latter case has not occurred in the more recent history of the Court of Audit.

After the vote, the report of the Court of Audit is once again discussed in plenary session by the provincial parliament. The debate is open to the public. This time, discussion is based on the results of the deliberations in the committee. Court of Audit representatives are not allowed to take part in this plenary session of the provincial parliament. The provincial parliament of the Burgenland is an exception to this rule, since it gives the President of the Court of Audit the right to take the floor in the plenary session like a member of the provincial government. This regulation corresponds to the legal position at the federal level, where the President of the Court of Audit is entitled to take the floor in the plenary session of the National Council and its committees like a federal minister, at any time when the reports of the Court of Audit on the financial operations of the federal government are discussed.

As is the case in the committees, the discussion in the plenary session of the provincial parliaments also ends with a vote on the Court of Audit report, which normally results in the provincial parliament taking notice of the report. Refusal to take notice of the report is a theoretical possibility, but has not occurred in practice.

G. Summary

The functions and activities of the Austrian Court of Audit are decisively influenced by the nature of the system of the Republic of Austria, according to which the country is organized as a federal State. This is specially manifested in the Austrian Court of Audit functioning as a body of both the National Council and the provincial parliaments of the nine provinces, depending on whether the Court of Audit deals with matters concerning the financial operations of the federal or the provincial governments. As a consequence, the Court of Audit forms part of the legislative branch and acts in a dual capacity, that is to say, as a body of the federal State and as a body of the provinces.

Due to the fact that the Court of Audit functions as a body of the provincial parliaments, the President of the Court of Audit is constitutionally accountable to the provincial parliaments for culpable infringements of the law. By contrast, the political responsibility of the President of the Court of Audit cannot be enforced by the provincial parliaments, but lies exclusively with the National Council, which also has the sole competence to elect the President of the Court of Audit.

Notwithstanding the position of the Court of Audit as a body of the provincial parliament, the Court of

Audit is not subordinate to the provincial parliaments or dependent on them. On the contrary, the Court of Audit is not only independent of the provincial governments, but also of the provincial parliaments and solely subject to the provisions of law.

The Court of Audit is fully autonomous in the establishment of its auditing plan, in its choice of auditing methods and means of auditing, as well as in reporting its findings.

The provincial governments, as well as the provincial parliaments or qualified minorities in the provincial parliaments, are only entitled to give the Court of Audit certain additional auditing assignments. The Court of Audit has to send its audit findings to the provincial government concerned for comments, thus conforming to the principle of the mutual right to be heard.

The reports of the Court of Audit must be submitted to the provincial parliaments for deliberation and resolution, and they must be published.

To see that its recommendations to the executive branch in the provinces are put into practice, the Court of Audit strives to win over members of the provincial parliament for which it acts, so that they support its concerns in the interest of an optimal use of public funds.

Part III:

The Human
Factor in
Local
Governance

Human Resources Development for Decentralization¹

A. Background

In April 1996, the United Nations General Assembly, at its resumed 50th Session, adopted resolution 50/225 on Public Administration and Development. The resolution confirmed the importance of reinforcing public administration for development and emphasized the need for cooperation among United Nations departments and agencies in supporting capacity-building in the broad areas of governance, public administration and finance. Specifically, it acknowledged that the role of the United Nations activities and programmes in public administration and development is to assist Governments, at their request, and to focus *inter alia* on strengthening government capacity for policy development, administrative restructuring, civil service reform, human resources development and public administration training.

In light of the above mandates and the recommendations of the Thirteenth Meeting of Experts on the United Nations Programme in Public Administration and Finance (May-June 1997), the United Nations Department of Economic and Social Affairs sponsored a series of meetings whose object has been to highlight the problems of the public service profession currently in rapid change. After consultation with the Greek Government, it held a regional conference on the subject of Public Service in Transition: Enhancing Its Role, Professionalism, Ethical Values and Standards, with a focus on the needs of the countries of Central and Eastern Europe. The United Nations Development Programme (Regional Bureau for Europe and CIS) agreed to co-sponsor and co-organize this Conference, which was hosted in Thessaloniki, from 17 to 20 November 1997.

All Member States of Eastern and Central Europe were invited and twenty, other than Greece, participated. A number of international organizations, both regional and global, governmental and non-governmental, were also represented. Most of them were also present at the Conference in Yerevan, which in a number of ways continued the same in-depth exploration of the transition process

In all the countries concerned, the public service represents a major actor in the process of change. To ensure a smooth transition and success in ongoing reforms, its role must be reinforced and this, in turn, entails reinforcement of its competence, professional core, ethical values and standards. The past, in this regard, affords only limited guidance. Globalization, rapid advances of science and technology and the emergence of a vibrant civil society not only make transition a universal phenomenon, but also appear to set the course of change in the direction of a State markedly different from that which emerged after the Second World War. A State accustomed to thinking for its citizens, telling them what to do, is gradually ceding its place to one that listens and communicates, one that actively seeks partnerships with business and other civil society actors. Such a State requires a public service of a very different type.

The Thessaloniki Conference explored the profile of this new public service that would be needed to meet the challenges of the 21st century. The focus was primarily on State and central government. However, the participants believed that their conclusions applied with equal force to the emerging local structures, where needs were very great. Enhancing the capacity, professional status and values of local government staff was seen as a prerequisite for implementing the principle of *subsidiarity* and making a success of decentralization. Two working groups advanced specific recommendations on these points. Both recognized the limits imposed by resource scarcity and budgetary constraints, but as the third group put it, in a slightly different context, a cheap public servant can cost the State a lot.

To the two-fold transition to a pluralist democracy and a free market system, a third dimension must be added: the passage from a centralized, tightly controlled and highly bureaucratic administrative system to one combining tendencies in the direction of decentralization, deconcentration, debureaucratization and citizen participation through NGO, grassroots or other civil society organization involvement in matters of local concern.

It was generally agreed that a holistic strategy and a pragmatic approach were needed to secure long-term improvements in the desired direction. It was also felt that debureaucratization and buffering human resources management from excessive political tampering were necessary facets of building up professionalism in the public service. In stressing the significance of long-term strategic approaches to civil service improvement, the conference participants called for the reinforcement of those institutional structures and high-level skills that constitute prerequisites for sustained development in the right direction.

Officially adopted by the European Union, the principle of subsidiarity applies to them all equally. Highlighted in the European Union Charter on Local Self-Government, it has become a guideline for countries on the road to accession and integration into the European Union. Throughout the region, however, the move to undo the structures of democratic centralism has been one of the earliest, most forceful and most striking departures of reform. Countries eager to replace the monolithic structures of state administration by a bipolar model included fundamental provisions which guaranteed territorial self-government into their new constitutions. New legislative frameworks, entrusting local matters to units of self-government, gave effect to those provisions.

In the words of one country study, restoration of local self-government formed an integral part of the process of democratization. Soon, however, doubts set in and second thoughts prevailed as, in a number of countries, the push to decentralize was not adequately matched by parallel endeavours to build up local cadres. As somebody remarked in one of the countries recently visited: Decentralization was only possible with people on the spot to whom to decentralize. This was not always the case.

B. The human factor in decentralization

Absence of local cadres, a dearth of financial resources, inadequate development of the institutional frameworks and also, to a degree, the uneven distribution of civil society activity between the centre and the periphery have combined to slow the progress of effective decentralization. To what extent those factors added momentum to an observable trend in the direction of deconcentration instead is a question which the experience of the countries in the region can serve to illuminate. Throughout the world, decentralization and deconcentration very often go *in tandem*, but their complementarity cannot be taken for granted.

The focus of this paper is on the human factor and human resources development as an essential prerequisite for decentralization. It must be emphasized, on the other hand, that the overall effectiveness of the human factor and potential for human resources development are largely predicated on institution-building, financial decentralization and a vibrant, well-organized and watchful civil society on the local level, without which public service personnel can be compared to an army bereft of material, logistic and moral support.

At any level of government—central, regional or local—the human factor comprises two main categories of staff:

The elected representatives, including most incumbents of top management posts; and

The appointed service staff

Increasingly, especially in the West, a third component is added—civil society—which normally includes private sector for-profit agencies as well as voluntary, non-profit third sector organizations. The latter, in particular, have grown by leaps and bounds during the past decade or decade and a half. Their rapid rise in status and expansion of scope in recent years received a powerful impetus from the devolution of tasks to non-state actors and the manifold process of disaggregation of functions for which the central government had primary responsibility. Outsourcing, privatization and decentralization have been some of the avenues that opened possibilities for new constructive partnerships between the central government, on the one hand, and local government and civil society actors on the other. No longer keen to be primarily involved in the direct production of goods and services, States have welcomed the cooperation of voluntary institutions, as well as private companies.

Experience on this score, however, has been mixed. There cannot be any doubt that partnership with business and NGOs has introduced an element of competition and client-orientation, where none existed before. Too rapid a divestiture, on the other hand, and discontinuation of the provision of services by state organizations, without sufficient care for adequate replacement, has often meant decline in the availability and accessibility of certain basic services to the population at large. Education and health, previously offered *gratis* by state-owned enterprises, are cases in point. The role of local government, in this regard, possibly working in partnership with civil society actors, could be decisive, but as already stated, progress in this direction can only come as a result of concerted efforts in institution-building and human resources development at the local level.

Such capacity reinforcement, as already stated earlier, requires the cooperation and synergy of both political and professional (non-political) elements. The importance and the need to secure, in positions of leadership, capable men and women willing to run for office are as great as the complexities that often stand in the way, particularly in countries where there is little tradition of local self-government and where, therefore, top posts, mayors of major cities, for instance, are often still appointed from the centre.

While reasons for this practice might well exist, it must be emphasized that cultivating interest and building up commitment in local affairs are largely predicated on achieving and safeguarding a measure of autonomy of local from national politics. Centrally appointed mayors and municipal elections conducted as virtually national polls rob important local issues of the attention they deserve and, therefore, local government of the leadership it needs. While it is rarely possible to split local affairs from national party politics, a degree of separation is a necessary prerequisite for effective decentralization. Expressed in other terms, total subordination of local to national politics deprives local authorities not only of credible leaders and responsive service providers, but also of the necessary long-term institutional legitimation.

As on the central level, the success of local leaders depends to a large extent on properly organized professional support services. It may be safely affirmed that, from time immemorial, the call for career professionals in central and local government was prompted, in large part, from the unhappy experience with amateurs, who proved unfit, unqualified and often unreliable. More recently, however, the need for public servants with a career bent has come as a result of the increased complexity of most government tasks, the corresponding risk and consequence of failures, and rising public claims and expectations for quality service delivery.

The call to raise the quality of the professional inputs in the processes of government and concerns to circumscribe the scope of political patronage in public sector posts provided the twin motives for public service reform in 19th century Europe and the United States. Significantly, reforms of civil service systems, especially in this century, were almost always paralleled by efforts to develop and institutionalize education and training in public administration and its related disciplines. The sum of those endeavours contributed considerably to raising the prestige and quality of performance of public servants, as well as to their sense of belonging to the great profession of government.

Viewed against this historical background, the massive attacks on government and the public service by the radical right during the 1980s were certainly a step backwards. They were matched on the populist left by a return to clientelist politics and the use of public sector posts to combat or conceal unemployment. A devalued public service soon came to be considered as an employer of last resort and thus became unable to attract, retain and develop personnel of the appropriate calibre.

Total subordination to the *nomenclatura* in several Member States of Central and Eastern Europe and the CIS during the post-war decades had probably the same effect. A deprofessionalized, largely politicized, poorly remunerated and demoralized public service became a fertile ground for bribery and corruption, which had a negative impact on its performance and prestige.

Several recent meetings of major international organizations have focused on the importance of redesigning the state and local government for the tasks of the 21st century. Enhancing the prestige, performance and professionalism of public servants is part of this *problématique*. It has come to be perceived as an essential prerequisite for sustainable development and progress on the road to democratization.

