

WORKING TOGETHER

**Intermunicipal Cooperation
in Five Central European Countries**

EDITED BY

Paweł Swianiewicz



**OPEN SOCIETY
FOUNDATIONS**

Working Together
*Intermunicipal Cooperation
in Five Central European Countries*

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Working Together: Intermunicipal Cooperation in Eastern Europe

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Contents

Foreword.....	v
List of Contributors.....	vii
List of Boxes, Figures, and Tables.....	xi
Demanded but Difficult: Intermunicipal Cooperation in Central and Eastern Europe <i>Paweł Swianiewicz</i>	1
COUNTRY REPORTS	
Albania	
Beyond Administrative Borders: IMC in Albania <i>Dakoli Wilson</i>	19
Bosnia and Herzegovina	
Voluntary Intermunicipal Cooperation in Bosnia and Herzegovina: Bridging the Differences <i>Aleksandar Draganic</i>	99
Czech Republic	
Voluntary Municipal Associations in the Czech Republic: Unfulfilled Expectations? <i>Lucie Sedmíhradská</i>	165
Macedonia	
Establishment and Development of Intermunicipal Cooperation in the Republic of Macedonia <i>Tome Sekerdziev</i>	211
Romania	
Fine-tuning Intermunicipal Cooperation Policy in Romania <i>Cristina Stănuș</i>	269

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List of Boxes, Figures, and Tables

Demanded but Difficult: Intermunicipal Cooperation in Central and Eastern Europe *Paweł Swianiewicz*

Table 1. Territorial Fragmentation in Selected Countries of Central and Eastern Europe.....	12
Table 2. “Incidents” of IMC Arrangements	14

Albania

Beyond Administrative Borders: IMC in Albania *Dakoli Wilson*

Figure 1.1 Frequency Distribution of LGUs According to Population Size ...	30
Figure 1.2 Evolution of Discretionary Revenues in Percent of Total Local Revenues (Cumulative for Country)	33
Figure 1.3 Citizen's Satisfaction on Service Quality by LGUs (Comparison 2005–2008)	35
Table 1.1 Assignment of Responsibilities Exercised at the Local Level	27
Table 1.2 LGUs Clustered According to Population Size Intervals for 2009 and 2001	31
Table 1.3 Comparison between Strategies Available for Improved Service Delivery	37
Table 1.4 Central Inventory of Voluntary Intermunicipal Cooperation	51
Table 1.5 Tasks and Reasons for Assigning IMC (Summary of Four Case Studies).....	55
Table 1.6 Legal Form, Decision-making, and Membership (Summary of Case Studies).....	58
Table 1.7 Legal Form and Decision-making of Case Studies	60

Bosnia and Herzegovina

Voluntary Intermunicipal Cooperation in Bosnia and Herzegovina:

Bridging the Differences

Aleksandar Draganic

Box 2.1	Article 10: Local Authorities' Right to Associate.....	118
Box 2.2	Chapter VII.: Cooperation between the Local Government Units.....	119
Box 2.3	Chapter XI.: Cooperation of the Units of Local Self-Government.....	120
Box 2.4	IMC in Slovenia.....	123
Box 2.5	How to Capture the Logic.....	125
Box 2.6	Article 5—Law on Waste Management	
Box 2.7	Not in My Backyard.....	132
Box 2.8	Political Interference in IMC.....	138
Box 2.9	IMC Already on the Republika Srpska Government Agenda.....	146
Figure 2.1	Territorial Organization of Republika Srpska and the Federation of Bosnia and Herzegovina	105
Figure 2.2	Territorial Distribution of Ethnic Groups in Bosnia and Herzegovina	115
Figure 2.3	A Waste Management Public Enterprise in Banja Luka.....	130
Figure 2.4	Municipalities That Established DEP-OT.....	134
Figure 2.5	The Association of Municipalities in Eastern Herzegovina.....	136
Figure 2.6	Municipalities in Eastern Herzegovina in Relation to Banja Luka, Capital of Republika Srpska	140
Table 2.1	Municipalities in the Republika Srpska and the Federation of Bosnia and Herzegovina by Area	106
Table 2.2	Municipalities in Republika Srpska and the Federation of Bosnia and Herzegovina by Population	107
Table 2.3	Regulatory Competences in Republika Srpska and the Federation of Bosnia and Herzegovina	108
Table 2.4.	Service Provision Responsibilities in Republika Srpska and the Federation of Bosnia and Herzegovina	109
Table 2.5	Distribution of Public Expenditures in Bosnia and Herzegovina in 2006 and 2007	111
Table 2.6	Local Government Expenditures in Percent of GDP in 2006	111
Table 2.7	Development of Territorial Organization in Bosnia and Herzegovina from 1952.....	114
Table 2.8	Characteristics of the Ten Smallest Municipalities by Area.....	116

Table 2.9	Level of Trust among People within Ethnic Groups.....	117
Table 2.10	General Attitudes among the Main Ethnic Groups.....	117
Table 2.11	Statistics of Analyzed IMC Arrangements.....	125
Table 2.12	Shareholders in DEP-OT	131
Table 2.13	Basic Characteristics of Municipalities Involved in DEP-OT.....	133
Table 2.14	Basic Characteristics of Municipalities in the Association	139
Table 2.15	Policy Options to Improve IMC	144
Table 2.16	Main Actors in the Improvement of IMC in Bosnia and Herzegovina	148

Czech Republic

Voluntary Municipal Associations in the Czech Republic: Unfulfilled Expectations?

Lucie Sedmihradská

Box 3.1	Executive Structure, Decision-making, and Financing —The Case of Ladův Kraj.....	179
Figure 3.1	Volume and Structure of Revenues and Expenditures (2008, CZK Billions, and Percentage of Total)	175
Figure 3.2	Number of VMAs, Microregions, and Share of Microregions (As of November 22, 2008).....	184
Figure 3.3	Revenues and Expenditures of VMA (2000–2009, CZK Billions)	185
Figure 3.4	VMA Revenues and Expenditures (2000–2007, CZK Billions)	186
Figure 3.5	Comparison of Per Capita Revenues and Expenditures in 13 Regions (CZK, 2007)	188
Figure 3.6	Number of VMAs with Particular Expenditure Volume (In CZK millions and in CZK Per Capita).....	189
Figure 3.7	Revenues of Microregions and Non-microregions: Volume and Structure	190
Figure 3.8	Expenditures of Microregions and Non-microregions: Volume and Structure	191
Table 3.1	Major Municipal Spending Categories (Share on Total Municipal Expenditures, 2008)	172
Table 3.2	Number of Municipalities between 1921 and 2009.....	173
Table 3.3	Sizes of Municipalities (January 1, 2009)	173
Table 3.4	Structure of Revenues in CZK Thousands.....	179
Table 3.5	Expenditures of Municipalities and VMAs (2007, CZK Millions)	183

Table 3.6	Areas of the Most Important VMA Expenditure (2000–2007, CZK Million)	187
Table 3.7	Outcome Matrix	197

Macedonia

Establishment and Development of Intermunicipal Cooperation in the Republic of Macedonia

Tome Sekerdziev

Figure 4.1	Proportion of Municipalities Involved in IMC Related to Certain Areas in 2008.....	237
Figure 4.2	Timeline of Activities for Establishment of Joint Administration.....	250
Table 4.1	Population Profile of Municipalities.....	220
Table 4.2	Surface Area Profile of Municipalities	220
Table 4.3	Municipalities with IMC in LED	238
Table 4.4	Municipalities with IMC in Education	239
Table 4.5	Municipalities with IMC in Urban/Rural Planning	240
Table 4.6	Obstacles to IMC	241

Romania

Fine-Tuning Intermunicipal Cooperation Policy in Romania

Cristina Stănuș

Figure 5.1	IMC Bodies in Romania by Year of Registration, 1999–2008....	296
Figure 5.2	IMC Bodies in Romania by Year of Registration and Legal Form Used, 1999–2008.	296
Figure 5.3	IMC Bodies in Romania by Purpose of Cooperation, 1999–2008.....	299
Table 5.1	Romanian Local Government at January 1, 2009—Synthetic Statistical Data	280
Table 5.2	Size of Romanian Local Government, January 1, 2009.....	281
Table 5.3	Local Government Spending, Percentage of GDP and Percentage of Total Government Spending, 1999–2008	283
Table 5.4	Service Provision—Water Supply and Sewage Services, Coverage of Urban and Rural Areas, 2004–2006	284
Table 5.5	Criteria for the Selection of Cases.	301
Table 5.6	Evaluation of the Policy Options Function of Policy Goals and Existing Constraints.....	318

Demanded but Difficult: Intermunicipal Cooperation in Central and Eastern Europe

Paweł Swianiewicz

Definition	3
Why IMC?	4
Economy of Scale.....	4
Catchment Areas Are Wider than Administrative Boundaries— “Free Riders” Consume Services	5
Joint Management of Indivisible Technical Infrastructure	6
Joint Management of Functionally Integrated but Territorially Fragmented Areas	6
Better Visibility	7
Access to External Funds	7
A Good But Rare Solution	8
Slow Decision-making Process	8
Duplication of Costs and Personnel	9
Democratic Deficit	9
Political Costs of Cooperation	9
About this Volume	10
Common Observations	13
Monitoring and Data Availability.....	13
Various Level of Development	13
Economy of Scale or Economy of Scope?	14
Areas of IMC.....	15
IMC Does Not Happen “Automatically” Nor Is Success Guaranteed	15
The Role of the International Community	16

Incentives Streaming from Central Level Policies Are Underused	16
Geographical Leadership	17
Legal Regulations Are Important but Not Sufficient.....	17
Sources Cited	18
Notes	18

Intermunicipal cooperation (IMC) has become a fashionable topic often discussed by many experts in Central and Eastern Europe. A popular toolkit prepared by the Council of Europe, in cooperation with UNDP and Local Government and Public Service Reform Initiative, is just one of the prominent examples of this trend. In academic debates, IMC has been discussed for a long time as one of solutions for the improvement of metropolitan governance (Ostrom 1991; Barlow 1991; Norris, Phares, and Zimmerman 2007), but recently it has also been considered as part of a more comprehensive analysis of European practices (e.g., Hulst and Montfort 2007). This volume contributes to this debate, adding to the discussion the practical experiences of countries in South Eastern and Central Europe (although the volume by Hulst and Montfort referred to all of Europe in its title, in fact it only focused on Western Europe).

DEFINITION

Before going into the details of the presented studies, it is important to define the scope of our interest. What do we mean by intermunicipal cooperation? We are interested in:

- Joint delivery of services by two or more local governments in the country, which may involve different functions, such as administrative services, water provision, public transport, but also joint activities among broader policies, such as the promotion of local economic development, which may be a single- or multi-purpose arrangement;
- Voluntary cooperation: we exclude from our scope of interest any forms which are strictly imposed by the law (although the law may sometimes strongly stimulate or even oblige local governments to look for cooperative solutions);
- Cooperation which is not incidental, but has a certain duration and most often is a permanent arrangement with an unspecified termination date;
- Different legal forms of cooperation. In some cases this may include the creation of a new legal entity (for example, a co-ownership between involved local governments), while in others it may take on a more loose legal form;
- At the same time, and contrary to amalgamation, there is no definitive transfer of local tasks or competencies; municipal governments keep at least indirect control over the decisions and services that result from cooperation.

However, in this volume we *do not* discuss following the cases:

- National or regional associations representing local governments *vis à vis*, for instance, national government;
- Transborder cooperation between local governments;
- Selling services from one local government to another.

WHY IMC?

Why such an interest in the topic? After the 1990 political transition in Central and Eastern Europe, there was widespread belief that decentralization could significantly contribute to democratization and to a better delivery of services. But it soon became clear that in many cases individual local governments often had problems with an acceptable standard for the delivery of services. Obviously there are multiple reasons, including the gap between verbal support for decentralization and an actual reluctance to share power and resources with lower tiers of government. But one of the more important reasons is the often territorial fragmentation among municipal governments, which are too small to cope with several issues.¹ At the same time, territorial reform is not feasible in many cases, and/or its implementation would lead to too many negative side-effects.² Some experts even suggest that the development of intermunicipal cooperation may be seen as a viable alternative for the territorial mergers of small jurisdictions (Hertzog 2010), although this conclusion might be seen as controversial. But even if local government systems are not territorially fragmented, local governments may benefit from the joint delivery of services.

So what are the major benefits of IMC? Let's recapitulate the most important arguments discussed in academic and consultant reports.

Economy of Scale

There is economy of scale in many local services. The marginal cost of service delivery is lower if the total amount of services produced is larger or—in other words—the unit cost of service delivery is lower if the scale of production is larger. If the service is provided jointly for two or more municipalities, the number of consumers is larger and the quantity of supply may be higher, which allows for a reduction in unit cost.

Administrative services provided in local town halls provide an excellent example of this phenomenon. Spending per capita on local government administration is usually especially high in small local governments—this fact is well documented by empirical evidences from many countries (for evidence from the CEE region—see Swianiewicz

2002). This is especially important in countries with a lot of small local governments (for example, with less than 1,000 residents). In such tiny local jurisdictions, the cost of administration has to be a high burden for the local budget. In Hungary, already in the 1990s some of such small local governments started to create “joint offices” delivering administrative services for a couple or more municipalities. A similar solution has been applied a bit later also in the Czech Republic and Slovakia.

The argument of economy of scale is especially important in countries with territorially fragmented administrative systems, but for some services, it may also be important in countries in which municipal units are usually relatively large. Solid waste management provides a good example. It is a municipal function in most European countries, but it cannot be effectively organized within the scale of a typical single municipality. Although estimates vary, in Poland experts agree that the minimal population size required for solid waste organization is around 70–100,000 customers. The average size of a Polish municipality is 16,000 and within rural areas this number goes down to approximately 7,500 citizens. Cooperation between local governments seems to be the only logical solution if we want to apply modern technologies, including recycling systems, to build more than a primitive waste-dump, which would harm local natural environments.

Catchment Areas are Wider than Administrative Boundaries —‘Free Riders’ Consume Services

Unless a service is charged to consumers according to the full cost-recovery model, consumers from other jurisdictions are subsidized by local taxes paid by residents living within the municipality where the service provider resides. A local government where the service originates is therefore responsible for services used by consumers who live outside of their jurisdiction in surrounding municipalities.

Public transportation systems in metropolitan areas provide the perfect example of such a situation. City buses, trams or underground systems usually serve not only the city center, but also surrounding suburban municipalities. If transport is delivered by the central city and if tickets do not cover 100 percent of incurred costs (which is often the case) then passengers from the suburbs are “free riders,” since they are indirectly subsidized by taxpayers from the city center. And even if the total cost is included in the ticket, there is still an accountability problem: transportation is delivered by a local government that these riders cannot influence. In practice, it often leads to poor services in the suburbs, poor integration of metropolitan transportation systems, conflicts among municipalities about financing the system, etc. An agreement allowing for the joint provision of the service for the whole area seems to be a logical solution.

Public transportation in metropolitan areas is not the only example of this issue discussed in this section. Similar problems may occur with other services in which

the natural “catchment area” is wider than the administrative boundaries of the single jurisdiction. It concerns, for example, waste collection in metro areas or public transportation in tourist regions covering more than one municipality (such as a ski-area with lifts starting in two or three neighboring municipalities). It often also concerns social services, such as secondary schools or healthcare institutions, that do not serve only the citizens of the local government unit responsible for the service, but citizens living outside their jurisdictions as well.

Joint Management of Indivisible Technical Infrastructure

Sometimes the infrastructure network, such as water provision, wastewater collection, or central heating systems, are constructed in an area covering more than one municipality. Physical environment may be the reason for such a set-up (for example one valley with a few municipalities in a mountainous area), or it may be the inheritance of an old administrative system.

In Poland, prior to reform in 1990, local governments had no ownership of infrastructure facilities like water networks. Facilities were owned and managed by the state and were often constructed across municipal borders. After 1990, when the ownership of property related to local infrastructure was being transferred to municipal governments, it was not clear who should take ownership and responsibility over such water provision or central heating systems. The creation of an intermunicipal association that would deal with management of the services was often a condition of communalization of the property (the alternative would be the provision of the service by the state administration). In fact, most of the first intermunicipal cooperation arrangements in Poland found themselves in such situations. Many of the local associations established between 1990–1991 still exist and are successfully delivering services.

Joint Management of Functionally Integrated but Territorially Fragmented Areas

There are some areas in which the rationale for intermunicipal cooperation may be especially visible. These are areas that consist of several municipalities, but due to functional integration, many services cannot be effectively provided by individual municipalities, which are isolated from one another. One variant of such a situation is related to the natural catchment area of the services delivered for a local population (as discussed above). But there are also situations in which there is no such “natural” incentive for integration. Nevertheless, the coordination of activities brings about positive impacts for all involved parties.

Let's think about a metropolitan area within a centrally located city and several suburban municipalities that surround it, or about a tourist area which, for incoming guests, is a single region (with ski-lifts, historical castles, bicycle paths etc.), but for which the territory is divided among many local governments. Physical planning or economic strategies (technically) can be developed separately for each of the municipalities. But they may be much more effective if local governments cooperate with each other and develop joint plans, or at least coordinate their individual ideas. In one case, the development of the international airport in a big Polish city was seriously delayed because the new, planned runway was located on the border of two municipalities. Obtaining the permission to build required the creation of the zoning plan and then other necessary actions agreed upon between both local governments. A joint association responsible for bringing these municipalities together and for dealing with economic development could help to solve these kinds of problems in advance in order to accelerate a project's implementation.

Better Visibility

Sometimes municipalities decide to cooperate with each other to achieve better visibility. They realize that they are too small to undertake effective tourist promotion or campaigns to attract new investors. Single local governments cannot afford a promotional campaign, which becomes affordable if the cost is shared between two or more municipalities. Moreover, the attractiveness depends on location in a broader region. An individual castle or an individual cave (if we talk about tourist promotion) is not interesting enough, but what makes them attractive is a cluster in a territory of neighboring municipalities. The promotional campaign of a single municipality would not make much sense, but joint promotion is very effective. Similar examples may be provided in the case of investment opportunity promotion.

Access to External Funds

A very specific but important benefit from IMC to many countries in Central, Eastern, and South Eastern Europe is access to external project funding. Several programs supported by the EU or other international donors require either a minimal threshold for the project size (which is not available for individual, small local governments) or a direct mention of involvement by a group of municipalities.

Individual gains from cooperation are interrelated and, in practice, there is rarely only one, single case made to establish a cooperation arrangement. For example, the case for joint tourist promotion, discussed above, may be presented as a project that

will increase visibility or economy of scale (therefore reducing costs for individual local governments). It is clear from the above discussion that there might be different motives and various areas for the development of intermunicipal cooperation.

