

AMERICAN UNIVERSITY OF ARMENIA

*A COMPARATIVE STUDY OF LOCAL SELF-GOVERNMENT  
IN THE COUNTRIES OF CENTRAL / EASTERN EUROPE AND THE  
FORMER SOVIET UNION: DEGREE OF DECENTRALIZATION AND  
POTENTIAL CORRELATION WITH CAUSATIVE  
FACTORS*

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# Introduction

## *Prospects for Democratization in View of Centralization vs. Decentralization*

**Governments will achieve better results by being realistic in what they set out to accomplish. They must strive to match what they do and how they do it – to their institutional capabilities, not to some idealized model...<sup>1</sup>**

With the fall of communist regimes in Central/Eastern Europe and the former Soviet Union a range of countries, that formerly constituted the so-called “socialist camp” or the “Warsaw Pact” entered into an arduous way of transformation into liberal – democratic type of states with the respective political and economic systems. The core of this transformation is the rearrangement of power relationships. A democratic system implies that people at large are both the source and destination of power, while in the former communist systems power had become the sole privilege and objective of the ruling elite. Therefore, “The first task of legislative structures is to turn the pyramid from “upside-down” putting the man at the base, who is free to live as he wants and produce the goods and services which can bring him profit. And the state instead of being a super-subject incarnating a certain Idea to which all the citizens should serve, should become an Instrument Protecting the Freedom of actions and Rights of each person” (Gazaryan, 1992).

From this perspective, decentralization and the creation of a viable system of local self-governance is of particular interest as a part of reforms. Decentralization dismantles central authority and brings governance closer to the people where the chances of effective participation and influence are enhanced. Influence is enhanced because of

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<sup>1</sup> World Bank (1997) World Development Report

increased accountability from the side of elected authorities in the atmosphere of greater transparency and easiness to follow their actions at the local level. Similarly, citizen participation is more likely at the local level as there are stronger incentives to cast a ballot if it is possible to keep elected officials accountable and if the issues at stake are ones that directly concern the everyday life of the constituency.

The dynamic of participation and accountability makes the structure of local self-governance a better suited one to provide policies that reflect local wishes and preferences. At the same time, due to reduced transaction costs and dispensed layers of government bureaucracy, the efficiency of service provision is increased at the local level. On the contrary, central government being situated far from actual place of implementation of services is not endowed with the same flexibility to adjust solutions to the specifics of every particular problem, and suggesting the same solutions for everyone is less likely to meet the objective of efficiency. Therefore it can be inferred that a decentralized system of government has the potential to provide “better welfare for the citizens by the best possible adaptation to local needs and preferences and utilization of resources” (Nersisyan, 2000, p.7).

In sum, decentralization institutionalizes the practice of democratic decision making by empowering the citizens with direct involvement and participation at the very roots<sup>2</sup> and serves the fulfillment of the democratic principle of putting the state in better service to man (not the opposite – putting man into better service to the state - which was the practice in the Soviet era). Therefore it is implied that decentralization has a crucial role for consolidating democracy in the transitional countries of postcommunism and elsewhere.

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<sup>2</sup> It is worth mentioning that Alexis de Toqueville considered local self – government to be the primary school for democracy and thought; that the strength of the peoples resides in the local community.

In line with this reasoning, most of the western advisors and technical assistance support decentralization as the road to democracy and economic development. Thus, for example the United Nations supports the system of local self-governance as an important component of administrative reform and considers it as one of the four pillars, together with the judiciary, legislative and executive branches, that are equally autonomous and competent structures of democratic strength (Human Development Report: Armenia 1999). Of course, this kind of approach prescribes a broader role for the institution of local self-government, which is the role of a safeguard to the smooth functioning of democratic processes by creating checks and balances at the vertical axis of governance; the horizontal one being the three branches of government.

The European Union also considers local self-government system as one of the cornerstones on which democracy stands. Its views are expressed in the European Charter of Local Self-Government, the Preamble of which states: “Local authorities are one of the main foundation of any democratic regime”, because it is at the local level that the right of citizens to participate in the conduct of public affairs can be most directly exercised.

“USAID has organized a substantial part of its assistance to local governments, not only in Central and Eastern Europe but also throughout the world, within its Democracy and Governance program” (Peterson, 2000, Chapter I, p. 7). Similarly, “Following a review of its worldwide experience with governance issues, World Bank concluded that decentralization of government has become one of the principal ways in which the demand for greater accountability is being expressed; and noted that this demand, especially in former Socialist nations had changed the way Bank programs in municipal development were being structured” (Peterson, 2000, Chapter I, p. 7).

Later the Bank viewed the issue in the background of adapting state capability into effectively meeting the challenges of globalization, that express themselves also in face of



the emergence of complex societies with the concentration of diverse needs and interests.

Thus in the 1997 World Development Report we read:

“ ... And even with the best will in the world, government is unlikely to meet collective needs efficiently, if it does not know what many of those need are. Reinvigorating public institutions must, then, begin by bringing government closer to the people. That means bringing popular voice into policymaking: opening up ways for individual users, private sector organizations, and other groups in civil society to have their say. In the right setting, it can also mean greater decentralization of government power and resources” (Chapter 7, p. 110).

Nevertheless, despite these logical propositions in favor of the positive role of decentralization for democracy building and economic prosperity (and the consequent support for it by the international organizations) it would be wrong to automatically identify the two concepts. There is another side of the coin, implying that in the absence of a strong institutional ground, excessive decentralization might as well hinder the process. In other words, the success of this relationship depends on a broader complex of institutional settings and capabilities – the fabric of which is especially volatile in the countries of transition. Therefore, there are cautions to infer that a sharp move to decentralization may have an opposite impact on the prospects of building democracy and market relations in the countries of postcommunist transition.

There are economic and political considerations involved. To revive the collapsed economies and start on a way of stable development, elaboration and implementation of sound macroeconomic policies – insuring reliable public finances, reducing budget deficit and creating a sound framework for attracting investment and generating economic growth – is a precondition. The function is seen to be the central government’s responsibility. The decentralization of already scarce financial resources (especially in FSU), and endowing local self-governments with greater independence and discretion over the management of budgetary affairs throughout the country would mean loss of macroeconomic control and regulation and the consequent deepening of economic

misperformance<sup>3</sup>. “Because decentralization increases the number of actors and of budgetary accounts, countries facing serious budgetary and inflationary pressures will be confronted with additional challenges and risks should they embark on decentralization” (World Bank, 1997, p. 124).

Another risk involved with decentralization is that the disparities between regions with disproportionate taxing capacity will increase, causing the creation of a new form of social imbalance and conflict. The adequate reaction from the side of central government should be the allocation of equalization grants. The difficulties of such allocations when taxing authority is substantially devolved to the local level, may bear upon another danger, called "local capture" by the World Bank. It implies that the localities will act as pressure groups fighting one another to receive the state grants which might lead to their misallocation (World Bank, 1997, p. 126).

A related further complication is that such a misallocation might simply be the result of a political deed. Taking advantage of the created situation national politicians might not hesitate to demand partisanship of the local constituency in return to the allocated grants. "Skeptically William Dillinger observes: “Decentralization may be a series of reluctant concessions by central governments attempting to maintain political stability””(Fuller 2001, p.4). Certainly this set of affairs can not encourage the enhancement of democracy, the basic cornerstone of which is the competitive elections at both national and local levels.

The impression should not be left, however, that the problems are necessarily associated with decentralization. If the institutions of competitive elections and the

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<sup>3</sup> Donald Fuller in this respect writes: “Economics in the FSU suggest that only a drastic change in foreign direct investment could bolster macroeconomic development to permit more assistance to local government (leading problematically to unitary government) or direct investment in local areas to resuscitate lost or moribund state enterprises, or conceivably housing markets. Unlike Central Europe, it is not viewed that such investment will be forthcoming for years to come in the FSU.... At present, funds provided at local

alternative mechanisms to pressure on the governments to stay accountable, including checks and balances in the parliament and among the branches of government are in place, then institutional capture and partisan allocations will be less likely to happen. Instead, most probably, impartial “formulae based on the population, unemployment rates, per capita income or other, non-political measures will be implemented (Fuller 2001, p.4). On the other hand, devolution of resources and decision making authority on budgetary matters would not lead to loss of macroeconomic control if the central government has the institutional capability to “enact and enforce credible rules governing intergovernmental relations”, “manage national fiscal and monetary policy” and if overall effective checks and balances between the layers of government are in place (World Bank, 1997, p. 128).

Unfortunately, it would be unrealistic to expect postcommunist countries to have developed all of these institutional features of industrialized states, when they embarked on transforming into a new system just a decade ago, without having passed the adequate path of development and gathered the required experience. A road is to be passed to reach all of this.<sup>4</sup>

Thus decentralization should not become an end in itself as something necessarily associated with democratization. The effects it might have are not clear-cut. Moreover, looking deeper at the consequences of excessive decentralization implies that “to some extent the current politico-administrative mix needs to perform more adequately or face backsliding in reform of representative democracy and, perhaps, the market economy” (Fuller, 2001, p. 11). Given the growing sentiment for the not very old past, especially in

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government levels must largely originate from the central budget, thus decreasing that which might enhance macroeconomic development” (2001).

<sup>4</sup> “What history tells us, paradoxically, is that unless states have achieved a certain level of centralization and effective rules for overall macroeconomic control and sound policymaking, decentralization may be difficult to implement and may create imbalances” (World Bank, 1997, p. 128).

FSU, on the background of the expiring patience of population to receive the benefits of the new system, this caution appears to be not a theoretical one.