Reprofessionalization of the public service, which is urgently required in many countries, encompasses two facets: one addresses the *competence base*, i.e. the skills and knowledge required in the performance of public service tasks; the other redefines the *values, attitudes and behaviour* that make up the profile of an effective and dedicated public servant in a contemporary democracy. Both are equally important for the success of this task. This chapter tries to shed some light on these two inter-related facets of the question, featuring also the substance of the recommendations of the recent regional conference in Thessaloniki. It concludes with some tentative steps towards a plan of action for countries in the region, highlighting priority issues that must be addressed immediately.

C. Human resources management and human resources development

It has often been argued, rightly it may be added, that there is not one profession of government but several. Both at the central and at the local levels, the government recruits all types of employees. It employs librarians, teachers, lawyers, doctors, veterinarians, public security officers, accountants, architects and engineers. Though they all have a shared commitment to use their expertise in ways that are conducive to enhancing public welfare rather than private gain, they come from different backgrounds, distinct educational paths, crafts with distinct traditions, with long-established practices and values of their own. It is so with medical doctors, with certified accountants, with architects and engineers.

It should be emphasized, on the other hand, that working for the government entails a set of factors, conditions and considerations that differ, to an extent, from those observable in for-profit enterprises, or even the third sector, that is to say, voluntary, non-profit organizations. This is true of local government and *a fortiori* so of state or central government officers. Serving in that capacity means working in an environment which is common to all. All government officials central, district or local operate within a framework of laws and regulations which carry special constraints and entail particular duties or obligations, but also create opportunities that may be absent elsewhere.

The public task environment, local as well as central, makes extraordinary demands on all professionals for expertise, sound judgement, objectivity, impartiality, availability, responsiveness to citizens and to their needs, respect for law and order, respect for human rights and service to the community. Duties are multi-faceted and often very complex. They include policy advice, the management of human, financial and other resources, provision of critical services, the handling of sensitive data, and the drafting, interpretation and application of laws, other enactments, decisions or regulations. They must perform those functions under stressful conditions for very little pay and yet be held accountable for their actions and discharge their duties under conditions of great stringency. They are expected to abide by rules regarding conflict of interest, privileged information, transparency, due process and objectivity, at all times. If not elected to a post and serving in a technical non-political capacity, they are normally required to maintain a level of discretion and

to refrain from partisan activities or pronouncements. They must never subordinate their official public duties to personal pursuits and, in serving the community, must seek to reconcile adherence to the highest professional standards, with loyalty to a mayor, political department head or other elected official, and an unswerving commitment to democratic principles and to the general interest.

Meeting all these requirements demands a combination of knowledge, skills and attitudes, values and habits of mind that seldom co-exist, rarely grow spontaneously, but must be nurtured assiduously. Human resources management and human resources development draw their distinct importance from this self-evident fact. Applied to local government, or to the public sector at large, they seek to maximize the yield from those resources, whose scarcity and idiosyncrasy greatly add to the complexity of these two management tasks.

The distinction has been made in order to highlight the importance and complementarity of two sets of prerequisites for the recruitment, retention, development and motivation of personnel in adequate numbers and of the appropriate calibre. The first set represents a mostly *maintenance function*. It consists of creating and maintaining:

- A healthy and enabling work environment; and
- A sound contractual relationship between employer and employee.

The second set, by contrast, is a *development function*. Its principal objectives could be summed up as follows:

- To foster personal growth and professional development;
- To counter the obsolescence of knowledge and technologies;
- To foster an *esprit de corps*; and
- To facilitate individual adjustments to changing organizational requirements.

Both derive their importance from the incontrovertible fact that, in all organizations, but the public service especially, the human factor is the input with the greatest relative weight. More than anything else, it determines both the quantity and quality of the outputs. Both represent a response to:

The growing role of knowledge, technical skills and positive work attitudes in the organizational
The rising costs of recruitment, employment and training of competent personnel.

While the maintenance function could be described as *static*, addressed to ongoing concerns, developmental tasks are by definition *dynamic* and answer the requirement for organizational development and adaptation to a swiftly changing environment. Human resources development is much more than a service available to staff. It is an essential tool, which management leaders apply to optimize the effectiveness and maximize the

equation; and

potential of their personnel. It encompasses such activities as:

Needs assessment;

Setting, communicating and enforcing performance standards and benchmarks;

Pre-entry and in-service training;

Performance measurement and evaluation; and

Transfer, rotation, mobility and the promotion of staff.

D. The changing nature of governance

The performance of those functions in a systematic way has greatly waxed in importance on account of resource scarcity, which demands that public service accomplish more with less, but also on account of new concepts of governance which have come to replace the more traditional views on how government should operate. These include decentralization, debureaucratization, improved access to information, citizen participation, consultation, transparency and accountability. A fundamental component of the new concept of governance is the idea of partnership with business stakeholders and NGOs. One implication of this is that the government central or local is no longer the dominant or even main provider of certain types of services. Its role has changed to that of funder, regulator, standard-setter, mediator and quality-controller.

The effects of this transformation have been far-reaching. The needs in personnel quantitative and qualitative have often changed significantly. A whole new range of skills has gradually come into prominence, eclipsing others that are no longer required or are less in demand. The steering role of government and rising expectations from citizens have placed a high premium on professionalism and ethics in the conduct of government. The trend in this direction is unmistakable. In country after country, citizens and stakeholders articulate demands for competent officials with knowledge, integrity and skills to handle complex cases with the commensurate judgement and maturity required to handle ambiguities, risks and competing values.

Paradoxically, the pace at which developments alter the configuration of personnel requirements has robbed the public service of some traditional tools which were at its disposal to nurture or reinforce the requisite knowledge, skills, values and attitudes. Historically, for instance, public service had been synonymous with security of tenure. This is now being questioned increasingly, both on economic grounds, as a costly personnel policy, and on substantive grounds, as a factor of rigidity at times of rapid change. Flexible hiring policies and recourse to outsourcing have merits in this regard. But can they also foster professionalism, loyalty, integrity and commitment, which tenure and the bonds of life-long public service had tended to encourage?

Experience on this score, in countries with economies in transition and elsewhere, has been less than reassuring. Reported cases of graft and corruption, on the one hand, and rapid turnover of staff, with resulting inconsistencies and discontinuity of practice on the other, forcefully argue in favour of a greater measure of cogency and coherence in public personnel management. This applies to central government, but even more emphatically to local government, which in many parts of the world, notably in Eastern and Central Europe, is currently undergoing substantial transformations.

The process of transition in many a new democracy began with decentralization. Several country studies submitted for the Conference in Thessaloniki dwelt at some length on efforts to rebuild local government structures, which had been held in abeyance for several decades. Abandoning the principle of democratic

centralism, all of the countries concerned had to decide which areas should be reserved for territorial self-government. Determining the needs in personnel and meeting those requirements was yet another problem. For some of the countries concerned, developing new frameworks for local government staff, distinct from those of the State, was a response not only to the absence of any such difference under the previous regime, but also to the lack of a unifying principle and rampant fragmentation that prevailed in previous years. This important quest continues and it is one whose outcomes may condition the success of decentralization.

Developing the laws, structures and institutions for the recruitment, management, development and remuneration of local staff is a vast undertaking, where compar-

ative experience may shed important light on particular country reforms. Without discounting differences that undoubtedly exist both among and within countries, there may be commonalities that are well worth exploring. As a useful point of departure, one may take the goals of reform. In a paper on *The Making of Highly Qualified, Efficient and Effective Public Managers*, presented at the United Nations regional conference in Thessaloniki, in November 1997, Mr. Staffan Synnerström of SIGMA (OECD) proposed such major targets. Though they were chiefly drafted with reference to the top layers of the state civil service, they have substantial relevance to local government also.

E. The targets of reform

According to Mr. Synnerström's paper the goals of such reform could be defined as follows:

- Improved quality of the outputs of public institutions;
- Improved efficiency and cost-effectiveness in public institutions;
- Better coordination between public institutions;
- Improved professional development and continuity within public institutions;
- Reduced nepotism, cronyism and corruption;
- Enhanced public trust in the administration; and last but not at least,
- Attraction and retention of highly qualified individuals for management positions.

The three sets of prerequisites considered to be essential for the success of reform are generally applicable to central and local governments alike:

- Political will and strong support from the top, in this instance from the government, from parliament and the leadership of key, strategic local authorities;
- The support or acquiescence from the line departments concerned; and
- The development of a neutral professional system of selection and management of managers, without which every change of the political leadership may be followed not only by an exodus of trained pro-

fessional staff, but also by a change of the rules of the game.

The critical importance of stability and continuity in this regard suggests certain additional areas of concern. One is clearly the need for needs assessment: an inventory, that is to say, of the crucial skills required by particular local authorities, qualitatively and quantitatively. Related to this task is the determination of which of the above skills are to be met politically, by patronage appointment, election or otherwise, and which to be provided strictly on the basis of merit. In theory, at any rate, one might expect that posts where continuity and institutional memory are of the essence and posts of a technical nature should be reserved for career officials, selected on the basis of their qualifications, experience and performance. However, this is not invariably the case. Though political expediency accounts to a large extent for departures from the norm, or what might be considered as the precepts of administrative efficiency and rationality, there can be little doubt that lack of expertise and the resulting failure to design and implement credible, realistic and functional structures and systems for human resources management and development are also largely to blame.

The lessons of the past, dense with the multiple downsides of decades of neglect, have shown to East and West the errors of their ways. What years of subordination to political expediency or a party *nomenclatura* have produced is a politicized, poorly remunerated, frequently demoralized and deprofessionalized public

service, whose performance, at the local or central government levels, leaves much to be desired. A local government service which fails to attract, retain and develop competent staff can neither safeguard con-
Though frequently unfounded, such perceptions stand in the way of reform and sustainable progress. They must be changed. The recommendations made at the Conference in Thessaloniki in favour of a Charter for the Public Service, developed on the model of the European Charter on Local Self-Government, could serve as the point of departure for what may prove to be a long and uphill march. To be successful, reform requires a holistic approach highlighting the complementarity of:

Legislative measures required in order to establish the necessary institutional framework;

Consistent management to operate this framework and render it effective;

Systematic education and training; and

A code of ethical conduct for local government servants.

What needs to be emphasized is the role of legislatures in setting up a framework in which reforms may proceed and the role of political leadership and civil society in keeping up the momentum. The process of reform can only start in earnest when answers are provided to the question of what *value* society accords to local government and to a professional corps of local government servants. This, in turn, will determine the level of commitment and nature of rewards material or symbolic and guarantees that any particular country or community is willing to afford to those that serve it well. Perhaps more than anything else, it will determine the extent to which political leadership is willing to safeguard the necessary *autonomy* of public service management.

The success of any reform depends to a large extent on its design and planning, but also on the creation and operationalization of the institutional mechanisms required to carry it out. Prioritizing needs is part of any strategy that seeks sustainable progress towards the objectives set. Of these, creating a cadre of competent professional public managers for local government appears to be an absolute top need. However, its selection, training, career development and administration in general requires a dedicated corps of *professional human resources managers* secure in the respect that it receives from leadership to do a decent job.

tinuity nor adequately serve the goals of transition and change. At best it is considered as employment of last resort ; at worst it is suspected of being a fertile ground for bribery and corruption.

Mr. Synnerström listed ten important steps that may be worth exploring as part of an overall strategy of reform:

1. Improving the administrative context in which managers must work (professionalization).
2. Identifying the professional top management positions and safeguarding the selection to these positions, as well as the professional integrity of the position-holders.
3. Defining the status of civil servants, particularly of the top permanent officials, in a *public service law*. The law should strike a balance between duties and accountabilities implied in a public office and the rights provided to safeguard the professional integrity of managers and other civil servants. The law should further strike a balance between the professional demands made on the officials and the benefits offered to ensure that sufficiently qualified individuals will be attracted, retained and motivated. The law should not cover officials employed in political positions. Whether there should be a single law for all local authorities or several is an issue to be addressed.
4. Establishing a central capacity within the government to ensure a common harmonized management of top officials and of the public service.
5. Establishing a separate system of unified selection, appointment, training and career development for the very top officials. This could be an additional task for a central public service unit.
6. Recognizing that making high quality managers entails a broader task than just providing them with training and improving their appointment conditions. It is equally important to recognize that it will take some time before the investments necessary to improve the quality of managers begin to yield returns.
7. Recognizing that implementation of public service reform based on a new law is a long-term process. This should be done gradually for reasons of limited public service management capacities and because of financial constraints. Top management reform should be included in any early

implementation phase, but reform should not stop at the top levels.