A GOOD BUT RARE SOLUTION

If intermunicipal cooperation is such a good idea, why does it happen so rarely? Although innovative examples might be easily cited from nearly all of the European countries, if we look more carefully we discover more failures, or cases where IMC seems to be a natural solution, but where it is not utilized. The only examples of countries in which IMC is really widespread (such as France or Finland) are cases in which external incentives to cooperate are very powerful, sometimes to the extent where questions are raised about just how “voluntary” the cooperation is. Another important question is why, when an IMC is formed, does it not always function smoothly? These questions are the reasons behind the decision to undertake this study. We decided to research the issue to better understand typical IMC problems in individual countries and to discuss what might be done to minimize the barriers for effective IMC.

Also, it is important to note that we do not see IMC as an ideal solution for all the problems involved with decentralization and local government operation. The solution itself creates some new problems. That is why intermunicipal cooperation is not only praised, but also very critically analyzed by some authors (see, for example, Wollmann 2007, Borraz and Le Gales 2005). Some of the potential drawbacks are discussed briefly below.

Slow Decision-making Process

It very often happens that intermunicipal bodies are slow in making any decisions. Because they involve many municipalities, their delegates often have to consult with their “local home councils” when they are making crucial decisions. Although it takes time, sometimes a quick decision is necessary for the success of the project. Decision-making is complicated by the involvement of more decision-makers, and there are no hierarchical provisions to get them out of deadlock situations.

Obviously the extent to which this issue is a problem depends on many factors, such as the legal form of the IMC institution or the internal regulation provisions agreed to by the involved municipalities. It is less of a problem if the IMC institution is a separate legal entity or if municipalities agree to form a separate company where they hold shares and which delivers services on their behalf.

Duplication of Costs and Personnel

An IMC should in theory help to reduce costs (or to achieve more for the same cost). But in practice it turns out differently. For various reasons, including the inertia of bureaucratic structures, ambitions of local politicians who are not ready to give up their direct control or management posts, a municipality will spend more on personnel to handle issues that, in theory, have been transferred to IMC institutions. In such a case, IMC, instead of saving, incurs additional costs. Helmut Wollmann, in his 2007 critique, remarks on the situation in several French *communautes*, citing the overlap of functions between *communes* and intermunicipal *communautes* and the “chaotic system of partnership.”

Democratic Deficit

Mechanisms for social control over municipal governments, although far from being perfect, are known and well established. Meetings of the local council are open for the public and local media, and minutes from the meetings are also available (often on the internet). The mechanisms for decision-making are clearly described in national legislations and are known at least by the elites of local civic society. But the decision-making procedures in IMC institutions are much less known and much less transparent. Are local councils—not to mention local civic society—informed (or: how are they informed?) about what goes on during the consultations between municipalities? Who controls, and how is the budget of intermunicipal institutions controlled? There is no doubt that the establishment of a proper system of controls is more challenging than the establishing of service delivery by a single local government. Some experts suggest that IMC institutions are especially vulnerable to corruption.

Political Costs of Cooperation

Entering intermunicipal cooperation means also sharing in the power and prestige enjoyed by local political leaders. Sometimes they are reluctant to join the IMC structure because they are not ready to give up some of their responsibilities. But even after the decision has been made, the issue still remains. The ambitions of involved leaders, their pride and a weak ability to compromise may all lead to conflicts and hamper cooperation. It happens that local particularism, instead of being eradicated by the IMC arrangement, is showing up in a different form.

Another related issue is the phenomenon of “free-riders of cooperation”—municipalities who formally joined the IMC institution are willing to benefit from it, but at the same time are inactive and unready to provide financial and human resources.

All of the described situations may result in the deterioration rather than the accumulation of trust among partners. And in the long-run, they endanger the sustainability of the IMC arrangement.

The discussion of IMC's negative features does not suggest that intermunicipal cooperation is a bad choice for the challenges faced with intermunicipal service delivery. Aside from the potential negative impacts, there are also positive effects, such as the diffusion of innovations in management among participating local governments, the development of trust and a cooperative culture, etc. What we are suggesting is that one should not have naïve or oversimplified expectations with regard to intermunicipal cooperation. Recommendations on legal stipulations and policies, which would help to mitigate these negative impacts, have also been a focus in the studies presented in this volume.

ABOUT THIS VOLUME

The volume includes five country studies prepared during the period between 2008–2009. The aims of the studies included:

1. Diagnosis of current intermunicipal cooperation practices in participating countries. More specific questions included: What forms of cooperative arrangements are allowed by current legislation? How often are they used and what for (to perform which functions)? What have been the typical motives for establishing voluntary cooperation? How effective are they usually? (For example: is there any evidence of economy of scale being achieved through cooperation?)
2. Identifying barriers limiting scope and effectiveness of existing arrangements. Barriers might be of different nature: (i) legal/regulatory—for example, certain forms of cooperation are not allowed by the law, or financial regulations provide disincentives rather than incentives for cooperation; (ii) political/cultural—such as the low level of trust among local politicians, poor civic control over policy-making processes, etc.
3. Recommendations related to the legal framework and central as well as local government policies to be implemented in order to support IMC-type solutions. Recommendations concern both legal (regulatory) frameworks and capacity building at the local level. How can legal obstacles for cooperation be removed? What incentives might be provided to stimulate the most effective solutions? How can transparency and accountability be increased during the decision making process in cooperative arrangements?

The structure of individual chapters is similar but not identical. There are differences related to local environment—meaning both specific country characteristics observed during practice, and access to various data sources (financial reports, national inventory of intermunicipal institutions etc.). But there are common elements that may be identified in each of the chapters. They include:

- Analysis of the legal framework for intermunicipal cooperation;
- Description of the “state of art”—an attempt to draw a general picture of the current situation in the country. It includes data collection on a number of relevant arrangements, areas of local government functions, and the most often mentioned problems and successes;
- A few case studies with a more in-depth analysis of the history and results of selected IMC examples.

Additionally, methods of empirical research are not identical, but there are significant similarities among the chapters. Both qualitative and quantitative methods are used. Authors of all chapters analyze available documents (legal regulations, reports, and official policy documents) and statistical data concerning local government finances and other aspects of intermunicipal cooperation. All reports also feature in-depth interviews with bureaucrats and politicians involved with the analyzed institutions. Some of the chapters also refer to quantitative data from surveys of the involved local governments.

There are five studies of five countries presented in the volume. Presented country cases are different on several levels, including the existing experience in building institutions of intermunicipal countries. Two of the countries are currently members of the European Union (Czech Republic since 2004, Romania since 2007), while the remaining three are in various stages of advancement toward integration with the EU (Albania, Bosnia and Herzegovina, and Macedonia).

As discussed above, territorial organization (the size of the local governments) is especially important for intermunicipal cooperation. Table 1 demonstrates that our selection of cases is diverse based on this criterion. The Czech Republic belongs among the most territorially fragmented countries in the region, with far over half of its municipalities having less than 1,000 residents. Macedonia is the most territorially consolidated of the analyzed systems—with an average (median) population size of over 10,000 and no local government unit having less than 1,000 residents. It is worth emphasizing that such a territorial organization results from relatively recent (2004) consolidation reforms reducing the number of Macedonian municipalities from well over 100 to 84.³ The remaining three countries: Romania, Albania and Bosnia, from this point of view, vary in size among the local governments of the Czech Republic at one extreme and Macedonia at the other. Our chapter on Bosnia and Herzegovina discusses both situations in Republika Srpska and the Federation of Bosnia and Herzegovina. The level of

territorial fragmentation is slightly different in both parts of the country. In the former case (Republika Srpska) the territorial organization is especially peculiar—on the one hand the median size of municipalities is relatively large (more than 10,000 people), but when looking at individual cases the size varies greatly: four out of more than 60 municipalities have less than 1,000 citizens. Such a variation certainly influences the demand for and capacity to cooperate with other local governments.

Table 1.

Territorial Fragmentation in Selected Countries of Central and Eastern Europe

		Percent of municipal governments with population below 1,000			
		0	Up to 5%	5–50%	Over 50%
Median population size of municipal government	<1,000				Czech Rep. Hungary Slovakia
	1–5,000		Romania Croatia Moldova	Estonia	
	5–10,000	Albania Poland	Macedonia— before the reform		
	Over 10,000	Macedonia— after 2004 reform Bulgaria Lithuania Serbia	Bosnia & Herzegovina		

Note: Countries covered in this volume are marked with bold.

Finally, our countries differ in their experience of building intermunicipal institutions. The Czech Republic has considerable experience in cooperation, and for the last few years a specific form of cooperation (microregions) has been promoted by national policies. On the other hand in countries like Albania or Bosnia, the tradition of cooperative solutions is less frequent, and our chapters describe their first attempts at such experiments.

In general, the selection of countries provides a wide spectrum of conditions for IMC and the conclusions from the presented studies may be interesting from the point of view of other countries in the region.

COMMON OBSERVATIONS

The cases presented are different in many respects and the lessons learned from each are often country specific. However, there are still some common observations that are worth emphasizing in this introductory chapter.

Monitoring and Data Availability

In all of the analyzed countries, data availability on existing IMCs and their operation is a problem. Obviously, the scope of this problem is different. In some cases, even the basic inventory of existing practices is not an easy task, and our authors had to make an enormous effort to collect information from various sources (and they could never be sure that their data was complete). But even in countries with more advanced data collection systems (like the Czech Republic or Romania), there are problems with understanding the IMC operation. For example, the financial reports are not sufficiently clear on detail. Needless to say, that lack of sufficient information puts into question the possibility of fully transparent (and accountable) IMC arrangements. It all suggests that a special effort is needed in order to collect and provide the data necessary for monitoring and which would allow formulation of further recommendations. It is a task for the national associations of local governments, but more immediately for state controlled institutions (such as statistical offices or organizations responsible for the financial supervision of local governments).

Various Level of Development

As was expected, the IMC arrangements in analyzed countries are spread out to different degrees. Due to limited data availability, it is very difficult to provide accurate data, but the best possible estimation is provided in Table 2.

It is not surprising that the phenomenon of IMC is the most common in the Czech Republic. The extreme territorial fragmentation pushes small Czech obce (local governments) into cooperation arrangements. Relatively high levels of local autonomy strengthen the trend, since autonomous units have to find their own way in coping with the wide range of services they are responsible for.⁴

Table 2.
 “Incidents” of IMC Arrangements

	Number of IMC arrangements/number of municipal-tier governments	Proportion of municipal governments involved
Albania	16/373	About 15%
Bosnia and Herzegovina	17/142	About 50%
Czech Republic	800/6,273	Close to 90%
Macedonia	Over 60	Over 80%
Romania	Over 200/3,180	About 40%

IMC arrangements are also relatively common in Bosnia, Macedonia and Romania, where more than half the municipalities are engaged in one or more agreements. In Romania there are more than 200 interesting cases. On average, one IMC arrangement involves 7.7 local governments, but some of them are involved with more than one intermunicipal institution. In Bosnia there are at least 17 cases of intermunicipal cooperation. In Macedonia fire protection is the most common among cooperation arrangements (involving half of all municipalities), but it is also semi-compulsory, required by national legislation. The Macedonian chapter provides a full list of IMC arrangements in the three most popular areas: local economic development and planning (in addition to fire protection). Seventy of 84 Macedonian local governments are involved in cooperation in one of these three areas.

Albania seems to be on the opposite extreme when compared to the Czech Republic. The inventory is not necessarily complete, but the author of the chapter on Albania was able to identify only 16 cases of existing cooperation among the close to 400 municipalities. Only a small fraction of local governments have any experience in existing IMC institutions, and cooperation among local governments may still be considered a relatively rare innovation. But as is clear from the chapter, the situation is dynamic (some of the factors influencing the change are discussed later in this chapter).

Economy of Scale or Economy of Scope?

The typical argument in favor of IMC arrangements is to try to lower the unit cost of service deliveries. However, completed studies steer our attention to the fact that in Central and Eastern Europe the cooperation of small local governments makes possible the provision of services which would remain undelivered otherwise, even if they are on a list of mandated local government services. Cristina Stanus in her chapter on Romania

calls this phenomenon “economy of scope” and notices that the benefits from it are even more important than when considered in the “classic discussions” of economy of scale.

Areas of IMC

The scope of activities provided by intermunicipal institutions is very much diversified, but it seems that in analyzed countries two areas are dominant:

- Services related to environmental protection—mostly solid waste management and water/sewage services. In that area both economy of scope and economy of scale play an important role;
- General and often more loose cooperation related to land-use and economic planning, promotion of local economic growth, and tourist promotion.

Obviously, there are also incidents of cooperation in other areas (for example, tax collection and fire protection in Macedonia) but the two mentioned above seem to be the most typical.

IMC Does Not Happen ‘Automatically’ Nor Is Success Guaranteed

In none of the five countries was the development of IMC a massive, spontaneous result of bottom-up initiatives. If more numerous cases of IMC are observed, there is usually an incentive program somewhere behind it. Czech (but also Slovak or Hungarian—not described in this volume) government policy to stimulate microregions is just one example of this trend. Moreover, it is not sufficient to initiate IMC with the assumption that benefits would be evident and success might be taken for granted. In every country we find examples of failures, sometimes due to opaque legal rules, and more often due to the inability of local politicians to give up their individual ambitions in order to do something together with their neighbors. Unfortunately, some of our fellows were reluctant to include stories of failure in their chapters, suggesting instead that cases of success would be more interesting and revealing to the reader, or because they feared negative reactions from the “heroes” of the failed attempts. We respect their choices, although we believe that negative experiences may be as revealing as positive ones.

The Role of the International Community

In each of the described countries there are examples of the role international programs played in the stimulation of intermunicipal cooperation. In Romania and the Czech Republic it was often the European Union who did a lot for the broad growth of cooperative practices. The stimulation was not always direct. But several local governments realized (or were told by their advisors) that they could not access EU Structural Funds by working alone. Their projects, they were told, were too small to pass the evaluation threshold, or they were simply incapable of submitting an acceptable proposal. Therefore working together with neighboring municipalities was the only option for those who wanted to benefit from EU funds for regional policies. In the remaining countries (especially Albania and Bosnia) there were international donor programs (both multilateral, like UNDP or the World Bank, and bilateral, like the German GTZ) that played an important role in building in these countries the first examples of IMC arrangements. It seems that international institutions can do more to build a record of “demonstration cases” which might be followed by others.

Incentives Streaming from Central Level Policies are Underused

The Czech Republic is perhaps the only exception to this case, with its central government promoting microregions, but even in that case the incentive policies are not fully convincing. Following Hulst and Montfort (2007) we may distinguish three major types of possible incentives:

- Financial—in which, most typically, IMC is supported by various kinds of grants.
- Functional—in which certain functions may be delegated to local governments under the condition that they create an IMC institution.
- Setting obligatory standards or formulating statutory obligations to cooperate (leaving, however, local discretion as to the details related to the area, practical arrangements and the details of cooperation).

The last example would be perhaps the least useful in Central and Eastern European environments. Setting too many unrealistic rules and standards is a common problem in the region anyway. These regulations are often not followed (because following all of them would exceed the capacity of local governments) and at the same time they seriously damage local autonomy. So producing more rules in order to stimulate IMC would most likely be both ineffective and harmful to the entire system of local govern-

ments. The two remaining types of incentives, however, could be more effectively used by central governments.

Geographical Leadership

Although this discussion focuses on voluntary, horizontal cooperation between local governments, the successful cases presented in individual chapters suggest that there is often one municipality that clearly takes a lead in a joint project or activity. Frequently it is the largest local government (for example, a centrally located city cooperating with surrounding rural units), whose leadership seems natural for the other members of the joint institution. But sometimes the leadership may arise from the activity or charisma of a local political leader, not necessarily from the “natural features” of the local government unit. In any case, such leadership, if based not on power domination but rather on negotiation skills which are accepted by other players, is often an important factor of success.

Legal Regulations Are Important but Not Sufficient

Discussions about the improvement of local government systems often focus on legal regulations. The same approach may be noticed in the case of the many discussions about the promotion of intermunicipal cooperation. The law is of course very important. It provides (or does not provide—in a pessimist scenario) a foundation for any actions. But it is only a small part of a successful story. Similarly, it is not enough to provide training for local politicians explaining to them the potential benefits of horizontal cooperation arrangements. There are important barriers in addition to these factors and they may be of a different nature. In the Bosnian chapter (and to a smaller extent in some other chapters in this volume), there is a discussion of the problems associated with the cooperation of municipalities governed by different political parties or inhabited by different ethnic groups. More generally speaking, the culture of cooperation and trust among involved actors is a crucial factor, which can only partially be changed by legal reforms or training on potential gains from an IMC. Policy recommendations to help IMC arrangements should therefore include not only legal changes and content training for local leaders, but also wider policies related to building civil society and to stimulating the growth of social capital in local communities. Such actions may be useful in the long-term.

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NOTES

- ¹ More about territorial fragmentation after 1990: Swianiewicz 2002.
- ² The issue of territorial reform has recently been widely discussed in another LGI publication (Swianiewicz 2010) and will not be discussed in detail in this volume.
- ³ Local government units were even larger in the period when Macedonia was a Yugoslav republic, so consolidation in 2004 was in fact a partial reverse of the fragmentation trend after 1990 (for details see: Kreci and Ymeri 2010).
- ⁴ A relatively high number of Voluntary Municipal Associations should be supplemented by an unknown number of cooperation arrangements through intermunicipal companies.

Beyond Administrative Borders
IMC in Albania

Dakoli Wilson

Table of Contents

Executive Summary	22
1. Matching Obligations with Local Capacities—Overview of Status Quo	24
1.1 Tiers	24
1.2 Allocation of Functions.....	25
1.2.1 Policy Environment.....	25
1.2.2 Gaps in Shouldering Legal Responsibility and Exercising Functions.....	26
1.3 Territorial and Population Size.....	29
1.3.1 Current Size and Appropriate Size	29
1.3.2 Who Should Draw the Map and Is It Doable?.....	32
1.4 Financing Assigned Functions.....	33
1.4.1 Fiscal Autonomy.....	33
1.4.2 Fiscal Authority and Capacity Are Far from Yield	34
1.5 Citizens’ Perception	35
2. Improving Delivery and Efficiency—IMC as a Solution	36
3. Can IMC be Instrumental?	42
3.1 Trend and Fashion in IMC	42
3.2 Institutional Context—Legal Stipulations and Incentives.....	43
3.2.1 Legal Frame.....	44
3.2.2 Institutional Arrangement Possibilities (Illustrated for Waste Management Function).....	44
3.2.3 Potential Legal Form of an Inter-Municipal Association	48
4. First Attempt at a Countrywide Inventory	50
4.1 In Search of a “Good Practice”	54
4.1.1 Range of Tasks Delivered.....	55
4.1.2 Forms and Actors of Cooperation.....	57
4.1.3 Financing Mechanisms and Incentives.....	59
4.1.4 Provisions for Representation and Accountability	61

5. Bottlenecks and Opportunities.....	61
5.1 Barriers Hampering Cooperation.....	62
5.2 Recommendations to Encourage IMC.....	63
Sources Cited.....	66
Annex: Elaborated IMC Case Studies	68
Notes	95

EXECUTIVE SUMMARY

The first confirmation of the existence of political will to share power and set up local government units (LGUs) in Albania came with the passing of the Law on Functions and Organization of Local Governments (August 1992). Decentralization remains a priority on the country's political agenda, adhering to principles of subsidiarity, local autonomy, efficient use of resources, transparency, and accountability. Nevertheless, two major components of the decentralization reform—its legal frame and implementation—have advanced at different speeds.

