

Mind Your Own Business!

Community Governance in Rural Municipalities

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Community-Based Governance: Why is it Important?

Institutions of sub-municipal governance have two basic functions. Being part of the political system, they guarantee *better representation* through direct citizen participation. This territorial, residence-based representation creates new mechanisms for improved accountability in the public sector. Supplementing other local political institutions, sub-municipal governments also contribute to the demand-driven community development, as well as they provide *effective and targeted local public services*. Depending on the scale and form of decentralization, they share service management responsibilities with national and local governments and bring public administration closer to citizens.

The critical question is of how these two positive main features of local communities can be utilized in public sector reforms. Modernization of public services usually depends on the forms and methods of decentralization. The most important element of decentralization is deciding on the allocation of public functions. This is driven by several competing factors (Hermann et al. 1999; Swianiewicz 2002). Some of them require sizable local governments, while others have a favorable impact in smaller units. Sub-municipal governments can significantly influence these factors, so the assignment of competencies and public services will be more effective and efficient through community governance.¹

One of the primary goals of decentralization, is *greater political accountability*. This is achieved through public control and citizen participation. Public decisions are influenced through various political mechanisms: party system, civic advocacy, and interest groups, referenda, etc. Territorial decentralization also guarantees better access to information and, consequently, provides a greater chance for public control. At the lower levels of government, leadership seems to be more responsive. So this is a strong argument for empowering sub-municipal governments.

Minority interests, however, might be better served in larger local governments. Traditional village communities in closed rural societies could be captured by local elites. Or they might be misused by strong national governments for centralization purposes by establishing hierarchical linkages to this very low level of government. To avoid such scenarios, citizen participation should be encouraged. Though this is a critical condition of effective local governance, the forms of public participation should be adjusted to different size municipalities. Professional organizations and issue-oriented interest groups could be as effective as institutions in large cities as the neighborhood-based representation in smaller local governments. *Economic efficiency* is the second important factor in assigning public functions. Larger-sized local governments are usually justified by the *economies of scale* argument. It means that unit costs of public services are supposed to be lower in proportion with the increasing size of the service entities. Indeed, there is empirical evidence that in the capital-intensive utility services, the marginal costs are lower with increasing facility size.

¹ The terminology used in this introductory chapter reflects the diversity of local government systems and sub-municipal entities in the individual four studied-countries. Thus, when the administrative and public service characteristics are discussed, this entity is typically called a *sub-municipal government*, or *mayoralty*, but when the social characteristics are highlighted, then the term *community*, *neighborhood* or *village* is used. But very often these entities are named in the local languages though all these terms are used interchangeably. The term “elected local government” usually refers to the municipality, as the lowest tier of self-government in a country, even if community leaders and village councils are also elected.

This might be an argument against creating strong sub-municipal governments. However, in the case of human service organizations—schools, hospitals, and public administration—the unit costs are decreasing to the optimal size local governments, though beyond this point they start to increase, due to more complicated management structures, higher communication costs, etc. The unit cost curve is “U” shaped.

Another sub-component of economic efficiency is based on public-choice theory: consumers in smaller units are able to *express their preferences* more clearly. Community-level governments are the best forms to identify competing objectives, and to confront demand in various units of local government. This also helps to identify the costs of public functions, especially when services are financed through pricing mechanisms. In smaller public entities user charges, contributions, and matching grants reflect the differences in costs, revenue-raising capacity, and ability to pay.

This is related to the third factor for the assignment of functions: *equity and fairness*. Local governments have to *internalize all the costs* and benefits of services provided by them. In small local governments the spill-over effect could lead to losses and inefficient allocation of public funds. Free-rider municipalities transfer the burden of financing services to the neighboring local government. This raises the claim for larger-sized local governments. The more expanding market-based service delivery mechanisms, however, are able to manage this problem. Large communal and utility companies can introduce refined pricing mechanisms, when specific costs at each and every local government are reflected by the user charges. Thus, in this respect, municipality size does not really matter.

Difference in *revenue-raising capacity* is another sub-component of this factor, inducing larger-sized local governments. Objectively-measured differences will be greater between smaller local governments. But a lack of own resources can be compensated by intergovernmental transfers, so, in a fragmented system, there will be a higher need for equalization grants. The “adequate” fiscal capacity could be achieved through the refined system of intergovernmental fiscal relations (own sources, revenue sharing, and transfers). Sub-municipal governments might also be the subjects of these revenue equalization schemes.

The fourth set of factors is the *administrative capacity* of local governments. In larger, urban local governments, it is expected that staff are more professional, thus the quality of management in municipal administration and services provision will be higher. This also raises the question of geographic adequacy, and whether local government boundaries follow the area of service provision. As services have different catchment areas, the forms of government and practices of inter-municipal cooperation are also important components of this factor. Through various institutional forms of municipal cooperation, the administrative capacity might be improved.