8. Recognizing the need for broad political consensus on public service reform, especially on a new system of selecting, appointing and developing top managers in order to avoid manipulation of the system and undesirable changes when government changes. It is equally important to have civil
9. Recognizing that top management reform should aim at improving both the coordination capacity of government and cooperation between permanent professionals and the political levels. The quality of permanent managers should make the case for an upgraded role of permanent officials in

service reform, especially top management reform, recognized and accepted by the public at large, as well as by other kinds of employees. Consensus should include the primacy of merit, but also respect for the principle of broad representation of all groups in society including, in particular, women and minorities.

government decision-making and in the administrative process.

10. Being pragmatic in the implementation of reform and especially recognizing the need for special transitional provisions and mechanisms in the early stages of any public service or management reform.

F. Some points for debate: conclusions

In country after country, as studies show, reform in the wake of transition encompassed early attempts at decentralization and devolution of power. This pattern owed its prevalence to more than mere reaction to the excesses of the former regime. Although redressing the wrongs of democratic centralism provided an incentive, there were other major factors at play in several countries in this region and beyond. One has been resource scarcity at the central government level and a deliberate decision by the State to circumscribe the scope of commitments and activities for which it had assumed direct responsibility. A new management ideology was also gaining currency, which pushed in the direction of decentralization. It stressed deregulation, debureaucratization, results-orientation and devolution of functions to lower action levels.

Officially adopted by the European Union, the principle of subsidiarity stipulates that every function should be assigned at the lowest level at which it can be undertaken and discharged effectively. Though not all countries would claim to have embraced this precept in its entirety, it may be time to engage in an evaluation of the results accomplished in decentralization. It would also be appropriate to ask ourselves what hurdles stood in the way of success where those results fell short of hopes or expectations. Conducting this analysis may throw light on the question which was the theme of the Conference in Yerevan: *in decentralization, what are the conditions of success?*

Preliminary surveys strongly suggest that a dearth of human resources, i.e. capable women and men at the local level, have been a major impediment in many countries. Reportedly, transition produced a high turnover of personnel as privatization created new opportunities for lucrative employment for former public servants. This has been true at both the central and local government levels. Concurrently, however, pressures to decentralize have greatly enhanced demands on local government staff. Specifically, they made those local cadres responsible for complex policy-making, problem-solving, service delivery and other management functions which had previously been reserved to the centre and the top of the party political leadership. Experience demonstrates that while in certain countries and districts, local entrepreneurs and local leaders responded by rising to the challenge, in other areas results have been more mixed.

It is hardly symptomatic that, throughout the world today, demands are articulated to strengthen the capacity of local administration as *a sine qua non* condition of success of decentralization. The term *capacity-building*, which is so frequently heard, is commonly understood to mean the coefficient of two closely interdependent activities, namely institution-building and human resources development.

The establishment of sound legislative frameworks, a major point of reference in the debate, is a facet in the process of institution-building. Though what is sought may vary from case to case, the objectives most com-

only mentioned are stability, predictability, consistency and coherence. What is generally needed, in other words, is an enabling framework for the tasks of recruiting, retaining, developing and motivating men and women of the appropriate calibre for the tasks of local government. The primacy of merit, in this regard, should not reduce the importance of representation – the need to ensure that the composition of the local government service be broadly representative of the local community. Both in terms of gender and other

The issue is more complex than might seem at first sight. One important facet of it is precisely the separation of political from non-political posts, of which Mr. Synnerström spoke in the context of the Thessaloniki Conference. Where countries draw the line between the two categories depends on numerous factors, the tasks of local government and local political culture being only two. In drawing the line, however, it should be borne in mind that it is not sufficient to designate positions requiring career incumbents as strictly non-political. To ensure high-quality outputs of such professional staff, professional autonomy must be respected and this, in turn, implies *depoliticization* of the recruitment, placement and career development functions.

Creating and sustaining an enabling framework for local government appears to include enactments and policies conducive to professionalization or reprofessionalization of core tasks whose efficiency and effectiveness would enhance the credibility and prestige of local government institutions.

A recent study conducted in the countries of the region revealed that the *prestige* of the institution served remained the prime attraction among young candidates in search of public service posts. Terms and conditions of service, as a package, followed next. This finding is consistent with motivation theories which emphasize the primacy of inherent factors, that is to say, the nature of the work itself. It does not obviate the importance of remuneration as a factor, but places it in the right perspective. Keeping the level of salaries at affordable levels was only part of the question. That government organizations, including local authorities, should live within their means makes as good sense as the statement that throwing money at problems will not solve them. Rather than aggregate levels, the structure of earnings, i.e. the ratio of performance and position-related payments to allowances and benefits may also have to be explored. Studies may help Member States

identifiable groups, no major segment of the local population should be left out, deliberately or otherwise.

It has been argued previously that such high calibre people are of at least two types: political leaders and professional, non-political personnel. The role of NGOs, as the organized expression of civil society, has commonly been added to the above categories. However, the demand emphatically made is for concerted efforts to improve the role and quality of the professional inputs into the processes of government; and to *reprofessionalize* the public service for this purpose.

come up with solutions in tune with their requirements and possibilities.

The objective of this exercise would be to assist the establishment of enabling legal and institutional frameworks for local government personnel reform and improvement. Human resources development is the other quintessential complementary task in the capacity-building equation. Since the nature of this task has been discussed already, what needs to be emphasized is the importance of infusing the functions of selection, recruitment, appointment, placement, mobility, transfer and career development with a strong culture of merit and integrity, performance measurement, monitoring and evaluation.

Another point to remember is the crucial role of training, which must be based on needs, address those needs specifically and closely correspond to the career development of local government officers. The Conference shed light on this important question and came up with ideas for programmatic activities in the region at large. What follows are suggestions that seek to address generic needs of technically competent professional staff, who may be thrust into positions calling for modern management skills. Such people will, in future, be called upon to operate in a task environment significantly different from that of their predecessors, some twenty years ago. No longer predicated on purely technical skills, the process of decision is increasingly thrown open to a multiplicity of actors and stakeholders.

Accordingly, a large number of factors will now have to be taken into account. To be effective, a local authority manager will need to develop and to exercise high-level analytical and decisional as well as interpersonal, communication, mentoring, reporting and informational skills, which may not have been as relevant some twenty years ago. At times of resource scarcity, substantial budgetary skills and elements of

financial management are also of the essence. However, the difficult task of reprofessionalizing public service personnel at the local government level also calls for professional personnel managers and competent change agents. It calls for the development of qualities in

managers that help them mobilize, organize, energize, supervise, motivate and empower the people in their command. We depend on such capable people to turn the abundant potential that exists in every country into a force for local democracy and progress.

Mobilizing Civic Participation in Local Governance: What, Why and How?¹

A. Introduction

There is a growing belief that democratization and economic and social development can be aided significantly by the involvement of a vigorous civil society at both the national and local levels. By civil society here we mean individuals or groups that interact socially, politically and economically and are regulated by formal and informal rules and laws. (UNDP, 1997)

At the same time, there is a growing trend toward decentralization of governance across a diverse range of countries. Decentralization, as used here, refers to restructuring or reorganizing authority so that governing institutions at central, regional and local levels share responsibility and authority. (UNDP, 1998; Wray, 1992) The strategy of decentralization, as part of government reform and restructuring, presents an opportunity at the local government level to employ a strengthened civil society sector as an active partner. There is a growing view that local government can benefit significantly from strengthening and sustaining a vital civil society sector and from supporting its engagement in local self-government.

Both civil society and decentralization are continuing to grow in the nations of Central and Eastern Europe and the Commonwealth of Independent States. These two groups of countries possess a highly diverse set of histories, as well as economic and political circumstances. They share an experience of 40 to 70 years of monolithic government that allowed very limited development of any competitive social or economic institutions. Over the past decade, most of these transitional economies have moved away from a centrally

planned economy to varying degrees of mixed economy. Economic reforms in many countries have faced multiple challenges, including environmental degradation and social disintegration, which includes rising crime rates and other social ills. At the same time, interest in democratization and civil society has been rising as an important ingredient in decentralization. The history of civil society in these countries ranges from long-standing strong traditions prior to 1940, involving many non-governmental institutions, to a limited experience with a limited number of such organizations.

This paper makes a number of suggestions for involving citizens and civil society groups, such as non-governmental organizations (NGOs) and grassroots citizen organizations, in the work of local government. Given the great diversity in the history, culture, economy and social circumstances of these nations, the recommendations made here will, of necessity, be somewhat general and will require adaptation to specific national and local circumstances.

The paper begins with an important distinction between government and governance and then presents a three-sector framework of government the market or private sector and the civil society sector. Civil society is defined, emerging trends are described, and potential benefits of a strengthened civil society for local governance are presented. A number of critical issues are identified. Specific structures and strategies are suggested as part of an effort to instigate support and enlist active participation from the local community.

B. Governance, government and the three-sector framework

The emerging distinction between the concept of government and that of governance is important to

providing a context for the set of recommendations for strengthening and involving the civil society at the local

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government level. *Government* refers to political and public sector institutions. *Governance* refers to the exercise of economic, political and administrative authority to manage a country's affairs at all levels. It comprises the mechanisms, processes and institutions through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations and mediate their differences. (UNDP, 1997, p.3) Some characteristics of good governance include citizen participation, rule of law, transparency, responsiveness, consensus orientation, equity, effectiveness and efficiency, accountability and strategic vision. (UNDP, 1997, pp.4-5)

A long-standing practice has been to analyze the way in which societies carry out decision-making and implementation in terms of government and government institutions. More recent thinking, as outlined in UNDP policy on governance, holds that, to understand the governance of societies, *three sets of institutions* should be examined. (UNDP, 1997) These three distinct spheres of activity in society are: (1) government, (2) the market or business sector and (3) civil society, made up of individual citizens, non-governmental organizations and many other types of community-based organizations. Factors such as history, economy and current practices are also important, not only to understand the current status of a particular society, but also to map out a plan of action likely to produce success on the path to greater social and economic development.

The first of the three elements is government, as defined above. In many countries the goal is to produce government which is *effective* (gets important tasks accomplished), *efficient* (accomplishes these tasks in a low cost manner), and *responsive* (listens to and acts on citizen input).

The role of the State in economic and social activity is under pressure in many parts of the world. This is in

response to a number of factors, including pressure from the market sector for a more hospitable environment and a better balance between the State and the market, from a civil society sector pushing for increased accountability and responsiveness and greater decentralization, and from transnational public and private sector institutions and global economic and social trends that are challenging the nature of the State and its identity.

One of the strands of the effort to produce effective, efficient, and responsive government has been the push for greater *decentralization*, not only in former centrally planned economies, but also in many mixed economies across the world. When done effectively, decentralization offers the promise of greater local empowerment and control, authority, accountability and responsibility. The benefits of decentralization, discussed more fully below, include governance that is more responsive, mobilization of communities and citizens, and a more informed and empowered citizenry.

The second important element is the market or private sector, which includes a formal portion, made up of private enterprises in manufacturing, trade, banking and cooperatives, and an informal sector. In many countries, the influence of the private sector is rising.

The third important element, discussed more extensively below, is civil society, which includes individuals and groups, organized or unorganized, that interact socially, politically and economically and are regulated by formal and informal rules and laws.

Moving toward effective, efficient and responsive government at the local level can be supported by active development and engagement of citizens acting as individuals and in civil society organizations, as a part of the overall governance framework.

C. What is civil society?

There is rising interest in an expanding array of social institutions across the world that are neither governmental nor business in nature. The term *civil society organizations* is used to cover several types of organizations, including non-governmental organizations and community-based organizations. Civil society organizations, in the terminology of the United Nations, are organizations that involve people working together for

a common purpose. The term civil society covers a highly diverse group of institutions from professional organizations to environmental groups, to sports clubs and neighbourhood associations. Despite this diversity, civil society groups share four features:

Organization they have an institutional presence and structure;

Private they are institutionally separate from the State;

Self-governing they are fundamentally in control of their own affairs; and

Voluntary membership is not legally required and they attract some level of voluntary contribution of time or money. (Salamon, Anheier and Associates, 1998, p. 1)

Detailed studies of civil society are underway in a number of countries. One such set of studies, carried out by Johns Hopkins University, has examined twenty-eight countries. (Salamon, et al., 1998) The studies covered twelve fields of activity: culture, education and research, health, social services, environment, development, civic and advocacy, philanthropy, international, religious congregations, business and professional, including trade unions and other.