Substantial progress has been made with the preparation of a legal framework. The Constitution of the Republic of Albania, voted on through a popular referendum in October 1998, established the principle of autonomy for LGUs. It spelled out that local government is founded upon the basis of the principle of decentralization of power and exercised according to the principle of local autonomy.¹ This was followed by the ratification of the European Charter of Local Self-Government (1999) and approval of the National Decentralization Strategy for Local Authorities. This strategy has been widely accepted by stakeholders, although, to some extent, acceptance has been triggered by features of the strategy compilation process. Subsequent laws have been endorsed since then, handing over a wide array of functions to local units and providing some fiscal basis for implementing devolved functions.

In contrast, with respect to implementation of the decentralization process, ambitious deadlines are far from being met. The process of transferring the duties and responsibilities from central to local government authorities has proven to be slower than initially anticipated.²

In the early stages, services and functions from which the public could benefit directly were handed over to local bodies, which, although politically autonomous, still lacked real administrative and fiscal autonomy.³ Since 2000, implementation of the decentralization strategy has been continuously granting new competencies to local governments and demanding new solutions from local authorities to handle service delivery. Local authorities must shoulder several new responsibilities that they have no previous experience with, nor staff with the adequate skills. Moreover, LGUs lack appropriate funding to deliver expected services to local communities. (Previously, local units relied on the central government to provide such services.) Presently, much of the required funding will be generated locally, particularly from service taxes, focusing LGU efforts on improving the efficiency and effectiveness of their operations.

This paper serves the purpose of assisting LGUs to wield their decentralized power and explores inter-municipal cooperation (IMC) as one of the routes towards improved local service delivery and the implementation of decentralized functions. Albania is no exception among the CEE countries where IMC is embryonic compared with several Western European

countries where such arrangements are abundant and backed up by a strong culture of cooperation and tools to facilitate and encourage it.

The first sections of this paper analyze the status quo of local government, including the implementation of newly decentralized functions, without trying to generalize features that vary among local units in the country. Despite analysis describing the overall situation at the national level, the relatively large urban centers are in a favorable position in terms of services offered and fiscal capacities.

This research has made maximum use of the extended network of FLAG (Foundation of Local Autonomy and Governance) in trying to identify and record, for the first time in Albania, cooperation among LGUs. Nevertheless, it cannot claim that the inventory presents a full-fledged, countrywide assessment of inter-municipal associations.

Some of the IMC arrangements are described in detail to account for process and institutional arrangements that accompanied the setting up of cooperation in the scarce examples identified. Case studies also describe incentives and challenges while considering the joining of forces for improved service delivery. Perception transcripts in case studies are gathered through discussions with respective officials of cooperating municipalities and IMC staff, where applicable. Noticeably, case studies are quite descriptive, and monitoring and evaluation focus just on provisions for them at the initial development stage.

Some lessons learned from case studies are explored in the final chapter, which makes recommendations for improved delivery at the local level through IMC.

1. MATCHING OBLIGATIONS WITH LOCAL CAPACITIES —OVERVIEW OF THE STATUS QUO

The dynamics of decentralization (functional followed by fiscal) in Albania have been counteracted by continuous questioning of LGU capacities to handle new tasks. Nevertheless, the final outcome of the functional division testifies to the strong political will to decentralize.

Such a dilemma is unsurprising given a starting point (in 1992) during which politically autonomous local governments operated within a highly centralized environment right up until 1998. Responsibilities and the resource base were not clearly defined by law, and local councils, though elected, possessed no relevant discretionary power to establish local priorities, nor any significant revenue autonomy. Practically all expenditure allocation decisions were influenced or taken directly by the central government. Most resources used locally were earmarked and local authorities were left with insignificant, uncertain local revenue sources. For the last of these, local governments had limited leeway, since they could not determine the basis nor set the rates of their taxes and fees, nor could they administer their own revenue collection. Local policy-making and “housekeeping” functions were handled through de-concentrated agencies.

Subsequent sections of this paper will try to analyze some dimensions of the national institutional context with particular emphasis on the position of local government within the state structure. Several aspects that speak to the necessity for and advantages of cooperation (Hulst, 2007) include: the structure and division of duties within administrative boundaries and tiers, functional and fiscal autonomy, and the evolution of the size and quantity of local units.

External factors, particularly EU financing instruments, influencing performance and opportunities for LGUs, are not thoroughly analyzed here, but recognized in various sections since their impact is often decisive when considering further horizontal and vertical cooperation developments in public authorities.

1.1 Tiers

Decentralized tasks at the local level are implemented through a two-tier local government system. Basic LGUs and counties (qarks) are defined by the country’s constitution. Any other local governments that might be set up are to be regulated by such laws.

The basic units are the communes and municipalities,⁴ “legal entities that perform all duties of self-government, with the exception of those given by law to other local government units.” Presently, there are a total of 373 local units composed of 65 municipalities and 308 communes, without substantial legal differences between them.

Counties comprise the second tier of local government and are composed of several basic units with traditional, economic and social ties, and joint interests. Regional and national policy are synchronously designed and implemented at this level. Counties function very much like local government associations, with limited functions defined by law, allowing for delegation of functions from basic units or from central government. Their budgets are limited, they have no directly elected officials, nor do they have the power to levy taxes and fees.

The efficiency of a system comprising regions as currently defined was called into question early on, shortly after the regions had been formally set up. Subsequently, their anticipated role in coordinating regional development did not produce the expected benefits (World Bank, 2004). Thus, the functions and definition of the regions are being revised, though the deadline for finalizing a respective law keeps being pushed back in the implementation agenda of Albania's decentralization strategy. In the meantime, there are examples of regional structures being used to boost development and tackle disparities. Their functioning and set up mirrors IMC in terms of regional coverage and scope and they have been set up, by law, with an endowment that equips them with qualified staff.

Regions (as administrative units or reformatted solely as statistical units) have a crucial role to play in the implementation of the Instrument for Pre-Accession (IPA), management of the latest format of EU assistance, and in the preparations for handling Albania's structural funds in the forthcoming candidate stage of EU accession.

There is unexplored potential for increasing local government efficiency with better-positioned counties. The following sections focus on the basic tiers of local government in Albania, acknowledging counties as instruments with evolving roles crafted through central government policies, the donor community and the qarks' own initiatives.

1.2 Allocation of Functions

1.2.1 Policy Environment

The allocation of a clear set of exclusive, shared and delegated functions was laid down in 2000 by the Law on "Organization and Functions of Local Government," which marked the beginning of the decentralization strategy implementation at a time when autonomous local government spending⁵ accounted for only 0.34 percent of GDP (Schroeder 2004).

A snapshot of functions and responsibilities exercised at the local level (as of 2008) is reported in Table 1.1, when autonomous LGU spending amounted to 2.7 percent of GDP (see Mid-term budget Program 2009–2011). Sharing of responsibilities between

the first and second tiers of local government and de-concentrated central agencies depicts vertical cooperation potential between agencies that administratively cover the same territory. For the purposes of this paper, the list of exclusive local government functions is of particular interest since LGUs have full discretion over organizing services, either individually or jointly with other LGUs.

Guiding strategies such as the National Integration and Development strategy (2007), Decentralization Strategy (revised in 2007), and the current government program, outline the decentralization of responsibilities at the local level for improving efficiency, accountability and responsiveness. With the central government's initiative, responsibilities for shared functions are now better defined, though not necessarily decentralized: e.g. in pre-university education, administrative competence for municipalities is reduced⁶ and the same can be said for the country's health care system.⁷

Fiscal decentralization, apart from providing for predictable resources and meaningful taxation power, is seen as a way to combat corruption and formalize an economy. Albania's Decentralization Strategy recognizes the difficulty in handling new responsibilities and points to an asymmetric assignment of functions and IMC as tools to explore for accomplishing decentralized functions.

1.2.2 Gaps in Shouldering Legal Responsibility and Exercising Functions

Legally, all LGUs in the country should have been exercising the functions reported in Table 1.2 since 2000, irrespective of size or resources. The timeframe for decentralizing and regulating implementation of newly assigned functions was included in the Organic Law (2000). However, the deadlines that were set expired, and the new timeframe established in a revised Decentralization Strategy (2007) now needs updating.⁸

Several factors have brought about delays, including reluctance to relinquish central power, existence of scarce resources at the local level and lack of a regulatory framework. Sometimes run-down infrastructure or accumulated debts⁹ have created an unwillingness among LGUs to take on the role of service provision provider. Meanwhile, the speed of fiscal decentralization has not matched the assignment of functions at the local level: initiatives to allocate meaningful fiscal power and properties to municipalities were initiated only in 2002, with the introduction of a law on taxes and fees.

A large portion of units still need to arrange service delivery start-up. As of 2007, if just two functions are considered—building permits and solid waste management—the situation accounted for the following:

- 85 percent of municipalities had territory regulation councils set up to exercise their function of urban planning and issuing of building permits, in contrast to eleven percent of communes (rural LGUs), the majority of which delegated the function to the *qark* (county).

Table 1.1
Assignment of Responsibilities Exercised at the Local Level

		Municipalities and Communes				
De-centralized State function	Qarks	Exclusive	Delegated	Exclusive	Shared	Delegated
Planning and Administrative Services						
Military Conscription						Civil registry
Police and Fire fighting (prefectures)			Municipal Police			
Tax administration	Formulation and implementation of regional policies in harmony with national policies			Local Economic Development;		
Treasury System				Market places and local trade network;		
				Small business development and promotion;		
				Local tax and fee administration.		
Social Sectors						
District statistics division						Primary and secondary education (LGs are responsible for operating according to MoE standards and maintaining facilities)
All schools including universities and research institutes, technical & vocational						Priority health care and public health protection (minor LG regulatory competence)
Public health protection						
Primary health care						
Hospitals						

Table 1.1 (continued)

		Municipalities & Communes				
De-centralized State function	Qarks	Exclusive	Delegated	Exclusive	Shared	Delegated
Social Sectors				Protection of local cultural and historical values; Recreational activities; Social services (orphanages, day care, elderly homes); Housing.		Social assistance (financed through earmarked grants: LGs approve beneficiaries and deliver the support)
Infrastructure and Public Utilities	Heating; Electricity; Gas; (controlled by central government and prefectures)	Inter-urban roads; Regional and urban planning; Others as defined by law.	Urban Planning delegated by basic LGUs (Territory regulatory council)	Urban Planning, land management; Local roads, pavements and squares; Water supply and sewage; Street lighting and city decoration; Parks and public area maintenance; Irrigation; Solid waste management.		
	Environmental protection (prefectures)	Regional public transportation services		Local transit and public transportation services; Transport licensing.		
	Regional environmental issues			Cemetery and funeral services; Protection of local forests, pastures and natural resources.		Environmental protection

- 97 percent of municipalities and 54 percent of communes (61 percent of all units) had revenues from a cleaning tariff.

After more than a decade since the transfer of services, the basic waste management function is still not exercised in several local units. Moreover, the above figures include LGUs that deliver a service only to a small part of their administrative territory—the majority of communes offer only the collection of waste and only for the central village (out of a total of 2,820 villages, with an average of nine per commune).

Urban, and relatively large local, units were forerunners in exploring the delivery of new functions, in several instances with international assistance. Weaker local units still need to find ways to start fulfilling their legal and moral obligations to their communities and, at some point, also to consider bringing the service level up to acceptable standards.

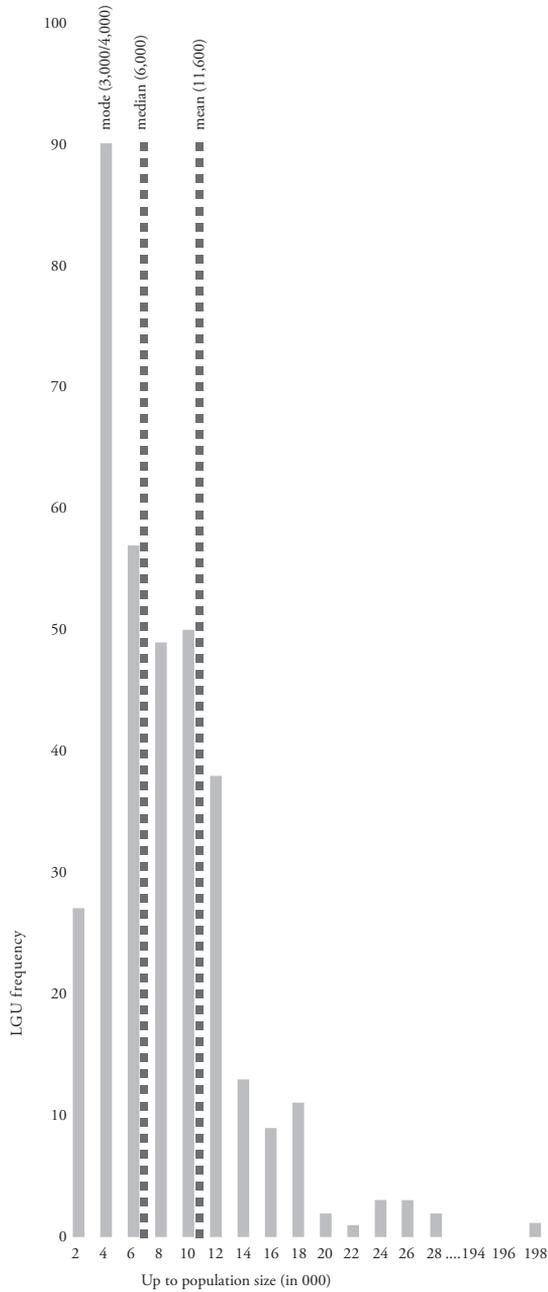
1.3 Territorial and Population Size

1.3.1 Current Size and Appropriate Size

Currently, the 373 LGUs in Albania have some 4.3 million¹⁰ inhabitants, with an average population size of about 11,600 people per local unit. When trying to draw some conclusions regarding effectiveness and the capacity of LGUs based on their size, use of the average as the sole indicator is inadequate and misleading. When the capital city (Tirana) is removed from the dataset, the mean value is still just above 10,000 but, as illustrated in Figure 1.1, this value is not representative of most LGUs: the median value is much lower, at 6,500 inhabitants, and the mode lies between 3,000 and 4,000. The mode value includes one quarter (24 percent) of the country's LGUs. Thus, the population sizes of the communes are skewed very much to the left (both median and mode are considerably lower than the mean), i.e. most communes have very small population sizes.

The adequate (and optimal) size of an LGU remains a debatable, inconclusive issue among academics and practitioners (see Swianiewicz 2002), and Albania is no exception (World Bank 2008) in this regard. The population size will need to be accounted for by subsidiary and accountability principles of local governance, already endorsed by Albania. Therefore, size will also include considerations of surface area covered. Currently, LGUs with a population size less than 5,000 account for 45 percent of the country's surface area but just nine percent of the total population.

Figure 1.1
 Frequency Distribution of LGUs According to Population Size



Source: Own calculations, data from MoL, Annual Statistics, Instat; Almanac of Albanian municipalities and communes, UNOPS; Municipal Profiles, AAM.

Table 1.2 reports an overview of LGUs clustered by population size intervals for the years 2001 and 2009.

Table 1.2
LGUs Clustered According to Population Size Intervals for 2009 and 2001*

Population range**	No. of LGUs		Percent population		Percent surface area	
	2001	2009	2001	2009	2001	2009
<2,000	18	27	1	1	6	8
2,001–3,000	30	42	2	2	8	14
3,001–5,000	78	73	8	6	23	23
5,001–10,000	165	131	30	22	48	34
>10,000	83	100	59	68	16	21
Total	374	373	100	100	100	100

Source: Author's own calculations based on data from MoI, *Annual Statistics of Instat, Almanac of Albanian municipalities and communes, UNOPS Municipal Profiles, AAM.*

Notes: * Data might be subject to some inaccuracies but are from the civil registry offices (2001) and the national register, which officially receives data from the same source.

** There is no specific reason for such division in population range apart from being able to compare the data with recommendations laid out by CoE in 2003, and with a government proposal at that time for reviewing the administrative territorial division.

Demographic movements have increased the number of LGUs governing very small populations (reflected in an increase between 2001 and 2009 in the number of LGUs with a population size of less than 3,000; Table 1.2) and also the number of municipalities with more than 10,000 inhabitants (Table 1.2), with a concurrent decrease in the number of LGUs with a population size between 3,001 and 10,000. Meanwhile, LGUs with a population size above 5,000 that retain around 90 percent of their population have seen their surface area decrease relatively by 14 percent; i.e. migration continues to trend toward the cities, particularly for the medium and larger sized communes.

Despite difficulties with the statistical system in place to reflect the displacement of inhabitants in a timely manner, the trend of Albanians moving towards municipalities is clear. As long as it lasts, such a dynamic situation rapidly makes estimates for an acceptable LGU size obsolete at any given moment.

Given the poor infrastructure that exists in Albania's rural and remote areas, one could pass quick judgment on subsidiarity and the difficulty involved for inhabitants in remote areas to receive basic administrative services. While numbers and surface area covered by LGUs falling into the smaller than 2,000 inhabitants category grows (Table 1.2; 18–27 percent, and 6–8 percent, respectively) the population percentage remains the same (1 percent). For LGUs with a population size less than 3,000, the figures are remarkable: an increase in the number of LGUs from 48 to 69 (44 percent

increase) and an increase in surface area from 14 percent to 22 percent (57 percent increase), while the population percentage remains at three percent.

1.3.2 Who Should Draw the Map and Is It Doable?

Intentions and arguments in favor of increasing the efficiency of communes through territorial administrative reform by “consolidating the small communes” is spelled out in the current decentralization strategy.¹¹ The reasons are explored further in that document, which emphasizes that in communes with less than 5,000 inhabitants, more than 70 percent of the staff have not received a higher education, and yet 22 percent of communes spend more than 40 percent of their budget on administration.

The discussion on optimal size continues and the reasoning remains the same, while Albania’s central government has several times initiated territorial administrative reform for the country’s local units. Such initiatives, undertaken since 2003, are politically risky and prompt disagreeable discussions, often leading to their rejection by local communities. Knock-on effects, such as mixing or splitting up of politically committed areas, impact the results of elections, disfavoring territorial revision.

