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## *Review*

# **Decentralization in Public Administration in Central and Eastern Europe**

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**The last two decades systemic change has triggered public administration reform in all Central and East European countries, and privatization has served as a prime domestic mover for the structural differentiation of the public sector, this reform contains decentralization of public administration in these countries. The most important general criterion according to which success of a decentralization reform should be assessed is its contribution to the country's democratic transformation and to the social and economic development of the country as a whole, as well as of its individual regions. . Furthermore, fiscal decentralization brings government closer to the people and a representative government works best when it is closer to the people. The economic gains from decentralization of a public administration policy in central and Eastern Europe are macroeconomic stability, equity, efficiency and allocation. Since individual preferences for public goods differ, in a decentralized system individuals choose to live in a community that reflects their preference, which in return maximizes social welfare.**

**Keywords:** Decentralization, Public Administration, Central and Eastern Europe

## **INTRODUCTION**

During the 1990s, fiscal decentralization and local government reform were among the most widespread trends in central and eastern European countries. Many of these extensive and costly efforts, however, have made only modest progress toward meeting their stated goals. The basic precondition for all public administration reforms is the structural differentiation of the public sector. However, the various subsystems of the public sector became really separate and visible in the Central and East European countries only during its decomposition. The over centralized and overwhelming public sector disintegrated with the Communist political system as the transition was initiated. Privatization has

been both the result and the prime mover of all public sector reforms. The drastic reduction of the state sector brought about the essential differentiation of its major components. The largest and dominant part of the former public sector was the State Owned Enterprises. These organizations controlled both production and exchange. Privatization has left very few of these enterprises in the most advanced Central and East European market economies, while a drastic reduction and decomposition has taken place in all countries.

During the last two decades, the economic reforms in different parts of the world largely focused on the role of markets and understated the importance of the

organization of the public sector in achieving broader objectives such as economic stability, sustainable growth, and provision of basic public services equitably across people and jurisdictions. The key element underlying the interest in fiscal decentralization is to achieve these objectives by increasing efficiency, transparency, and accountability in the public sector.

In the decentralized system, the policies of subnational branches of governments are permitted to differ in order to reflect the preferences of their residents. Furthermore, fiscal decentralization brings government closer to the people and a representative government works best when it is closer to the people. The most important general criterion according to which success of a decentralization reform should be assessed is its contribution to the country's democratic transformation and to the social and economic development of the country as a whole, as well as of its individual regions, cities and rural communes. It depends on the specific situation of each country how this general criterion is translated into more concrete measures. No all-encompassing, universal and mandatory set of concrete success measures exists or should be imposed.

The prescribed role of decentralized levels of government in the allocation function is substantial because demand for many public services is not likely to be uniform across space. Welfare gains would thus be enhanced through decentralization because residents in different jurisdictions could choose the mix of public goods and taxes that best conforms to their preferences. Finally, the economic gains from decentralization of a public administration policy in central and Eastern Europe are macroeconomic stability, equity, efficiency and allocation.

## **Public Administration in Central and Eastern Europe**

### **History of public administration**

The countries of Central and Eastern Europe have had an especially long distance to travel to reach a market economy and a democratic system of governance. The term 'Central and East European states' covers three regions:

- 1-Central Europe: Poland, Czech Republic, Slovakia, Hungary, Slovenia, Croatia, Estonia, Latvia and Lithuania
- 2- The Balkans: Albania, Bulgaria, Romania, Bosnia, Macedonia, Yugoslavia
- 3- Eastern Europe proper: Russia, Belarus, Ukraine and Moldova.

History matters in many ways, since it reinforces and blurs the regional borders at the same time. First of all, the collapse of Communism has laid bare the underlying historical legacies of each region. In their thousand-year history, the Central European countries have always been closely integrated with Western Europe, in both

trade and culture, and they had before Communism been exposed to some democracy. The Balkan countries belonged to the Ottoman Empire and were cut off from Western Europe for many centuries, so democratic structures and patterns of culture have appeared rather belatedly. The deep authoritarian traditions of the Russian Empire have not really been broken by the recent efforts for democratization. The Communist system was imposed upon the Central European and Balkan states with a forced convergence among different countries from various regions. As the past has come to play a greater role in post-Communist society, this applies also to the field of public administration.