Four of the twenty-eight countries studied were from Central and Eastern Europe: the Czech Republic, Hungary, Slovakia and Romania. Preliminary reports showed that civil society organizations in Central and Eastern European countries had the greatest emphasis in the areas of culture and sports. In contrast, civil society organizations in other regions of the world were dominated by education, health or social services. The two important challenges identified for the civil society sector in the Central and Eastern Europe region were capacity-building and resource mobilization from both private donations and public sources. A number of other detailed studies of the civil society sector are being published for countries in Central and Eastern Europe and the Commonwealth of Independent States.

Not profit distributing they do not return profits to managers or owners;

Many forces are pushing for the emergence of civil society institutions as a potent factor in governance. Nine global trends have been identified:

Movement toward political democratization and enhanced government accountability;

Growing reliance on the private sector and encouragement of market solutions to economic problems;

Broadening and strengthening of local governance capacity;

Weakening of state capacity;

Growth of multi-national integration;

Growing acceptance of norms of cultural diversity and more calls for representation of diverse interest groups (such as that of the poor, women, youth, children and business, for example);

Emergence of new communication technologies that are increasingly affordable;

The growing gap between rich and poor in developed, transitional and less well-developed countries; and

The growing insecurity of the middle classes in many countries about their economic future. (Rosenbaum, 1998 p. 19)

The strength of these factors pushing for a greater role for civil society, particularly at a local level, suggests that this may be a long-term and significant trend to consider in designing strategies for local economic and social development.

D. The benefits of a strengthened civil society sector

The civil society sector mediates between individuals and the state sector at both the national and local levels. Civil society fosters the *social capital* of a society by contributing to the network of relationships among individuals and groups, facilitating flows of information and strengthening social norms of behaviour. Social capital refers to those features of social organization such as networks and values tolerance, solidarity, inclusion, reciprocity, participation and trust that facilitate coordination and cooperation for mutual

benefit. (UNDP, 1997, p. 35) Social capital then is intrinsic to a complex set of social relationships.

Civil society organizations have been described as building blocks for this social capital. (Putnam, 1995) As such, civil society organizations are seen as having an increasingly substantial role in the task of economic and social development, particularly at local levels. According to the UNDP, building capacity for local governance requires involving civil society organizations and the private sector in partnership with government. Building capacity in all three domains of

governance the State, civil society and the private sector is critical for sustaining human development. (UNDP, 1997b, p. ix)

A number of arguments have been advanced concerning the possible benefits of a strong civil society in assisting economic and social development, particularly at the local level. At a very broad level, civil society is held to reinforce democracy by:

Containing the power of the State through public scrutiny;

Stimulating political participation by citizens;

Developing democratic norms, such as tolerance and compromise;

Creating ways of articulating, aggregating and representing interests outside of political parties, especially at the local level;

Mitigating conflict through cross-cutting or overlapping interests;

Recruiting and training political leaders;

Questioning and reforming existing democratic institutions and procedures; and

Disseminating information. (L. Diamond cited in Rosenbaum, 1998, p.16)

A number of related arguments have been advanced regarding the benefits to economic and social development of providing for active citizen participation in development:

State interventions have often undermined local capacities;

Centralized bureaucracies are often inefficient and have little capacity to respond to the special needs and preferences of localities (and to the needs of diverse interest groups such as the poor, women and youth);

Citizen participation can mobilize local resources to realize a goal;

Enhancement of power at the local level strengthens the capacity for productive action at the local level; it reduces dependency and powerlessness in the face of public bureaucracies;

Important social learning happens when people acting individually and in voluntary associations with others address important challenges; and

Responsiveness is greater with active citizen participation, since people whose lives are directly affected by development efforts know best what they need and how to help to meet those needs.

In summary, while the government sector and the market or business sector each have substantial roles to play in economic and social development, there are converging streams of evidence that the civil society sector is emerging as a critically important player in democratization, decentralization and economic and social development. The remainder of this paper presents a set of recommendations for strengthening and supporting the involvement of citizens and civil society organizations in the local government and local governance processes as one strategy for accelerating economic and social development.

E. National support for civil society involvement in local governance

The national government has the important role of laying out a basic framework within which civil society may operate on the local level. Indeed, a number of important issues for consideration arise from a comparison of cross-national experience concerning the steps needed to support a growing civil society sector and its greater involvement in local government and socio-economic development.

Here is a preliminary list of steps to be taken at the national level for mobilizing civil society at the local level. These issues are suitable for cross-national comparative discussion:

A framework in the constitution and law for *citizen rights and responsibilities* such as freedom of speech and association and a plan for the education of citizens and government officials on these rights and responsibilities;

Support for the creation and dissemination of national *model citizenship education* curricula;

Example: In Poland, a detailed model primary and secondary school curriculum on citizenship and civil society has been developed in the country and has been posted on the Internet (Civitas webpage, undated, Poland citizenship and civil society curriculum); in Ukraine, a new Action Plan for

Civic Education is being developed around the three stages of research, curriculum development and civic education institutional development. (Civnet news, webpage)

Establishment and revision of a *decentralization framework*, with clear roles for citizen and citizen group involvement in local government and governance. Such a framework would include local government structures and legal frameworks, duties, authority, accountability and finance, both from local revenues and transferred revenues. (See Wray, 1992, for a partial description of a detailed framework for decentralization.)

A *local government framework law*, supporting decentralization and a strong role for civil society. This would involve clear expectations, in law and in practice, from national to local governments on the active involvement of citizens and civil society organizations in the local government process. This should also provide for involvement of important stakeholder groups, such as women, who may not have been fully involved in the past;

A *national assessment of civil society organizations* in terms of status, support and geographical location can be very helpful for local governments in reaching out to form partnerships in their areas. Substantial information is emerging on the World Wide Web and in print on civil society organizations in many of the countries represented at the Conference and in research initiatives such as that underway. (Salamon et al. 1998)

Example: In Romania, non-governmental organizations held a forum to discuss the status of civil society organizations and issues of concern.

Findings have been published. (Centras Foundation, 1997)

A *framework for national capacity-building of the civil society sector*, including the legal establishment, encouragement and finance of civil society organizations, including possibly favourable tax code support for charitable offers to civil society organizations.

Example: In Georgia, the Public Management and Civic Society project has been initiated to transform the governance system. The Change Management Support Unit engaged civil society organizations on the question of how to support the emergence of civil society organizations. (Tascherau and Campos, 1997, pp. 102-103)

Comparison of experiences in fostering civil society among countries might suggest specific strategies for implementation. Such a capacity-building plan might consider possible foundations for additional capacity in the civil society sector using pre-existing organizations that might wish to add additional elements. Religious groups might add educational or welfare elements and environmental concern groups might add education on the environment or environmental monitoring. There are now information clearinghouses on the Internet with suggestions on how to build civil society. (See, for example, Centre for Civil Society International, undated webpage.)

Each of these issues is important and all have received considerable attention in many countries. National action in the areas listed above should increase the likelihood of successful citizen and civil society involvement at the local government level. International donors, national governments and local leaders can all have a productive role in this process.

F. Mobilizing civic participation: a general philosophy of local governance

More and more, governments are coming to the realization that many critically important challenges require both the active involvement of local government and a vigorous involvement of citizens and civil society groups. There are a host of initiatives and projects around the world addressing a variety of issues from health, to urban quality of life, to economic and social development.

Before turning to a specific set of steps for mobilizing civic participation at the local level, it is important to

discuss a general philosophy of local governance and to set in place a framework that will support civic engagement over the long-term. It is important to have a civil society friendly local government/governance charter or framework. This may be done in part at the national level, in terms of laws on creation and performance of local units of government. However, part of it is local in terms of the way in which citizens and civil society organizations are welcomed as partners in the local government process. The goal is to institutionalize

genuine citizen participation in law and local governance practice.

An important issue to consider is whether citizens will really be empowered, individually or in groups, to participate actively in the process of local governance. One classical typology of degrees of citizen participation describes an eight-rung ladder graded by the degree to which citizens have power to determine the end product of the process in question. (Arnstein, 1969) These rungs extend from several levels of non-participation through a situation in which citizens have the majority of decision-making seats on a decision-making body, or have full managerial power. In devising a framework it is important to note that there are many gradations of citizen participation and that to make the process genuine, consideration should be given to how to move to higher levels of the ladder as structures for decentralization and local government operations are drafted and put into effect.

A second important consideration is to assure participation of all affected stakeholders or groups at the local level. In many cases, entire groups of people have not participated in many aspects of governance or civil society. Therefore, in addition to taking steps to make participation genuine, it is important to devise appropriate measures to assure that historically under-represented groups in society, in many cases women, receive an appropriate place in a participation framework.

Some of the general steps that might be taken to support citizen and civil society organization involvement include:

Citizen access to government decision-making. As an example, provide the opening five minutes on all public meeting agendas for citizens to speak to elected bodies on items not on the formal agenda. Make agendas of local government meetings widely available in advance of the meetings.

Advisory committees. For important parts of government services, put in law at the local level mechanisms for groups of citizens to advise government. These include such institutional aspects as citizen advisory committees for important areas of government service and community. Issues to be decided for such committees include membership, selection, scope of function, authority and accountability.

Involvement is assisted if application processes and lists of advisory committee memberships are publicly posted. These may be structured according to the issue. For example, there may be a broad advisory committee on environment with individual citizens, civil society organizations and private sector firms. It is important as part of committee membership to assure balanced representation of stakeholders in society and to assure that historically under-represented groups in society, such as women, are able to be full participants individually and through civil society organizations.

Publicity regarding government policies being considered, with articles placed in the press, meetings and partnership efforts with civil society organizations to inform citizens. Communication of important information is part of making local governance more transparent and has the effect of welcoming participation at appropriate stages of consideration of public issues.

G. Mobilizing civic participation in local governance: roles of citizens

One way of creating and sustaining opportunities for civil society involvement in local governance is by looking at the various roles that citizens in a democratic society may play at the local level. For the purpose of this paper, the roles of citizens will be limited to the following six: helping set goals or agendas for agencies or communities; customers of public services; owners of public services; evaluators of public services; partners in producing public services; and doing self-help that avoids the need for public services. (For a more detailed description of each of these roles and examples from a number of countries, see Epstein, Wray, Marshall and Grifel, 1998.)

The following sections will take each of these roles in turn and consider what the elected officials and managers need to do to mobilize citizen participation. They will further identify opportunities for the engagement of citizens and civil society groups.

Citizens helping in setting goals or agendas for agencies or communities

One powerful way to engage citizens and civil society organizations is through *community goal-setting*. Citizens are invited to become involved in the process of thinking through important goals for their community. One important approach to creating and sustaining citizen involvement is to establish community consultation processes that help generate a widely accepted set of major goals. This appears to be central to sustaining effective citizen involvement in local government. Building a useful set of community goals requires a well-structured process of public deliberation. Community members must arrive at important public judgments about what they value and what changes they most want to see in their community.

The process of goal-setting can be structured to provide a number of opportunities for citizen engagement from goal-setting to advising on land use planning, to participating on advisory boards appointed by government agencies. These typically would be supported by local laws or ordinances. To carry this out, government leaders need to demonstrate responsiveness to citizens, work to develop consensus on goals for the community, and build community acceptance of goals. (See, for example, the local-local dialogue techniques of the UNDP's LIFE programme, UNDP, 1997b.)

Example: In the Sustainable Penang (Malaysia) project, citizens regularly carry out and publish measures of environmental quality in their community based on environmental goals established by the community.

Another important element relates to the stages of public opinion on any issue. On a significant issue in a democratic society, public opinion goes through a number of stages. Progress on public opinion can be helped by informed citizens and civil society groups. Citizens discussing issues can advance the understanding of issues, mobilize resources to solve problems and increase the legitimacy of implementation at the local level. One of the important ways that local governance can truly welcome civil society participation is to discover and support ways that involve citizens in thinking about important public issues.