Summarizing the overall significance of these factors, sub-municipal governments are important institutions of political accountability as well as for the expression of local preferences. These advantages of strong community governance can only be realized if intergovernmental fiscal relations support decentralization, where funding schemes and methods are able to manage the problems of excessive fragmentation. Improved administrative capacity is also a condition of successful sub-municipal governance.

FDI Project Scope and Objectives

Our analysis on the issues of neighborhood-level governments was implemented under the

Fiscal Decentralization Initiative project of the LGI program at OSI–Budapest. The overall goal of the project was to strengthen local governments and national decentralization programs through the sharing of information and lessons on the use of community-based governments. This policy development and capacity enhancement project focused on three countries of South- Eastern Europe: Bosnia and Herzegovina, Bulgaria, and Serbia. We also examined Poland from Central Europe, which is a highly-decentralized country with relatively large-size local governments, having traditionally strong sub-municipalities.

The long-term aim of the FDI project is to compare the main findings and to share the lessons with other transition countries. The potential users of this information might either be the countries facing the problems of fragmented municipalities and planning *amalgamation reforms* (for example, Hungary), or where like-sized local government exist and traditions of community governance prevail, but *decentralization reforms* still have yet to be launched (for example, in Central Asia).

Beyond its contribution to policy design, the project also aims at laying down the foundations of future capacity-development programs. Forthcoming FDI program activities intend on equipping the actors of central and local public service management with the necessary knowledge and skills to enable them to address rural problems.

Several comparative, regional reports and country studies analyze the role of local communities in the selected areas.² We focused on the two basic issues highlighted above: accountability and service efficiency. The country reports targeted three broad issues by following similar structures:

- a) forms and functions of neighborhood governments;
- b) critical assessment of in-country models, focusing on accountability, and public service efficiency; and
- c) proposals on future policy advice and capacity development.

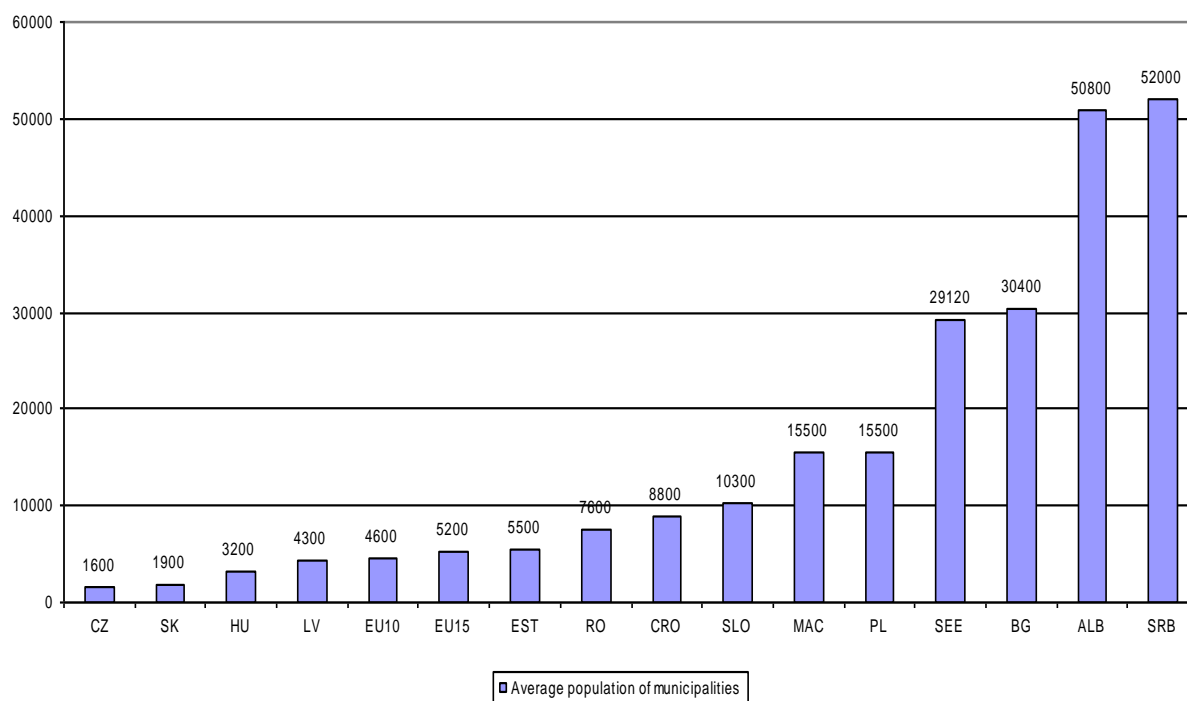
Forms and History

Finding the Right Balance: Type and Size of Mayoralties

The European decentralization models in transition countries present two extreme solutions: the creation of either large local governments or much smaller, fragmented systems. (Figure 1). Sub-municipal governments primarily are established in countries with larger-sized local governments. They provide institutionalized forms of internal power sharing within these local governments. In a fragmented system, service efficiency and revenue raising capacity requires cooperation between the smaller local governments. The same issue is reflected in both models: how to balance between the competing factors of decentralization.