Despite their regional divergences, systemic change has triggered public administration reform in all Central and East European countries. However, there is a paradoxical situation in the analysis of these reforms. On the one hand, there has been an increasing international literature on this topic with many reports for international agencies that give a good basis for summarizing the main features of public administration reforms in these countries. On the other hand, it has become more and more difficult to describe the general process of public administration reforms in these post-Communist countries because of their growing diversity. Furthermore, collapse of the 'Communist' or 'state socialist' system took place not only in the political sphere but also in the overwhelming and omnipresent public sector of administration and management. What the public sector is, escapes clear definition even in advanced democracies, but the term becomes especially complicated to define in state socialism where the public sector 'exercised a power monopoly over society and economy.

The public administration reforms in the Central and Eastern European countries have come from a combination of external challenges, pressures and assistance, and privatization has served as a prime domestic mover for the structural differentiation of the public sector. This reform process has included an element of democratization in the sense of separation and devolution of power as well as privatization in its economic meaning of privatization of state assets. The complementariness of these two processes is important in the case of Central and Eastern European countries because both have been necessary to establish a new legal order in which private property rights are recognized and new local government bodies take over public ownership from central organs.

### **The Importance of Public Administration**

The importance of Public Administration was well-phrased by Christian Wolff (1679-1754), arguably the founder of Public Administration as a scholarly discipline in Europe. He put the matter thus:

"We can realize very easily that single houses cannot get themselves what they need for necessity, comfort, and pleasure, indeed, for happiness, nor can they enjoy their rights, nor will they definitely receive what they are entitled to receive from others, or be protected from violence from the outside. Therefore, it is necessary to guarantee that to common, communal powers what individual houses cannot achieve themselves".

The need for the public administration rises from the fact that if there is no planning, regulation, supply of public goods, etc., we cannot live together, at least not close by, yet that is the situation almost for all of us, and this living-together should be organized and administered well. The term Public Administration (PA) describes the process whereby elements in society (institutions and civil society) wield power and authority and influence and enact policies and decisions concerning public life and economic and social development for both public and private sectors.

Rules and norms of corporate governance are considered to be important elements of the regulatory framework for successful market economies. Although corporate governance can be defined in a variety of ways, it generally refers to the mechanisms by which a business enterprise, organized in a limited liability corporate form, is directed and controlled. It usually concerns mechanisms by which corporate managers are held accountable for corporate conduct and performance. Over the past decade, interest in the role corporate governance plays in economies has increased, driven by factors such as the freer flow of capital, the growth and diffusion of shareholding, the increased merger activity among large corporations and the competitive pressures of globalization. Recent business and accounting scandals, such as Enron and WorldCom, have accelerated national and international initiatives to strengthen corporate governance regulation and enforcement.

International financial institutions provide advice and technical assistance programs to promote good governance and curb corruption in their client countries. The work includes development and promotion of codes and standards of good practices, transparency and accountability and public resource management. In central and Eastern Europe development policy, good governance and the rule of law are seen as decisive in strategies to reduce poverty. EU Development Policy programs work to strengthen partner countries' institutional capacities, including the capacity of the government to effectively manage public resources, to implement sound policies and to control corruption. EU Partnership Agreements and European Development Funds (EDF) proposals include 'good governance' - alongside human rights, democracy and the rule of law - as an essential. If good governance criteria are deemed

to be breached, agreements and funding can be suspended to central and Eastern Europe members.

### **Governance and Public Administration Reform**

The Central and Eastern European countries have joined the Council of Europe and the European Charter of Local Self-Government – opened for signature on 15 October 1985 – which has become pivotal for their public administration reforms. It has provided these countries with both the constitutional framework and the basic structure for the new public administration. The Council of Europe has always recognized the overriding importance of democracy at local and regional level. In 1994 it organized the Congress of Local and Regional Authorities of Europe (CLRAE) as a consultative body that has become vital in public administration reforms for these countries through its detailed advice in the practical management of public administration. Among other tasks, CLRAE prepares – under Statutory Resolution of the Committee of Ministers of the Council of Europe – regular country reports on the situation of local and regional democracy in all member states.