One description of the evolution of opinion around public policy involves seven stages:

- Dawning awareness;
- Greater urgency;

- Discovering the choices;
- Wishful thinking;
- Weighing the choices;
- Taking a stand intellectually; and
- Taking a responsible judgment.

(Yankelovich, 1995)

For each of these stages, there are a number of tools or strategies to involve citizens in the public policy process.

Each of these stages calls for particular techniques of gathering, informing and hearing from public opinion. In the first stage, for example, both government and non-governmental organizations can work through a variety of fact-gathering and public education efforts. At this stage, public opinion polling can be valuable in assessing the level of public awareness for a given issue and provide assistance in targeting the work to be done on public awareness. Non-governmental organizations can work in cooperation with local government to develop questionnaires and to do actual canvassing of respondents, in addition to telephone work. Public awareness of issues may be helped by non-governmental organizations and others working effectively with local print and electronic media. Public meetings or fora can be used to raise the level of awareness and to solicit broad public interest on an issue. This is often done in cooperation with one or more sponsoring community or civic organizations.

One of the interesting possibilities is to obtain assistance in the stage of discovering choices about how to proceed on a particular challenge, such as river pollution. Large public meetings on their own are not likely to generate well-considered choices in addressing a problem. One particularly useful method to establish choices and to weigh recommendations is to use a citizen-based research model to generate public policy choices. In this model, citizens respond within a non-governmental organization, or a broader grouping, to a statement of a problem by questioning experts from a variety of perspectives, determining the facts on a given issue, arriving at recommendations and issuing a report on the findings. Citizen-based research can also broaden public awareness of a particular issue. Once generated, such recommendations can be presented in larger public gatherings for response and further dialogue.

One such type of organization is the regional civic organization that involves citizens in identifying impor-

tant issues for a particular local region, identifies proposed solutions to problems and brings their findings to local government and media. (For information on this and about 130 similar organizations, see the Citizens League webpage, <http://www.citizensleague.net>.) Such organizations can be important partners with local governance systems to improve the quality of life and address economic and social development issues.

In a similar way, citizen groups may be invited to participate in the processes of goal and policy-setting for public services provided or purchased by local governments, planning public service programmes and priority-setting for the local government budget. Goal-setting and policy-setting for public services can be structured to involve citizens and citizen groups in setting broad goals, strategies for reaching these goals and more detailed objectives. This process covers all departments of a local government, but is narrower than the broad community goal-setting process described above. Policy-setting and planning processes can have a large public input element from individual citizens and civil society groups. Specialized advisory committees may be developed to provide a more formal context for this input.

In programme planning, broader goals are broken down into more specific programme goals, objectives and measures. In programme planning, citizens and civil society organizations may be involved in taking a general set of goals and coming up with specific strategies to implement them. Such public process can also help local government officials in shaping the budget to respond to local priorities. The process of setting the local government budget is another important element to consider. The budget process involves decisions on the level of the services that can be funded. It links resources to the desired results of the programme. In the budget process, formal public hearings and the availability of public copies of the proposed budget are important steps. (Several specific examples of how cities have used these techniques are described in detail in Graham and Phillips, 1998.)

Citizens as customers of public services

Over the past decade, the application of customer service techniques to government services has been gaining momentum. The core idea is that a citizen should be treated as a valued customer by providers of public services. Citizens can be involved in this by means of surveys of citizen expectations, particularly for face to face services. Surveys may be done at the time that services are offered, or citizens may be invited to scheduled listening opportunities to meet with managers of services and elected officials. To carry this out, elected officials need to demonstrate responsiveness to citizens and to report reliable information to citizens on performance.

Example: A non-governmental organization in Bangalore, India, conducts regular surveys of citizen satisfaction with public services and reports the results in the press and through published reports. (Tascherau and Campos, 1997, p. 136)

Citizens as owners of public services

In a democratic society, citizens are really the owners of public services. Through their tax payments, citizens are investors in public services and publicly owned assets. Through their votes, citizens are shareholders who elect the boards of directors responsible for the performance of their governments. Elected officials are the people's stewards, not only to manage finances responsibly, but also to produce desirable results for the public.

An essential question from an owner's perspective with respect to government performance is whether government is getting the job done. Citizen-shareholders may think about this question in various ways. For example: Are citizen concerns being met by public services? Is the job being done fairly and ethically? Does the result provide value for the public money spent? In response to these concerns, citizens deserve information on what the government is doing, in a format and a manner that are readily understood.

Citizens may be informed on progress being made on community-set goals described above and on the performance of public services. Civil society groups may also carry out report cards on public sector performance. To support this effort, government must provide accurate information to the public and make information available to civil society groups that want to track progress on important community goals. It is also important to note that information in the owners

report should relate to all stakeholders in the local community, not just to the more visible or influential.

Citizens as evaluators of public services

Citizens can also act as partners in efforts to improve public services by assessing the performance of public services. Acting as customers, citizens sometimes evaluate services simply by filling in a reply card after receiving a public service. At a still more involved level, citizens may become evaluators, if they are trained as service quality raters. They will directly assess the performance of public services from street cleanliness, to library stock completeness, to the quality of a subway ride. Information may be gathered with citizen surveys or through meetings with citizens on whether the desired programme results were achieved. Information on performance is shared with the public and is used as part of the basis for periodic revisions of the local government's plans, budgets and operations.

Citizens and citizen groups may be asked to play an active role in providing or helping provide important services, or in solving specific problems. Many communities now recognize that when it comes to resolving important issues, such as protecting the environment or helping individuals to start small businesses, government cannot or will not do it alone.

Productively engaging volunteers and citizen groups as partners with government can leverage public resources to multiply the improvement of results for communities. Citizens may be invited as partners in producing public services in a number of areas. Local governments often have an office of volunteer services to connect citizens with civil society organizations or government agencies. Government needs to identify possible partners among civil society organizations for producing public services and to work out mutually clear expectations on how services will be provided.

Around the world, there are many citizen and citizen group initiatives that support important issues from quality of life in urban areas to health improvement. The World Health Organization's Healthy Cities movement involves hundreds of cities worldwide in local community improvement strategies ranging from keeping cities cleaner to improving the impact of public

Civil society groups may be invited by the government to assist in evaluation services. Training of observers may also be provided with government help. The commitment of government, beyond this support, is to act on information to improve services within the available resources. Citizens and civil society groups can have an important voice in evaluating whether public services are working and in receiving whether in a newspaper or other means information on how well a public service is doing.

Example: In Kyrgyzstan, the UNDP Local Initiative Facility for Urban Environment (LIFE) programme involves citizens in environmental monitoring, as well as tree planting and solid waste management. (UNDP, 1997, p. 64)

Citizens as partners in producing public services

health services through the immunization of children. Historically under-represented groups often have greater needs for involvement as partners in producing public services in these areas.

Citizens self-help

Another important element is the support of self-help movements in the civil society sector to minimize the need for public services. For example, alcohol and drug programmes in civil society can complement those in the public sector. Local government can conduct outreach to identify issues that might fit a self-help approach, offer an information service to connect individuals with self-help groups, and help stimulate the development of self-help groups in this manner.

In summary, the roles of citizens and the elements of government service planning and operations suggest a number of places where citizens and civil society organizations may be involved in local governance. Local government leaders might wish to consider which local issue is most important and how various opportunities to involve citizens and civil society organizations might be created.

H. The Challenge of mobilizing civic participation in local governance

Local governance encompasses government, the market and civil society. In this context, local government, with support or direction from the national government, has two distinct roles in addressing local needs and challenges. In the first role, local government has a responsibility for planning, implementing and improving public services to local citizens. Additionally, government assumes the role of a facilitator or catalyst of partnerships, encourages cooperative approaches to urban and rural development. This role, which may be new to many local governments, is typically shared with others. To act as facilitators of the overall governance process, local leaders are challenged to identify important needs, formulating and implementing a course of action, and monitoring the implementation as to whether results are being achieved.

This mobilization of citizens and civil society organizations at the local governance level is a dynamic process. Local leaders will be called upon to move both of these important processes forward. This will require assessing the strengths and weaknesses of each of their three sectors and mapping out ways to involve these sectors in the economic and social development in the community. Civic mobilization at the local governance level is a shared task that will require both national and local leadership. Among the more important issues are the following:

Establishment and revision of a *decentralization framework* with clear roles for citizen and citizen group involvement in local governance. Such a framework would include local government structures and laws, duties, authority, accountability and

finance both from local revenues and transferred revenues.

Frameworks for law and practice to provide for a *civil society friendly local governance system*, including protection of basic rights, and provision for the inclusion of all stakeholders in the system, with steps to assure involvement of groups, such as women, who often have not participated fully;

Assessment of the civil society sector at the national level in terms of numbers of organizations, coverage across the twelve areas of service or concern to identify strengths and weaknesses and areas needing particular attention; (Salamon, et al. 1998)

Frameworks for *capacity-building and resource development* for the civil society sector from national and local funding or encouragement of private funding through the taxation system or other means; particular attention often needs to be paid to stakeholder groups who have not participated in local governance. (See gender discussion in Romania, for example, Centras, 1997, p. 34-41.)

Training of national and local leaders in the skills and practices of working in partnership with the civil society sector to achieve important community purposes.

The exchange of information at the regional level may contribute to the discovery of how the vital task of building and sustaining a vibrant civil society as a partner in local governance and decentralization can be improved.

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Part IV:

Conclusion: Summary of the
Findings and Recommendations
of the Working Groups

Conclusion: Summary of the Findings and Recommendations of the Working Groups

During the final session, participants attempted an overall assessment of the results and pulled together the threads of this wide-ranging three-day Conference. A good part of the debate was devoted to discussion and finalization of the Yerevan Declaration, which was then adopted unanimously.

There were congratulations and thanks to the organizers and the Armenian hosts for an extremely lively, well planned and very down-to-earth, goal-oriented Conference. Much stress was laid on follow-up and technical cooperation among the Member States of the region.

Participants concluded that, due to its practical nature, the Conference had been extremely useful. They strongly felt, however, that its benefits to the regional countries needed to be secured and further consolidated. This called for follow-up action, for which the support of the United Nations system organizations and agencies, as well as other donors, would be required.

The requisite follow-up action needs to be well planned, taking fully into account not only the resources available to donor countries, but also the rich experience and expertise already accumulated in several parts of the region of Eastern and Central Europe and the CIS. The participants noted, in this regard, that this is a vast region of great diversity, but also commonalities, in terms of history and culture. This calls for the establishment and maintenance of networks, national and international, governmental and non-governmental, in the region and beyond.

These networks would invite and encourage cooperation among sister institutions in the areas of research, exchange of information, sharing of experience, best practices, etc. They should also make it possible to use regional resources more widely and effectively. Rosters of institutions and specialists could be maintained, and training courses, workshops and seminars conducted, using regional facilities to the full.

Policy advisory services are needed for the improvement of legislative frameworks and processes, as well as to smooth out the path of implementation of reforms. The diversity of the region precludes omnibus models, indiscriminately applied, with little consideration to the

needs of particular countries, at the national and sub-national levels.

Decentralization is a complex process encompassing several phases. It calls for detailed planning, careful elaboration of strategies, benchmarking and performance monitoring, as well as consolidation and evaluation of outcomes.

Financial decentralization and human resources development go in hand in hand. Both call for skillful management, competence, integrity, transparency and accountability. Both call for the education and training of stakeholders and partners in those processes. These include elected and appointed officials, but also citizens and organized interest groups, which need to internalize that payment of taxes forms an essential part of their responsibilities as citizen of a democracy.

An effort must be made to establish and secure a reliable revenue base. Financial decentralization should stimulate and foster local responsibility and the use of resources for quality service delivery and socio-economic development.

Decentralized authorities, regional or municipal, should be helped to develop frameworks and infrastructure that encourage entrepreneurship, investment and NGO activities. As the organized expression of civil society, NGOs have a major role to play in decentralization and local government reform. Citizens participation demands a culture that will prompt them to play their part as advocates, stakeholders, partners in decision-making, monitors and evaluators of performance in local government.