At the moment, “instead it should be a practical endeavor to find the right balance between the roles of different levels of government, to ensure that high quality services are provided in a timely manner” (World Bank, 1997 p. 124). As Fuller contends, “The dilemma for national and subnational governments is to resolve to what extent should government be decentralized” (2001, p.11). The important thing of consideration is that the decision on the right scope of local self-governance will be highly country – specific and will depend on the stage of institutional development in the country. The evidence of the newly democratic states, especially the FSU, does suggest that for a time it would be better to hinge on other, less costly mechanisms of bringing people’s voice to the process of governance, until the above mentioned institutions mature enough to make it possible to gather the crops of a decentralized system.

As long as the post socialist countries have not developed their final models of democracy and intergovernmental relations, questions such as these will remain in the heat of debate and interest toward them will not disappear among scientist and practitioners. The following study is also devoted to the issues on decentralization. In particular, it aims to find out the level of progress in postcommunist countries with a comparative perspective. Upon the revealed differences it dwells on the examination of causal factors that might have affected them. This introduction was done to ascertain that whatever the differences in progress among the countries observed, objective and subjective reasons explaining the predisposition of a country towards a decentralized system of governance will be examined.

## Objective of the Paper and Central Argument

The objective of this paper is to examine the level of consolidation of the system of local self-governance in the selected post-socialist states of Central / Eastern Europe and the former Soviet Union, “as an accepted factor in the successful democratic society”<sup>5</sup>. By the result of comparison of the countries on their record of governance system decentralization (as it is the way to decide on the degree to which local self-government is existent<sup>6</sup>), it aims to give possible explanations for causal factors influencing observed differences among the countries.

The central argument that will be tested in the paper is that the countries appearing to be the successors of former Soviet Republics should be more centralized than the countries that being part of the former Socialist block have not been part of the Soviet Union. The logic behind this argumentation is that the path dependency towards the centralized patterns of governance system should be stronger in the post-Soviet states, because of the tensor impact of this practice on them as on the immediate components of the nucleus of totalitarian rule.

## Units of Analysis

For the analysis eight countries of postcommunist transition are selected, with equal division among them between the groups of former Soviet Union and former socialist but not Soviet countries. The selected *post - Soviet* countries are **Ukraine**,

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<sup>5</sup> The expression is taken from the document: “Council of Europe Reports on Local Democracy in Ukraine” (2001).

**Latvia, Armenia and Kazakhstan** and the *non- Soviet* countries are **Poland, Hungary, Czech Republic and Romania**. The units of analysis are chosen so that to represent the diversities among postcommunist states in terms of historical relation to the Soviet Union, geographic location, cultural and demographic characteristics.

## Meaning of Terms

Before proceeding it is important to dwell on the clarification of the meaning of several central terms used in the paper, as there is no uniformity on their usage in the literature.

### *Local government / Local self-governance*

The terms are generally used to describe different types of governance in the territorial – administrative units. “According to Alderfare local self -governance is a particular case of local governance” (Ordian, 2000, p.9). In this case governance is realized only in a democratic way, through the elected representatives of the local population. On the other hand local governance includes the governance of a locality be it by elected authorities or national appointees. In the countries where localities are governed only by local representative bodies, with the absence of central regulation, the term local governance can be used freely instead of local self-governance, without the danger of misrepresentation. However, our sample of countries includes the various types of governance in the subnational administrative tiers, therefore the terms in this study are used with separate meanings attached to them.

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<sup>6</sup>See Donald Fuller “Government, Market and the Civic Sector : The Search for a Productive Partnership”, where he argues that “The focus in deciding the reality of local government is typically argued with respect to the degree to which government is centralized or decentralized” (2001).

### *Decentralization / Deconcentration*

Decentralization in this paper is meant to be the full transfer of authority from central government to the elected local bodies, be it at the municipal, district or regional level. The use of term excludes the transfer of authority within a given national institution. For example it does not refer to the case when the central government or ministries co-locate some of their functions at the local level. This is an example of deconcentration. Thus deconcentration is used to mean the extension of central government at the local level (first or second tier). The pattern of deconcentration is extensively found in the selected sample of countries. In every case the term is used according to the mentioned meaning.

### *Delegation / Devolution*

The term delegation in this study means transfer of responsibilities when the transferring institution relies on another one for its execution while keeping the full authority and responsibility for the transferred services. The institution receiving those functions has no discretion over execution and shall implement them as assigned by the originating institution. An example of delegated authority may be the assignment of paying salaries of public sector employees to self-governing authorities, on behalf of central government. Devolution, in line with decentralization, refers to the process of full transfer of authority for certain functions from the national to local governments. The term is used here only by this meaning.

# Research Questions

The research questions across which the study is developed are the following:

1. What are the structural and process differences between central and local governments with respect to authorized political, functional and financial responsibilities?
2. To what extent do the selected post-Soviet countries differ from those that have not been part of the Soviet Union with respect of central / local government?
3. What explains the differences between the countries on their record of progress in decentralization, if there are differences?

With regard to the third research question some clarification needs to be introduced, that primarily it is given to explain the differences, if they exist, between the groups of the former Soviet and not Soviet countries. However, if it turns out that such clear-cut differences are not observed between these two groups, some possible explanations for the differences in their move towards decentralization among the individual countries of the sample will be examined.

## Methodology

Methodology used for this comparative study is unobtrusive content analysis of legal documents concerning local government structure and responsibilities in the selected countries. Review of secondary sources, including academic research and other relevant material covering the analysis of structural, process, funding, service delivery etc., characteristics of the subnational governments in the countries is conducted as well.



# I. The State of Progress with Governance System

## Decentralization

As stated in the first research question, the level of decentralization of governance system has been examined across three dimensions – *political decentralization* (which is meant to be the devolution of decision making authority to lower levels ), *administrative decentralization* (or the devolution of functional responsibilities to the lower levels) and *fiscal decentralization* (that is the providing of local government with access to resources to carry out their responsibilities).

It is considered that the examination of the effective decentralization of the governance system requires simultaneous observation of the included three key aspects, as they together constitute the integrated process of decentralization and the failure to meet the objectives in any of these areas will hinder the progress as a whole. If the locally elected bodies despite being granted the authority of decision making don't have enough responsibilities to make their own decisions on or if they don't have certain discretion over expenditure assignments across different types of spending, then there will be no basis to hold them accountable and to call the system a self-governing one.

### A. Political Decentralization

Political decentralization is the logical prerequisite for the other two aspects of decentralization, therefore the discussion on the level of consolidation of the system of local self-governance should be started from this point.

To see to what degree devolution of decision making power is existent, one should look at the composition of the local government – whether the governing bodies are

elected separately from central government and represent the local population, or they appear to be the appointees of the national government and are accountable to it.

The actual **structure** and **process** arrangements are described first, after a **classification of countries** according to their progress in devolution of decision making authority is conducted.

### Hungary

Government is decentralized up to the county level that is the largest territorial-administrative unit after the national level, the lowest being municipality. “Local government constitutes a system in which there are no hierarchical relations” (OECD: Public Management Profiles / Hungary). There are no centrally appointed positions in the structure of local government at both municipality and county level. Citizen participation in local decision making is ensured by the functioning of the elected government with both legislative and executive branches, headed by the president of the council. The county governments are authorized to issue decrees within the range of their own activities and to call county referenda.

State penetration is diminished to the minimum. Mainly it is the normative control exercised towards the functioning of county and municipal governments to ensure the legality of their actions. The task is carried out by the Public Administration Offices (PAO) at the counties which are the representative offices of the central government and are headed by the appointee of the minister without portfolio heading the prime minister’s office, with collaboration of the minister of interior. The order of the supervision implies that the representatives of national government are not eligible to cease the functioning of local elected bodies but their decisions are subject to review by the local courts and the

Constitutional Court. The additional tasks that the Public Administration Offices carry out are to:

- request that the state audit office conducts the audit of local financial management
- co-ordinate the activities of deconcentrated branches of national ministries, and
- provide professional assistance to local government.

There are also deconcentrated state administrative authorities that are extensions of different national ministries at local level which function independently from the local self-government and implement the responsibilities that fall within the national jurisdiction. Thus they don't limit the independence of the local self-government in any way (OECD: Public Management Profiles /Hungary).

The Hungarian system of governance then has very much in common with a federal system. The unitary character is kept by the applicability of only national laws (even not decrees, as in their jurisdiction the county governments can issue decrees) throughout the country.

### Poland

In Poland the territorial administrative system basically consists of three tiers – municipality (*gmina*), district (*powiat*)<sup>7</sup>, and region (*voivode*)<sup>8</sup>. Self-governance through the elected representative bodies is exercised at all three levels. At the municipality or commune level, self governance is exercised through the council and the executive board. The council is elected every four years and the executive board is elected by the council, though the president of the board is elected separately. The same structure of decision –

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<sup>7</sup> Powiats were introduced as a higher tier of local self-government at the beginning of 1999 only.

<sup>8</sup> On 1 January 1999 the number of voivodships was reduced from 49 to 16. This, together with the introduction of powiats brought structural improvement to the territorial administration structure in Poland introduced largely under the pressure of the European Union.

making bodies is apparent at the powiat level. At the voivode level the self-governing bodies – Sejmiks – are elected indirectly, but both the executive board and the head of it – the Marshall are elected indirectly by the Sejmik.

There is a dual structure of public administration at the voivode level. Parallel to Sejmiks at this level operate as well deconcentrated units of national government with general competence, which are headed by *voivodes*, appointed and dismissed by the prime minister on the recommendation of the minister responsible for matters of public administration. Voivodes are the main representatives of the state administration at subnational level and they are responsible to ensure that national policies are implemented and enforced and that the state institutions operating in the region perform their functions appropriately. He thus ensures the unitary character of the state (OECD: Public Management Profiles /Poland) .