In particular, the CLRAE monitors how the principles of the European Charter of Local Self-Government are implemented and this control function has had a particular significance for all Central and East European countries. This intensive attention paid by the West to public administration and management among its Eastern neighbors has led to various forms of technical assistance and conditionalities. The Council of Europe, in fact, already in 1992 designed a special program, LODE (Local Democracy Program), to promote local democracy and to develop local and regional authorities, in principle for all member states, and in particular for the new democracies. The LODE program draws inspiration from the European Charter of Local Self-Government and is developed every year on the basis of the needs expressed by the beneficiary countries.

This program operates at both intergovernmental and local–regional levels in order to create central government structures capable of cooperating with the autonomous local self-governments and to develop local and regional authorities capable of efficiently managing public affairs. Given the fact that the cultural factor is the real bottleneck in public administration reforms, the professionalization of public administration is the biggest task for the Central and East European countries. Thus, LODE puts a special emphasis on the training of local and regional authority elected representatives and officials in the framework of ENTO (European Network of Training Organizations for Local and Regional Authorities). In addition, Local Democracy Agencies were established in 1993 as part of the peace process in

former Yugoslavia to form a partnership between a particular local authority and local counterparts elsewhere in Europe. As an example of what this kind of collaboration has produced, it is worth mentioning that in Kosovo it has helped to recruit international administrators for its thirty municipalities, to draft legal texts on municipalities and elections, and to monitor the municipal electoral process. In addition to the Council of Europe and its various assistance programs, the World Bank has provided assistance and conducted research on public administration reforms in the Central and Eastern Europe countries.

The importance of the Strategy Paper prepared by the World Bank Group's Public Sector Board in May 2000 is Reforming Public Institutions and strengthening Governance, it tends to deal with high performers in Central Europe. This document distinguishes between three Separate periods of technical assistance to public sector reform in Central and Eastern Europe that coincide with the stages of institutional development mentioned above. For the World Bank assistance, the early years of public sector transformation meant Institution-Building/Technical Assistance (IBTA) projects that usually suffered from weak client commitment and turned into information technology projects with a limited prospect of sustainable impact on institution building. In the mid-1990s the World Bank initiated broader institutional reforms, such as public resource management and specific functions of state administration – tax administration, treasury system, etc. – in order to build up both technical and organizational foundations for modern public administration.

The basic precondition for all public administration reforms is the structural differentiation of the public sector. However, the various subsystems of the public sector became really separate and visible in the Central and East European countries only during its decomposition. The over centralized and overwhelming public sector disintegrated with the Communist political system as the transition was initiated. Privatization has been both the result and the prime mover of all public sector reforms. The drastic reduction of the state sector brought about the essential differentiation of its major components. Moreover, there has been a radical transformation of the political meso-system of social actors such as interest organizations and micro-system as a network of civic associations. Altogether, a complete reorganization of public-private relationships has taken place that has changed the social environment of public administration.

## **Part two:**

### **Decentralization in Central and Eastern Europe**

#### **Decentralization; the concept and some principles**

In the last two decades there has been a worldwide

interest in decentralization of government in all parts of the world. The pursuit of decentralization is widespread, as both developed and developing countries attempt to challenge central governments' monopoly of decision-making power. In the western world, decentralization is an effective tool for reorganization of the government in order to provide public services cost effectively in the "post-welfare state" era (Bennett, 1990; Wildasin, 1997). Developing countries are turning to decentralization to escape from the traps of ineffective and inefficient governance, macroeconomic instability, and inadequate economic growth (Bird and Vaillancourt, 1999). Throughout post-communist Central and Eastern Europe, decentralization of the state is the direct result of the transition from socialist system to market economy and democracy (Bird, Ebel, and Wallich, 1995). In Latin America, the origin of decentralization is the political pressure from the people for democratization (Rojas, 1999). In Africa, decentralization has served as a path to national unity (World Bank, 1999).

This diversity in the list of factors that have contributed the interest in decentralization reflects institutional differences across countries. Institutional factors, such as political, social, legal, and economic conditions, are generally important for the analysis of public finance issues, but they are especially important for the analysis of fiscal decentralization. The institutional context of fiscal decentralization entails the overall economic development, the nature of the legal system, ongoing process of economic and political reform, the organization of monetary and financial institutions, and tensions arising from ethnic, religious, or economic differences.