Human resources development encompasses training activities, which target not only the refinement and reinforcement of skills, but also the promotion of organizational change. Discussion at the Conference revealed generic needs in policy analysis; legislative drafting; human resource management; financial management; entrepreneurial development; gender and environmental sensitivity training; and the training of trainers. However, training cannot be effective if it is not properly integrated into and supported by coherent and consistent policies of recruitment, placement, motivation and career development.

The conduct of training activities and human resources development should maximize the use of cutting edge information technology, encourage distance learning, communication exchange and the sharing of ideas. By fostering the establishment and maintenance of information networks and clearing house facilities on a global and regional basis, the United Nations system can play a critical role in the growth of virtual communities of practitioners and scholars dedicated to the

purposes of decentralization, administrative reform, citizen participation and democratization.

Participants reviewed and then approved the texts of four reports prepared by the three working groups formed to discuss the topics that formed the major areas of focus of the Conference. The texts of those reports, prepared with the assistance of the presenters, follow.

Working Group I: Legislative process and frameworks

Two principles were underscored as fundamental to the problem of legislative processes for decentralization:

The need to take into account the diversity of conditions and historical experience of the countries represented at the Conference: countries of Western, Central and Eastern Europe, the Baltic States, the Commonwealth of Independent States and, among them, Russia as a federal State; Member States and candidates for membership of the Council of Europe which implement the European Charter on Self-Governance; and

Decentralization as a process, which means that it is necessary to think of it in terms of successive steps that must be adjusted to the local situation. However, the complexity of this process cannot serve as a pretext to maintain the *status quo*. Rather, it is a basis for finding a specific process of decentralization appropriate to the country.

Decentralization cannot be a goal in itself. It is a step towards better administration and democratization. Decentralization is an instrument for better giving effect to human rights. This is why it must be organized and protected by law. Decentralization must be combined with other social goals: safeguarding the proper functioning of the State as a whole; preventing its disintegration; respecting the principle of the equality of all citizens within the State.

In light of the overall goal to serve the citizen in the best possible way, it is necessary to reconcile decentralization with major social goals. The group made several proposals in this regard:

The principle of subsidiarity means that administration has to be organized at the lowest level at which particular tasks can be conducted effectively. When it is possible to choose between central administration and self-governing

authorities, functions must be devolved to self-governing authorities.

A clear distribution of functions between state administration and self-government and, within self-government, between different levels must be secured. This distribution of functions does not reduce the need for cooperation between them. Financing must be geared to functions, not to structures. It must encourage cooperation in financing common functions.

A self-governing authority must be responsible towards the elected councils at the same level only, and only within the framework of the law. If the local self-governing authority has delegated functions from the State, it is subordinated to the State only in respect of its field of activity.

In the organization of local authorities, a clear division must be made between elected leaders and permanent staff. The status of this staff must be defined and secured as soon as possible.

The reform towards decentralization needs a strong cooperation between the government, parliament and the organs of self-government.

Law has to be the basis for self-governance. Initially, however, law may be conceived as the basic framework which would later be completed by government regulations, subject to two conditions:

The power to make regulations has to be circumscribed by the law itself; and

This power must be exercised under the supervision of the courts, which must ensure that these regulations remain within the framework of the law.

Working Group II: financial decentralization and human resources development

Group II explored the issue of creating and sustaining an adequate resource base for effective local self-government. Two facets were explored under this heading: financial decentralization and human resources development.

Financial decentralization

As the participants saw it, the issue of financial decentralization takes on the following essential dimensions:

An adequate and secure tax and revenue base needs to be created in order to safeguard the autonomy and accountability of local government.

Functions and responsibilities should be commensurate to resources:

Powers in revenue raising and expenditure or disbursement should be matched by duties to account and transparency all around;

Although access to information is all important, in the majority of countries, it is the exception rather than the rule;

Financial control and accountability are hampered not only by lack of skills or availability of data, but also by a certain attitude of secretiveness, which represents the legacy of the past;

Financial solvency and accountability are also hampered by adverse conditions in the environment, such as inadequacy or absence of the appropriate structures, processes and know-how, poor economic performance in the region or the country as a whole, conditions of political and social instability and concentration of wealth, financial and banking activity in the capital city.

Under adverse conditions, decentralization has not invariably produced the hoped-for results. On the contrary, it has contributed to:

Growing economic inequalities within and among regions;

Growing corruption and organized crime; and

Choice of wrong policies in revenue raising, economic mismanagement, etc.

There is a need, accordingly, to review the policies pursued in the past, in order to avoid repetition of policies that failed. There is also a need to strike a balance between centre and periphery, as well as between government and non-governmental organizations.

Lastly, there is a need to avoid duplication, notably in taxation.

It was pointed out that financial and human resources go hand in hand. Such resources must be used intelligently and cost-effectively. This, in turn, is predicated on:

Sophisticated, transparent and effective systems and processes;

Trained, motivated and responsible officials, elected and non-elected; and

Responsible citizens who understand that payment of taxes and service charges is part of democratization.

The issue of local revenue has several dimensions. First is the issue of taxation, which raises the questions of:

Revenue collection;

Tax types, levels and limits; and

The related issue of central-local cooperation for efficient revenue management.

There was general agreement in favour of avoidance of duplication of effort and, therefore, of encouraging central collection of taxes, notably income taxes.

A consensus emerged in favour of central determination of types, ceilings and levels of local taxes, on both considerations of equity and cost-effectiveness.

Major sources of finance for local authorities are transfers from the central government. Those transfers normally follow certain patterns and, in principle, are governed by formulae, which vary from country to country. It would appear, however, that in most countries, central government authorities reserve the right to specify the targets, the services, that is to say, for which those grants may be expended, as well as the manner in which this may be done. It should be emphasized, on the other hand, that such a system is clearly predicated on central and local capacity to administer it carefully,

especially as regards performance monitoring and evaluation. The bulk of grants are used for services that are provided to citizens. An issue that was raised was that of user charges. More and more, in the West, these are applied, not only for reasons of efficiency and effectiveness, but also on account of the incremental value accorded by citizens to services paid for and, therefore, to discourage waste. Participants noted, however, that user charges may have adverse effects on vulnerable segments of the population, especially those living below the poverty level. Any user charge, accordingly, should be applied in a manner sensitive to their needs.

Last, but not least, participants considered that local authorities, at the regional and municipal levels, should be prepared to encourage developmental projects for the benefit of the community. For this purpose, it is necessary to establish and maintain an enabling framework conducive to entrepreneurial activity and attractive to potential investors. It was conceded that abnormally high rates of property tax, or other forms of taxation, might act as disincentives, driving business away.

The right of local authorities to borrow for the purpose of financing development prospects was also considered. While acceptable in principle, such borrowing should be conducted in a transparent and accountable way. It should not lead to indebtedness or corruption.

Human resources development

As the participants saw it, the human factor in decentralization and local government reform encompasses three components:

- Elected representatives and incumbents of posts reserved for discretionary appointments;
- Appointed professional personnel; and
- Civil society groups and citizens, who act not only as prompters and partners in local decision-making processes, but also as monitors and evaluators of local government performance.

Human resources development should address the needs of all. This is especially true of the members of civil society, whose needs in this regard are often not given the attention which they deserve. Developing the values and attitudes of active and responsible citizenship requires considerable civic education and training in management skills.

evaluation.

It was agreed that training should not address the needs of career officials exclusively, but also those of elected representatives, civil society actors and stakeholders at large. Often mixed groups of the above categories could be trained together. Training should take place at both the pre-entry and in-service levels. It may be generic, targeting the professional development of employees and officials, or specific, that is to say, intended to develop particular job skills. It may address the need for renewal and refinement of knowledge and competencies, encourage new behaviour and attitudes or serve to smooth out the path of organizational change.

As such, training is both a service and an obligation of management. Some countries require trainees to undergo exams showing that the investment of resources which the training represents has yielded returns. Training, which brings together practitioners and citizens, as well as elected officials, need not be centralized in one institution only. Already several schools and centres with considerable capacity exist in the region. What is required, accordingly, is the formation of networks and the establishment of rosters which encourage and facilitate their use. Discussions demonstrated a particular need for training in the following areas: policy analysis; legislative drafting; human resources management and development; financial management and budgeting; NGO and CSO management; information management; entrepreneurship development; environment and gender sensitivity; and training of trainers.

With considerable experience and facilities in this regard, the United Nations system can act as a catalyst in the development and conduct of training programmes on a regional basis. It should be borne in mind, on the other hand, that no training is effective if it is not accompanied by measures which challenge and motivate trainees. These entail policies of human resources management and career development that foster self-fulfilment and the optimal use of men and women at work. To ensure that this is accomplished, human resources development must be professionalized and depoliticized. Only thus will it enhance the role, performance, values and standards of local government servants.

Working Group III: Mobilizing civil society for decentralization

Group III attracted a large number of members, both from country participants and NGO representatives. Civil society and NGOs have an important role to play on significant social issues from economic and social development to the environment and social services.

Democracies require responsible and proactive citizens. The passivity of citizens and the mentality inherited from the previous autocratic regime are barriers to stronger local democracy and to the reinforcement of civil society. The CIS republics are rich in human resources; they can secure real progress once citizens develop new constructive ways of thinking.

Citizen education on their rights and responsibilities is an important concern. Examples of curricular materials for citizenship education from various countries were presented at the Conference. Citizens need to learn their rights, as well as obligations as members of a nation and a community.

Legal frameworks may be helpful, but are not enough to help civil society organizations work at the local government level. Simply passing laws may have little effect. In many cases, laws are idling, without effect. Much change needs to be face to face, involving training and support of citizens in addressing such issues as development planning for their community. Doing research on actual citizen participation in communities can provide valuable information on ways of adjusting strategies for decentralization and democratization.

Strategies need to be adapted to particular cultures. There is no universal prescription on how to do this, but every culture provides a basis for progress. Strategies need to reflect the psychology and the culture of

the people concerned. Progress can be achieved through society involving its citizens in solving their own problems. This approach does not need to cost a great deal of money.

A distinction must be made between grassroots self-help community groups and NGOs, as the development of each group may require different strategies. It is important to develop community capacity-building for problem-solving. As the pace of democratization picks up, the pace of development of self-help groups at the local level is also bound to increase.

There are important urban versus rural issues. It may be easier to develop civil society action on urban issues when it is easier for people to meet and when there is better media coverage and information. Attention must be paid to assisting the development of civil society in rural areas.

Truly independent media support a strong democracy of informed citizens. Over the long term, information is important to the empowerment of citizens and civil society, so that they may be effective partners in local self-government.

Many issues require international orientation towards civil society. They include the protection of the Black Sea or other environmental concerns. Some parts of civil society may be oriented to regional and international issues of vital interest to each nation. International organizations can help promote a deeper understanding of issues on a country by country basis. They can assist in training public servants and citizens in the essentials of local democracy and in building local problem-solving teams.

Annex 1

The LIFE Programme in Kyrgyzstan

A Case Study¹

I. Background

Why was the LIFE programme initiated? When was it started? Who is funding it? How many countries are taking part in the programme?

By the end of this century half the inhabitants of the Earth will be living in towns. By 2025, two thirds of the population of developed countries will be urban dwellers. In some regions, relocation from the countryside will be on an even bigger scale. Given such a rate of urbanization over 30 years, only one tenth of Latin Americans will be left in rural areas. For many people, urban life brings with it cruel poverty, degradation, crime and alienation. Already 25 per cent of urban dwellers do not have clean drinking water, and 50 to 70 per cent of the waste produced in such societies is not removed promptly. It decomposes and causes disease.

Action must be taken urgently to improve public amenities in towns, reduce urban poverty, upgrade the urban infrastructure and provide shelters for the poor. This is a very difficult task. Neither governments nor international organizations can solve all the environmental problems which confront rapidly growing towns. The burden must be shared among initiatives by local groups, municipal authorities, NGOs and other organizations. The encouragement and intensification of such initiatives is the goal of the Local Initiative Facility for Urban Environment (LIFE) programme carried out under the auspices of UNDP in order to help urban dwellers develop ways of solving local problems on their own.