### Czech Republic

The administrative system of Czech Republic is considerably centralized. Two tiers – municipalities and districts, realize the subnational territorial governance. At the district level operate District Offices, which are the extension of central government at the local level. They are regulated and controlled by the national government and the link with the latter is provided through the Ministry of Interior, however, while fulfilling responsibilities that fall outside of the competencies of this particular ministry, district offices are subordinated to other responsible ministries.

There is also a very limited measure of democratic governance at the district level in Czech Republic, which is realized through the district assembly. This is a body of representatives of the municipal councils in the district. The number of assembly members is indicated by the number of municipalities and inhabitants of the district. The

functioning of the district assembly is limited to giving approval to the district budget or allocation of the state grants to the municipalities (OECD: Public Management Profiles /Czech Republic ).

In addition to general district offices, state administration is extended also through the deconcentrated departments of different ministries, and administrative units under the control of their respective ministries that operate within the district or other boundaries.

At the municipal level full self-governance is exercised with the elected council and executive. However, as Kamencikova and Peterson conclude “the Czech approach to decentralized government is distinctive in several respects, and has the effect of giving less autonomous power to municipal governments than in Poland and Hungary” (2000, Chapter IV, p.6).

The first distinction on which to base this conclusion for the municipal government in Czech Republic is that they are discharged to implement two types of functions – independent, and delegated by the national government, “which they carry out as decentralized agents of the state and for which they are reimbursed as specified by law” (Kamencikova, Peterson, 2000, p.6). Thus “In their capacity as agents of the State, municipalities are accountable to the ministries or other organs of State that oversee the specific functions that have been delegated” ( Kamencikova, Peterson, 2000, Chapter IV, p.6).

The next thing that hampers the capacity of local self-government to exercise efficient administration within its territory is the very small size of municipalities.

The very small municipalities that emerged from the early years of decentralization were too weak and too scattered to be a genuine counterweight to central government. Their total dependence upon the central government for financing suppressed any demands that municipalities might have had for greater independence. In both the private sector and local government sector, the net national government adopted a formal hands – off attitude, reflecting a general aversion to regulation through rule-based controls. Under the surface, however, central authorities retained

their influence and capacity for strategic intervention ( Kamencikova, Peterson, 2000, Chapter IV, p.6).

It should be mentioned that the Czech Constitution calls for the creation of a regional system of self-government. Moreover, since 1997 an agreement has been reached on the number and boundaries of the regional units with elected governments which was to become operational since 1 January, 2000. Nevertheless, it is on paper at present (Kamencikova, Peterson, Chapter IV, 2000, p.1).

### Romania

The administrative organization of the country is based on the State administrative tier - prefectures and two decentralized tiers – counties (*judet*) and municipalities (*municipu and communa*). The administrative functions of the prefecture are carried out by the prefect, a sub-prefect and an executive body.

Prefects are appointed by the decision of the central government and function as the representative of the government at the local level. They also supervise the activities of the local and county councils and mayors to ensure that they are carried out according law. This implies no subordination in the relations between the prefects and the local councils and mayors. In exercising this authority the prefect can not implement any independent decision but should bring an action to the Court of Administrative Contestations. Final decision rests with the court. “In practice, however, the role of the prefect appears to be less invasive as might be suggested by the law. In effect, the prefect monitors, but does not supervise or exercise direct control over the activity of elected local government officials” (Belcher, 1997, Chapter III).

There are also representatives of central ministries at the local level, which serve as channels through which national policy objectives are translated and implemented at the local level.

At the county and municipality, the government is directly elected. The county council is led by a chair, two vice chairs and four to six councilors, that are to the extent possible representative of the political composition of the council. This body, called the Standing Delegation as well makes the executive of the county government. At the municipal level both council and mayor are directly elected. The municipal council is responsible for electing one or two deputy mayors (Belcher, 1997, Chapter III).

### Latvia

The territorial administrative organization consists of two tiers where local self – governance is exercised – municipalities and regions. The territorial size of the country does not require additional territorial divisions.

Governance bodies in both tiers of local government operate in exactly the same way: a council elected by direct universal suffrage who then elects the chairman and the vice-chairman of the council and also the mayor who is the executive director and serves as an assistant to the council's chairman and carries out the council's decisions. In addition, every council must establish an auditing committee, which supervises the financial management of the local government and conducts an audit of the local government's operations every year.

State penetration to local affairs, except the deconcentrated ministries that operate side by side local executive authorities without intervening their activities, includes only a strong supervision of local government in terms of ensuring the legality of local government decisions. This task is carried out by the Special Task Minister for the State

Administration and Self-government Reforms. He has the authority to suspend the illegal decision of the local government council, but the final decision rests with the courts. He can also suspend the Chair of a local government in case of observed violations of the Constitution, laws, court orders etc and can ask the Parliament to dismiss the Council as a whole (OECD: Public Management Profiles /Latvia).

Overall, political authority is substantially decentralized in Latvia. The unitary character of the state is ensured only by the maintenance of the legal uniformity throughout the country.

### Ukraine

Ukrainian system of territorial administration resembles that of Poland, though it is more centralized. The decision making power is based on the combination of centralization and decentralization. The tiers of territorial governance constitute mainly the regions (*raion*), districts (*oblast*) and municipalities (*gromads*).

In gromads, the appointed state administration is absent. Self-governance is exercised by the following bodies: council and executive elected separately and directly by citizens for four year term. Both are headed by a separately elected Chair.

The elected councils are existent and operational in regions and districts as well. At these levels the Chair and the executive are elected by the council. However at both district and regional levels, parallel with the elected bodies function as well central administration offices with general competence. These are executive bodies whose jurisdiction covers the functions of national significance. The heads of these deconcentrated state administrative bodies – the governors, are appointed and dismissed directly by the President of the state (Ordian, 2000, p.32).



In Ukraine, though, the major problem with decentralization constitutes not the structure but primarily the processes. Thus what we read in the June- July 2001 Report of the Council of Europe on local democracy in Ukraine:

Although there is legislation on the appointment of Regional Governors, procedures are sometimes shrouded in mystery and are certainly not democratically controllable. The profile of some of the all-powerful Governors – many of them are former Heads of Soviet institutions or newly successful businessmen – may increase the tendency to maintain vertical control and runs the risk of possibly bringing about conflicts of interest.

Inevitably in such a climate there is an inherent conflict between the locally elected Mayors and the regional administrations, with political and judicial pressure on mayors and, occasionally dismissal. Cases have been brought to the attention of the CLRAE: (further are enumerated 13 names of oblasts followed by “and others”).

### *Kazakhstan*

There is no substantial change observed in the structure and process of subnational governance in Kazakhstan since the Soviet times. As Verheijen states, “Although politicians often proclaim their interest in decentralization, their very interpretation of the term differs from its connotation in Europe. Decentralization is not interpreted to mean the transfer of powers from the state government to the local self government; but rather the transfer of powers from the central state government to the local state government (what is generally understood as “deconcentration” in Europe)” (2001, p. 12).

The structure and process of local governance does present a basis to conclude so. There are three hierarchical levels of territorial governance, namely regions (oblasts), districts (rayons) and towns and villages. The local government at each tier has the same structure: it comprises the executive and legislative bodies with the chairing of that incorporated body by Akim – the appointee of the President, (at the towns and villages appointed by the oblast Akim). Akim, with the two deputies chosen by himself, represents the senior management team of the executive – Akimat.

It is not surprising that the executive throughout the town and village level is under the state control, as the Constitution of Kazakhstan provisions that the “Local executive bodies shall be a part of a unified system of the executive bodies of the Republic of Kazakhstan and assure conduct of the general state policy of the executive power in conjunction with the interests and development needs of the respective territory”( Article 87).

However, Akim is also the Chair of the elected council – Maslikhat. True, the Law on Local State Government provisions that Maslikhat can initiate an impeachment process and demand by 2/3 vote that the President of the Republic or the higher standing Akim replace their Akim, but the final decision, rests with the President. At the same time, the law stipulates the possibility to dissolve the Maslikhat if conflicts raise between the two branches of local government, but still the approval of the National Parliament is needed to do this.

Though the legal framework is very imperfect for realizing self-governance, but the actual arrangements are even worse. Because Kazakhstan is a strong presidential country, with the president having the power to override the decisions of parliament, the balance of power between the branches of government is heavily inclined to the side of the executive. Given the unitary nature of the state, this set of relationships is duplicated at the lower levels of territorial governance, implying a “limited accountability of Akim to Maslikhat in view of his status of representative and political appointee of the central government” (Tolymbek, 2001, p.2). In this situation Maslikhat has no incentive to go to confrontation with the Akim (as that may lead to the own dissolution) and eventually it obtains a sign-and-approve status, without an actual power of decision making (Tolymbek, 2001).

## Armenia

In Armenia even the legal framework is not a basis for decentralization of political power.

The administrative system consists of provinces (*marzes*) and towns and villages (*hamajnqs*). Local elections are held only at the lower tier – hamajnq. Here both council and the mayor are elected separately. Mayor chairs the meetings of the council and is responsible for the execution of their decisions. However, the mayor has dual accountability, on the one side to the local constituency on the other side to the central government represented by the head of the deconcentrated central administration at the provincial level. Thus the elected official - mayor can be dismissed by the appointed representative of central government.

At the marzes only state administrations – *marzpetarans*, headed by the appointees of the prime minister, the *marzpets*, operate. Marzpetaran is an executive body with general competence serving as a channel for the execution of national policies at the local level.