During 2005, a specific parliamentary commission was set up, with political consensus, to guide territorial reform. It was expected that such a commission, based on criteria and modalities suggested by a team of CoE experts, would pass on necessary normative acts to parliament for decision, but the latter’s mandate ended without decisions being taken (Dedja and Brahim, 2006).

Since 2003, there has been only one merger between two communes. An analysis carried out by Hila and Sokoli (2007) concluded that the merging of Bushat and Barbulush communes increased communal administrative efficiency there. This was indicated by an increase in quality, an overall higher share in investments, and a decrease in costs.

Meanwhile, the Albanian Association of Communes (AAC) has as one of its strategic objectives and selected lobbying issues, an analysis of the potential implications and benefits of commune mergers.

Whichever way the process now goes it is not going to be popular. Albania’s local government associations are now, however, in a position to voice stronger opinions, which will make centralized solutions more difficult to push through. Meanwhile, under the constitution,¹² communities have the right to referenda, also mentioned in the organic law,¹³ as a means for eliciting communities’ opinions regarding any change to an administrative unit’s territorial boundaries.

1.4 Financing Assigned Functions

1.4.1 Fiscal Autonomy

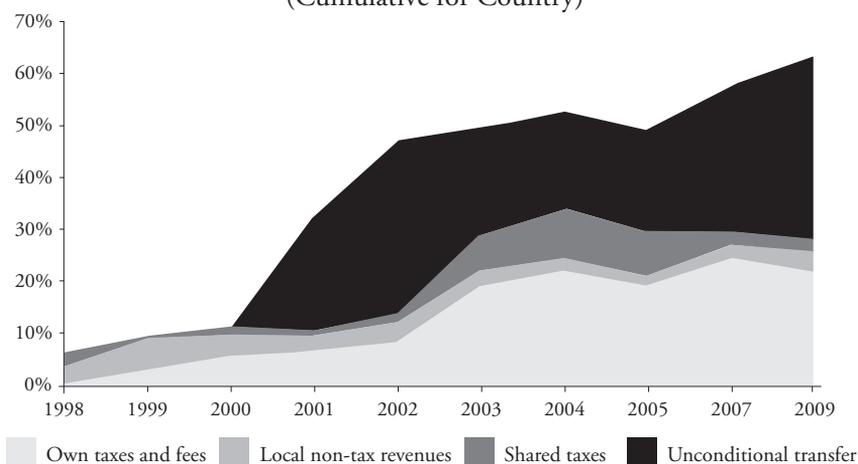
Since 2000, fiscal decentralization has tried to catch up with functional decentralization. This section will focus on one aspect of this decentralization process, namely the evolution and potential of local discretionary revenues. Such revenues are a source for financing the implementation of exclusive LG functions, organized either individually or through cooperation agreements, as decided by local units.

Between 2002 and 2007, several laws¹⁴ that increased LGU fiscal autonomy were enacted, providing for a higher share of discretionary revenues at the local level through the authority to undertake the following:

- levy, and decide upon the levels of, taxes (+/-30% of the indicate rates defined by law);
- decide on the level and base fees for any service assigned within an LGU's exclusive function, aiming to cover service costs through locally-raised fees;
- manage capital assets transferred to local units;
- decide on priorities funded through central government transfer, the unconditional part of which has substantially increased since 2002;
- borrow, given that certain legally binding conditions are met.

Figure 1.2

Evolution of Discretionary Revenues in % of Total Local Revenues
(Cumulative for Country)



Source: Own calculations based on data from Ministry of Interior, fiscal bulletins of Ministry of Finance, WB Policy note 2008, LGDA Study on Borrowing.

Figure 1.2 describes the change (increase) in discretionary budget size both before and after functional (2000) and fiscal (2002) decentralization, and describes the evolution of the contributions for various strains of discretionary revenue sources as a percentage of total LG revenue.

Several trends reflecting the major reforms that took effect in 2003 and 2007 are worth commenting on. Between 1998 and 2002, revenues from own taxes and fees remained negligible, reflecting the tax base at the time, even though functions had been assigned to local units by 2000. Introduction of the local fiscal package in 2002 led to higher yields—almost 25 percent of all revenues and 43 percent of discretionary income by 2007. Introduction of the unconditional grant in 2001, the full share of property taxes for local government by 2003, and an unconditional grant formula, which included several ministries' former infrastructure portfolios, increased discretionary revenues to 58 percent in 2007. Meanwhile, local budget spending as a percentage of the state budget also increased, along with autonomous spending of LGUs as a percentage of GDP (0.34 percent in 2000, 2.5 percent in 2006, 2.2 percent in 2007, 2.7 percent in 2008 and 3.1 percent in 2009¹⁵). Nevertheless, increasing the amount spent to fund local budgets has not been debated, except within the context of making central funding more predictable.

1.4.2 Fiscal Authority and Capacity Are Far from Yield

Prominent taxes, with potentially high returns, are assigned to local units. These include property taxes and small business taxes. Meanwhile, improving the efficiency of the tax administration locally is an issue that has received some, but not nearly sufficient, attention. Most (95 percent of) municipalities¹⁶ apply property taxes but, in the absence of a consolidated tax base and at such a low level, it is almost worthless to spend revenues on improving their administrations. Meanwhile, small business taxes are collected with the same inertia inherited from the central administration.

Nevertheless, the average for the country, with more than 20 percent of local budgets generated from local taxes, appears encouraging. The reality, however, is that the country's cumulative perspective is deceptive when one tries to understand the real fiscal situation of most LGUs. Disparities are illustrated for 2007 with about 71 percent of local revenues collected in the municipalities, which comprise 17 percent of LGUs, with only 26.3 percent collected in the communes (83 percent of LGUs) and 2.7 percent from the counties (*qarks*, or regions). 42 percent of a 26 percent share of local revenues collected in communes is generated in four (one percent of) communes located within the same county.

The two major taxes—property tax and small business tax—are used above to illustrate how minimally local unit potential resources are being exploited with regard to fiscal capacity, without accounting for the service fees that are set and collected, but which do not cover even half of the service costs (yielding 5 percent out of a total of 43 percent of discretionary revenues from taxes and fees).

The present framework for generating revenues from local taxes and fees could be promising if it were adequate. It would then enable local units to perform their functions according to some acceptable standards. Setting up a proper tax administration in communes with very scarce resources and little economic activity takes them beyond their capacities, but joining efforts to providing such administrative services could prove worthwhile, and this is where IMC could be very beneficial.

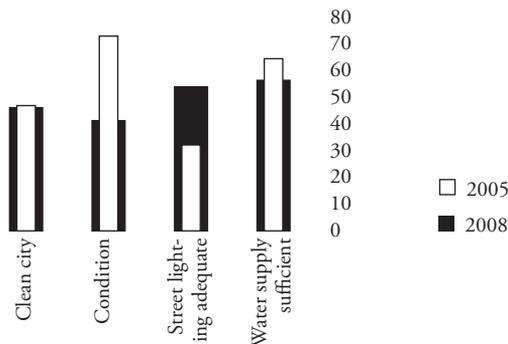
1.5 Citizens' Perception

Despite the delay recorded in assigning and exercising functions at the local level, the perception of Albania's citizens is quite close to the legal expectations. Citizen surveys carried out annually between 2004 and 2008 concluded that most communities expect from their local government services that are actually exclusive to them.

Assessing the quality of services delivered within the assigned functions but without standards and performance measurement mechanisms leaves only perceptions as a means for evaluation. Figure 1.3 presents a summary of the perceptions of the citizens on four exclusive local government functions: cleaning, road maintenance, street lighting and water supply. Perceptions for 2005 are compared with the results for 2008.

Interestingly, the level of satisfaction with three of the public services surveyed has fallen, though it has increased with respect to street lighting (in 2009 there was 54 percent satisfaction compared to 33 percent in 2005). Whether the overall drop in satisfaction is due to deteriorating performance or infrastructure or higher expectations is uncertain. Nevertheless, the figures give a clear indication that performance requires much improvement before it meets citizens' expectations. In the following sections some ways to improve service delivery will be discussed.

Figure 1.3
Citizen's Satisfaction on Service Quality by LGUs (Comparison 2005–2008)



Source: Data from surveys conducted on local government services in 2005 and 2008.

2. IMPROVING DELIVERY AND EFFICIENCY—IMC AS A SOLUTION

Previous sections have touched upon the fragmentation of the size and resources of local units. They have also mentioned that the decentralization of functions has not always led to satisfactory execution. At present fiscal authority of local units needs further exploration to collect the resources necessary for delivering services efficiently and with the level of satisfaction required. The challenges enumerated above are grounded in the context of how and where local units operate—which is with a wide array of their own responsibilities and within a decentralized environment that abides by the principles of LGU subsidiary and autonomy.

Improving the efficiency and effectiveness of fragmented local units, or achieving an effect of economy of scale when delivering public services, or adjusting to service catchment areas that have natural borders, are the challenges that remain. The following options present potential strategies to cope with a fragmented territory and resources, some of which are also outlined in Albania's guiding strategic documents:

- *Asymmetric assignment* of functions throughout local units based on capacity, potentials and resources, including *regionalization* here, based upon functions that would fit the given scale of an administrative territory.
- Amalgamation (CoE, 2003)¹⁷ of units to increase capacities and reduce service costs.
- Inter-municipal cooperation, corresponding to scale of economy and catchment size.

These potential strategies are not exclusive. On the contrary, they could be beneficial to each other if well thought out and synchronized. A particular solution would be to fit strategies to a given set of specific circumstances, but it would have to be locally steered and not centrally imposed.

Table 1.3 reports an analysis of policy options from a perspective that values local autonomy, subsidiarity and democracy. It analyzes four different strategies for improving service delivery: i) territorial mergers, ii) asymmetric assignment of responsibilities, iii) intermunicipal cooperation, and iv) regionalization (consolidation of upper self-governance tier), against several criteria.

Each criterion is composed of several indicators. No particular weight is assigned to any of the criteria, but political feasibility has proven to drive several reforms in the country, and seems to be the case in most European countries.

The present document then goes on to further explore IMC since this arrangement can be initiated within the existing structure in Albania by local units themselves for functions exclusive to them. It could also provide meaningful grounds for potential future voluntary mergers and initiatives, and it offers flexibility when responding to the re-designation of regions.

Table 1.3
Comparison among Strategies Available for Improved Service Delivery

Criterion/Indicator	Policy options				Present policy environment
	Territorial amalgamation	Asymmetric assignment of responsibilities	Intermunicipal cooperation	Regionalisation (consolidating upper self-governance tier)	
SERVICE COVERAGE					
<i>Percent of LGUs offering service for decentralized functions</i>	<ul style="list-style-type: none"> ▲ total percent of LGUs offering service (total number of units reduced) 	<ul style="list-style-type: none"> ▼ interest to increase service coverage in disadvantaged areas 	<ul style="list-style-type: none"> ▲ total percent LGUs offering service (all LGUs getting into IMC bound to start service) 	<ul style="list-style-type: none"> ▲ territory percent covered with service despite some first-tier LGUs being weaker than others 	<ul style="list-style-type: none"> ■ 61 percent offering partial and low standard service, e.g. waste management (54 percent small LGUs)
<i>Percent of surface area covered with service</i>	<ul style="list-style-type: none"> ▼ interest to increase service coverage in disadvantaged areas 	<ul style="list-style-type: none"> ▼ service coverage outside main cities vested with more responsibilities 	<ul style="list-style-type: none"> ▲ territory percent covered with service despite some LGUs being weaker than others 	<ul style="list-style-type: none"> ■ 60 percent citizens unhappy with city cleaning. Change in standards—acquis communautaire 	
<i>Percent of municipalities that have introduced fee for service, enabling service cost recovery</i>	<ul style="list-style-type: none"> ▲ administrative effort to collect fees accordingly, due to extended territorial scope ▼ interest of outskirts to pay 	<ul style="list-style-type: none"> ▼ interest to pay, service payers far from service decision-making 	<ul style="list-style-type: none"> ▲ no. of LGUs acquiring good proportion of planned revenue from fees to run the IMC 	<ul style="list-style-type: none"> ▲ administrative effort to collect fees accordingly, due to extended territorial scope ▼ interest of outskirts to pay 	<ul style="list-style-type: none"> ■ 40 percent cost recovery from service fees in municipalities ■ weaker local units still debating service introduction and coverage

Table 1.3 (continued)

Criterion/Indicator	Policy options				
	Territorial amalgamation	Asymmetric assignment of responsibilities	Intermunicipal cooperation	Regionalisation (consolidating upper self-governance tier)	Present policy environment
<i>Responsiveness/faster decision-making time</i>	<ul style="list-style-type: none"> ■ since decision-making procedures don't change 	<ul style="list-style-type: none"> ■ since decision-making procedures don't change 	<ul style="list-style-type: none"> ■ or ▼ depending on selected legal form and delegated authority of IMC institution 	<ul style="list-style-type: none"> ■ since decision making procedures remain with regional council 	<ul style="list-style-type: none"> ■ city councils have full authority to decide upon own functions and services
<i>Administrative (service) costs</i>	<ul style="list-style-type: none"> ▲ savings on administrative costs (overall administration costs decrease) (potential) 	<ul style="list-style-type: none"> ▲ savings on administrative costs (reduced no. of LGUs offering particular service) (potential) 	<ul style="list-style-type: none"> ▲ savings on administrative costs due to joint administrative processes (potential) 	<ul style="list-style-type: none"> ▲ savings on administrative costs (reduced no. of units offering particular service) (potential) 	<ul style="list-style-type: none"> ■ unaffordable proper, e.g. landfill, costs
<i>Qualified staff</i>	<ul style="list-style-type: none"> ▲ pool of available human resources 	<ul style="list-style-type: none"> ■ same procedures followed by same staff 	<ul style="list-style-type: none"> ▲ pool of available human resources ▲ chance to attract professionals with private sector salary scale 	<ul style="list-style-type: none"> ■ pool of available human resources increases but actual tier has no experience in delivering 1st tier range of services 	<ul style="list-style-type: none"> ■ 21 percent of LGUs employ >70 percent of administration without UT degree; not meeting qualification requirements

FINANCIAL IMPLICATIONS	
<i>Additional funding required (on top of service cost)</i>	<ul style="list-style-type: none"> ▼ public opinion, bearing additional costs (referendum if needed) required by constitution if territorial reform ▼ additional finances on investment for incentive schemes to encourage merging (unless it is compulsory) ■ no extra costs ▼ additional financial resources likely needed for incentives and start up costs ■ costs associated with election for direct representation of 2nd tier can be combined with 1st tiers election (matching mandates)
<i>Unit cost for delivering service</i>	<ul style="list-style-type: none"> ▲ savings on service costs for services with catchments area corresponding to amalgamated territory ▲ savings on service costs, IMC coverage and service catchment area overlap ▲ savings on service costs, depending on location of neighboring city organizing service ▲ savings on service costs for administering service ■ unit cost of services with different catchment area size not egalitarian ▲ savings on service costs for services with catchment area corresponding to amalgamated territory ▲ savings on service costs for services provided to catchments different in size from region do not decrease ▼ higher costs in organizing decentralized service points in respect of subsidiarity principle ■ few municipalities have service costs from fee revenues, and even then <40 percent coverage ■ no service tariff introduced in 54 percent of communes ■ unit cost of services provided to catchments different in size from region do not decrease ▼ higher costs in organizing decentralized service points in respect of subsidiarity principle

Table 1.3 (continued)

Criterion/Indicator	Policy options				
	Territorial amalgamation	Asymmetric assignment of responsibilities	Intermunicipal cooperation	Regionalisation (consolidating upper self-governance tier)	Present policy environment
<i>Fundraising/private sector attractiveness</i>	<ul style="list-style-type: none"> ▲ potential to absorb funding due to potential increase in administration capacities 	<ul style="list-style-type: none"> ▼ potential to absorb EU funding 	<ul style="list-style-type: none"> ▲ potential to absorb EU funding by meeting size eligibility criteria ▲ potential to attract private sector investments by creating adequate scale interventions 	<ul style="list-style-type: none"> ▲ potential to absorb EU funding by meeting size eligibility criteria ▲ potential to attract private sector investments by creating adequate scale interventions for some services 	<ul style="list-style-type: none"> ■ present donor funding targeting balanced development at regional level
POLITICAL FEASIBILITY					
<i>Acceptance of LGUs</i>	<ul style="list-style-type: none"> ▼ likelihood of acceptance from LGUs and LGAs 	<ul style="list-style-type: none"> ▼ likelihood of acceptance from LGUs and LGAs 	<ul style="list-style-type: none"> ▲ likelihood of acceptance, LGUs' decision to initiate is a must 	<ul style="list-style-type: none"> ▼▲ likelihood of acceptance by LGUs will be different between public services and policy coordination 	<ul style="list-style-type: none"> ■ decentralization, wide array of local own functions, subsidiary and local autonomy widely accepted principles
<i>Political consensus (pc) level required</i>	<ul style="list-style-type: none"> ▼ likelihood of pc on law (3/5: same consensus level as changing constitution and appointing president) 	<ul style="list-style-type: none"> ▼ likelihood of pc on law (3/5: same consensus level as changing constitution and appointing president) 	<ul style="list-style-type: none"> ▲ likelihood since only secondary (auxiliary) legislation required 	<ul style="list-style-type: none"> ▼ likelihood of pc to change constitution and have direct elected LG council ▼ likelihood of pc organic law for the region required 	<ul style="list-style-type: none"> ■ one law aiming at territorial reform already failed to pass (2003)
<i>Keeping the same number of employees (no redundancy)</i>	<ul style="list-style-type: none"> ▼ likelihood since some LGUs will no longer exist as administrative units 	<ul style="list-style-type: none"> ▼ likelihood since authority will be withdrawn from some LGUs 	<ul style="list-style-type: none"> ▲ likelihood since most IMCs introduce upgraded service quality and new skills 	<ul style="list-style-type: none"> ▼ likelihood since authority will be withdrawn from some LGUs 	<ul style="list-style-type: none"> ■

IMPACT/TIME	<ul style="list-style-type: none"> ▼ or ■ before elections ▼ indicative timeframes: <ul style="list-style-type: none"> three years from preparing legislation to preparing an administrative map: recommend three years encouraging voluntary merging 	<ul style="list-style-type: none"> ▼ or ■ before elections 	<ul style="list-style-type: none"> ▲ immediate implementation start ⊗ possibility to start yield within short time-frame negotiations in setting up IMC institutions 	<ul style="list-style-type: none"> ▼ or ■ before elections ▼ possibility to start yield within short time-frame since administrative culture within regional governments will need changing 	<ul style="list-style-type: none"> ■ various IMC arrangements on-going ■ one merger between two communes
ACCOUNTABILITY/TRANSPARENCY / DEMOCRACY	<ul style="list-style-type: none"> ▼ subsidiary <p><i>Relation between elected representatives with population receiving service</i></p>	<ul style="list-style-type: none"> ▼ subsidiary accountability, elected politicians not directly accountable for population services 	<ul style="list-style-type: none"> ▼ accountability, elected politicians indirectly accountable 	<ul style="list-style-type: none"> ▲ accountability if regions get an elected council ▼ subsidiarity for an array of services 	<ul style="list-style-type: none"> ■ elected representatives directly accountable to their electorate that receives services from LGUs

3. CAN IMC BE INSTRUMENTAL?

3.1 Trend and Fashion in IMC

Inter-municipal cooperation in Europe is a strategy that has been recognized as a way for local governments to deal with market pressures and public demand for better and more qualitative service delivery. Cooperation between municipalities seems to be almost as old as the municipalities themselves (Hulst 2007). *In France, the first councils established by local government to administer communal services date from the end of the nineteenth century* (Maurel 1993); *in the Netherlands, the 1851 Municipal Act already contained a provision for cooperation between municipalities “in communal affairs, interests, installations and works”* (Hulst 2000). And now, in the twenty-first century, local governments are cooperating with each other on an increasing scale, particularly in the era of European integration (Hulst 2007).