The LIFE programme was started in 1991-1992 with the participation and consultation of mayors of towns in developing countries, NGOs, urban associations, United Nations managers, staff members of the World Bank and other donors. The links and partnerships

established during the consultation process became the basis for the production of the documents of the LIFE programme, which were approved by UNDP in April 1992. The programme received financial backing from UNDP and the governments of four industrialized countries, as well as from public and private organizations in developing countries. Funding for the first two years of the pilot phase was received from Sweden, the Netherlands, Germany and three UNDP programmes; from the Division for Global and Sub-regional Programmes, the Environment and Natural Resources Group, the special natural resources group and the programme for poverty elimination.

The discussion meetings attended by donors, UNDP units, the United Nations Office for Project Services, and programme development backup units formulated the criteria for selecting countries for subsequent participation in the pilot programme. The criteria included the degree of development of NGOs and community-based organizations (CBOs), the need for municipal authorities to have sufficient independence and powers, a desire on the part of local authorities to cooperate with NGOs and CBOs, and the presence of a number of serious urban environmental problems.

Seven countries were chosen for the first phase: Thailand and Pakistan in the Asian and Pacific region; Senegal and Tanzania in the African region; Brazil and Jamaica in the Latin American and Caribbean region; and Egypt in the Arab world. They differed from each other in the strength of their urban populations (23 per cent in Thailand and 75 per cent in Brazil), in urban population growth rate (from 2.2 per cent in Jamaica to 7.5 per cent in Tanzania), in per capita GNP (from US\$110 in Tanzania to US\$2,680 in Brazil), and in life expectancy. In its second phase, the LIFE programme

³ By Mr. Bolot Kuliazarov, National Coordinator of LIFE Programme, United Nations Development Programme, Bishkek, Kyrgyzstan.

was also started in five other countries: Bangladesh, Colombia, Kyrgyzstan, Lebanon and South Africa. The initial mandate of the LIFE programme was to conduct a dialogue with more than 260 representatives of municipal, provincial and national authorities, NGOs and CBOs, representatives of the private sector, bilateral donor agencies and international organizations. The dialogue was conducted in the form of individual interviews, group meetings and brainstorming sessions, as well as visits to districts where low-income families lived. These activities were designed to set in motion the national process, but were not concerned with the selection of specific projects. The purpose of each activity was to introduce the process, but not to administer any kind of small grants programme. The LIFE programme has three phases, which will be carried out by 2000:

First phase (1993-1994): The programme was started in seven countries, and the national committees selected 45 projects, for which financial support was

subsequently furnished. Four regional and two inter-regional projects obtained backing;

Second phase (1995-1996): The programme was brought into action in the other five countries (Bangladesh, Colombia, Kyrgyzstan, Lebanon and South Africa); 129 projects were implemented in the 12 countries, and support was provided for six regional and four interregional projects. The third annual

Global Consultation Committee seminar was held in Istanbul in June 1996 to coincide with the second housing summit (HABITAT). This seminar included a review and exchange of information about the implementation of the projects and formulated proposals for future approaches and activities.

Third phase (1997-2000): Completion of the ongoing projects initiated in 1993-1996; start-up of new projects and collaboration to determine the main tasks and to institutionalize local-local methods at the national and international levels.

B. LIFE tasks and methodology

The tasks of the LIFE programme

Identification of local means of solving environmental problems and reinforcing capacity-building and cooperation through small projects involving NGOs, CBOs and neighbouring local authorities at the town and national levels;

Encouragement of a tactical dialogue; analysis of local initiatives by means of local and national consultations involving NGOs, CBOs and neighbouring local authorities at the town and national levels; and

Assistance to NGOs, urban associations and international agencies in exchanging information about approaches and innovations for improving the local urban environment at the sub-regional, regional and interregional levels.

Steps towards a national programme: the LIFE methodology.

1. *Stimulating a national dialogue, formulating a strategy, and obtaining support:*

Identification of key local executing agencies: local authorities, NGOs and CBOs;

Selection of a national coordinator to carry through the LIFE programme;

Conduct of a national seminar for local, national and international participants to formulate a local and national strategy for the programme;

Setting-up of a national selection committee made up of leading local figures; and

Mobilization of local resources and support to ensure the programme's sustainability.

2. *Local level: establishing effective joint small projects:*

Conduct of provincial seminars to help potential participants formulate joint projects;

Receipt of projects from NGOs and CBOs and from local authorities;

Selection and provision of financial support for well-designed projects; and

Assistance with project execution in the form of training, monitoring and collaboration.

3. *National level: diffusing information at the national and international levels:*

Assistance with project evaluation and documentation;

Promotion of the diffusion and exchange of information about successful projects;
Initiation of a national tactical dialogue based on the results of the projects;

Conduct of national and international seminars for exchanging information about means of devising effective projects, programmes and tactics.

C. The LIFE programme in Kyrgyzstan

Why was the programme begun in Kyrgyzstan? What is the evaluation of the programme by the Government and UNDP and what has been added to the country's development processes?

Kyrgyzstan has a population of 4,604,000, 36 per cent of whom live in the towns, mainly in Bishkek and Osh. The towns of Kyrgyzstan are suffering from demographic growth problems as a result of the shift of population from the countryside and the influx of refugees from Tajikistan. This has been particularly marked since the break-up of the former Soviet Union. In Kyrgyzstan, people are prompted to move from rural areas to the towns by poverty and environmental degradation. This has caused serious problems in the towns with respect to both drinking and irrigation water, problems of waste disposal and resulting lack of hygiene. Other problems include disappearance of vegetation, which has been cut down by the residents, especially new ones, public lavatory problems and road problems in the new sub-districts.

These are very complex problems, which the Government has been unable to resolve. With the LIFE goals clearly in view, the programme was initiated in Kyrgyzstan through UNDP to help the inhabitants of the towns to devise means of solving local problems by

themselves, using a method the local-local dialogue which induces collaboration on small projects between NGOs, CBOs, action groups and local authorities.

Some of the environmental protection problems in Kyrgyzstan are being solved by providing support for small projects undertaken by the local people on their own initiative, especially the problem of refuse disposal and environmental hygiene. On the basis of the LIFE approach, towns form associations with their own independent funding to protect the interests of the population. These associations are able to deliver partial solutions to urban problems and, therefore, they receive active support from the local authorities, which share a high opinion of the LIFE programme.

The work done under the LIFE programme in 1995-1998 by the Government and UNDP has produced good results. The fact is that the execution of these projects is instilling a new attitude in people. It trains them to solve local problems through the initiatives of the local residents. Again using the LIFE approach, the country is changing its system of administration by decentralizing authority and promoting local self-government.

C. The LIFE structure in Kyrgyzstan: functions and achievements

The LIFE programme was begun in Kyrgyzstan in 1995. A national seminar was held in the capital, Bishkek, on 12-13 October 1995 to mark the start-up of the LIFE programme, bringing together representatives of local state agencies, NGOs and communities of the towns of Bishkek and Osh. The seminar elected a National Committee to continue the dialogue, establish guidelines and choose the local projects which would receive grants.

Fifty participants from Bishkek and 25 from Osh attended the seminar. They discussed problems of

sewerage and water supply in the poorest quarters of the towns, problems of industrial zones, greening, construction of new buildings, etc. At present the National Coordinator, the 15-member National Selection Committee, the Programme Officer and the support group from the NGO Tabiyat (Nature) hold a national selection meeting four times a year to hear reports from the managers of current projects, choose new projects, and visit the project implementation sites. The projects are also monitored four times a year. In the intervals between the meetings of the National Selection Committee, the National Coordinator, the

Programme Officer and the Tabiyat support group perform the following tasks:

Disseminate information about the programme and publish announcements on the submission of projects;

Conduct consultations on the submission of projects;

Receive project applications and carry out investigations;

Make on-site visits to determine whether grant applications meet the programme's criteria and have realistic budgets;

Reject projects which do not meet the criteria;

Request the reformulation of projects with unrealistic budgets; and

Work with the mass media and state agencies.

The LIFE programme in Kyrgyzstan has local, regional and national components. It is currently operating at the local and regional levels. The results of the work at the local and regional levels will, of course, be carried across to the national level. At present the LIFE programme is operating only in Bishkek and Osh. These are the country's two largest towns in terms of population. A total of US\$223,223 was allocated to these two towns in 1996-1998 for:

Clean-up, installation of bins, greening	\$82,368
Construction of public lavatories	\$36,875
Construction of roads with greening	\$41,010
Improvement of water supply	\$37,120
Environmental education and study	\$25,850

Five of the eight completed projects are still functioning:

Ak-Bura river (execution: Tabiyat NGO). An arboretum was created; it is cared for by a gardener paid for by the arboretum.

Student initiatives cleanliness is our business (execution: Students' Union of Osh State University). Public lavatories were built in student villages.

My town my home (execution: Salieva Street CBO). Public lavatories were also built under this project, and the area was cleared of refuse. Following the work, various activities have been carried on in this locality in conjunction with the

mass media. The residents themselves are already taking action to keep the area clean.

Sulaiman-Too (execution: Jobs Promotion Association). The Sulaiman-Gora area was cleaned up, and other measures were taken.

Thanks to the LIFE programme, many areas of the two towns have been cleared of refuse. Before the implementation of the small projects, these areas around housing and along the banks of rivers were in a frightful condition. Because refuse was not promptly removed, it piled up in mountains, sometimes reaching to people's doorsteps. And, of course, these heaps of refuse decomposed and caused various diseases. Owing to their financial difficulties, the local authorities were unable to deal with this problem, nor could the residents tackle it for want of capacity and funds. These areas have now been restored to normal by the project activities.

The towns have quarters where there are no public lavatories, or if they exist at all, they are in a deplorable condition. For example, new arrivals from country areas have taken up residence in the hostels of a number of defunct state organizations in the Manas-Ata and Cheremushki sub-districts. These hostels have no indoor lavatories. The outdoor ones required major repairs. The local authorities lacked the wherewithal to build new lavatories, and the local residents had nowhere else to turn. New lavatories have been built in these places.

As a result of population growth, many new housing developments and sub-districts have been established in the towns in recent years. The environmental state of these sub-districts is very poor. A project was carried out in one of them, where the refuse was not being removed and where there was little greenery and no surfaced roads. In rainy weather, the existing road became a sea of mud which could not be crossed on foot, let alone in a vehicle. In summer, this kind of road is deep in dust, which is blown up by the wind or passing traffic and settles on the houses. Many of the residents of this sub-district suffer from lung diseases. Thanks to the LIFE project the road has now been put in order. Greening is also beginning.

In recent years, Kyrgyzstan has seen an increase in the number of unemployed people, who have no work opportunities and no means of feeding their families. The small projects implemented under the LIFE programme have produced jobs for about 190 unemployed persons. The residents of Bishkek and Osh

have also derived direct and indirect benefits from the implementation of the projects

People have begun to realize that there is no need to wait on the authorities to get problems solved they must solve them on their own. That is what happened, for example, in the Manas-Ata area, where a LIFE project was carried out. In addition to implementing the project, the managers, in conjunction with the mass media, kept working on the local residents. Now these residents have taken a number of initiatives and are beginning to work with state agencies to solve their local problems.

Thanks to the LIFE programme, a number of urban environmental problems are being solved during project implementation. The small projects have established cooperation between such bodies as NGOs, CBOs and state agencies. Of course, in the early stages, mistrust and conflicts arose between them. Later they reached an understanding and now they have started to work together. As a result of these activities, the local people have gained experience of this work and the know-how to solve such problems through local action. The residents have thus acquired a completely new outlook: they are now convinced that they can solve the existing problems themselves without waiting for the authorities to act. This has been demonstrated by the formation of independent associations with their own funding to solve local problems.

The LIFE programme in Kyrgyzstan has also been disseminating the experience and information obtained (LIFE methodology) within and between towns by means of seminars, the mass media, various environmental activities, meetings with the public, and work with state agencies. For example, it has held a number

of seminars on the programme's activities and methodology, and on its work with state agencies, the mass media, the public, etc.