The findings on the structure for political decentralization are summarized in the Table 1 and Table 2 that respectively show a) whether there are elected bodies at the existing administrative tiers and b) how far the national administration expands through the administrative tiers (see next page).

**Table 1: Elected Bodies at the Existing Administrative Tiers**

*Sources: legal documents on territorial governance of the mentioned states (mainly Laws on the Local Government) and other relevant documents*

<i>Tiers</i>	<i>Branches of govt.</i>	<b>Arme nia</b>	<b>Kazakh stan</b>	<b>Ukraine</b>	<b>Latvia</b>	<b>Roma nia</b>	<b>Czech Rep.</b>	<b>Po land</b>	<b>Hun gary</b>
Lower tier (municipality)	<i>Legislative</i>	Yes	Yes with reservation	Yes	Yes	Yes	Yes	Yes	Yes
	<i>Executive</i>	Yes with reservation	No	Yes	Yes	Yes	Yes	Yes	Yes
Upper tier (district)	<i>Legislative</i>	No	Yes with reservation	Yes	Yes	Yes	No	Yes	Yes
	<i>Executive</i>	No	No	Yes with reservation	Yes	No	No	Yes	Yes
Highest tier (region)	<i>Legislative</i>	n/a	Yes with reservation	Yes	n/a	n/a	n/a	Yes	n/a
	<i>Executive</i>	n/a	No	Yes with reservation	n/a	n/a	n/a	Yes	n/a

**Table 2: National Government and/or Centrally Appointed Heads at the Existing Administrative Tiers**

*Sources: legal documents on territorial governance of the mentioned states (mainly Laws on the Local Government) and other relevant documents*

<i>Tiers</i>	<i>Branches of govt.</i>	<b>Arme nia</b>	<b>Kazakh stan</b>	<b>Ukraine</b>	<b>Latvia</b>	<b>Roma nia</b>	<b>Czech Rep.</b>	<b>Po land</b>	<b>Hun gary</b>
Lower tier (municipality)	Executive	No with reservation	Yes	No	No	No	No	No	No
Upper tier (district)	Executive	Yes	Yes	Yes	No with reservation	Yes	Yes	No	No with reservation
Highest tier (region)	Executive	n/a	Yes	Yes	n/a	n/a	n/a	Yes	n/a

Though the processes involved in decision making at local level have already been discussed in relation to some countries parallel to the description of the structural frameworks, an additional consideration of the issue would be of help to draw a comprehensive conclusion about the actual decentralization of political power in the countries.

Taking into consideration that the final aim of decentralizing the power of decision making to local elected authorities is bringing the voice of the local population to the policy-making, then some measure of accountability and responsiveness by the side of the elected bodies will be particularly talkative in terms of the reality of the devolution of this authority.

As an indication for these variables are considered to be the democratization rankings presented by Freedom House, which are a combined measure of four variables: civil society, independent media, governance and public administration. The country rankings expressed by a scale of 1 to 7, seven being the worst, are as follows.

Poland	1.44
Czech Rep.	1.75
Hungary	1.75
Latvia	2.06
Romania	3.19
Ukraine	4.31
Armenia	4.50
Kazakhstan	5.38

(Karatnycky and others, 2000, p.19)

It is observed that *in general there is a positive correlation between the level of perfectness of the structure and process of self governance*, expressed through the combined measure of democratization.

Summing up, by the comparison of the extent of political decentralization (taking into consideration both structural and process differences) countries are classified as follows.

Most substantial devolution of political control over the local government is exercised in **Hungary, Latvia and Poland**, though the first two are certainly more advanced in this aspect of decentralization. The system of territorial governance in Hungary and Latvia is close to a federal one and the unitary character of the states is ensured only through the strict control that the national law is similarly implemented at the whole area of the country, without leaving the right to the decentralized government units to enact own laws on their respective territories.

Poland is more centralized with the national administration expanding at the regional level. However, considering that tangible self-governance is realized up to the regional level, Poland is classified as the last among the best in respect of political decentralization.

Next we have grouped **Ukraine and Romania**. Both structure and process are imperfect in these countries. Central administration is not involved in local management only at the municipal level in Ukraine and it fully controls the largest subnational administrative units in Romania. Moreover, comparatively low democratization scores speak of the imperfect behavior of the elected bodies as representatives of the local population in these countries.

**Czech Republic** is unique in our sample in the sense that it has very high democracy ranking, but shows little progress of devoluting decision making authority to local self-governing bodies. Self-governance in Czech Republic is limited only to the municipality level. Therefore it is classified as only after Ukraine and Romania.

At the last place with the progress of political decentralization are **Armenia** and **Kazakhstan**. Devolution of decision making authority is intangible in both countries. Though the legal framework envisions certain limited measures for experimenting self-governance through the elected councils but it does not provide strong guarantees that the councils will be able to pass decisions without the consent of the executive. Local executive in both countries is accountable to the central government and therefore has prevailing power over the legislative reproducing the actual arrangements of the power relationships at the center in these presidential republics.

## **B. Administrative Decentralization**

Though the best arrangement of intergovernmental administrative relations should take into account the specifics of particular countries, the generally accepted analytical stamp point to judge on the proper distribution of functional categories across the tiers of government is the principle of subsidiarity. This principle is the one pointed in the European Charter of Local Self-Government<sup>9</sup>. It is based on the notion of calculating the externality effects and implies that “The responsibility for a given public service should rest with the jurisdiction, whose borders most closely match the service’s benefit area”(Dunn and Wetzel, 2000, p. 11).

Thus, according to this principle, such functions as defense, interurban highways, airports etc, the benefits from which are not possible to limit to separate jurisdictional areas should be national. On the other hand, “where preferences or demands differ from one community to the next, local governments can better match supply to suit local tastes” (World Bank, 1997, p.123). Among such services are different communal

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<sup>9</sup> Article 4, par. 3 of the Charter (1985) states: “Public responsibilities shall generally be exercised, in preference, by those authorities which are closest to citizen. Allocation of responsibility to another authority should weight up the extent and nature of task and requirements of efficiency and economy”.

services, education to certain degree (to the extent that certain national standards are met as education as well has spillover effects), health to certain degree, police (particularly the local crimes) etc.

Functional distribution in the selected countries of Central / Eastern Europe and the former Soviet Union is shown in Table 3. It reveals how the countries have utilized the principle of subsidiarity as well as what is the level of differences among the countries in terms of decentralizing functional responsibilities.

With respect to the first point there is a substantial correspondence observed between actual assignments and the principle in most of the cases. Thus water and sewerage, waste collection, parks and recreation fall under local government jurisdiction in all the observed countries with one – two exceptions; primary and secondary education fall under the local jurisdiction in five out of eight countries. On the other hand, national authorities are responsible for such functions as higher education, interurban highways, airports, railroads and defense, the benefits from which are not limited to the specific community population where they are located and operate.

There are also examples of shared responsibilities, for example the responsibilities for public health are shared between the national and subnational authorities in almost all of the observed countries. Generally at the local level are administered primary health care and some hospitals. The development and implementation of public health policies aimed at prevention of epidemics etc, which surely have national spillover, are the central government's responsibility. This is as well the most common practice in Western countries.



**Table 3: Distribution of Functional Responsibilities Among National, Intermediate and Local Governments<sup>10</sup>**

*Data sources: Dunn and Wetzel (2000) [“Fiscal Decentralization in Former Socialist States”]; Data on defense item and the countries of Romania and Czech Republic is taken from legal documents and other relevant material on the administrative decentralization in the mentioned countries.*

Activities	Armenia	Kazakhstan	Ukraine	Latvia	Hungary	Czech Rep.	Poland	Romania
Defense	N	N	N	N	N	N	N	N
Police	N	N,I	N,I,L	L,N	L	L	N	N,L
Fire protection	L	I	IL	N	I	L	N,L	N
Housing	N,L	N,I	N,L	L	L	L	N	N,I,L
Water and Sewerage	L	N,L	L	L	L	L	L	I,L
Waste collection	L		L	I,L	L	L	L	L
Primary and preschool	N	L	L	L	L	N,I,L	L	N,L
Secondary education	N	L	L	L	L	N,I,L	L	N,L
University education	N	N	N	N	N	N	N	N
Public Health	N	N,I,L	I,L	L		N,L	N,L	N,L
Hospitals	N	N,I	I,L	N,I	L	N,L	L	I,L
Social security and welfare	N	N,I,L		N,L		N,I,L	N,L	N,I,L
Parks and recreation	L	L	L	L	L	L	L	L
Electric power supply	L	N,I,L	I,L	N,L		L	L	I,L
Heating		N,I,L		L			L	I,L
Interurban highways	N	N	N	N				N
Urban highways	N,L	N	N,I,L	L	L		L	N,L
Railroads		N	N					
Oil and gas pipelines				N				
Ports and/or airports	N	N	N					
Urban transportation	N,L	L	I,L	N,I,L	L		L	N,L

Note: N = national government; I = intermediate (regional) government, L = local (municipal) government.

<sup>10</sup> Note that the matrix does not reveal whether the functions are assigned to the bodies of self-governance or central local administration.

Primary and secondary education is also shared central / local responsibility in Czech Republic and Romania. The portion of central administration in Czech Republic covers the assignment of salaries of teachers, which is a delegated function, and the development of nation-wide educational standards.