This institutional background determines the design of intergovernmental financial system and ultimately affects the outcome of fiscal decentralization reform process. In the past two decades, the economic reforms in different parts of the world largely focused on the role of markets and understated the importance of the organization of the public sector in achieving broader objectives such as economic stability, sustainable growth, and provision of basic public services equitably across people and jurisdictions. The key element underlying the interest in fiscal decentralization is to achieve these objectives by increasing efficiency, transparency, and accountability in the public sector.

In the decentralized system, the policies of subnational branches of governments are permitted to differ in order to reflect the preferences of their residents. Furthermore, fiscal decentralization brings government closer to the people and a representative government works best when it is closer to the people (Stigler, 1957). The theoretical argument for fiscal decentralization is formulated as "each public service should be provided by the jurisdiction having control over the minimum geographic area that would internalize benefits and costs of such provision."<sup>1</sup> However, much of the established theoretical literature of fiscal federalism has been based

on issues that arose within developed countries; particularly the US and Canada and the definition and implementation of fiscal decentralization differ greatly across developing countries due to differences in economic and political structures. This diversity creates challenges to measure and compare the degree of decentralization across countries and to make generalizations about it.

In many countries the government structure is unique reflecting the historical, social, and cultural evolution of the society. The differences in the structure of government are a natural consequence of these factors. Despite such differences, the structure of intergovernmental financial system in many countries exhibits certain broad patterns, such as the existence of inadequate "own resources" of subnational governments to finance the expenditure functions, the heterogeneity of subnational governments, and the lack of subnational autonomy to levy taxes that are capable of yielding enough revenue to meet local needs.

Furthermore, subnational governments don't have adequate level of "own resources." and revenues under direct control of local governments invariably less than their expenditures in most countries. However, in many countries, intergovernmental transfer system is not formula based and the central government decides on the amount of transfer on a discretionary basis. Therefore, intergovernmental transfer system in many countries is not transparent and subject to political manipulation, which lead to uncertainties on the part of subnational governments. Such uncertainties discourage fiscal planning and effective budgeting.

### **The strategy of decentralization**

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

The question of optimum strategies for decentralization is sometimes raised. Specifically, is it preferable in some countries first to centralize in order to implement democratic changes at the central level and only then to decentralize? Among the circumstances under which this could be an advisable sequence, some have been mentioned already: indebtedness, poor state of the economy or the mentality of the people. The sequencing of the transformation steps is, indeed, a real problem,

and situations may exist when hasty decentralization could be counter-productive. This might be the case, for instance, when decentralization to the intermediary level would be tantamount to strengthening the position of authoritarian regional strongmen. Other such circumstances have also been mentioned. Decentralization at any cost should certainly not be the goal. However, one has to be cautious against the misuse of such arguments by national politicians, who fear that their power might be endangered by the advancement of decentralization. Doubts may also exist about the extent to which citizens and administrations are ready for decentralization. Decreasing citizens' participation in public matters, which can be observed in some countries, suggests that along with the institutional changes, more attention should be paid to the education of people about decentralization and civic virtues.

The transfer of experiences and institutional solutions from the mature democracies may contribute to reforms in the CEE countries and, indeed, much has been done already in this respect. Many tasks that must be accomplished in the former socialist countries are standard problems that were encountered in decentralization reforms elsewhere and for which, therefore, known solutions exist and can be used as inspiration. However, post-socialist reforms must also deal with the tasks which result from the specific historical conditions of transition from the soviet-type sub-national government to the variety of democratic paths that were chosen by the individual countries of the region. Some paths may be unique, with no precedent in previous decentralization reforms. As an example, one can mention the choice to build a democratic system of local government and, at the same time, create its economic and financial infrastructure, as well as develop the corresponding system of economic and financial management of such infrastructure.

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

compatible with the domestic system.

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

### **Benefits from decentralization**

The economic gains from decentralization of a public administration policy in central and Eastern Europe are macroeconomic stability, equity, efficiency and allocation (Musgrave, 1984). Since individual preferences for public goods differ, in a decentralized system individuals choose to live in a community that reflects their preference, which in return maximizes social welfare. The economic argument of efficiency stems from the fact that due to closeness to the citizens, local governments are able to meet different views and interests of people and allocate resources more efficiently than a central authority. However, efficiency aspect is not the only one in evaluating economic dimension of fiscal decentralization. Intergovernmental fiscal design has important implications on macroeconomic stability and equity.