² Swianiewicz, P., 2002; SLGRP,2003; Adams, J., 2004;

Figure 1.
Average Size of Local Governments



Source: Dexia 2004; Marcou 2004.

A particularity of the local government system in South- Eastern Europe is that the larger municipalities exist parallel to mixed forms of *meso* level governments (Marcou 2004). With the exception of the unique governance structures in Bosnia and Herzegovina, these intermediate tiers are not elected, they are merely regional units of the central government. These *de-concentrated units* of central government agencies infiltrate to the municipal administration and local decision making. The *okrug* in Serbia, *oblast* in Bulgaria, and other units or service entities of the various ministries have a tight control over municipal service management and local spending.

Regions, as planning and statistical units, have been established in several countries that became new or potential members of the EU. They usually comprise several local (or county) governments. Their political power and legitimacy is limited, as the regions have no elected bodies or other forms of political representation (with some exceptions, like the Polish *voivodship*). They mostly serve regional development and planning purposes.

In the Balkan countries, there is a strong tradition of separating central and local functions. Thus, the responsibility for providing specific services lies, in reality, either with the national government or with the municipalities. If a service is formally regarded as a local one (for example, primary education or social welfare services), the municipal competencies are limited: a local government controls only the maintenance of a school's basic infrastructure or merely provides the physical space for a social-work center. All the critical decisions on service performance, methods of delivery, human resources, etc., are made primarily through the de-concentrated units of the ministries.

The allocation of revenues follows a similar principle: local taxes are supposed to finance municipal functions and national budget grants are aimed at de-concentrated and delegated services. This has been partially modified by the new regulations on local government

finances, for instance, in Serbia and Macedonia. Here, general purpose or block grants, and revenue-equalization grants connect the two levels of government. Otherwise, there is still a sharp division between the two tiers.

This separation can be explained by two reasons. First, the scope of devolved services is rather limited. In SEE countries, local governments are responsible for few functions, typically for basic administrative and communal services. In financial terms, the local expenditures are only three to six percent of GDP. The other factor is a general mistrust of local governments. Thus beyond political decentralization, the real transfer of assets, powers, and human resources is limited.

As a counterpoint, countries with large-sized local governments have developed *sub-municipal forms of governance*. In some European transition countries, these neighborhood-based community governments have significant historical traditions and operate in various forms. They were established as mayoralties, typically in large cities and in municipalities that cover several geographical units (villages). In metropolitan local governments, they bring administrative and social services closer to citizens.

In rural areas they have the mixed functions of community development and of provision for administrative and public services. In Bulgaria these are the *kmetsvo*; in Poland *solectwo*; in the former Yugoslavia *mesna zajednica*; in Kosovo *bashkësia lokale*. Table 1 shows the average number of sub-municipal units in the studied countries.

Table 1.

Number of Neighborhood Governments

Countries	Number of		Average number of sub-municipal governments
	local governments	sub-municipal governments	
BiH, Federation of BiH	80	814 ³	16.0
BiH, Republika Srpska	62	972 ⁴	18.0
Bulgaria	264	2,560	9.7
Kosovo	29	453	15.6
Poland	2,478	40,348	16.3
Serbia ⁵	145	4,132	28.5

Source: Country reports in this volume.

There are no comprehensive statistics on community-level governments, because the establishment of these neighborhood governments usually depend on the decision of the municipalities. Thus, the reports in this volume had to rely on sample-based surveys or incomplete statistical data. The information available from these sources shows, however, that typically 16–18 community-level governments are organized in one municipality.

In Bosnia and Herzegovina, only half of the local governments in Republika Srpska have established *mesna zajednica*, while it is more common in the Federation (65 percent of local governments). In Serbia, the community-level governments are more widespread; there is one in almost every village (1.3 settlements/sub-municipal government).

³ In 51 municipality. 65 percent of local governments organized sub-municipal governments.

⁴ In 54 municipality, 87 percent of local governments organized sub-municipal governments.

⁵ Without city of Belgrade, where 307 sub-municipal local governments exist in 18 municipalities (average: 17).