All the information about the projects, from approval to end of implementation, has been published in the press and broadcasts on local or sometimes national television. Brochures, booklets and practical guides have also been published. Reports on the LIFE programme in Kyrgyzstan have appeared in newspapers in the United States; it has also been mentioned in special issues of the newspaper *Novosti OON* (UN News). Case studies have been produced for five of the projects; the LIFE newspaper is published in three languages and distributed free to the public.

Power is thus being decentralized in Kyrgyzstan, and the LIFE methodology is a fundamental source in the development of this process. At present, we are working on disseminating the results obtained in the creation of a local-local dialogue, first at the local level and then at the regional (from one town to another) and national levels, in order to ensure that the LIFE methodology becomes a part of the State's concept of sustainable human development, especially in the extension of self-government, environmental protection and enrichment of the social capital.

The small projects have stimulated local initiatives by NGOs, CBOs and other organized groups and have established a dialogue between them. Through the results of the completed projects the LIFE methodology has convinced the local people involved, state agencies and NGOs that there are different methods and mechanisms for solving problems. The managers of State agencies have begun to recognize the effectiveness of the LIFE methodology.

E. Future of the LIFE programme in Kyrgyzstan

Through its small projects, the LIFE programme stimulates local-local discussion, induces organizations and agencies to cooperate in joint activities to solve and overcome urban problems. The small projects funded by the LIFE programme show that a small amount of money efficiently used can achieve much. The LIFE programme and methodology are enhancing the awareness of civil rights and duties at the community and local levels. For example, as pointed out earlier, independent associations with their own funding are being set up to protect the interests of the people.

The information given above shows that the small projects of the LIFE programme produce tangible improvements in living standards and transform people's outlook (local problems are solved only through the efforts of local people, i.e. horizontal problem-solving), but that is not the end of the process. One of the components of the LIFE programme is the transition from the micro to the macro level: this means that the future of the LIFE programme in Kyrgyzstan must first unfold at the urban district level and then move on to the town level; it must then be extended to other towns. In the end, the LIFE methodology must

become the State's concept of sustainable human development and self-government. We therefore intend to extend the programme to other towns (Dzhalal-Abad and Karla-Balta).

LIFE in Kyrgyzstan is currently in transition to the third *phase institutionalization*. The aim is to ensure that the LIFE methodology (local solution of problems through measures taken by local residents) becomes one of the State's fundamental concepts in tackling the problems of environmental protection and local self-government. The programme plans to hold a dialogue forum to elevate the LIFE methodology to the national level. This forum will be attended by representatives of NGOs and CBOs, local authorities, Parliament, the Ministry of Environmental Protection, and others. The forum will have a mandate to adopt specific decisions to enable the LIFE methodology to be applied at the state level, thus improving living conditions in all towns of Kyrgyzstan.

Annex 2

Annotated Programme

Regional Conference on Decentralization: Conditions for Success
Yerevan, Armenia, 26-28 April 1999

Monday, 26 April 1999

Opening Session and Welcome

09:30 - 09:45	Address:	<i>Mr. K. Haroutiunian, Speaker of the Armenian National Assembly</i>
09:45 - 10:00	Address:	<i>Mr. G. Bertucci, on behalf of the Under-Secretary-General of the United Nations Department of Economic and Social Affairs</i>
10:11 - 10:15	Address:	<i>Mr. S. Langbakk, Swedish Association of Local Authorities</i>
10:15 - 10:30	Address:	<i>Mr. S. Vassilev, Senior Adviser to HCNM, OSCE</i>
10:30 - 10:45	Address:	<i>Mr. A. Kruidrink, Assistant Administrator, UNDP</i>

10:45 - 11:00 Coffee break

Plenary Session I: *Overview of Recent Decentralization Reforms: Regional Challenges, Trends and Prospects*

	Moderator:	<i>Mr. A. Kruidrink, Assistant Administrator, UNDP/RBEC</i>
11:10 - 11:30	Presenter:	<i>Professor M. Illner, Academy of Sciences, the Czech Republic</i> Professor Illner will survey recent developments, the progress of reforms since 1989 and the state of local government in the countries of the region.
11:30 - 12:50		Open discussion
12:50 - 13:00		Summary of the discussion by the Moderator

13:00 - 15:00 Lunch together with a visit to an exhibition of Armenian art

Plenary Session II: *Legislative Processes and Frameworks for Decentralization*

15:00 - 15:10	Moderator:	<i>Mr. A. Popov, Deputy Chairman, Committee for the CIS</i>
15:10 - 15:30	Presenter:	<i>Ms. N. Fuechtner (on behalf of Professor H. Wollmann, Humboldt University, Berlin)</i> Professor Wollman's paper and Ms. Fuechtner's presentation will explore the legislative framework and institutional foundations for

15:30 - 15:50 Presenter: viable local government.
Mr. M. Kelly, European Institute of Public Administration
Mr. Kelly's presentation will be on Decentralization in the
European Union: a Comparative Perspective

15:50 - 16:50 Open discussion
16:50 - 17:00 Synthesis of main points by the Moderator

17:00 - 17:15 Coffee Break

Plenary Session II (Cont.)

17:15 - 17:20 Moderator: *Mr. M. Janowski, Senator, Poland*
17:20 - 18:15 Open discussion continues
18:15 - 18:25 Presenter: *Mr. I. Koryakov, Project Coordinator, IDEA*
Mr. Koryakov will present the Administration and Cost of Elections
Project
18:25 - 18:35 Summing up of the day's discussion by the Moderator

18:35 - 19:35 Visit to the Tsitsernakaberd Memorial

20:00 Reception offered by Mr. A. Darbinian, Prime Minister of the Republic of Armenia

Tuesday, 27 April 1999

Plenary Session III: *Financial Decentralization: Securing an Adequate Resource Base for Public Service Delivery*

09:30 - 09:40 Moderator: *Mr. I. Paduraru, Minister of Justice, Republic of Moldova*
09:40 - 10:10 Presenters: *Professor V. Koshkine, Chancellor of the Privatization and Business Academy, the Russian Federation;*
and Dr. M. Prusak, Governor, Head of the Novgorod Regional Administration of the Russian Federation
The presenters will discuss the financial dimensions of decentralization, focusing on the development of an adequate resource base to enable local authorities to finance their operations and public service delivery.
10:10 - 10:30 Presenter: *Dr. Gertrude Schlicker, INTOSAI*
The presenter will explore the steps that have been taken, especially in the Austrian federal system, to enhance efficiency, integrity and accountability in the operations of local government.

10:30 - 10:45 Coffee break

Plenary Session III (Cont.)

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| 10:45 - 10:50 | Moderator: | <i>Ms. T. Fergo, Member of Parliament, Denmark</i> |
| 10:50 - 10:55 | Discussant: | <i>Ms. D. Rosenberg, Institute for International Economic and Political Studies (with a focus on first presentation)</i> |
| 10:55 - 11:00 | Discussant: | <i>Mr. E. Matulis, Senior Counsellor, Presidential Administration, Belarus (with a focus on second presentation)</i> |
| 11:00 - 12:50 | | Open discussion |
| 12:50 - 13:00 | | Summary of the discussions by the two Moderators |

13:00 - 15:00 Lunch

Plenary Session IV: *Mobilizing Civil Society for Decentralization and Local Government Reform*

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|---------------|-------------|--|
| 15:00 - 15:10 | Moderator: | <i>Mrs. M. Ristevska-Jordanovska, Senior Adviser, Assembly of the F. Y. Republic of Macedonia</i> |
| 15:10 - 15:30 | Presenter: | <i>Dr. L. Dwight Wray, Executive Director, Citizens League, Minneapolis, Minnesota, USA</i> |
| | | The presenter will explore the advocacy role of civil society organizations and their relative effectiveness in setting and enforcing performance standards for government. Another major facet of the topic is the importance of building partnerships between civil society and local self-government. |
| 15:30 - 15:35 | Discussant: | <i>Ms. V. Smirnova, Ministry of Environmental Protection and Regional Development, Latvia</i> |
| 15:35 - 15:40 | Discussant: | <i>Mr. I. Koryakov, Project Coordinator, IDEA</i> |
| 15:40 - 16:40 | | Open discussion |
| 16:40 - 16:45 | | Summary of the discussion by the Moderator |

16:45 - 17:00 Coffee break

Plenary Session V: *Human Resources Development for Decentralization and Local Government Reform*

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| 17:00 - 17:10 | Moderator: | <i>Dr. I. Verebelyi, Government Commissioner and General Director of the Hungarian Institute of Public Administration</i> |
| 17:10 - 17:25 | Presenter: | <i>Professor D. Argyriades, Consultant, UNDESA</i> |
| | | The presentation will discuss the specific contribution of human resource management and development to local government reform |

	and the role of professionalism in raising performance levels in local government.
17:25 - 17:35	Discussant: <i>Ms. C. Chateau, Adviser, IULA</i>

17:35 - 17:40	Discussant: <i>Mr. F. Kuangarov, Deputy Head, Personnel Administration Department, Agency for Civil Service, Kazakhstan</i>
17:40 - 18:30	Open discussion
18:30 - 18:35	Summary of the discussion by the Moderator

18:35 - Visit to Matenadaran (depository of ancient manuscripts)
organized by the Armenian Parliament

20:00 - Reception offered by Mr. K. Haroutiunian,
Speaker of the National Assembly of the Republic of Armenia

Wednesday, 28 April 1999

Thematic Working Group Sessions

09:00-10:30

Working Group 1: *Legislative Processes and Frameworks*

Moderator: *Mr. V. Kolbaya, Deputy Speaker, Parliament of the Republic of Georgia*

Rapporteur: *Professor M. Lesage, Sorbonne University, Paris*

Working Group 2: *Financial Decentralization and Human Resources Development*

Moderator: *Mr. M. Suchar, Member of Parliament, Slovakia*

Rapporteur: *Professor D. Argyriades, Consultant, UNDESA*

Working Group 3: *Mobilizing Civil Society for Decentralization*

Moderator: *Mr. J. Kanimetov, Deputy Speaker of House of People's Representatives, Kyrgyzstan*

Rapporteur: *Dr. L. D. Wray, Consultant, UNDESA*

10:30 - 10:45 Coffee break

Thematic Working Groups (Cont.)

10:45 - 11:50	Discussion
11:50 - 12:00	Summing up by the Moderators

Plenary Session VI: *Comparative Experience in Decentralization*

12:00 - 12:05	Moderator: <i>Mr. O. Horbunov, Head, Secretariat of the Inter-Agency Council for Implementation of Economic Reform, Ukraine</i>
12:05 - 12:20	Case study on Kyrgyzstan Presenter: <i>Mr. B. Kulnazarov, National Coordinator of LIFE Programme</i>
12:20 - 12:35	Case Study on Armenia Presenter: <i>Mr. A. Khudaverdian, Deputy Minister of Territorial Administration and Operative Issues</i>
12:35 - 12:50	Case Study on Greece Presenter: <i>Mr. L. Tzannis, Deputy Minister of the Interior, Public Administration and Decentralization</i>
12:50 - 13:00	Summing up by the Moderator

13:00 - 16:00 Trip to Echmiadzin together with lunch
(Preparation of thematic reports by moderators and rapporteurs)

Plenary Session VI (Cont.)

16:00 - 16:05	Moderator: <i>Mr. A. Krasutsky, Chairman of the CIS Standing Committee, Belarus</i>
Other Contributions	
16:05 - 16:15	<i>Mr. I. Baranov, Ministry of Interior, Estonia</i>
16:15 - 16:25	<i>Ambassador N. Nures, First Deputy Secretary General, Black Sea Economic Cooperation</i>
16:25 - 17:05	Questions and answers
17:05 - 17:15	Summing up by the Moderator

17:15 - 17:30 Coffee break

Plenary Session VII: *Closing Session*

17:30 - 19:30	Moderators: <i>Mr. K. Haroutiunian, Speaker of the Armenian National Assembly</i> <i>Mr. G. Bertucci, Director, DPEPA/UNDESA</i>
Presentation of Working Group Reports by the Rapporteurs	
General discussion of lessons learned, conclusions and recommendations	

<p>Presentation and adoption of the Yerevan Declaration on Decentralization Farewell speeches</p>

20:00 Cocktail reception hosted by the United Nations

Annex 3

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