### **Allocation**

The prescribed role of decentralized levels of government in the allocation function is substantial because demand for many public services is not likely to be uniform across space. Welfare gains would thus be enhanced through decentralization because residents in different jurisdictions could choose the mix of public goods and taxes that best conforms to their preferences. In the absence of a market and competitive pricing for public services, community-wide demand would be articulated through the collective decision-making process that is, voting. In this framework, decentralization is desirable not only because of preference differentiation, but also because expenditure decisions are tied more closely to real resource costs in smaller jurisdictions. In addition, when there are a large number of decentralized governments, there is likely to be greater experimentation and innovation in the provision of local public goods, potentially leading to improvements in overall resource productivity.

### **Efficiency**

The fiscal federalism literature argues that there are

efficiency gains from decentralization. According to Stigler (1957) a representative government works best when it is closer to the people. In his seminal work on the theory of public finance, Musgrave (1959) separates the functions of government into three: macroeconomic stabilization, income redistribution, and resource allocation. With respect to resource allocation function, Musgrave argues that policies of subnational branches of governments should be permitted to differ in order to reflect the preferences of their residents.

The decentralization theorem is based on the assumption that central government can only provide goods and services uniformly across jurisdictions. Therefore, according to the argument, there are potential efficiency gains from fiscal decentralization. In some developing countries, decentralization reforms are carried out without institutional and legal support mechanisms and appropriate intergovernmental fiscal arrangements to support decentralized system. In these countries, subnational governments fell short of meeting the expectations and decentralization has been blamed for macroeconomic instability, regional inequalities and inefficiencies in the public sector.

### **Stability**

Recent studies on the relationship between fiscal federalism and macroeconomic governance find that "decentralized fiscal system offers a greater potential for improved macroeconomic governance than centralized fiscal systems." In fact, highly decentralized federal countries, such as Switzerland, Germany, Austria, and USA, have very stable macroeconomic performance and low rates of inflation (Shah, 1997). Countries like Argentina and Brazil have had macroeconomic problems due to subnational debt reflects the fact that the old institutional arrangements no longer function under the decentralized regime. In countries without institutional structures that support mature and stable decentralized system, subnational governments may use their fiscal power irresponsibly causing macroeconomic problems. Therefore, in countries undergoing decentralization process, institutional reform is required for an effective mechanism of intergovernmental cooperation.

### **Equity**

Equity aspect of a public finance policy concerns with the redistribution of income to achieve a socially just outcome. In its classical definition, redistribution typically implies a transfer of funds to low-income households to achieve more equal distribution of income. In decentralization context, the issue of redistribution refers to the extent which subnational governments have the capacity to deliver an equivalent level of services. There are two major factors contributing to the inequalities:

taxes bases vary significantly from region to region and regional characteristics affect the cost of service provision. In addressing inequalities, redistribution policies are designed to provide more resources to poorer regions in most decentralized systems. However, providing more resources to poor regions addresses only one aspect of the equity problem. Success in redistribution policies requires special attention to within locality equity. In designing redistributive policies subnational governments need to be supported by the central government. Otherwise, subnational governments cannot effectively carry out redistributive policies. The potential mobility of households places real constraints on the capacity of decentralized governments to employ redistributive policies.

## CONCLUSION

Public administration reform in central and east European countries has a bearing on the outcome of fiscal decentralization application. The diversity in the list of factors that have contributed the interest in decentralization reflects institutional differences across countries. Institutional factors, such as political, social, legal, and economic conditions, are generally important for the analysis of public finance issues, but they are especially important for the analysis of fiscal decentralization. The most important general criterion according to which success of a decentralization reform should be assessed is its contribution to the country's democratic transformation and to the social and economic development of the country as a whole, as well as of its individual regions, cities and rural communes. The economic gains from decentralization of a public administration policy in central and Eastern Europe are macroeconomic stability, equity, efficiency and allocation (Musgrave, 1984). Since individual preferences for public goods differ, in a decentralized system individuals choose to live in a community that reflects their preference, which in return maximizes social welfare

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