Due to lack of proper statistics, there is no information on the *average population size* of a sub-municipal government. According to the available data, these community-level governments are usually between populations of 300 and 1,000. In Bulgaria, the average *kmetstvo* has a population of 821, and the majority of them (67 percent) are between populations of 250 and 1,000. In Poland, with some exceptions, in most of the regions the average size of *solectwa* is between 300 and 500. In Serbia, the *mesna zajednica* are larger; the average population size outside Belgrade is 1,622.

From Self-Governance to Local Administration: Historical Origins

Village self-government existed for many centuries in all of the four studied-countries. Various forms of rural communities were created for managing the common issues of production, solving disputes, and financing joint activities. The *zhupa* in Bulgaria, *mahala* in the Muslim-dominated Bosnia and Herzegovina, *selo* in Serbia, and *solectwo* in Poland all served the interest of the local community.

They were all partially rooted in the methods and forms of agricultural production of the medieval period. In the southern Slavic states, the *zadruga* (a large, extended family) was the unit of common agriculture production. Ten to 20 families, usually with a maximum population of 100, lived and worked together. The families were connected by relatives who owned the common assets, as no personal property was allowed. Women could leave or join a *zadruga* through marriage only.

The *zadruga* leader, the oldest and most respected family head, organized the farming, and managed community life by solving disputes, and making decisions on property sales. The wife of this alderman had similar authority over traditional women's activities (holiday rituals, sewing, etc.). The *zadruga* community was highly hierarchical, and strictly controlled by the "old man" heading the community. It started to break up only in the 19th and 20th century when new inheritance laws were introduced, and agricultural production was modernized, while the younger generations left the *zadruga* (Library of Congress, <http://countrystudies.us/>).

The community-level self-governance was further developed in two directions. First, various state structures were created, and second, the municipal self-governments evolved. As southern Europe was under diverse political influences, the models of public administration also followed different patterns. The Ottoman Empire controlled the local communities and municipalities through the *vilayet*-based, hierarchical administrative system. The village-level government kept its relative autonomy in managing local matters, such as agricultural production, trade, taxation, public hygiene, care for orphans, schools (for example, in Bulgaria), and settling disputes (together with Turkish judges in Serbia).

The influence of the Austro-Hungarian Monarchy, and creation of independent states throughout the 19th century, led to the establishment of de-concentrated state structures. Beyond the lowest level self-government, *districts* and *provinces* of various types were formed (*okoli, okrag, okrug, oblast*, etc.).

During this period, rural municipalities had varying levels of autonomy. In the Austro-Hungarian Monarchy, the Act of Village Municipalities in the late 19th century, defined the status of these rural local governments. In Serbia, after the period of uprising, and with weaker Ottoman control, the newly-created central state supervised the local governments through the police, and held strong powers over elected local bodies. *Modern local governments* with greater autonomy over property and taxes were established later, by the end of the 19th century.

This parallel development of community-based, very local forms of self-governance, and the state-controlled, top-down administrative structures partially explains the present attitudes toward decentralization in the Balkan countries. In South-Eastern Europe, elected local governments usually have limited functions with a well-defined local revenue base. While the central units at lower levels of government do not intervene in these municipal issues, they do organize hierarchical, fully controlled and financed state administrative structures. There is limited cooperation between the two forms of government. Local governments rarely manage general public-administration issues and public services provided by the state are slowly transferred to elected municipalities.

These basic parallel structures of public administration and local self-governments have not changed significantly over time. The Yugoslav model of local self-management has created special decision-making and self-financing rules. Thus, the present larger-sized local governments in countries of the former Yugoslavia can be partially explained by the economic rationale of *decentralized self-financing*. The community-level governments were part of this system with relatively strong autonomy, until the 1990s, when centralization tendencies reached this lowest level of government, and all the assets had to be transferred to the national state.

In Poland, where preceding the Second World War the *gromada*, as a sub-municipal unit, combined the community and the state functions, the Soviet-type, local-government system then destroyed these institutions. The “*national councils*” were controlled by the highly-centralized political machinery and, consequently, the sub-municipal, village-level entities lost their influence.

Neighborhood-level governments in the Balkan region also could have supported cultural diversity, and might have helped in the effective management of ethnic or religious disputes. For example, in highly-divided Kosovo, the conflicts can be partially explained by the fact that rural communities were destroyed (I. Blumi 2005). Forcing control of the more orthodox Islamic community over the less fundamental mosques has created greater hostility between neighboring villages. Centralized structures in place in Serbia since the Yugoslav period, continuing throughout the rule of Milosevic, and even under the guise of various international organizations, strengthened divisions, not reconciliation, at a very local level.