Contrary to the principle of subsidiarity, the responsibility of maintenance of public order and police, except Hungary, Czech Republic and partially Latvia, Ukraine and Romania falls within the jurisdiction of national authorities. Fire protection too, in some of the countries (Romania and Latvia) is assigned to national government. With regard of police being the national government's responsibility in postcommunist states, Fuller writes:

Postcommunist governments have national police forces. Without debating the propriety of national police forces (Americans would disdain such a design) it is unlikely that postcommunist governments will soon see any wisdom in local police, due to lack of local funding, as well as a propensity toward corruption that might insue (not to say that national police cannot be corrupt; rather to say that postcommunist countries want control over police at the national level since they do not differentiate among the US model of federal crimes, state crimes, local crimes and, to some extent, counter intelligence). If, as seems the case, postcommunist countries will eschew local police (Europe seems to follow the national police model without abandoning civil rights; Germany differs, having opted for provincial police after experimenting with the US installed local police following World War II) then local governments may well have a good bit less to fund than the American model (2001, p.12).

So, maintenance of police is one of the particular type of expenditure responsibility which requires adjustment to the local conditions in most of postcommunist area. Education, which is recognized as a "priority field" at least in Armenia, which for attracting foreign investment and providing economic growth has nothing else to rely on except from human capital, is not transferred to local government also for rational reasons. However, whatever the reasons, at the moment we are studying the extent to which differences in decentralization among the countries are observed. From this perspective the data show the following.

There is a certain variation across countries in their scope of reliance on national or local provision of services. Thus Hungary with police, fire protection, education up to the university level, operation of hospitals, local public transportation, partially public health and certain social welfare functions having realized at the subnational level, demonstrates the best results with the progress in administrative decentralization.

The other countries, including Kazakhstan, but excluding Armenia, on most of responsibilities demonstrate similar approach in their choice of assigning them to national or subnational administration. The main observed difference among these countries is that in line with Hungary, municipal police is the local responsibility in Czech Republic and that in Latvia, Ukraine and Romania police and fire protection are shared national/local responsibilities. Armenia in this respect is the most centralized with the decentralization of only limited set of municipal services such as irrigation, waste collection, water and sewerage to the local authorities.

However there is a certain limitation to these data to be actual indicators of administrative decentralization, because decentralization does not mean that the services are provided at the subnational level, but what is the nature of the bodies implementing them: whether they are deconcentrated national administration or elected ones. This is not indicated in this table. To amend this limitation to some extent one should keep in mind as well the level of political decentralization across the tiers of government.

From this standpoint, there is a stronger basis to speak of actual decentralization of service provision in Hungary and Latvia and to a large extent in Poland also. On the other hand the indication that the particular category of service is executed at the intermediate level of government in Ukraine and Romania does not tell anything on whether the service is provided by the state administration or local self-administration. With respect of distribution of functions in Ukraine, the Council of Europe Report states:

The distribution of responsibilities between the appointed Regional Governors, the elected regional council, the executive at the regions, is not clear with the result that the appointed Regional Governors have considerable powers, including and particularly over the elected local authorities within their respective regions... regional administrations control key areas of public life such as the provision of energy resources (June – July, 2001).

Meanwhile the substantial allocation of service provision at subnational levels of government in Kazakhstan loses any value of being an indication of decentralization, because as discussed in the previous section, there is in fact no self-governance at any administrative tier in Kazakhstan. The current allocation of functions rather indicates that the following functions are organized and procured by the central authorities at the local level.

Overall, the revealed trends of administrative decentralization in countries are in rough compliance with those of political decentralization.

### **C. Fiscal Decentralization**

As already mentioned, the devolution of functional responsibilities to the local levels without the devolution or providing means of independently raising the adequate funding to carry them out would be merely a burden on the local government and will not bring any of the benefits of decentralization, namely enhanced efficiency and adjustment of policies to the preferences of local population. So access to resources is essential for providing bodies of local self-governance with autonomous decision making power.

In this respect first of all we have looked at the expenditure data broken by functional categories to check whether the observed substantial decentralization of certain functional categories (with the exception of some countries) is backed up with corresponding resources or not. The data are shown in Table 4 (see next page).

**Table 4: Subnational shares of total government spending by functional class**

*Data sources: Dunn and Wetzel (2000) [“Fiscal Decentralization in Former Socialist States”]; Data on the items Public Order and Safety & Defense, as well as data on all expenditure categories in Poland and Hungary are by Martinez – Vazquez (1999)[ in the Sourcebook prepared by the Urban Institute(2000)]*

	Health	Education	Housing and Communal services	Recreation and Culture	Transport and Communication	General Public Services	Social Security and Welfare	Public Order and Safety	Defense
Kazakh (1995)	86.3	82.9	98.7	52.8	86.5	12.7	62.6	....	13.29
Ukr. (1994)	87.1	62.9	82.1	23.3	....	....	64.7	....	....
Latv. (1996)	50.9	44.5	86.9	41.2	26.2	36.1	7.0	6.43	1.40
Hung. (1990)	16.0	74.9	27.6	43.5	....	12.4	5..54	0.00 <sup>11</sup>	0.00
Poland (1996)	9.63	57.5	73.5	52.3	....	35.5	4.03	2.90	0.12
Cz. R. (1996)	6.3	19.9	91.2	63.7	44.7	38.8	22.1	12.4 (1995)	0.38 (1995)
Rom. (1996)	19.7	14.7	82.2	26.2	40.7	32.0	3.1	....	....

The data show that in general there is compliance between the decentralization of authority to implement the function and the corresponding financial devolution. Thus for example for education that is in Hungary, Latvia, Poland, Ukraine and Kazakhstan up to the University level ascribed function to local authorities there is comparatively larger proportion of expenditure done at the local level. At the same time Romania and Czech Republic that at all the educational levels have mixed national / local responsibility have considerably less money allocated for this function to the localities.

Also substantial high shares of expenditure at the local level is evidenced for the functions of housing and community services, parks and recreation, local transportation, that are largely decentralized administrative categories in all the observed countries.

<sup>11</sup> The data of expenditure assignments in Hungary are from 1990, therefore they obviously do not reflect the progress made in this area: thus they show 0.00 % share of expenditures done for the public order and

Health services demonstrate a mixed picture, with the relative high subnational shares being in Kazakhstan, Ukraine and Latvia. From the evidence of other countries it can be inferred that the function mostly falls under the national jurisdiction, which is not surprising, stemming from the principle of subsidiarity. It is up to point to mention for comparison that in the United Kingdom health is 100% national responsibility.

Overall, the data show that Ukraine and Kazakhstan are “pioneers” in fiscal decentralization, which considering their weaker progress in other areas of decentralization seems to be doubtful evidence. Again attention should be drawn to the fact that the table has some limitations to show the real extent of fiscal decentralization. First of all it shows the share of expenditure that is done at subnational level, which may well be the result of not decentralized but deconcentrated authorization.

Taking into account that in Kazakhstan there is virtually no self-governance exercised at any level but the subnational governance is strictly controlled by the President through his representatives- Akims, then the evidenced progress of Kazakhstan is nullified. In Ukraine, where at both regional and district levels there function both central and local self- administration offices, the results shall be considered as weak indicators.

Another subtle point that can be of particular help to explain these “unexpected” diversities among the countries is that the data only can’t reveal the actual level of decentralization and autonomy, unless they don’t show the degree to which government regulates their implementation by establishing mandates of spending. Among such mandates may be for example the setting of wage rates, which in education sector constitutes a great part of expenditures.

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police category at the subnational level, while the data on administrative decentralization which are comparatively recent data (see Table 3), tell us that police is mainly administered at the county level.

The comparison of subnational shares of total government spending by functional class with the western countries will make it more clear what the data of the observed countries actually mean.

**Table 5: Subnational shares of total government spending by functional class in the industrialized states**

*Data: by Martinez – Vasquez (1999) [in the Sourcebook prepared by the Urban Institute]*

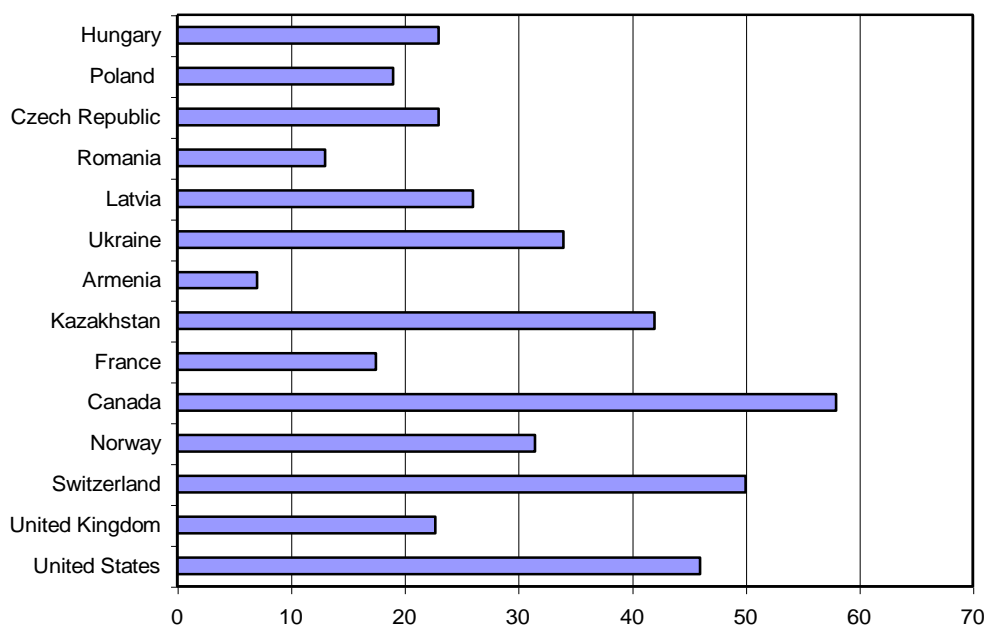
	Health	Education	Housing and Communal Services	Recreation and Culture	General Public Services	Social Security and Welfare	Public Order and Safety	Defense
France (1993)	2.19	37.1	81.72	72.63	25.7	2.19	27.7	0.00
Canada (1993)	85.6	92.4	86.2	82.67	47.5	85.6	73.5	0.00
Norway (1994)	78.1	59.45	69.3	58.38	33.0	78.1	16.5	0.00
Switzerland (1991)	44.8	90.1	87.4	91.5	61.8	44.8	93.0	14.8
UK (1995)	0.00	63.4	77.81	67.3	32.4	0.00	52.99	0.10
USA (1994)	44.7	95.1	29.05	84.3	30.2	44.7	55.5	0.00

Table 5 shows the shares of subnational spending in six industrialized states. The comparison shows that on the average the spending for each functional category is roughly comparable in Central /Eastern European (especially if Czech Republic and Romania are excluded from the comparison) and Western countries though in every case industrialized countries are a little ahead with the amount of resources spent by government at local level.