New trends, technology development and people’s increased mobility have evolved the complexity, scope and direction of IMC in Europe, forever adapting it to new circumstances and markets. It is worth pointing out here that apart from the demands of both the markets and citizens it is evident that national legislator initiatives have defined opportunities and constraints on various forms of IMC (Hulst, 2007).

A snapshot of existing cooperations, their institutional arrangements, frequency, scope and tasks assigned was taken in 2007 by the Committee on Local and Regional Democracy. The Committee analyzed the situation in twenty-three countries: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Finland, France, Georgia, Germany, Hungary, Italy, Lithuania, Luxemburg, Netherlands, Norway, Portugal, Russian Federation, Slovakia, Slovenia, Spain, Sweden, Switzerland, and the United Kingdom. Thirty-five percent of the countries attempted to give some overall figures for some categories of IMC, with the rest having no consolidated recording system in place for all types of IMC, while still other respondents did not understand the question or the subject (see IMC questionnaires filled in by member states for CLDR).

The Committee for Local and Regional Democracy study reported a full menu of IMCs, both single and multi-purpose, either fully public or in partnership with the private sector, dealing with service delivery and coordination. It highlighted that the democratic aspect appeared deficient overall, since there was no direct representation or means in place to ensure effective community participation (Deffigier 2007).

Results of a comprehensive research study of IMC in western European countries¹⁸ have been presented by Hulst and van Montford (e.g., in 2007, 2008) in several recent publications. These authors concluded that IMC is a widespread phenomenon in Western European countries, with an elaborated menu to choose from in terms of composition, tasks, scope, institutionalization and decision-making powers.

Their analysis showed that the present tendency in countries with a tradition of IMC focuses on improving efficiency of the cooperative institutions and making provisions for increased accountability and representation. Vertical cooperation, building on the competitive advantages of several government tiers, including, in this case, skills and resources, seems to be gaining ground (in Spain, France, the UK, and Belgium). It is also interesting to note that, when considering cooperative arrangements with a mixed public-private character, there are no standing organizations under public law where municipalities and commercial private companies jointly provide services to the public on a regular basis (Hulst 2007).

Consolidation of the European market opened the potential for IMC on the one hand but on the other, it also raised questions about the fairness of procedures according to EU regulations. The latest example of IMC getting into difficulties is a court case initiated by the Commission of European Communities. The Commission “denounces” the direct contractual arrangement between several local units and Hamburg (cleansing department) without following procurement rules for service provision. The Court of Justice decided that a public authority must be allowed to perform the public interest tasks granted to it by using its own resources without being obliged to call on outside entities, and it may do so in cooperation with other public authorities as long as no private entities are involved.

The court concluded that Community law does not require public authorities to use any particular legal form to jointly carry out their public service tasks. Such cooperation between public authorities does not undermine the principal objective of the Community rules on public procurement. This is not an isolated case questioning the fairness of IMC workings and could be related to the trends concerning European membership.

Naturally, questions and doubts will be raised over IMC operations, just as they are for local government operations kept under public and private sector scrutiny. Nevertheless, local governments in Europe have been making use of IMC for more than a century, continuously adapting it to respond to evolving needs. IMC seems to offer local units flexibility in the way they organize themselves for optimal service delivery, beyond territorial-administrative borders.

3.2 Institutional Context—Legal Stipulations and Incentives

National environment plays a decisive role in the shifts and patterns of IMC (Hulst 2007). The rest of this section will look into the strategic and national legal environment for IMC. Cooperative and administrative culture will not be discussed in detail, despite its strong influence in cooperation arrangements.

Albania is a signatory to the CoE, which has embarked on an initiative to document the extent of, and to encourage, inter-municipal cooperation. This initiative follows the

second round of a report on the implementation of the European Charter of Local Self Government in signatory countries. The “second generation” report, in line with the proposal of the Institutional Committee (of CLRAE), will have as its theme the “institutional framework of inter-municipal cooperation.” Sharing knowledge, promoting intermunicipal cooperation and enabling an environment for such cooperation is the recommendation [nr: 221 (2007)] of CLRAE.

While IMC is encouraged at the European level, national strategic documents also recognize its important role. Albania’s decentralization strategy outlines that IMC is crucial for implementing well-run service projects and public services. The strategy document also mentions that encouraging IMC financial incentives will be instrumental for various sectors or projects paid out through competitive grants.

3.2.1 Legal Frame

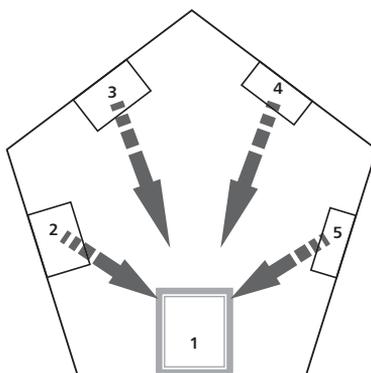
The Albanian Law on Local Self-government is quite liberal with respect to inter-communal cooperation. Interpretation of the law¹⁹ suggests that any function delegated to a local government for which it should provide a service can also be done jointly by multiple local governments to obtain the desired result. Such cooperation provides ease of association but also some additional responsibilities. The law is based on the European Charter of Local Self Government, which was ratified by the Albanian Parliament in November 1999, therefore emphasizing the right of local government units to associate.²⁰

Any given exclusive function of municipalities and communes can be potentially organized through IMC based on three scenarios of intermunicipal cooperation as detailed below.

3.2.2 Institutional Arrangement Possibilities (Illustrated for Waste Management Function)

Scenario 1: Identification of one municipality to carry out the operation (e.g. joint waste management)

Participating municipalities delegate the function to a selected municipality. The identified municipality will have to expand, or even create, a section within a given department to undertake such an operation. The selected consortium of municipalities will have to decide how, for example, service delivery, will be organized, whether through the municipal staff and municipal enterprise or through the contracting out to a third party. The staff managing the system will be the municipal staff of the selected municipality.



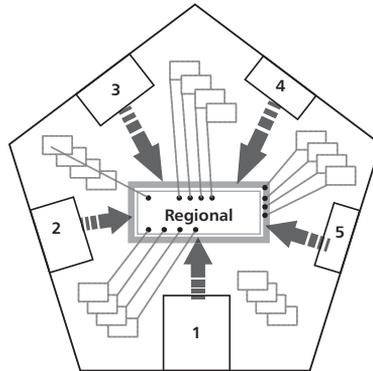
Considerations:

- Fewer administrative procedures are necessary to set up the structure within the selected municipality.
- The municipal structure will be more flexible to respond to immediate needs.
- The administration costs could be lower compared to other scenarios, and also the salary structure will have to be based on the one applied for municipal staff.
- Decisions are concentrated in the hands of one municipality with citizens of other municipalities—although paying for the service—not influencing decision-making.
- The present level of municipal administration is not capable of coping with the undertaking when the initiative is much bigger than ordinary ones.
- New structures (that might need setting up) without strong management skills, can slow down the procedures for the acceptance of new members into the IMC arrangement.
- A controlling and monitoring system will have to be very well-developed—outside of the usual municipal routine.
- The salary scales used (to date) for the municipal staff are not competitive enough to attract well qualified personnel.
- Staff will be more susceptible to the political interests of the Mayor or Council of the given municipality.

Scenario 2: Delegation of the function to the Regional Council

All participating municipalities will delegate their waste management tasks to the Regional Council. Representation of the members has already been assured for this scenario, since all the participating municipalities and potentially participating communes are represented at the Regional Council, in proportion to the number of inhabitants.

However, the Regional Council will have to set up a department with the appropriate executive staff in order to operate a common waste management system.



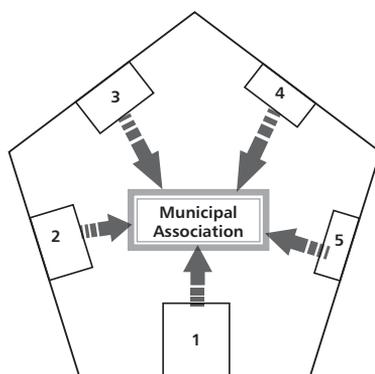
Considerations:

- A role would be given to the regional council that strengthens the latter.
- Information flow for the new potential members could be facilitated.
- Regional policies could be coordinated more easily with the national policies on waste management.
- There is a lack of experience of the Regional Council since it is a new local government tier in Albania, set up in 2000.
- The Regional Council is also composed of municipal authorities that are not using the system, therefore complicating the decision-making process.
- Municipalities are reluctant to delegate their own functions to a level that is not closer to the citizens (subsidiary).
- Administrative capacities of the Regional Council are very limited and their function has never before dealt with service delivery to the citizens.
- There is a lack of a track record of good cooperation between the first level LGUs and regional councils (second tier).
- New structures, without strong management skills, can slow down the procedures for accepting new members.
- A controlling and monitoring system for the management of the common system will have to be very well elaborated, outside of the council's usual routine.
- The salary scales of the regional administrations are not competitive enough to attract well qualified personnel.

- Staff will be more susceptible to political interests of the Regional Council and its Chair.
- A stronger basis for accountability of the Regional Council would be required, since the chair and council are not elected (unlike those of first tier LGUs).

Scenario 3: Setting up of an Intermunicipal Association

The cooperating municipalities set up a separate legal entity—“the subject of common competences”—to be held responsible for the operation of the system. The municipalities, in this case, exercise their own function through the legal entity, which carries out the assigned duties through its own executive staff. The general assembly and board, composed of member municipalities represented through council members whose number is proportional to the size of the population using the waste management system, will govern the entity. Such an entity can take several public or private legal forms.



Considerations:

- This provides for a more democratic decision-making process steered by a municipal leadership elected by citizens who receive the service.
- Activities of the association are based on economic analysis, and therefore strong analytical skills will have to be applied.
- The association will strongly abide by all of the fiscal rules of the private sector, and therefore should provide a strong basis for sustainability.
- Similar examples are good-functioning, worldwide models.
- The service delivery model best applies the principle of subsidiarity.
- Users of the system make decisions about the functioning of the system.
- Mayors (interviewed) express a strong political will on behalf of their municipalities to perform their own waste management function, given to them by law.

- If the private sector is involved, all of the private companies operating in the territory covered by the association will be encouraged to participate.
- Salaries can be more attractive than the municipal salaries, attracting strong managers and well-qualified staff.
- There are new, unfamiliar grounds for the Albanian municipalities.
- There are high administrative effort and costs for setting up a separate legal entity.
- View of the potential tasks for the entity is currently limited (reluctance to delegate).
- The objectives of the association will need clear definition as will the roles of the entity and cost recovery measures.

Since there is no limitation for IMC, any available form under public or private law can be considered an option.

An analysis of Not-for-Profit Organizations, Anonymous Associations and State Enterprises follows, with consideration given to the advantages and disadvantages of each alternative. LGUs have several options to choose from, based on their needs and visions. However some advantages and disadvantages are mentioned for each legal form.

3.2.3 Potential Legal Form of an Intermunicipal Association

3.2.3.1 *Not-for-Profit Organization*²¹

*Procedure*²²

LGUs draw an agreement to jointly exercise a function, for example, the collection, removal and treatment of waste. With this agreement participating LGUs decide on the establishment of a legal person, separate from the participant parties, to whom they give the authority and responsibilities to exercise the function(s). This legal person—subject to common responsibilities in this case—is an NPO.

Considerations

The association can apply to donors operating in the field, thus accessing funding for NPOs. Nevertheless, consideration should be given to how to exploit this advantage in the present case, and how many potential donors operate in any given area at the given time.

Direct clients of the association will be its founding municipalities and, indirectly, the citizens of these municipalities. If the association considers the offering of services for a higher than cost price to a private business or outside LGU, the IMC will not be able to legally justify a profit. The term “profit” used in various applicable laws creates confusion,²³ which could be a disadvantage for the IMC.

The NPO law does not give non-profitable associations the right to obtain loans²⁴ from banks. Loans are considered as good and functional means when further investments are required, for example during times of financial difficulty that may come up during the exercising of an association's activities. Also a quick survey among the loan departments of several private banks did not look positively upon the lending of funds to an NPO, a policy that might change. Moreover, an NPO cannot attract private shareholders. If any of the founding members of the NPO decides to leave the association in order to accomplish the function separately and independently, it cannot share any of the IMC properties.²⁵

The NPO cannot be transformed into another kind of legal person, e.g. a commercial association, without first being liquidated, and later these municipalities can decide how they will accomplish these legal functions differently.

3.2.3.2 *Private Law Companies—Anonymous Association*²⁶

*Procedure*²⁷

The municipalities set an agreement to jointly exercise the function of, for example, the collection, removal and treatment of waste. In the agreement, participating municipalities decide on the creation of a legal person separate from the participating parties, to which they give authority and responsibilities to exercise the above-mentioned functions. This legal person—the “subject of common responsibilities”—is established as the Anonymous Association.

Considerations

The Anonymous Association has the possibility to apply for and receive loans from various private banks, to attract private investors in its activity when necessary, and to operate in the stock market by selling shares.

This association can provide services for private businesses or non-member municipalities and can use its profits to increase service performance.

If a founding municipality decides to leave the Association in order to exercise functions on its own, that municipality has the right to claim its part of the investment until the moment of its departure by selling its shares on the market.

AA will be considered a profit-making²⁸ legal person. As such, it will be subject to all provisions of the law on AA and will be bound to pay all fiscal obligations as determined by the law.

3.2.3.3 *State Enterprise*

*Procedure*²⁹

Participating municipalities agree in an accord to exercise a specific function, for example the collection, removal and treatment of waste. In this accord, the participating municipalities decide on the creation of a legal person separate from the participant

parties, to which they give authority and responsibilities in order to exercise the above-mentioned functions. This legal person—the “subject of common responsibilities”—is established as a State Enterprise.

Considerations

A State Enterprise has many characteristics in common with an AA. Therefore, it would be useful to highlight the differences that exist between them.

A State Enterprise is the property of the State, or property of the municipalities, and therefore cannot operate in the share market and obtain private capital.³⁰

Secondly, a State Enterprise can be transformed into an Anonymous Association while the latter cannot be transformed into a State Enterprise. Recently a large number of State Enterprises have been transformed into AAs.

The Head Council of a State Enterprise cannot include leaders of local government authorities,³¹ while such participation is not forbidden as far as the AA is concerned.

4. FIRST ATTEMPT AT A COUNTRYWIDE INVENTORY

The IMC inventory reported in Table 1.4 cannot claim to present a countrywide, fully-fledged assessment of intermunicipal cooperation. The information was gathered through interviews with stakeholders of LG interests at the national level and also through the extensive network of FLAG³² with local units. It nevertheless remains the first attempt at beginning to document local government (voluntary) cooperation in Albania.

Several cooperation arrangements triggered through central government decisions, such as water companies, are considered to be a successful form of intermunicipal cooperation. More information on such intermunicipal arrangements is included as Annex 1.

There are sixteen voluntary cooperation arrangements listed in Table 1.4, organized according to the exclusive functions of local governments.

Table 1.4
Central Inventory of Voluntary Intermunicipal Cooperation

Exclusive functions	Undertaking	Participating LGUs	Region	Legal form	Population served	Financing	Notes
Municipal police	Shared municipal police staff	Rrëshen (M) Rubik (M)	Lezha Region	Informal agreement	24,341	Each pays own staff that intervene jointly	Saving on costs is not a concern since costs are not estimated
Local economic development	Zadrina Association	Bushat Vau i Dejës (M) Dajç Hajmel Blinisht	Shkodra Region	NPO	59,060	Through membership fees and project support externally funded	Area included in arrangement has considerable fertile land with its own production brand
	Moncomunita Mirdita	Laç Milot Rubik Rrëshen Orosh Fan	Lezha Region	Framework agreement	72,568	LED plan externally supported	Linked with opportunities related to corridor connecting Kosova with Albanian sea ports
	Joint tourism planning	Erseka municipality and surrounding communes	Korça Region	Agreement	n/a	Externally financed	Planning process facilitated with external expertise
	Trust fund for development	5 initiator LGUs 35 participate using regional council	Dibër Region	Unit within regional council	193,789	External funding	M/C develop their LED plans/RC supports projects according to plans

Table 1.4 (continued)

Exclusive functions	Undertaking	Participating LGUs	Region	Legal form	Population served	Financing	Notes
Urban planning, land management	Joint planning, urban development, regional development	Shkodër, Lezha Shëngjin, Vëlipojë Bushat, Vau Dejës	Shkodra Region	Agreement/project implementation unit	209,112	External funding	Assignment carried out by third party, a project office that ceased after plan completion
	Joint building inspection	Rrajca Qukës	Elbasan Region	Agreement	20,314	Own communal budgets	Mayors keen to cooperate in other areas
Local roads, pavements and squares	Road projects evaluation and monitoring	Peshkopi municipality and nine neighboring communes	Dibër Region	Contracts	45,000	Communal trust fund support	IMC examples 8 and 9 are only ones with smaller unit delegating to bigger neighboring LG
	Road projects evaluation and monitoring	Bulqiza municipality and five neighboring communes	Dibër Region	Contracts	25,000	Communal trust fund support	As above
Water supply and sewage	Joint investment on roads	Lapardha Rrugas		Agreement	n/a	Central government	<i>Mol suggestion</i>
	Waster basin joint management plan	Zallbazar Cudhi	Berat region	Negotiation process	8,972	Own budget	Basin supplies major urban settlements
	Joint investment water supply system	Kuçova Berat	Berat region	AA company of water supply/merger of two separate M. companies	53,397	External funding financing upgrade	Efforts for joining separate water systems started in 2001, achieved in May 2008

Infrastructure and Public Utilities

Exclusive functions	Undertaking	Participating LGUs	Region	Legal form	Population served	Financing	Notes
Solid waste management	Joint landfill	Rrëshen (M) Rubik (M) Orosh	Lezha Region	Informal agreement	27,704	No specific finance required at this stage	
	KRWM" ShA., joint waste management	Barmash, Bilsht, Buçimas, Bulgarec, Cërravë, Dardhas, Drenovë, Ersekë, Gorë, Hoçisht, Hudenisht, Korçë, Libonik, Liqenas, Maliq, Miras, Mollaj, Mollas, Pirq, Pogradec, Pojan, Progër, Qendër Bilsht, Qendër Ersekë, Vithkuq, Voskop, Voskopoje, Vreshtas (28 LGUs)	Korça Region	Anonymous association	299,080	Revenues from service fee collection; other funds provided by members; externally funded support	Case will be explained further in following sections of this paper
Infrastructure and Public utilities	Joint waste collection project	Mollaj Pojan	Korça Region	Agreement	26,466	External funding	
	Joint landfill, investment	Shkodër Bushat	Shkodra Region	Agreement	136,561	Central government funding	

Interestingly, although unsurprisingly (see CoE report on IMC questionnaire results from member states), there is no occurrence of cooperation for carrying out any of the social services assigned to local governments. All of the identified IMCs belong to the categories of “Planning and Administrative Services” and “Infrastructure and Public Utilities.” Even within these categories, there are a few favorite functions for IMCs, including solid waste management and planning, and the joining of capacities for economic development. These two functional areas are also the ones that bring together the biggest communities. It is therefore not surprising that waste management, wherever tackled, requires that municipalities and communes join forces. It is expensive and difficult to carry out properly and therefore calls for greater scales of operation to be undertaken efficiently.