Roles and Functions

Decentralization reforms in the studied countries were implemented in several waves and at different speeds. Poland was one of the forerunners in establishing politically-autonomous local governments at the municipal (*gmina*) level. In the South-Eastern Europe, the establishment of local self-government units were created with some delay, and the real devolution of functions is still rather slow. In Bulgaria, the economic crisis of transition perpetuated centralization until the late 1990s. In countries of the former Yugoslavia, the war and the proceeding political turmoil in Serbia hindered decentralization.

Most of these reforms focused on establishing political structures at the lower level of government. Decentralization of public services was limited, and local governments are mostly responsible for some administrative and communal services. As the reforms primarily concentrated on the hierarchical linkages between different tiers of governments, the issues of sub-national governments were usually not addressed in the past reforms.

The establishment of sub-municipal governments depends on the elected local governments' will, except in the Federation of Bosnia and Herzegovina, and in Serbia, where it is

mandatory to organize *mesna zajednica* in rural municipalities.⁶ In Bulgaria, conditions for establishing sub-municipal local governments is regulated by law. The creation of a *kmetsvo* depends on a referendum with 25 percent of supporting votes in the village, and also needs to be endorsed by municipal council decision.

Legitimacy, Accountability

Sub-municipal governments, as traditional social institutions, ensure the *legitimacy* of governments through representation and accountability. They are either community-based organizations or legal entities, established according to the laws regarding local governments. The political weight of these community governments very much depends on the municipal election rules. The balance of individual ward- and political party-based election of councilors or mayors determine the significance of the neighborhoods in local political power and development.

Despite the fact that neighborhood governments in rural communities are often built around familial ties or religious lines, their leadership is controlled by the local community. Neighborhood governments are political entities connecting individual citizens and the elected governments. As such, they also provide mechanisms of *social and political accountability*. In local governments with populations of many thousands, these community-based self-governments could also guarantee the inclusion of minorities. In extreme cases, they can even replace formal institutions (as parallel structures).

As the lowest level of formal government, they guarantee *inclusion in public decision-making*, and ensure the transparency of formal public institutions and procedures. They might also encourage public participation in local government decisions in various areas: urban planning, budgeting, housing, or allocation of social welfare services. In terms of community development, neighborhood organizations are critical partners of elected local governments. Urban renewal projects, rehabilitation and housing programs, rural development, and local economic development activities are often based on the cooperation of these community-based organizations with other formal structures of government. This is one reason why community empowerment is often the focus of poverty-reduction projects.

Counterpoints to Proportional Electoral Systems

In the countries with larger-sized local governments, the councilors are elected by lists and not in individual wards. The proportional system of local government elections is usually influenced by the political parties and other organized groups. The election rules often lead to a situation where villages in the territory of a local government are left without any representation in the municipal council, and the nomination of local candidates is controlled by the political organizations.

Sub-municipal governments are supposed to balance the influence of political parties and other institutions. Usually, community leaders and the neighborhood -level representative bodies or councils are *directly elected*. The election rules are set by the local government, and there is no specific legislation on community-level voting procedures. The most typical form

⁶ In Serbia only, the new Act on Local Governments in December, 2007 made it obligatory. In the Federation of BiH, the statistical data showed, that only two-thirds of the municipalities established these local communities.

is a “village meeting,” though, for example, in Serbia, community leaders also could be elected at the general municipal elections.

Community-level leaders and councilors can be elected by public or secret voting, too. There are no minimum requirements, either on the citizens’ participation in these public meetings or on the number of votes needed for getting elected.⁷ According to surveys in Poland, 10–30 percent of the population is typically present at these village meetings; in Serbia it is more like a quarter. None of the election thresholds are regulated, except in Republika Srpska, where those councilors can get elected by a 50 percent vote of those present.

These practices of community-level representation *raise doubts about the legitimacy* of sub-municipal governments. As national regulations tend to give high autonomy to local governments in forming and empowering neighborhood-level governments, the influence of the community leadership very much depends on the elected local governments. So when the local council is ready to share its competencies with the sub-municipal governments, then participation methods are more effective and functions within the municipality are further devolved.

In this case, sub-municipal government elections and accountability mechanisms are better regulated. Consequently, community leaders have greater legitimacy (as in Bulgaria and Poland). If the neighborhood government’s role is merely formal, then they are less accepted by villagers (as in Bosnia and Herzegovina and Serbia).

The level of *trust* in sub-municipal governments is measured in the individual country studies by some indirect indicators. In Poland, survey results show that not the village council, but more likely, the village head is known by the citizens, though only one-fifth of the respondents were aware of his activities beyond that of tax collection. Participation in public activities varies between 15 percent (one or more activities in a year in Serbia) and 25 percent (in Bosnia and Herzegovina). This can be explained by the general mistrust towards local governments, which are controlled by the political parties down to the very community level.