Thus if for education at the subnational level is spent in the best 50 % average in Central /Eastern European countries then the portion is 70% in Western countries; the average percent for health services are respectively 30% and 40 % etc.

The comparison between the western industrialized and postcommunist transitional countries in respect of fiscal decentralization will be more clear-cut if the overall share of expenditures between national and local governments is compared. This is done in Table 6. The table shows the same trend, that postcommunist countries lag behind the western states in respect of fiscal decentralization. However it should be noted that such industrialized states as France and Britain are comparatively centralized. Thus one should not forget that what constitutes the best intergovernmental fiscal arrangements is country-specific.

**Table 6 Subnational Shares of General Government Spending in Postcommunist Countries and Consolidated Democracies (percent)**



Data sources: data on postcommunist states: *Dunn and Wetzel (2000)*  
data on industrialized states: *Martinez – Vazquez (1999)*

Finally it should be mentioned, that to find out the real extent of autonomy at the local level, one should look at the budget share of independently raised revenues. The independent resources are emerged by the locally imposed taxes and user charges, as well



as local borrowing. So, ability to pass own taxes is a good measure of fiscal decentralization.

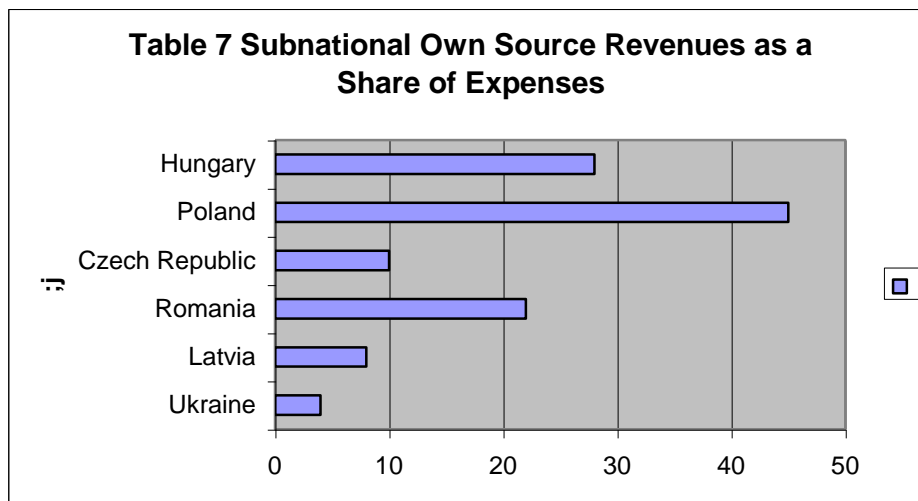
However, not even all Central European countries of our sample have this authority given to local governments. In the Czech Republic all taxation is national. Municipal governments have the right to establish user charges only. But they have excessive rights to borrow. On the other hand borrowing is subject to control in Poland and Hungary where ceilings are introduced for borrowing. In Kazakhstan and Armenia too, borrowing is subject to certain controls and limitations (Appendix 1 and Appendix 2 provide details respectively on borrowing and taxing authorities of local government in the observed countries).

Overall, as Dunn and Wetzel conclude “Local government revenue autonomy remains extremely limited” in the post-socialist states (2000, p.18). They further explain:

The lack of progress [in intergovernmental fiscal reform] does not result from lack of attention to the issue of finance. Unfortunately, in too many countries that attention has not focussed on the most fundamental task of developing autonomous local revenues. Rather, there remains a narrower preoccupation with competing claims on revenue from tax sharing arrangements that continue to be the dominant means of financing local government (p.18).

This is not surprising, since the assignment and sharing of tax bases and rates, the match of tax and expenditure rates as well as independent borrowing authority without imposition of hard budget constraints bears the most serious challenges for the central government to manage macroeconomic development (World Bank, 1997, p. 124).

The share of own revenues in local budgets is expressed in Table 7 (see next page). As the table shows, most paradoxical data suggests Ukraine, which locally raises only 4 % from the whole local budget revenues that altogether constituted 43 % of the general government expenditures. So in fact this large share meant very little from the point



Data Sources: *Dunn, Wetzel (2000)* [“Fiscal Decentralization in Former Socialist Economies: Progress and Prospects”];  
 data on Czech Republic: *Kamenickova, Peterson(2000)*  
 [“Decentralization in Central and Eastern Europe”]

of providing budgetary autonomy to the bodies of self-governance in Ukraine. The poor indication of the autonomous resources throws a shade on the overall good progress of decentralization in Latvia. Hungary is at the front lines of progress being done with fiscal decentralization from this perspective too.

Summing up the results of this multifaceted comparison of intergovernmental fiscal arrangements in the selected countries it is inferred that Poland and Hungary are in front lines with progress, Latvia, Czech Republic, Ukraine and Romania fall behind them. In Armenia not surprisingly there is no substantial progress in this area. In case of Kazakhstan that would be misleading to take the good indicators as evidence of decentralization, because of in fact nonexistent self-government at subnational levels.

## Findings and Testing of Central Argument

Putting together the findings of all three key areas of governance system decentralization, the following broad conclusions are drawn.

The evolution of the institute of local self-governance has progressed unevenly among the group of selected countries of postcommunist transition. Some of the countries exercise tangible level of self-governance at the local level that can be compared with the western states, while others are still at the grassroots with the existence of this institute remaining to be merely for cosmetic form.

It is as well observed the tendency that the countries with consistently greater overall progress have harmonious devolution of political, administrative and fiscal authorities to the local levels. In other words there is observed certain correlation between progress in the three areas taking place.

Overall the eight countries can be classified into four categories with **good**, **average**, **fair** and **poor** evaluation of progress. The classification has been done carefully with the consideration of both structural and process parameters.

In the first range of evaluation with full confidence fall Hungary, Poland and Latvia. Ukraine and Romania with some reservation are described with an average level of decentralization. Czech Republic is classified as having a fair to poor progress of decentralization. Finally Armenia and Kazakhstan fall in the category of having simply poor record of dismantling central authority and implementing self-governance at the local level.

Coming to the *central argument* - that the countries of postcommunist transition that were part of the former Soviet Union should have more centralized patterns of

territorial administrative system than the ones that were out of the Union - then it *is not proved empirically*. It is not possible to draw a strict line between the countries on their record of government system decentralization based merely on the distinction of formerly having been Soviet or not. The apparent progress of Latvia and the slowness of creating decentralized system of governance in the Czech Republic are enough basis to deny the objectivity of this argument. The similar progress of Romania and Ukraine also throws a shed on this proposition.

Thus whatever the reasons behind this argument, they are not enough to explain the tendency of the state towards decentralization of power. One should look at other variables as well to find out what exactly affects the countries' choice on the issue. It is to the discussion of this issue that we now turn.

## II. Possible Explanations Affecting the Move Towards Decentralization

The following section aims to answer or at least give some hypothetical suggestions to the question: Why are the differences among the countries on their progress of decentralization observed? Why have some countries that come from the same post-communist past, chosen to go to tangible devolution of power to local levels, while others have adopted a very slow pace of transformation?

To come up with a suggestion, we have examined different variables that logically might influence the countries' predisposition and preparedness towards decentralization. Then by looking at each factor's correlation to the country specific records, we have drawn general conclusions over their comparative importance as predictors of

decentralization, taking the persistency with which particular factors relate to certain positive or negative results as a basis for judgment.

### **A. Selected Factors Having the Potential to Impact Decentralization**

The examined factors that are supposed to affect the governance system development in the direction of decentralization are the *physical characteristics of states*, such as geographical location and territorial size, *demographic characteristics - population density and homogeneity*; level of economic development, Soviet, as well as pre-Soviet political culture; possession of such commodities as oil and gas and the factor of country's involvement in conflict.

We haven't ruled out the factor of Soviet political culture (or the pull towards the practices of communist political and administrative ruling), though as the analysis at the first part revealed it is not fully responsible for shaping the path of development of administrative system the countries might choose<sup>12</sup>. It is included for discussion in this part based on the notion that if it doesn't explain everything this does not mean yet that it explains nothing. This factor is discussed here with more detail taking into consideration as well the duration of Soviet rule in the countries.

There is a reason underlying each of the mentioned factors to be a potential cause affecting the move towards decentralization.

#### **Geographical location**

The factor of geographical location implies that the direction of development of the political and administrative systems in the countries of post- communist transition will

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<sup>12</sup> The term Soviet political culture used in this section includes the original dichotomy of FSU vs. former Socialist block.

be influenced by the practices in the neighboring countries with the respective consolidated systems. By this reasoning it can be said that the countries which are closer to Western Europe are more likely to go to decentralization as a result of intense influence.