External funding in many of the identified IMCs suggests that cooperation has been donor driven. However, this has not discouraged local mayors from acting; on the contrary, it has encouraged them to think further about the possibilities for cooperation. Zadrina IMC was set up to mirror Italian IMC experiences, but without any initial purpose assigned to it. Presently the member units can see a broader scope than they had previously for the association’s involvement, even lobbying to join the recent IMC initiative of a common landfill in the neighborhood (Bushat, Shkodër).

In all of the regions where considerably sized IMCs have been set up (Dibër, Korça, Lezhë) with donor support, other smaller size cooperations have germinated, building upon the trust developed.

Two out of the sixteen (Table 1.4) IMCs inventoried operate under non-formal agreements, and several other mayors share communal staff and/or see the benefit in joining for enforcement. These cases have been difficult to identify due to incomplete information for some of the areas discussed. In most cases, agreements have filled in gaps where there is a lack of professional staff (e.g., the sharing of lawyers between communes) and equipment (the sharing of garbage trucks).

The mayors interviewed raised several issues where they consider it beneficial to join forces over demanding issues, such as forest management, since forests were transferred into communal property.

4.1 In Search of a ‘Good Practice’

Initially, the present search was for a case study aimed at identifying one of the most advanced and consolidated IMC institutions that can be used as an organizational model for any relevant initiatives in the country. Information was gathered through interviews with national central government institutions supporting local government, local civil servants and mayors. However, finding a good model resembled the search for the philosopher’s stone. Various perspectives give importance to different particular

aspects. Any example identified was just sprouting its efforts, and municipalities felt they were standing on unstable ground and that financial incentives to resolve long standing needs became directly or indirectly associated with an IMC.

Four IMC examples have been scrutinized here: Peshkopi tendering (PE-T), Shkodër-Bushat Landfill (ShB-L), Korça solid waste management (K-SWM), and Berat-Kuçova Water and Sewage (BK-WS). These selected cases comprise those that have taken initial steps towards articulating mechanisms of cooperation. More details on the needs addressed, the setting up of efforts and the challenges faced for each case study are included in Annex 2. Some general considerations on tasks, actors, financing and monitoring are given below.

4.1.1 Range of Tasks Delivered

The four case studies concern joint delivery of a public service, with one describing an initiative to join efforts for administrative functioning. All cases involve single purpose cooperation, with K-SWM and BK-WS covering several functionally integrated service areas. Table 1.5 summarizes the four case studies, describing the functional area, articulated needs to tackle the function, discussions on extending the scope or coverage of IMC and the steps taken to define the optimal scale for IMC delivery.

Table 1.5
Tasks and Reasons for Assigning IMC (Summary of Four Case Studies)

Tasks assigned	Articulated need for joint delivery	Potential for extending scope	Assessing optimal service size
PE-T			
<ul style="list-style-type: none"> ■ Joint (delegated) tendering process for supervision of construction works 	<ul style="list-style-type: none"> ■ Limited time and capacities (to arrange for works supervision) ■ Limited number of qualified supervisory companies in region ■ Repetitive workload and bureaucracy for LGUs to submit to Public Procurement Agency ■ Small values of individual contracts not attractive to qualified providers 	<ul style="list-style-type: none"> ■ Still under trial period/no confirmation that the arrangement has worked 	<ul style="list-style-type: none"> ■ Synchronizing need for tendering of multiple LGUs gaining from same grant scheme ■ Target group limited to LGUs successful in fund-raising from Trust Fund

Table 1.5 (continued)

Tasks assigned	Articulated need for joint delivery	Potential for extending scope	Assessing optimal service size
ShB-L			
<ul style="list-style-type: none"> ■ Joint investment to set up landfill ■ Joint management of solid waste disposal 	<ul style="list-style-type: none"> ■ Solving waste disposal issue ■ Limited financial resources to build landfill ■ Limited area available to find adequate landfill site 	<ul style="list-style-type: none"> ■ 2 LGUs initiated, opened up for other local units in the region 	<ul style="list-style-type: none"> ■ Feasibility study carried out to suggest optimal size of service operation
K-SWM			
<ul style="list-style-type: none"> ■ Joint waste management, with IMC exercising service, administrative and investment competence on behalf of participating LGUs for collection, transportation, administration and disposal of urban, industrial, hospital, construction, demolition, remains from water treatment, agricultural, livestock, and bulky waste 	<ul style="list-style-type: none"> ■ Improvement of situation of waste collection and disposal ■ Implementing of proper principles and techniques for protection of environment ■ Prevent further pollution of watersheds of Ohrid and Prespa lakes ■ Stop endangering water quality of aquifers that supply population with drinking water 	<ul style="list-style-type: none"> ■ Scope of the IMC is extended over the years that objectives of IMC have been discussed. Joint landfill investment and operation was the initial aim that later was extended to all the functions integrated within the waste management chain ■ IMC carried out awareness campaigns, calculated service tariffs, offers expertise to members 	<ul style="list-style-type: none"> ■ Feasibility study carried out suggesting delivering service for 80 percent of region's population ■ Affordability of LGUs decisive in participating in arrangement
BK-WS			
<ul style="list-style-type: none"> ■ Joint management and provision of drinking water and sewage collection and treatment 	<ul style="list-style-type: none"> ■ Common water sources ■ Lack of continuous drinking water supply ■ Inheritance of inefficient distribution system for water and sewage ■ Vicious circle of not being able to provide good quality service and citizens not paying water fees ■ Acquire investment funding 	<ul style="list-style-type: none"> ■ Potential to join with local units of Polican, Skrapar and Ura Vajgurore considered and assessed, aiming towards regional service coverage ■ Awareness raising activities to deal with non-payment of water bills considered part of company's activities 	<ul style="list-style-type: none"> ■ Feasibility study and central-level strategy in regionalizing water and sewage

All observed cases *tackled underperformance* of LGUs in delivering acceptable service standards on an individual basis. Two cases dealing with urban waste disposal planned the introduction of disposal methods that meet EU standards, a novel practice for the country. Cooperation negotiations seem to move towards regional landfill coverage, which is favored as the way forward for the country's environmental strategy.

Despite the tendency to extend service coverage in the whole of a region's administrative territory (in three cases: ShB-L, K-SWM, BK-WS), the second local government tier is not involved in the coordination operations. Thus the LGUs have decided to manage this exclusive function through organizations of IMC set up and run by participating LGUs.

Three cases (PE-T, ShB-L, K-SWM) are trying to make *use of economies of scale* either to make service cost affordable or to attract good quality private service providers. In the case of PE-T, the tendering process coincided with the introduction of new electronic procedures with which several participating small local units still had to become familiar.

Indivisible infrastructure (a common drinking water source) seems to be one of the main reasons for the creation of BK-WS. Also, the local units engaged in the K-SWM cooperation share two of the biggest water bodies in the country. Preventing the pollution of these lakes (which border Macedonia and Greece) has already been tackled by several programs, including major investments in the water and sewage sector.

The present stage of development for IMCs is not yet ripe enough to yield results *impacting the quality of services* delivered to citizens. Nevertheless, all cases report successful fundraising, while important feasibility studies have been carried out for BK-WS, K-SWM and ShB-L. These feasibility studies recommended efficient service coverage in each case, facilitated decisions in IMC membership and provided projections for the costs involved.

4.1.2 Forms of Cooperation and Actors Involved

The case studies identified here present an interesting mixture of various stages of institutionalizing cooperation. However, first tier local units remain the only participants throughout the selection of IMC case studies (see Table 1.6).

Apart from PE-T, the three other cases are aiming towards a consolidated separate institution (K-SWM, BK-WS already registered such institutions). It is worth drawing attention *to the time span required to formalize* agreement in all cases, including PE-T, which is a formalized way of cooperation but which requires a lot less effort than the three other cases, which try to set up a separate institution. Even PE-T took almost half a year to formalize agreements, and they are still waiting to see if the members will accept the outcome of the tendering process; i.e. there is still uncertainty about

it working. Among the three other cases the K-SWM company is the most consolidated in terms of properly developed decision-making mechanisms and institutions, though it took seven years to institutionalize the cooperation. Even BK-WS, which had the central government intimately involved in the merging process, and a major loan awaiting disbursement, took three years to crystallize. Institutionalization has certainly proved to be one of the biggest difficulties in setting up IMCs.

Table 1.6

Legal Form, Decision-making, and Membership (Summary of Case Studies)

Legal form and decision-making bodies	Participating and potential members
PE-T	
<ul style="list-style-type: none"> ■ Formal agreement ■ Decision making follows structures and procedures implemented by Peshkopi municipality, to whom the tendering function was delegated 	<ul style="list-style-type: none"> ■ First tier local government units ■ Second tier of local government (regional council) facilitated the initiative ■ Grants that LGUs were tendering delivered through Trust Fund project managed by regional council
ShB-L	
<ul style="list-style-type: none"> ■ To be decided—arguments and interests support “communal enterprise” and “shareholders company” ■ Communal enterprise strongly advocated in this case by LGU hosting the landfill 	<ul style="list-style-type: none"> ■ Interests of various participating members will need to be ironed out before defining LGUs to be directly involved in deciding and managing joint landfill ■ Private sector involvement within the IMC has not been discussed, though present discussions are inclined to have IMC with only LGU membership and tendering out various waste activities to private providers
K-SWM	
<ul style="list-style-type: none"> ■ Shareholders company ■ Highest decision-making body is shareholders assembly composed of all shareholder local units, with voting power proportional to number of shares possessed ■ Assembly proposes and elects a Supervisory Council, which oversees activity of executive ■ Represented by General Administrator who covers administrative and financial sector 	<ul style="list-style-type: none"> ■ LGUs presently the only shareholders of company ■ Considerations given towards participation of private sector as shareholders and provisions in statute to sell and buy shares ■ Regional council not participating, but has had some role as databank for various waste-related registers

Legal form and decision-making bodies	Participating and potential members
BK-WS	
<ul style="list-style-type: none"> ■ Shareholders company, merger between two companies covering adjacent territory within same region ■ Shareholders assembly is highest decision-making body, composed of members LGUs with number of shares proportional to population size ■ Representatives of shareholder local units participate in assembly meeting with an opinion approved in respective municipal council for items on agenda ■ Supervisory council, with members nominated by Shareholders Assembly based on criteria defined by central government ■ Director appointed by Supervisory Council 	<ul style="list-style-type: none"> ■ LGUs presently the only shareholders of company ■ Merging process joined two companies each owned by a set of local units ■ In each case majority of shares (>50 percent) were owned by the main municipality in the arrangement

Other cases, in which the second tier local government has been delegated the responsibility—an institution already set up with staff engorged by bureaucracy (e.g. Peshkopi trust fund)—started to yield cooperation almost instantly. *Staff with relevant skills* that the regional council inherits from previous district councils is missing in institutions coming out of voluntary municipal arrangements.

Each of the cases described above is associated with *an initiator*, usually the mayor of the largest municipality and probably the most active member of the initiators' group. Negotiation skills, coupled with the possibility of subsidizing some initial steps in the setting up process (and despite the political composition of mayors in the negotiating group), in most cases enabled the initiative to move forward.

4.1.3 Financing Mechanisms and Incentives

The financing patterns of all case studies are almost the same: see Table 1.7, which reports financial incentives for triggering a particular IMC and also sustainability plans for the future of the cooperation.

Financial incentives, mainly externally funded, are present in all of the analyzed cases. This situation is quite representative for the country, and certainly cooperation arrangements that have some formal status are encouraged by financial incentives. In all cases, feasibility studies are externally financed even before the institutionalization of cooperation, while a substantial part of the financial incentive is used for upgrading service infrastructure.

In the previous section, the difficulty in setting up consolidated IMC institutions was elaborated upon. Financial incentives described in Table 1.7 are probably the main influencing factor that brought LGUs together into agreeing to formalize cooperation.

It is natural that the IMC activities described here (apart from PE-T) would be *financed through service tariffs* since areas of these activities cover public utilities. In any case, the participating members have agreed to an increasing service fee scale that corresponds with the increase in service quality expected through IMC, which is also in charge of conducting public awareness activities, giving out information on plans to improve the service and collecting payment fees.

PE-T is a case in which *saving on administration costs* is easily calculated, since the cooperation agreement avoids a ten-fold repetition of tendering procedures in each LGU. In other cases, improvement of service and setting up of new institutions has created additional administrative costs, and certainly *start up costs*, mainly absorbed by the bigger municipality.

Table 1.7
Legal Form and Decision-Making of Case Studies

Initial financial incentives	Membership financing mechanisms
PE-T	
<ul style="list-style-type: none"> ■ Funding of various infrastructure projects, though not a direct financial incentive for this arrangement, was the basis for municipalities to cooperate 	<ul style="list-style-type: none"> ■ Peshkopi municipality (and indirectly its citizens) bore the complete costs of carrying out the function on behalf of all participating units ■ Could also be interpreted as a solidarity principle connecting units in the region
ShB-L	
<ul style="list-style-type: none"> ■ Feasibility study carried out through an externally financed project ■ Part of 4,165 mln euro construction cost for landfill paid by Albanian government 	<ul style="list-style-type: none"> ■ Cleaning tariffs applied across all participating municipalities and communes ■ Tipping fee applied at landfill
K-SWM	
<ul style="list-style-type: none"> ■ Three consecutive projects, totaling approximately 3 mln euro, has supported the process of establishing an IMC on top of a loan covering landfill construction, including sorting and recycling activities 	<ul style="list-style-type: none"> ■ Activities of IMC supported by following revenue streams: cleaning fees and other revenues consisting of fees for services or taxes related to waste administration ■ Other contributions made by participating local units
BK-WS	
<ul style="list-style-type: none"> ■ 6,646,795 euro spent to successfully upgrade water and sewage system with purification, and proper drainage was acquired 	<ul style="list-style-type: none"> ■ Water fees: according to business plan, company will work on self-financing and cost-recovery principle

4.1.4 Provisions for Representation and Accountability

It is a difficult task to prejudge arrangements for accountability and representation merely by statute articles. Since there are no IMC legal forms that are tailor-made for publicly (or quasi publicly) owned companies, the present institutions are set up based on private law statutes for private companies, leaving representation and accountability arrangements up to each municipality.

To date there is no record in any of the cases presented here of municipal council members being involved in the decision-making of the General Assembly of companies, where applicable. It is up to the assigned municipal representatives and the municipal council to streamline procedures for keeping the latter informed about activities carried out by the IMC. Such a routine procedure still has to be designed from scratch, taking into account that city councils have delegated managerial authority for the assigned function (without regulatory experience) to the institutions discussed here.

The PE-T case is quite a different arrangement and is a spin off of larger-scale IMC that involved second tier local government—the regional council. Decisions in this arrangement are taken by vote of the regional council, which is composed of council representatives from all local units within the region's boundaries, in numbers proportional to their respective LGU population size.

5. BOTTLENECKS AND OPPORTUNITIES

IMC in Albania, although at an emerging stage and still working to prove its contribution to improving the life of its citizenry, can nevertheless celebrate its small achievements to date. It is already i) tackling crucial service areas associated with local unit underperformance, ii) making use of greater production scale in order to afford the price of better services, iii) implementing a holistic approach to managing shared indivisible resources, iv) making space for the use of private sector potential, v) making some use of skilled staff in the upper tiers of local government, vi) attracting investment to improve infrastructure and financing feasibility studies, vii) implementing the cost recovery principle into local government operations and viii) saving on administration costs.

Obviously, several local units are pursuing IMC with clear objectives and there is ample evidence that it has delivered in other European countries. Why then is it not happening on a larger scale? Each of the studies reported here had its own specific bottlenecks but several challenges are shared among almost all cases, providing some insight into impediments for greater scale IMCs.

5.1 Barriers Hampering Cooperation

Resistance to changing existing procedures and the way of doing things in the municipalities is a stumbling block for several functions. IMC requires decision-making at the political level and also qualified and courageous advice at the expert level. Meanwhile, the organization and administrative culture of LGUs does not encourage innovation. IMC is certainly a new ground to explore for most of the municipalities given that their administrations are used to working with very strict guidelines and procedures. Cooperation arrangements also require relinquishing power from involved politicians and also respective departmental staff, demonstrated through a clear *reluctance to cooperate* by potential IMC members.

Start-up costs to institutionalize IMC arrangements are quite considerable for municipalities to bear. Among the four cases studied, K-SWM took seven years of efforts to crystallize as a standing organization. Reviewing existing administrative structures in municipalities has proven to be a challenging initiative, so the effort of setting up a new organization is immense and there are no cases demonstrating that such an initiative has taken place without outside intervention. Presently, cooperations are still supported by donors and there are no concrete examples of IMCs continuing to operate with their own with resources after donors withdraw. Even though it remains for IMCs to prove sustainable after pull out of support there is hope that they will transform into permanent cooperation structure.

In the case of the Trust Fund (see IMC inventory), where an existing entity is used to coordinate efforts of member LGUs, results can be observed within a couple of years of negotiations. Obviously, in cases where municipalities have arranged to share staff or equipment (using agreements or memoranda of understanding), without setting up a standing entity, cooperation requires less start-up efforts.