Advocate and Messenger: Involvement in Municipal Decision-making

Regardless of the forms of sub-municipal representation, the community leader is usually visible to both the elected local government and ordinary citizens. The village head has the right to take part in the municipal council meetings, and is involved in the preparation of capital investment, and small-scale infrastructure improvement projects. As a lobbyist, he represents the village at the elected local government. These contacts are made only through the *mayor* (as in Bulgaria, where this is the only way to put proposals to the council) or a special *advisory council*, dealing with local community matters (in the case of Serbia).

The more structured forms of *mesna zajednica* in Serbia, with a citizens’ assembly, council, and a secretary more a clerk, but the country author used the term secretary-GP], also allow the strengthening of *representation of ethnic minorities* at the local government level. As the villages are ethnically more concentrated, in the larger-sized municipalities, community leaders can raise local issues to the level of the elected municipal government. Obviously, it depends on how the recipient local councils are organized, because the committees, as first entry points, are often controlled by political parties. There are, however, opportunities to overcome this problem. In Serbia, for example, special committees for small-scale, capital-

⁷ In Republika Srpska, however, the minimum number of citizens on public meeting is connected to the number of registered voters. Below 1,000 voters the minimum number of citizens who have to be present at these public meetings is 30; between 1,000 and 3,000 the number is 50; between 3,000 and 10,000 the number is 75 citizens; and for over 10,000 voters the minimum number is 100 citizens at the public meeting (Statute of Banja Luka, Article 25).

investment projects were created, which even have transferred municipal powers for contracting and spending.

The neighborhood governments' other role is to establish *direct contacts* between the elected local government and the citizens. This "messenger" role is executed through village meetings, budget hearings, and other opportunities for discussion. These forums are regulated by the rules and procedures of the municipality, or by the statutes of the community government. They usually support the top-down information flow, and provide additional communication channels for the local government.

Involvement in the municipal decisions very much depends on the community-level government's administrative capacities. The community leader has a key role, as all the individual country reports point to a *lack of human resources* and management capabilities in the villages. Having a limited number of educated people in the villages, or no information on administrative matters, the village head is an important point of contact. Recognizing this role of sub-municipal government leaders, local governments often provide financial and administrative support. The municipality usually pays allowances for the *soltys* (Poland), the community governments' members and leaders (Federation of BiH), or employs *kmetstvo* administration, as in Bulgaria. Any transfer of funds and greater autonomy at the community level would require further monitoring and control mechanisms. They are implemented by the mayor (Bulgaria) or by the advisory council (Serbia).

Promoting Development: Service Provision and Economic Growth

Community-based organizations provide public services of various types. These are municipal services, further devolved to the village level; implementation of de-concentrated, primarily administrative functions, as well as services that are delegated to sub-municipal governments. However, the sharing of public functions at the local level very much depends on the scope and form of decentralization in the country. The formal transfer of public services to the community level might be easier if the decision on funding, personnel, and service performance is kept at the central level.

Neighborhood governments could guarantee access to *basic public services on behalf* of the municipality. Bulgaria is a well-researched country in this respect, and as the survey results show, approximately seven percent of functions assigned to local level are further devolved to *kmetstva*. Public services are taken over by the *kmetstva* on a different scale. *The kmetstva* share is 26 percent of the management of kindergartens, 69 percent of basic social day-care service units, 20 percent of street cleaning, 69 percent of public lighting, and 15 percent of road maintenance. Similarly, in Serbia, the public utilities in those villages that are not connected to the regional networks are also managed by the *mesna zajednica*.

In Poland, the *solectwa* might initiate the transfer of municipal services, though the general legislation specifies only public administration services that can be relocated to the village level. Further devolution of functions has to be regulated by municipal statutes. The model statutes that were proposed to local governments name only three ways of *solectwo* involvement: (i) the right to make proposals on capital improvements of roads, utilities, kindergartens, primary schools, and tourism; (ii) cooperation for fire protection, local order, environmental protection, and social services; (iii) management of municipal property and funds. The transfer of all these proposed functions depends on each local government's decision.

Community governments, in closer proximity to citizens, also provide *administrative services*, de-concentrated to this lowest level. Being close to citizens is the focal point of basic administrative services, and provides the connection to the local administration in the case of more complex issues. The locally-provided administrative services are issuing of certificates, permits, and licenses needed for citizen registration, construction, public order, environmental protection, etc. Some tasks in municipal tax collection are also devolved to mayoralties (as in Bulgaria and Poland).

In Serbia, de-concentrated units of municipal administration provide access to these services (*mesna kancelarija*). They follow the dual character of local-government administration, so they also operate as the lowest units of state administration. In villages they also serve the sub-municipal governments by providing basic office-services for them.