Moreover, the perspective of *accession to the European Union*, which is not taken as a separate factor but is incorporated under geographical location as it is the consequence of it, might certainly play a role that would be very weak to describe as merely influence: decentralization in the countries of Central / Eastern Europe getting prepared to become members of the European Union is rather a condition that is pressed upon them to be valid as future members of the Union<sup>13</sup>. From this perspective it is only Ukraine that though being Eastern European, its candidacy for joining European Union in the nearest future is not discussed.

#### **Territorial Size and Population Density**

The logic tells that the larger is the country the greater will be the need to decentralize activities to lower levels of government to have efficient administration both at the center and the periphery. Similarly, it is implied that heavily populated countries typically will have a greater need to decentralize service provision to efficiently capture all the needs and preferences of their population.

#### **Population Homogeneity**

Two scenarios, however, arise when thinking of how the countries might adjust their governance systems in reaction to the existence of ethnic minorities, especially if they are concentrated in separate areas. From the one side, decentralization might be a good solution of appeasing them by giving certain autonomy and discretion over the

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<sup>13</sup> “Accession to the European Union requires a broad-based program of political and economic reforms, and intergovernmental fiscal relations are an important component of that package” (Deborah, Wetzel, 2000, p.5).

decisions on the matters that have to do with their mode of life. As Bogdanor contends “A federal structure of government may do much to protect minorities, where minorities are territorially concentrated: for a minority at a national level may well be a majority at provincial level” (1995, p.91).

On the other side, whenever there are ethnic minorities living concentrated with their own communities there is a threat of separatist claims. More autonomy will nourish greater aspirations of full independence. Therefore, centralization of governance system might as well be a certain way to cope with the issue of avoiding the division of country to separate parts across the ethnic lines. Thus the selection of approach to deal with minority issues will be highly country specific.

#### **Level of Economic Development**

Another selected factor that reasonably might affect how the countries decide on decentralization is the level of economic development. As it is already discussed in the introductory part of this paper in relation to the risks involved with decentralization, when the countries are struggling to stabilize their weak macroeconomic state and achieve growth in the conditions of the dearth of foreign direct investment, that is the main source of money in these countries, there is more reason to centralize and efficiently use the scarce resources rather than allocate them to the discretion of local authorities.

#### **Soviet and pre-Soviet Political Culture**

Soviet, as well as pre-Soviet political culture, as mentioned, have also been observed to be a motive influencing the country’s predisposition. The country’s political culture that can be described as the reflection of the inhabitants’ attitudes -both elites and masses – on matters of social and political behavior is evidenced to evolve with a considerable lag<sup>14</sup>. And though it’s not something that is fixed once and for all, in a

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<sup>14</sup> See Bruce Parott (1996).

country where strong patriarchal relations and kingship are succeeded with the communist authoritarian rule there is much less chances to rapidly achieve to institutionalized self-governance than in a country where self-governance has had some evolution and roots.

### **Possession of Oil and Gas**

It is as well likely that the fact of possession of such commodities as oil and gas might influence negatively the move towards decentralization because of the undesirability by the side of national authorities to loose the potential profitable industries from the own control.

### **Conflict Involvement**

And finally it is suggested that the countries which have been affected by conflict might also have different predisposition towards decentralization. The logical assumption is that in the emergency situation such as this, governments will go mobilization and direction of the resources to one aim. This is as well a volatile situation for separatist claims if there are minorities in the state.

## **B. Specific Features and the Observed Impact of Each Factor on Countries**

When looking at the specific expression of these factors in the countries of the sample, the following picture is observed.

**Geographic location** is more conducive for the countries of Central Europe, namely Latvia, Hungary, Poland and the Czech Republic; it's less conducive for Eastern European countries and is the least conducive respectively for the Caucasian and Central Asian states. Correspondingly Latvia, Hungary, Poland have the best record of decentralization, Ukraine and Romania – less, and Armenia with Kazakhstan- the least. Thus overall geographic proximity to this or that region keeps to be a strong predictor of



decentralization, though not an encompassing one for all of the cases. Czech Republic that is substantially centralized despite its favorable location remains out of the general pattern.

The factor of **territorial size** does not provide any predictability towards decentralization based on the comparison in our sample of countries. The largest and the smallest by size – Kazakhstan and Armenia are the two most centralized countries. Next by their size - Ukraine and Romania, are far not the best examples of decentralizing authority to local level. Meanwhile Latvia and Hungary that are not very large are the countries with most substantial decentralization. And Poland that is a comparatively large country demonstrates substantial degree of decentralization.

Similarly, one can observe no consistency with how the **population density** relates to the record of decentralization. The group of the most heavily populated countries, namely Armenia, Czech Republic, Hungary and Poland demonstrate very dissimilar pictures of development of the local self-government system (full data on the demographic characteristics of the states is available in Appendix 4).

The relation of **economic development** taken as a measure of GDP per capita to the country specific records still doesn't explain the case of Czech Republic that has the highest GDP among the observed countries and is among the first recipients of foreign direct investment. Similarly Kazakhstan, that has a better indicator than Ukraine and Armenia is the most centralized country. In all of the other cases the correlation roughly reveals the trend that the states, which are better off economically, are in a good position with decentralization as well and vice versa (full data of the countries on GDP per capita and the GDP growth rate are available in Appendix 3).

As far as the factor of **Soviet political culture** is concerned, then the comparison reveals the trend that the countries with less experience of communist rule, including

Latvia, are more inclined to decentralize. Thus not only the intensity of the impact but also the duration matters in this respect.

It is observed as well that the **pre – Soviet political culture** might also have importance for the progress of decentralization. With this can be explained the relative centralization of Romania that unlike the other non-Soviet states, up to the moment of adopting communist mode of political ruling exercised kingship<sup>15</sup>. On the other hand Hungary, Czech Republic and Poland after the demise of the Austrian-Hungarian Empire became independent republics with a “bourgeois – democratic” system (to cite the expression from the Encyclopedia of Soviet Armenia). The same type of independent republic was as well Latvia, before the Soviet “occupation”.

However, if both the Soviet and pre – Soviet political culture do matter, then why Ukraine, that for 70 years has been the part of the Soviet Union and before that like Armenia and Kazakhstan was in fact a colony of the Czarist Russia is not that centralized as Armenia and Kazakhstan but demonstrates a similar progress with Romania? And finally, what is explained with the relative centralization of the Czech Republic – the permanent exception of our sample – if it has been under communist centralized system only after the World War Two and before that has had a comparatively well developed democratic system of government ... Thus political culture still can't be considered as an encompassing explanation.

With regard of the factors of **conflict involvement** and **oil possession**, no substantial cross-country comparison can be done, because only two of the countries of our sample are described by each of these factors, namely Kazakhstan owns natural resources of oil and gas and Armenia is involved in a conflict across the Nagorno-

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<sup>15</sup> The tensions between the bourgeoisie and kingship in the mid 19<sup>th</sup> century Romania ended with the establishment of the Romanian Kingdom in 1881, that existed by the World War II. The last king Karol the Second took the throne in 1930 (Encyclopedia of the Soviet Armenia).

Karabakh issue. According to the evidence of progress in decentralization suggested by these countries the mentioned factors hold as negatively affecting ones. However, until this conclusion is not backed up by the evidence of other countries as well, no generalizations are possible to do.

The remained factor is **ethnic diversity** within the countries. It is again difficult to develop a discussion upon this factor, because there is no one pattern of how the countries might decide on decentralization coming from the fact of heterogeneity of the countries. Again Armenia that is characterized by having one of the most homogenous societies in the observed countries and Kazakhstan that has the least homogenous population, and is especially volatile to secession because the large Russian minority group is concentrated close to the border of Russia, but both fall under the same category as heavily centralized countries.

Meanwhile, with the exception of Poland, all the examined European states have fairly heterogeneous populations, however there is no evidence that they have similarly chosen to go to centralization in order to avoid the danger of separatism. For example Hungary has chosen another approach to deal with the minorities on its territory by devolving substantial authority for the enforcement of minority rights to the local levels where it supposedly can be realized with more efficiency as the specific needs and demands of different minority groups can be better known and captured.

However in case of Czech Republic just this is the critical factor to explain the reluctance by the side of the government to go to substantial decentralization. As Peterson contends:

“The slow progress in defining regions and their roles reflects the ideological and practical resistance to the formation of regional governments. The split with Slovakia made the Czech government wary of creating regional governments that would reproduce historical boundaries and perhaps awaken further regional demands for separation from the state. Early in the post-Communist years, for example a Moravian

political party emerged that demanded formation of a loose confederacy, with Moravia as a region with its own government, passing independent control and financing for most domestic functions” (2000, p.23).

The ideological resistance came from the leading in mid 1990s Civic Democratic political party and particularly its leader Vaclav Havel, who in one famous speech simply commented: “I am against the splitting of this country into self-governing entities and losing the unitary character of the state. I definitely don’t want to cantonize this country” (Peterson and others, 2000, Chapter 1, p.24). Thus where from comes the unpredictability of the Czech case in relatively less progress of decentralization in case of having high democracy ranking and good economic development.

## Summary and Conclusions

Before presenting the final conclusions from the overall discussion on the relative strength of each factor as a predictor of the countries’ predisposition to create a decentralized system of government, the findings on the supposed correlation of the particular variables to each country’s tendency towards decentralization with the simultaneous presentation of the observed progress made in decentralization by the country are summarized in Table 8 (see next page).