Interviewees involved in all case studied highlighted the lack of IMC *examples and templates* to refer to when setting up cooperation arrangements, particularly in the case of setting up stand alone institutions. Each IMC case began its course in a vacuum when it came to preparing statutes, a foundation act, mid- and short-term programme, as well as with regard to municipal council decisions about participating in IMC and whether to delegate authority to IMC. The preparation of such documents for public authority cooperation is quite novel, and the *expertise required to prepare such documentation* is lacking.

The comprehensive IMCs observed here carried out feasibility studies that analyzed and recommended several parameters of cooperation. Preparation of such detailed studies exposed a lack of *technical capacity to carry out interventions* that would have introduced new dimensions into municipal service delivery. Clearly, IMCs are susceptible to the same deficiencies as individual LGUs.

Relinquishing power to enter into IMC is a painful undertaking, particularly in a politicized society. Not only will mayors have to give up their authority to manage important functions but also a party's power and presence in the localities involved might be reduced. Carefully thought out mechanisms will have to be put in place to ensure that all members are heard and that the smaller municipalities are not overruled. Fair participation that somehow ensures gains for every party involved might increase interest in surrendering some power for better results.

Cooperation for delivering public services and utilities is the most common arrangement identified, and a need to *considerably increase the service fees* was observed in all IMCs aiming towards future sustainability with such an undertaking. Although an increase in cost for providing better services was anticipated by local politicians, most mayors and city council members were taken aback by the magnitude of the increase required. The payment of service fees requires a fundamental change in the mentality of Albanian society, as well politicians' mentalities must also change when it comes to making decisions that involve an adequate increase in service fees. Yet, it is the local politicians that get voted in or voted out while improvements in service quality usually take longer than one mandate to harvest.

5.2 Recommendations to Encourage IMC

In sum, the situation in Albania is ripe for encouraging IMC for improved service delivery at the local level. Local government is relatively new but enjoys a broad spectrum of functions, autonomy and discretion over the biggest part of its budget in most LGUs. National government, pursuing the route to European integration, is already committed to encouraging IMC in several roadmap documents.

Several stakeholders with major roles and interests are also part of the scene. Sustained effort with a thoroughly thought-out strategy could encourage the voluntary association of local units. Given the analysis of obstacles and bottlenecks identified here, and also the experience of other European countries, three entry points to encourage IMC are identified: i) central government, ii) donor community, and iii) local units and their associations.

Entry point 1:

Central government introduces (a) legal instrument and template documents, (b) financial incentive scheme supporting start-up costs and feasibility studies, and (c) minimal service delivery standards

Lawmaker Interventions have given shape to IMC and its patterns in every country. It is suggested here that the central government prepare a solid legal foundation for

IMC, which would reassure municipalities and their actions during the establishing of cooperative arrangements. The law, if it is to be a law, should try to facilitate and not dictate cooperation so that avoidance strategies are not encouraged. Auxiliary documents, the lack of which has impeded observed cases to move forward, could be part of the regulatory framework.

Facilitating a regulatory framework will not scale IMC up without an incentive scheme and observance plan ensuring minimal service standards implementation in the LGUs. Observance of standards will encourage local units to use all available instruments to meet their legal obligations. The obligation to meet standards will go hand in hand with incentives to set up cooperative arrangements among LGUs. Such incentives could cover start up costs for the IMC institutions, pay for investment grants that will upgrade the run down utilities systems handed down to LGUs, or fund feasibility studies for systematically analyzing and advising on various IMC parameters.

This entry point might start working even without introducing minimal service standards, relying on the strength of financial incentives and facilitated by the regulatory framework for cooperation. In all cases studied, the financial incentives have been one of the main reasons for initiating cooperation; it should nevertheless not obscure the fact that the main purpose for getting into IMCs is at least the minimal service standard offered to the citizenry.

Entry point 2:

Local authorities and Local Government Associations (a) maintain examples database of IMCs, (b) expose LGUs to European experience through IMC, and (c) maintain a pool of skilled professionals that can facilitate IMC processes and documents.

Local authorities and national LGAs can act as a platform of information and provide services to municipalities that will then decide independently whether or not to enter into cooperative arrangements. This entry point gives the upper hand to local units at every stage. Leaving the municipalities to decide whether to cooperate with their own free will has been an approach taken at some point in history in the Netherlands, Finland, UK, Belgium, Italy, France, Germany and Spain, yet all the countries mentioned took the route of actively promoting IMC (Hulst 2007) at a subsequent stage.

Maintaining a national IMC database and exposing municipalities to international experiences serves as a step forward in raising IMC awareness among LGUs. Systematic proof of improved service delivery through IMC can serve as encouragement for local stakeholders, although it seems that even other eastern European countries that have encouraged IMC for more than a decade have yet to prove the efficiency of the arrangement.

It will take a considerable amount of time to develop patterns of IMC solely from the encouragement of LGAs and to then share those experiences with other local authorities.

This process still relies on local units encouraging innovative practices and creativity in their everyday work environments, and raising awareness about the usefulness of joining forces with others to entities that have no track record of looking outside their borders.

Cooperation encouraged through this means will still face financial and administrative burdens which can be stumbling blocks, while interested municipalities will have to pay the costs of IMC professionals, since it is a tailored service for a select pool of members. It is difficult to imagine the start up of IMCs without a financial incentive at this stage. Cases observed in the country have all had financial incentives as their starting point.

Entry point 3:

Donor community (a) encourage financing of IMC initiatives for managing indivisible resources (b) prepare the foundation for efficiency scale cooperation in preparedness for EU funds absorption

Despite the isolating of this point as a separate support strategy, it is worth mentioning that financial support is increasingly channeled through national routes that might feed into the two previous entry points.

On the other hand, presently there are several donor initiatives to support regional scale projects that target an area similar to the NUTS nomenclature that will be used later on to channel EU funds. Such regional projects have components that support local initiatives and IMC is worth exploring as an intervention since it creates a cooperative culture that is quite useful in the area after donors withdraw. It also helps the second local level tier, the *Qark*, to position itself as a facilitator of cooperation initiatives, gain experience and build expertise within respective regions; and it sets good examples for jointly managing forest and water basins that are valuable, inseparable natural resources.

Each entry point described above can be introduced partially, and jointly, with others. Despite the variety of stakeholders involved, several mechanisms described are compatible with each other since all have the same end product, *increased IMC initiatives for improved service delivery*.

If we were to identify one entry point that will yield results sooner than the others, and on a national scale, Entry 1 stands out. Even so, central government surely is not meant to introduce one-sided initiatives. Nowadays there is a culture of consulting local units and their associations on any issue concerning local government, therefore central government initiatives should have the support of LGUs when embarking on strategies to encourage IMCs.

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ANNEX: ELABORATED IMC CASE STUDIES

1. IMC Case Study: Joint Tendering Procedure

Name of the Municipalities Involved

(With number of inhabitants as reported by the municipalities/communes):

1.	Peshkopi Municipality	19,611
2.	Bulqiza Municipality	17,836
3.	Melan Commune	6,250
4.	Muhur Commune	4,677
5.	Fushë-Çidhen Commune	4,631
6.	Arras Commune	5,828
7.	Maqellarë Commune	14,019
8.	Zall-Dardhë Commune	3,778
9.	Kastriot Commune	9,817
10.	Zerqan Commune	6,625

Service Area

- Joint (delegated) tendering process for supervision of construction works.

1.1 Description of the Problem/Need for IMC

Cooperation to jointly tender and contract monitoring and supervision of infrastructure works, is a spin off the “Trust Fund Initiative”³³ that articulated cooperation between all municipalities and communes in the Dibër Region. Through the Trust Fund Initiative, first level local units obtain funding for accomplishing projects within their local development plans and strategies as well as receive assistance to increase their capacities in several policy areas. The Regional Council manages the Trust Fund on behalf of the municipalities and communes,³⁴ is continuously assisted by The Netherlands Development Organization (SNV) and is financially supported by the Dutch Embassy.

The rounds of applications and financing have enabled first tier local units in the region to begin implementing priority infrastructure projects. Despite the assistance

provided within the program to aid in project monitoring and evaluation, the technical monitoring of the projects has to be carried out by the municipalities.

The requisite time and capacity necessary to arrange for works supervision was limited, given: the set timeframe for contracting the works and reporting back to the Trust Fund; the limited number of potentially qualified supervisory companies in the region; local units workload for those that had to individually compile ten times the same amount of documentation to submit to the central Public Procurement Agency; the bureaucracy associated with contracting and collating the supervisory company's reports, which had to be repeated in each individual local unit, and the small contractual fee for the works supervision that might not attract qualified supervisors if local units applied individually.

Impeding factors listed above led to low quality and unsatisfactory supervision of construction projects. Furthermore, the Regional Council as the financier lacked the necessary data detailing the investment projects' progress. When projects were not progressing as planned, there was no trigger to encourage action from the contractor. Considering the fact that most Communes lacked the capacity to select a good supervisor and to solve some of the needs and challenges mentioned above, the communes and municipalities in the arrangement designated the Municipality of Peshkopi as the leader of the "Central Purchasing Body" on their behalf. Despite the delegation of supervisory services procurement and purchases to the Peshkopi municipality, each local unit, through its office of public service, works in close cooperation with the supervisor.

Municipalities and communes, through this joint arrangement, try to decrease the administration costs for processing procurement and contracting documents, and also try to increase their chances of securing a well-qualified supervising firm by tapping into service providers across the region.

1.2 Description of Case Study

The arrangement between the ten municipalities and communes provided a delegation to the Peshkopi municipality to conduct the tendering process for works supervision and to contract out the joint supervision for construction works in all participating local units.

The communes and municipalities that decided to get together for joint procurement were already members of a bigger scale cooperation that involved all local units in the region (Trust Fund Project). Within the bigger scale IMC initiative, participating members had obtained financing and also developed trust and mechanisms to cooperate with each other.

This particular IMC, dealing with supervisory works, included a total of ten infrastructure projects, funded through the Trust Fund facility (each project was financed by the Regional Council through the Dutch Embassy funds, by each local unit, and

with the central government covering the VAT share of each infrastructure project). Direct beneficiaries included 9 villages and 2 cities in the Dibër region, with a respective beneficiary population of 15,457 inhabitants, while the total population of local units involved in the arrangement amounted to around 93,000 inhabitants.

Legal delegation of the purchasing authority to Peshkopi municipality was done through a joint agreement signed by the Mayors of each unit. Municipalities jointly decided on the final version of the Terms of References for the supervisory company, while Peshkopi municipality prepared necessary documentation and organized the tendering process. In effect, the Peshkopi staff, in close cooperation and with the assistance of the Regional Council, carried out a process that would have otherwise involved 20 staff members from the administrations of participating local units.

An equivalent of 15,000 euros (1,787,000 ALL) was the total amount tendered for the supervision work of ten projects located in participating communes/municipalities.

This is a “one off” arrangement and not a permanent agreement between participating local units. Nevertheless, at least within the Trust Fund initiative implementation, when construction projects are implemented simultaneously (based on the opening calls for proposals), within the same region, and financed by the same source, a precedent is set for similar future cooperation.

1.3 Establishment of the IMC

Several steps were taken to make this cooperation work. Initially the idea was discussed with members of the monitoring groups from the Regional Council. These groups were set up within the Trust Fund project to monitor progress of successful project applications in several communes and municipalities in the region. Monitoring groups also needed the data on the technical accomplishments of works financed. They therefore suggested having municipalities/communes apply jointly for a supervisory firm that ensured quality supervision.

The proposal was discussed and approved by the Steering Committee of the Trust Fund program, composed by Dibër Regional Council, Dutch Embassy and SNV.

Several consultation meetings were organized and also supported by SNV and the Regional Council, the two actors jointly implementing the Trust Fund program.

The opportunity was presented to the communes/municipalities, explaining the potential advantages. Suggestions were legally based on the procurement legislation (article 11, Law No. 9643).

Based on the legal grounding and on the fact that most communes lack the capacity to contract good quality supervisors for works, it was agreed upon to proceed with this IMC activity.

All steps carried out to set up the IMC were supported by the Training Unit within Dibër Regional administration. The training unit was introduced by the Trust Fund

program to assist municipalities with advice and trainings. In this case, it facilitated the process of introducing potential IMC to participating communes and municipalities, preparing the terms of agreement between participating local units, raising awareness on benefits and guiding consultations until reaching a common agreement.

Peshkopi Municipality took on the task of “Main Purchasing Body” regarding the conduct of the procurement procedure. It drafted the terms of reference-related services for the supervision of the technical works and it communicated with the National Procurement Agency to streamline procedures. According to the Law, the municipality, as the responsible procurement body, began by forming the procurement committee, preparing tendering documents, and publishing an official announcement at the Public Procurement Agency.

Upon completion of the tendering process and the announcement of the winner, Peshkopi Municipality will inform all participating municipalities/communes. After the supervisor is selected from the contracting body (Peshkopi Municipality), each LGU will independently sign contracts with the service provider.

Main Success Factors Are:

- Good will of the leaders of the local government units to cooperate and come up with a joint solution.
- Good local knowledge of the legal frame (rules and procedures) for tendering procedures.
- Fund availability and simultaneous launching of the winning projects (completion of application round), therefore all projects being implemented at almost at the same time.
- All the LGUs implement the given projects as part of the same program, therefore rules and requirements are unified.
- Very good initiating phase, where all the steps were carefully considered (awareness of the municipalities, good feeling regarding the advantages of the IMC).

1.4 Benefits and Shortcomings

Reduced administrative costs for most of the participating local units apart from Peshkopi municipality, which carried out the procedure for all units concerned.

New knowledge obtained on mechanisms to be used when jointly initiating cooperation initiatives. Agreements and terms of reference that can be used as templates if the experience is to be repeated, were prepared.

Increased monetary value of the total sum procured attracted companies with higher capacities and experience in works supervision.

The training unit, which is attached to the Regional Council to offer assistance to municipalities/communes in the region, acquired new skills in negotiation and preparing documents that facilitate intermunicipal cooperation.

Willingness of communes/municipalities to professionally perform works supervision for Trust Fund projects increased their credibility with the funding agency (Dutch Embassy).

The only observation that could be mentioned as a shortcoming is that Peshkopi municipality (and indirectly its citizens) bore the complete cost for carrying out the function on behalf of all participating units. This could also be interpreted as a solidarity principle connecting the units in the region.

1.5 Future Plans for the Development of the IMC

This is a “one off” arrangement and not a permanent agreement between participating local units. Nevertheless, at least within the Trust Fund initiative implementation, when construction projects are implemented simultaneously (based on the opening bids for proposals) within the same region, and financed by the same source, they set a precedent for similar future cooperation.

1.6 Main Lessons Learned on How to Establish IMC and Make it a Success

- Reach common understanding and agreement between all actors involved by fully exploring opportunities
- When talking about IMC, one should base the IMC on the legal framework and national legislation; therefore national legal frame should allow for it
- Good planning and coordination of timelines proved very important in this initiative
- Previous cooperating experience between municipalities, with the Trust Fund project, created trust between participating units
- The area of cooperation was relevant since it proved to be cumbersome to carry out for smaller communes with limited capacities

1.7 Readiness to Support Other Municipalities to Establish IMC

Training unit of regional council administration can and is willing to disseminate the experience.

2. IMC Case Study: Shkodra—Bushat Regional Solid Waste Landfill

Name of the Local Government Units Involved

(With number of inhabitants according to National Civil register, launched in February 2009):

1.	Shkodra Municipality	113,794
2.	Bushat Commune	22,767
3.	Lezha Municipality	26,759
4.	Vau Dejës Municipality	14,774
5.	Velipoja Commune	8,648
6.	Hajmel Commune	9,164
7.	Gur i Zi Commune	11,168
8.	Vig–Mnelë Commune	3,347
9.	Dajç Commune	6,818
10.	Blinisht Commune	5,537
11.	Balldren Commune	10,507

The first three local units are part of the formal agreement while the others are in a negotiation process to become part of the IMC.

Service Areas of the IMC

- Joint investment to set up landfill
- Joint management of solid waste disposal

2.1 Description of the Problem/Need for IMC

Shkodra Municipality, the biggest in the region, with a reported population of around 114,000 inhabitants, has for several years faced problems when dealing with the dumping of urban solid waste. The current location where urban waste is disposed does not respect established minimum standards and causes significant pollution to the surrounding environment. The dumpsite is located in the vicinity of Kir river, part of the biggest watershed in the country's Northwest.

Pollution from the dumpsite has caused ecological problems and risks to the population of the north-south part of the city for several years. During heavy rain, the increase of the river's water flow poses a high risk of pollution for the Shkodra Lake and Buna River.

Solving the waste disposal issue has been one of the top priorities of the Shkodra Municipality. Construction of a new landfill required several steps and due to limited financial resources the Municipality was unable to solve this critical and emergent issue on its own. Furthermore, proper landfill investments needed to target an adequately large population to make use of economies of scale for such strategic investments. It was also impossible to locate a proper landfill site within the municipality's administrative territory.

The proposal to construct a new landfill for the city is part of the Strategic Plan for Economic Development 2005–2015 of the City of Shkodra (the code project G4:O6:PG1:p1: Construction of a landfill for urban solid waste disposal). It has also been a priority of the Regional Development Plan for Shkodra and Lezha (two adjoining regions).

Joint investment for a joint landfill, Shkodra-Bushat, solves a top priority issue for the Shkodra municipality and the Bushat commune. Present negotiations are considering solutions for more local government units in the regions of Shkodër and Lezha. The anticipated landfill will provide a solution to the problem of waste disposal for the next 20 years, in line with national and EU standards, for a projected population of 235,000 inhabitants. The outcome is also the result of an excellent cooperation with the Region of Toscana and UCODEP, supported by the Italian Ministry of Foreign Affairs.

Apart from the construction of a landfill site, the cooperation will also deal with managing waste fractions.

2.2 Description of the IMC

The Memorandum of Understanding describes that local units will jointly carry out the design and construction of the landfill and potentially jointly manage solid waste disposal.

This service covers a surface area of about 2,385 km² (this surface area covers all 11 municipalities and communes as part of the agreement and the negotiation) with about 235,000 inhabitants.

Memorandum of Understanding among local government units is the first step that has been carried out to date while it is in the process establishing a legal body with the participation of all local government units in the area. A joint working committee, appointed by concerned local units, is streamlining the institutional arrangements (see section 3 for detailed information).

Presently, it is anticipated that an assembly and board, composed of representatives from participating municipalities, will be set up to steer the IMC. The legal form to register the company as remains under discussion.

2.3 Establishing IMC

Acquiring a Solution for the Municipality

Shkodra municipality tried to tackle the urban waste disposal issue beginning in 1999, through the LIFE program (financed by EC). An attempt to set up the designed landfill at this point failed due to a lack of timely funding to implement the project, and to the site's occupation by informal construction projects.