Finally, there are services *delegated* to the community level, when the transfer of functions is combined with the full funding of these services. Here, the sub-municipal governments might have some limited competencies. For example, in Bulgaria they appoint the managers of part-time kindergartens, social centers, and cultural organizations. They could also influence the location and usage of these institutions.

Perhaps the most important function of sub-municipal governments is *community development*. They can influence the local economic development and urban development throughout the planning and grant allocation process. Obviously, all these initiatives have to be implemented through the elected local governments, but community leaders are important actors in the physical planning, local strategy design, and sectoral planning. Their powers and authority very much depend on the overall decentralization framework, policymaking practices, and political mechanisms.

This brief overview of decentralized service-functions clearly shows that sub-municipal governments have rather limited functions. Assignment of these services very much depends on local political preferences. Thus, efficient service provision, as the main reason for creating larger-sized local governments, clearly dominates these four individual country models. Depending on the scope of decentralization, communities might take over some limited competencies, but local governments keep the ultimate decision-making power. Within the overall national legislative framework, the transfer of functions depends on the differences in the local culture.

Financing

Because sub-municipal local governments manage a limited number of functions, their share in local budgets is also minimal. Most of the countries reporting on community governments do not even have aggregate fiscal information on spending at the sub-municipal level. The only exception is the Federation of Bosnia and Herzegovina, where *mesna zajednicas'* financial share is 0.7 percent. In this entity, services managed at the community level are rather limited, and thus, in the other countries, the share might be higher.

All the countries we studied keep the *unity of the local government budgets*, so sub-municipal spending and revenues remain part of the municipal budget. Transfers to mayoralty staff and other community-level spending are accounted as part of the municipal budget. They are also incorporated into the consolidated, municipal treasury system; however, they have separate bank accounts in some countries.

Sub-municipal governments have the authority to levy and collect *own-source revenues*. In Poland, agricultural tax might be shared with the *solectwo* budget, though this rarely happens in practice. They can also raise funds through the utilization of local public property. In Bulgaria, *kmetstvo* levy environmental fines, while in Bosnia and Herzegovina, donor funding is a significant community revenue. Communities usually have no access to own property. In Bulgaria and Poland, the revenues generated by the use of communal property might be kept by the sub-municipal governments.

In Serbia, *mesna zajednica* collect a self-contribution fee. Fourteen percent of local governments levy this fee on their entire territory, while two-thirds of municipalities have self-contribution at least in one rural community. The *mesna zajednica* are not public entities. Thus, according to current fiscal regulations, they cannot be subject to revenue sharing, and the national tax office does not collect these self-contributions. The latest amendment of the financial rules, in 2002, left the sub-municipal governments without the former shared utility fees and local taxes.

Sub-municipal governments are not subject to any direct, national-budget *grants*. As all the community-level spending is part of the municipal budget, only local government transfers are received. These funds are usually negotiated with the municipal council, though in some instances, allocation criteria are built into the budgeting procedures, as when sub-municipal funds are allocated in the form of matching grants (as in Serbia), or the basis of the allocation formula are the population number, tax levies, or community area.

Financial management autonomy is also rather limited at sub-municipal level. Lacking separate bank accounts, and not being a legal entity, communities enjoy no autonomy over spending. In Bulgaria, where the *kmetstva* have diverse forms of operation, they can reallocate budget appropriations within the same function, with the exception of salaries. Any potential unused funds are centralized to the municipal budget at the end of the year.

The Future of Sub-municipal Governments: Constrained Autonomy

The most important conclusion from this overview of the sub-municipal governments in the four countries studied, is that they operate as counterpoints to elected local government, and additionally, are important institutions of direct democracy. Within these studied local government systems—which are all based on proportional elections—the community councils and village heads are directly elected, and thus are better known, and, subsequently more accepted by the citizens.

This, however, does not necessarily mean that they have a *greater legitimacy*. The rules of elections at the sub-municipal level are not standardized in all these countries.⁸ Practices for the nomination and election of local leaders are very different across communities, and are fully controlled by the municipal governments. This is an area, where changes in legislation and local government operation could significantly contribute to the weight and importance of sub-municipal governments.

The other main lesson is that new forms of *community empowerment* might improve the status of sub-municipal governments. This means enhancing their capacity to make choices and transform those into actions and results (see CESI/WBI). The ability to make meaningful choices is to envisage future options, and to make community decisions. This depends on the opportunity structure within which they operate, and their ability to transform choices into

⁸ Except in Bulgaria, where the Law on Local Elections stipulates the rules for electing both municipal and sub-municipal mayors.

actions.