**Table 8: The Predisposition of Countries to Decentralization According Each Selected Variable<sup>16</sup>**

Source: Author

Progress of decentralization	Countries	Geographic location	Territorial size	Population density	Economic development	Soviet political culture		Pre - Soviet political culture	Possession of oil and gas	Involvement in conflict
						Duration	Intensity			
Poor	Armenia	-	-	+	-	-	-	-	n/a	-
	Kazakhstan	-	+	-	+/-	-	-	-	-	n/a
Fair to poor	Czech Republic	+	+/-	+	+	+	+	+	n/a	n/a
Average	Ukraine	+/-	+	+	-	-	-	-	n/a	n/a
	Romania	+/-	+	+	+	+	+	-	n/a	n/a
Good	Latvia	+	+/-	+/-	+	+	-	+	n/a	n/a
	Poland	+	+	+	+	+	+	+	n/a	n/a
	Hungary	+	+	+	+	+	+	+	n/a	n/a

Note: + means that the particular variable appears to be positively correlated with decentralization in the given country;  
 --means that the particular factor appears to be negatively correlated with decentralization, and  
 +/- means that the variable is neither positively or negatively correlated with decentralization in the given country.

<sup>16</sup> The factor of ethnic homogeneity is not incorporated into the table because it was seen impossible to express in terms of exerting positive or negative impact on the move towards decentralization, as the logic of reacting to the consequences of this factor is not one-sided.

Looking through the vertical axis the matrix shows that none of the factors is capable alone to explain the path of development the countries have chosen. No one factor correlates to the results of progress in decentralization in all of the countries exactly the way as it is expected. Some of the factors, namely *geographic location, level of economic development, and Soviet as well as pre-Soviet political culture* show consistently regular correlation between their supposed and actual impact on the progress of decentralization.

At the same time looking through the horizontal lines reveals that the number of favorably disposed conditions is prevailing in the countries, which have a considerable progress in decentralization. Meanwhile the number of unfavorable motives for decentralization prevails in case of the countries that have poor progress in this area. However, there is one striking exception in the sample in face of the Czech Republic, where all the discussed prerequisites that might affect decentralization are favorably positioned, however, it has merely fair progress. As already observed, the factor responsible for this is ethnic diversity, the missing factor from this table.

Therefore, the **conclusion** can be made that the *predisposition of a country to decentralization in most of the cases is determined not by one factor but by an interaction of several causal factors*, which in the geographically close countries, that develop in more or less common conditions, often are similar. However, there might be country specific nuances that may impact the progress in decentralization of individual countries very strongly making them outliers from the group of otherwise similar countries.

A deeper analysis is beyond our capacity to do at the moment due to the lack of information and on the example of just eight countries. The author does not claim to have

exhausted all the alternative explanations underlying the progress of decentralization in the observed countries. This is just a start. The hope is that it will contribute to studies of this kind and will provoke an interest to deepening the analysis by others as well.

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## APPENDIX A

### Borrowing Capacity of Subnational Self – Government

Country	Allowed?	Borrowing controls	Constraints on the use of loan proceeds
Armenia	Yes	Approval by the Ministry of Finance through the Marzpet is required	Can borrow only for the investments in social infrastructure
Kazakhstan	Yes	Law on the Republican budget should establish an ultimate ceiling every year	
Latvia		Approval by the Ministry of Finance is required; state control is required whenever annual recourse to borrowing exceed 20% of total revenue.	
Hungary	Yes	Administrative constraints	No
Czech Republic	Yes	Only market-based constraints	No
Poland	Yes	Numerical constraints	
Romania	Yes	Borrowing requires the consent of 2/3 of the municipal Councilors, the total authorized amount of borrowing for a local government must not exceed 5% of total revenues, set out in the preliminary budget and the funds that the local government can repay in a year.	

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## APPENDIX B

### The Capacity of Subnational Self - Government to Issue Own Taxes and Fees

Country	Taxes	Fees
Armenia	No	Yes
Kazakhstan	Yes	Yes
Ukraine	Yes	Yes
Latvia	Yes, but only at the municipal level, not regions.	Yes
Hungary	Yes	Yes
Czech Republic	No	Yes
Poland	Yes, but bases and maximum rates are established by the central government.	Yes
Romania	Yes	Yes

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## APPENDIX C

### Political Reform and GDP

Source: Karatnycky, Motyl and Piano: *Nations in Transit*, 2000

	<b>Democracy Rating</b>	<b>GDP Growth</b>	<b>GDP per capita (USD)</b>	<b>FDI (USD millions)</b>	<b>FDI per capita (USD)</b>
<b>CONSOLIDATED DEMOCRACIES</b>					
Czech Republic	1.75	-1.2	5371	3000	291
Estonia	2.06	2.0	3516	463	330
Hungary	1.75	4.1	4808	1550	153
Latvia	2.06	2.6	2567	185	77
Lithuania	2.00	2.6	2965	661	179
Mongolia	3.13	3.5	413	19	8
Poland	1.44	4.2	3848	6550	169
Slovakia	2.50	3.1	3822	504	93
Slovenia	1.94	3.7	9784	154	77
AVERAGE	2.07	2.7	4121	1454	153
<b>TRANSITIONAL POLITIES</b>					
Albania	4.38	8.0	1005	44	13
Armenia	4.50	5.6	491	191	50
Azerbaijan	5.50	6.9	556	902	117
Bosnia	5.13	15.0	1081	94	25
Bulgaria	3.31	1.8	1403	551	67
Croatia	4.19	0.9	4675	802	174
Georgia	4.00	3.0	1000	159	29
Kazakhstan	5.38	-2.1	1508	966	63
Kyrgyz Rep.	4.88	0.9	368	58	12
Macedonia	3.44	1.5	1624	103	51
Moldova	3.88	-6.8	456	129	30
Romania	3.19	-5.7	1708	1693	75
Russia	4.25	-2.3	2539	2350	16
Tajikistan	5.69	5.2	212	32	5
Ukraine	4.31	-2.1	947	650	13
Yugoslavia	5.50	-8.4	1017	594	52
AVERAGE	4.47	1.3	1287	730	35
<b>AUTHORITARIAN POLITIES</b>					
Belarus	6.44	4.9	1430	165	16
Turkmenistan	6.94	10.6	479	105	22
Uzbekistan	6.44	3.2	609	226	9
AVERAGE	6.60	6.2	839	165	16

*Note: The highlighted data are the ones, which are included in the sample of this study.*

## APPENDIX D

### Physical and Demographic Characteristics of States

Source: Dunn and Wetzel, "Fiscal Decentralization in Former Socialist Economies", 2000

	Population (in millions)	Area (in 1000s of sq km)	Urbanization (% of population living in urban areas)	Population Density (people per sq km)	Ethnic Diversity	
					No of ethn- ic groups	% of propor- tion of dominant ethnicity
Albania	3.3	27.4	38	119.0	6	95
Armenia	3.8	28.2	69	133.3	4	93
Azerbaijan	7.5	86.6	56	86.7	5	90
Belarus	10.3	207.5	72	49.8	5	78
Bosnia & Herzegovina	4.4	51.0	42	85.9	3	40
Bulgaria	8.4	110.6	69	76.1	7	85
Croatia	4.8	55.9	56	85.4	6	78
Czech Rep.	10.3	77.3	66	133.7	7	94
Estonia	1.5	42.3	73	35.2	6	64
Georgia	5.4	69.7	59	77.5	7	70
Hungary	102	92.3	65	110.8	6	90
Kazakhstan	16.6	2670.7	60	6.2	7	46
Kyrgyz Rep.	4.5	191.8	39	23.5	6	52
Latvia	2.5	62.1	73	40.5	6	52
Lithuania	3.7	64.8	73	57.3	5	80
Macedonia	2.1	25.4	60	83.3	6	65
Moldova	4.3	33.0	52	131.8	7	65
Poland	38.6	304.4	64	126.8	4	98
Romania	22.7	230.3	56	98.5	9	89
Russian Fed.	147.0	16888.5	76	8.7	8	82
Slovak Rep.	5.4	48.1	59	111.7	9	86
Slovenia	2.0	20.1	52	99.0	5	91
Tajikistan	5.8	140.6	32	41.5	4	65
Turkmenistan	4.5	469.9	45	9.6	5	77
Ukraine	50.0	579.4	71	86.3	4	73
Uzbekistan	24.0	414.2	41	57.9	7	80
Yugoslavia FR (Serb./Mont.)	10.6	102.0	57	104.1	5	63
<i>Maximum</i>	<i>147.0</i>	<i>16888.5</i>	<i>77.0</i>	<i>133.7</i>	<i>9</i>	<i>98</i>
<i>Minimum</i>	<i>1.5</i>	<i>20.1</i>	<i>32.0</i>	<i>6.2</i>	<i>2</i>	<i>40</i>
<i>Median</i>	<i>5.6</i>	<i>89.5</i>	<i>60.0</i>	<i>84.4</i>	<i>6</i>	<i>79</i>
<i>Average</i>	<i>17.0</i>	<i>852.3</i>	<i>59.0</i>	<i>77.1</i>	<i>6</i>	<i>76</i>
<i>Standard Deviation</i>	<i>29.5</i>	<i>3183.6</i>	<i>12.4</i>	<i>38.9</i>	<i>1.6</i>	<i>15.6</i>
<i>Coefficient of variation</i>	<i>1.7</i>	<i>3.7</i>	<i>0.2</i>	<i>0.5</i>	<i>0.3</i>	<i>0.2</i>
<i>Max to min</i>	<i>98.9</i>	<i>839.4</i>	<i>2.4</i>	<i>21.5</i>	<i>4.5</i>	<i>2.44</i>

*Note: The highlighted country data are the ones, which are included in the sample of this study.*