Within this framework, there are different degrees of empowerment. The studied countries have relatively broad opportunities to make decisions at the community level, so the choice—*as the first stage of empowerment*—exists. Local traditions support the community governments, thus they remain accepted institutions with their own informational and internal management structures. The size and efficiency of the social capital accumulated by the local society, however, should not be overestimated. Within these villages there is an increasing disparity in attitudes by income, age, and education level. Modernization initiates the transformation of local values, and consequently, individual objectives and strategies also alter.

Empowerment also depends on the actual use of the available opportunities. Diverse in the four countries, it depends on the scope and form of decentralization. The final degree of empowerment can be measured by the achieved results, though we simply could not collect information on this stage of empowerment.

Perhaps the strongest function of the community-level governments is to be a *messenger* and *advocate*. According to the individual country studies, this is their true role. The overall institutional framework is mostly guaranteed, though lobbying and representation of village interests could be further strengthened. The actual influence of the sub-municipal governments depends on the quality of their leadership.

In municipal *service provision*, community governments have a very *limited role*. The overall trend is that elected local governments have the ultimate responsibility for managing public services, as well as the funds available at the local level. Thus, sub-municipal governments are able to participate in financial planning and service management decisions only according to the overall rules of fiscal decentralization. The unity of service organizations and municipal budgets is the main argument for preserving the large-size local governments.

Ideas for the Future

The future of rural sub-municipal governments has to be developed within the overall decentralization framework of the countries with sizable local governments. In South -Eastern Europe, structural changes might be initiated only if the entire administrative system is reformed. This would primarily mean the redesign of the regional planning units, and government organizations operating at the intermediary or middle level.

The feasibility of these structural reforms is low, so accepting the given legal and institutional framework, several steps can still be initiated. The report on Poland defines the character of sub-municipal governments as the “auxiliary units” of local governments. Keeping this status, the *standard criteria for establishing* community-based governments have to be legislated and put into practice. Depending on each country’s legal structure, the minimum conditions for initiating the creation of village governments, the framework rules and procedures of nominating and electing leadership has to be set. These legal regulations should also formulate the control mechanisms over these elected bodies and village heads.

An efficient use of sub-municipal governments will increase the openness of all local governments. This would require an increase in *public awareness* on the benefits of communal governments. Information should be shared with the general public about how these territory-based forms of representation fit into the existing network of advocacy organizations. The sub-municipal local governments themselves have to learn the everyday practices of campaigning, marketing, and promotion of their ideas. For the local government’s

part, the *minimum conditions of transparency* towards sub-municipal governments have to be defined.

Public participation and inclusion in local government decisions is primarily important in budgeting and citizen control over service organizations. Sub-municipal governments are mostly involved in planning capital-investment projects, especially if they are financed through *matching grant* schemes, when the service users also have to provide financial contributions. The communities' role could be enhanced if some portion of municipal funds were to be allocated through *competitive mechanisms*, when villages have to submit a proposal for the local funds. The *control over service organizations*, such as schools, communal enterprises, and contractors would also improve the service performance by increasing the communities' influence.

The financial empowerment of sub-municipal governments depends on intergovernmental fiscal relations. When the control of the national budget and line ministries is weakened, local finances will become less dependent on central decisions. Thus, they might re-allocate more fiscal competencies to the community governments. On the revenue side of the budget, *taxing powers* and *charge setting* autonomy of sub-municipal governments could be increased. Within the overall framework of local revenue policy, the authority for further refinement of these levies, user charges, duties, and fines could be transferred to communities.

Similarly, the use of devolved former state-owned *property* might be shared with sub-municipal governments. That would mean limited authority over the sale of municipal property, because asset management should be controlled by the local government. But the decisions on rents, usage, possible improvements, and reconstruction can be further decentralized.

As communities are usually responsible for a limited number of services, the funds assigned to these functions should be allocated in a transparent way. Similar to the rules of an ideal local government funding scheme, sub-municipal government *grant allocation* has to be predictable and based on objective criteria. Local governments should be obliged to establish transparent rules for fund allocation (grants or revenue sharing), following the general practices of intergovernmental fiscal relations.

Finally, there are several ways to improve the operation and management of sub-municipal governments. In most of the studied countries, this is not a well-researched topic, so further *analysis* of existing practices is greatly needed. This *information* and a deeper *knowledge* on community governance could help in developing mechanisms for *sharing* techniques and methods of operation. This could be further developed into a more systematic collection of information and the designing of a self-assessment or peer-review-based *benchmarking*.

The basic documents on establishing and managing sub-municipal governments, and the experiments in *pilot villages*, could be further developed to *models*, then widely disseminated among communities. This would improve the knowledge and management capacity of community leadership. Another way of general capacity development is to provide assistance to the building of *associations* of sub-municipal governments. This would support sub-municipal governments to influence policymaking and would improve their management capacity through information sharing.

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