[In the framework of SEENET—Local Governments Engine of Development—reconstruction of the bridges of dialogue in South Eastern Europe, funded by the Italian government, financial support for priority initiatives of each partner municipality was envisioned] The preparation of a feasibility study and the designing of a technical project (a landfill for urban solid waste disposal) was one of priorities presented in 2005 by Shkodra municipality. This priority received financing in the amount of 42,700 euros to cover the costs of preparing the feasibility study and technical proposal for the landfill.

A technical working group was set up with the following tasks:

- Prepare the feasibility study and all technical and administrative documents according to Albanian and European legislation.
- Make sure through information activities and an awareness campaign to inform all the citizens, the interested community, and beneficiaries, about the landfill project.
- Raise funds to help make the construction of the landfill possible.

Increasing Catchment Areas and Membership

In order to make use of economies of scale and to increase the chances of financing for the investments, it was agreed that the new landfill would be constructed in a place that also fulfils two criteria: includes those inhabitants who live outside of the administrative territory of the city of Shkodra, and includes all the local governments in the corridor between Shkodra and Lezha. Considerations for expanding the catchment areas of landfill were followed by a meeting with representatives of the municipalities of Shkodra and Lezha and the commune of Bushat. In this meeting the possibility to construct a regional landfill for urban solid waste disposal and to collaborate among the local government units comprising both regions of Shkodra and Lezha was discussed.

The decisions taken in this meeting were as follows:

- A Memorandum of Understanding among all interested local government units was signed to formalize cooperation for setting up a regional landfill.
- The feasibility study and the technical project of the landfill, it was decided, would be based on and respond to the range of needs from the local governments units of Shkodra, Lezha and of Bushat and Shëngjin. Possibilities would

also be assessed to include other local government units from both Regions of Shkodra and Lezha within this cooperative initiative.

- The SEENET Project office was given the responsibility of preparing within a short period of time, the feasibility study and the technical project of the landfill.

On 23 June 2005, a Memorandum of Understanding was signed between the mayors of the municipalities of Shkodra and Lezha and of the commune of Bushat to partner and collaborate together in order to facilitate the planning, construction and future common management of a regional landfill for the urban solid waste of their cities and their neighboring local governments. Cooperating local units undertook the following responsibilities:

- Agreed on the selection of final landfill site, currently identified within the administrative territory of Bushat Commune;
- Facilitate all necessary administrative procedures in order to obtain the required authorizations from the competent local and national authorities (e.g. NCTR³⁵ etc.);
- Liaise and inform all relevant authorities (e.g., Qark) which may be involved in this regional initiative;
- Assist and partner with the SEEnet Program during the preparation of the necessary technical studies related to the construction of the selected landfill.

Jointly Contributing Towards Implementation

The Commune of Bushat approved the construction of the regional landfill in its territory with decision no.1, on 23 December 2005, based on a project designed according to European standards and relevant national legislation. The finalized feasibility study and technical project looks into a regional landfill that will:

- Serve for approximately 20 years;
- Cover an area housing about 235,000 inhabitants;
- Have a construction cost of EUR 4.165 million divided into three phases: EUR 1 million; EUR 2,05 million; EUR 1.115 million.

The regional landfill study and technical proposal was presented for all local government beneficiaries, respective civil society members, and environmental NGO representatives.

The municipality of Shkodra followed all legal procedures according to the Albanian legal framework for receiving the environmental permission to construct the landfill (by MEFWA,³⁶ October 4, 2006), approvals to construct the landfill by the Territory

Regulation Council of Shkodra Region (November 15, 2006) and the National Council of Territory Regulation (May 22, 2007).

Following the necessary official approvals Shkodra municipality and Bushat Commune, with international facilitation, organized a fundraising event attended by the central government and various potential donors. In 2008, the Albanian government allocated funds of around EUR 800,000 to implement the first phase of the project. Construction is planned to be completed by the end of April 2009.

Extending Scope and Defining Institutional Arrangements

Since July 2007 Bushat and Shkodra local authorities have begun efforts to negotiate the institutional set up of the cooperation (IMC) that will oversee construction of a landfill and examine additional services and facilities necessary to ensure the development of an integrated waste management system. Some of the issues tackled concerning the institutional set up of IMC are:

- Representation by member municipalities regarding how they will manage the site;
- Research of investment opportunities in recycling activities;
- Foreign investment opportunities via the Clean Development Mechanism.

Negotiations to-date have agreed on the following key steps regarding Regional Solid Waste Management:

- Creation of an advisory body (Working Committee) appointed by the municipalities to implement solid waste programs in the region. This would consider the entire range of collection/transport/separation-and-recycling/disposal issues. The Working Committee would also appoint one (Director) or two people to ensure effective overall management of the landfill project. Relevant central government ministries (e.g., Public Works, Environment) should be invited to participate as observers in the regional organization in an ex officio, non-voting capacity.
- Development of an effective community awareness/involvement program. This component would focus initially on public awareness/education: what is happening; what are the benefits and costs of a regional solid waste strategy, and how will a cleaner city/region benefit local citizens and businesses (especially in the tourism industry). The community program would also consider the definition of performance standards and monitoring procedures, and be involved in the discussion and establishment of household charges/rates: i.e., the amounts they would pay directly through household user fees and the amounts to be paid indirectly through the local commune or municipal budget.
- Lay down final organization of the IMC arrangement by negotiating between the set up of a shared company and owning the landfill, with representatives

from all participating local government units on the Board tendering, or having a company owned by the commune where the landfill is located.

External International Assistance was Needed and Utilized for:

- recommending the technical solution for the landfill design project;
- providing information and contemporary technologies for urban solid waste disposal;
- preparing necessary detailed engineering and economic analysis;
- complying with European directive 1999/31/CE;
- providing coordination and technical supervision (through Confederazione Italiana Servizi pubblici degli Enti locali, Tuscany);
- Financing the cost of the feasibility study and technical project of the landfill (by SEENET Program);
- Facilitating the discussion between the various local units involved concerning the institutional set up of the IMC;
- Providing for various cooperation scenarios that institutionalize the joint operation of landfill and waste disposal.

Challenges Faced

There is no IMC track record or templates to refer to when setting up such cooperation initiatives. Inter-municipal cooperation is quite a new experience for the Region of Shkodra, indeed for almost the whole of Albania. In the Region of Shkodra local government units through their structures and enterprises provided all public services for their administrative territory only. This was the first time the Region of Shkodra had the experience of providing public services with the participation of numerous local government units.

During preparation of the feasibility study and designing of the technical project it was evident that technical and engineering staff were lacking locally. As this project was quite a new experience, even at the national level, only a few technicians and engineers were competent enough to design even some components of this project. Also, with regard to the selection of the landfill site, following the existing legal framework in place in Albania, a total of ten sites were taken into consideration. Three were shortlisted and one of these three was evaluated according to given legal criteria. Such legal procedures were very demanding and difficult to abide by, given that the existing options within the region were limited.

Local residents have long held negative perceptions of the existing service standards since those standards have never abided by broader standards or criteria. The actual dumpsite for solid waste management in Shkodra was rejected by local residents. Con-

versely, the construction of a regional landfill built for many local government units to dump their garbage there seemed to worsen the perceptions of the Bushat citizenry. The working group developed and implemented a very careful program on effective community awareness for the population of Bushat. It was explained in detail that the technical project and the contemporary technology being used to construct the landfill were safe. The importance of the landfill, and the benefits it would provide for the whole region—including each local government unit, local citizens and businesses (especially tourism)—had to be carefully explained.

Fundraising to initiate landfill construction was difficult and required a multi-year effort. Since the cost was relatively high, the municipality's financial limitations and even those of the Albanian national government made this critical issue almost impossible to resolve for many years.

Open Challenges and Questions that Remain:

- Ownership and management structure. This is perhaps the most important and most urgent issue to resolve;
- Financial sustainability. A review of the cost of operating the facility and the status of the budget for moving forward;
- Fees. Define fee structure sufficient enough to meet the operational needs (operations, financial costs, maintenance, and expansion) for the service;
- Define a responsible structure for setting fees—both for tipping fees at the facility and for local collection of garbage from citizens.

Main Success Factors Are:

- Planning process to solve the critical issue. The municipality of Shkodra has been intent for some time on constructing a landfill for the city and prepared documents included in the Strategic Plan for Economic Development 2005–2015 of the City of Shkodra and in the Regional Plan of Shkodra and Lezha;
- Involving all the interested actors in the process and coordinating goals and objectives with the programs and plans of the involved municipalities;
- Public campaigning to transparently explain the project, the process of implementation and the benefits of the project.

2.4 Benefits and Shortcomings

Through partnerships with other local governments, the per capita cost was lowered, including operating costs, and there were gains in efficiency and effectiveness. It is a great prospect for each municipality to have, in time, a landfill that not only serves its

region, but also respects environmental protection rules and standards. Currently, it is very difficult just to find a suitable site to construct a landfill. The cost is still high, particularly for small municipalities and communes.

The main challenge is to find and agree on the type of legal body needed to manage the ownership and operation of the landfill.

2.5 Future Plans for the Development of IMC

The overall goal of the Regional landfill project is to serve all the local communities along the main regional corridor between Shkodra and Lezha. Therefore, all local units located in this area are considered potential members in the IMC initiative.

The service cost, reflected directly in the tariffs per unit (lek/ton) will diminish with further expansion of the service coverage area. When more local government units participate in this cooperative scheme, according to the calculations carried out, an affordable tariff level will meet the operational needs (including capital investment maintenance and expansion costs for the second and third phases of the project).

Last but not least, by not including adjacent local government units in the IMC system and enabling them to use the landfill, illegal dumping might result in high environmental pollution for the local government units that are part of the landfill managed through the IMC. Inviting and convincing adjacent local units to participate is an important consideration in further negotiations.

2.6 Main Lessons Learned for How to Establish IMC and Make It Successful

- Programming, designing, and managing a regional landfill requires a holistic and integrated strategic approach, and a clear vision in order to reach it;
- Raise public awareness and gain the support of local communities from the beginning: the preparation of the feasibility study and the technical projects is a crucial element to the process and needs community buy-in;
- It is essential to build an effective partnership in order to achieve the desired goals and objectives of all the partners;
- It is important to work at different levels simultaneously (central, local and community);
- Take advantage of all the opportunities encountered during the process; use what's given and coordinate what's needed;
- A long term investment analysis is needed.

2.7 Readiness to Support Other Municipalities to Establish IMC

The practice can be replicated to resolve dumping issues and to set up proper waste management programs in local governments that cannot presently afford to provide the service themselves. Several sets of documents and analysis produced during the implementation of this IMC initiative can be made available to other local units to facilitate the negotiation processes. There is also substantial technical knowledge accumulated during the implementation of the initiative, which can also be made available as a template for interested local units.

Municipalities can share their experience regarding organizing efforts, streamlining procedures and technical solutions considered during the set up of the IMC.

3. IMC CASE STUDY: SHA UJËSJËLLËS KANALIZIME BERAT-KUÇOVA (WATER AND SEWAGE SHAREHOLDER COMPANY, BERAT-KUÇOVA)

Name of the Municipalities Involved

(Number of inhabitants as reported by municipalities):

Berat Municipality	63,835 before IMC sharing water and sewage enterprise with:
Vertop Commune	7,211
Otlak Commune	13,322
Kuçova Municipality	43,000 before IMC sharing water and sewage enterprise with:
Perondi Commune	8,098
Kozarë Commune	10,633

Service Areas

- Joint management and provision of drinking water and sewage collection and treatment;
- Information on the Good Practice.

3.1 Description of the Problem/Need for IMC

Water supply and wastewater collection and treatment are functions that were legally assigned to local government units in 2000 with the passing of the Law on the Functioning and Organization of Local Government in Albania.

Nevertheless, the transfer process has been and remains a complicated issue that includes: the central government formally handing over ownership of systems to local units; defining the local unit/s owner for each supply network; defining and appointing local representation to the steering bodies of water and sewage companies; providing financing for debts that ex-state owned companies owe to the electricity provider (KESH); providing for major refurbishing of run down water supply systems throughout the network.

In Kuçova and Berat, as throughout the country, there is a lack of a continuous drinking water supply, and municipalities inherit an inefficient distribution system for water and sewage treatment. Water fees do not cover even the present operating costs, not to mention coverage for the investment needed to upgrade existing networks. Municipalities need to get out of the vicious circle of not being able to provide good quality service and citizens not paying water fees. In order to deliver the service as expected (continuous provision of drinking water within acceptable standards) investment is needed to upgrade the system, including in this case, water meters and proper arrangements for dealing with sewage and surface waters.

The IMC that joined the water and sewage enterprises of Berat and Kuçova addressed the need to increase service quality and efficiency. It succeeded in obtaining investment funding to upgrade the water distribution and sewage systems in both municipalities participating in the IMC, through a project funded by KFW. Cooperation attempted to meet the following detailed needs:

Provide the drinking water supply for the city of Kuçova from the “Bogova” spring, for the period during which the water supply from the source is adequate for both Berat and Kuçova.

Avoid supplying water through mechanical pumping for Kuçova city at least during the period when the spring is providing an adequate supply of water.

Deliver expert advice and implement a program to reduce present water losses.

Acquire investment funding to: replace two km of pipes (\varnothing 400) between pumping station Uznove to Reservoir Nr. 4; install 100 water meters for families; replace the big water meter (\varnothing 80– \varnothing 600) at the source and reservoirs in Berat city; replace water pumps, and install the large water meter to precisely measure the yield in Kuçova City.

3.2 Description of the IMC

The merging of the two enterprises is considered a pioneering experience for a country that is trying to “regionalize water supply systems.” It extends the service coverage area to improve standards, attract investments, and reduce service costs, subsequently reducing the service fee for consumers.

Each of the enterprises that were merged had their municipalities as main shareholder (Berat had 75.6 percent of the shares in the Berat Enterprise and Kuçova had

61.8 percent of the shares in the Kuçova Enterprise) and two communes each holding the rest of the shares.

The joint water and sewage enterprises of Berat and Kuçova (SH.A.) cover water supply as well as sewage and surface water collection, and treatment and discharge for a total of around 146,000 inhabitants in both municipalities and surrounding participating communes.

The community of Berat has been involved in a project for the improvement of the water supply and management of sewage, funded by the German Bank KFW, according to the agreement between the governments of Albania and Germany, a project that provided assistance for IMC set up.

The IMC provides services for the city of Berat, which is currently supplied by the Bogova spring, located under the mountain of Tomori, around 36 km east of the city. The IMC now also provides services for the municipality of Kuçova. A capacity of 600 liter/sec spring's yield will be managed by the enterprise to also supply the city of Kuçova for 8 months, during the period when there is maximum spring yield. The number of consumers supplied with potable water are broken down in the following way:

		Berat	Kuçova
1.	Family consumers	14,013	7,184
2.	Public sector consumers	42	16
3.	Private sector consumers	1,162	398

The councils of each municipality approved this IMC arrangement and the process has been supported by the central government. The new enterprise has its own shareholders assembly and supervisory council, with the representatives from both Berat and Kuçova and the surrounding communes of Otlak, Vertop, Perondi and Kozarë. The representatives of shareholder local units participate in the assembly meeting and their opinions are approved during individual municipal council meetings as agenda items. The members of the Supervising Council are nominated by the Shareholders Assembly according to the criteria and qualifications defined in the Guidelines (nr. 965 date 11.12.2007) put out by the Ministry of Economy, Trade and Energy. Five members and an appointed director compose the Supervisory Council of the Enterprises for Water Supply and Sewages Berat and Kuçova.

The Enterprise is organized based on the specialists' recommendations, with a central office in Berat and two sector offices, the Berat sector and the Kuçova Sector. The total number of employees is 271, out of which 178 are employed for the Berat sector and 93 for the Kuçova sector.

Presently, the IMC is carrying out: the feasibility study for both cities; the expert services for implementation of the program to reduce water losses and which has an

investment of EUR 12,000 for Berat and EUR 33,000 for Kuçova, and investments to upgrade water and sewage systems with a total value of EUR 1,000,000 (finalized in June 2008). The cooperation succeeded in attracting the investment and upgrading the system to a standard that saves 30 liters/second of water, previously accounted as a loss due to illegal connections and water misuse.

The Enterprise is working with self-financing and cost-recovery principles, and based on these principles a business plan has been formulated for the period between 2008–2012. How municipalities will finance enterprise activities in the future remains to be discussed and finalized.

Part of the IMC's responsibility is also to provide information to the public and host awareness campaigns through the local media to explain problems that the enterprise faces and the actions undertaken to eliminate water misuse, and to raise awareness about the payment of water bills.

The municipalities participating in the enterprise periodically receive information pertaining to economic and technical issues and other relevant statistical information.

3.3 Establishment of the IMC

The Mayors of Berat and Kuçova municipalities were the ones that took the first step to initiate the cooperation, and were also supported by the Ministry of Public Works, Transportation and Telecommunication and representatives of the German Bank for Development (KfW).

The mayors' initiatives were confirmed with the municipal councils' approval of the "Memorandum of Cooperation" for the joining of the two enterprises. Based on the memorandum an agreement was drafted where both parties agreed to establish this joint structure, to merge their financial tools in order to increase performance, and to advance the investments from both foreign and local investors in the sector. External legal expertise was acquired for the drafting of the terms of the agreement.

This initiative was supported and encouraged by KfW. The merging of the two enterprises was set as a condition to obtain a total loan of EUR 6,646,795, the amount required to successfully upgrade the system.

The IMC practice has initiated operation and there had been no obstacles to report in the cooperation until now. The obstacle encountered is quite recent and therefore it might be too early to assess failures.

Apart from upgrading the water supply system, both municipalities were interested and through this cooperation succeeded in raising funding for the reconstruction of the sewage system, including the water treatment plant. Sewage water that mixed in with surface water drains caused immense pollution to the river system running through the cities.

The main success factors are:

- The cooperative climate between the municipalities of Berat and Kuçova has been good, and has therefore supported the IMC association for joint enterprise on water supply and sewage.
- Expertise from the specialists provided through KfW helped this process since it began.
- Support from respective municipal councils in both cities, which approved this joint cooperation.
- Support from the central government's legal bodies.
- Financial incentives that provided the opportunity for municipalities to improve service to their citizens and reduce pollutant discharges into the environment.

3.4 Benefits and Shortcomings

Major investment (1 mln euros) was attracted to acquire investment funding for: replacing two km of pipes (φ 400) between pumping station Uznove to Reservoir Nr. 4, installing 100 water meters for families, replacing the big water meter (φ 80–φ 600) at the source and reservoirs in Berat city, replacing water pumps, and installing a large water meter to precisely measure the yield in Kuçova City.

The cooperation succeeded in attracting investment and upgrading the system to a standard that saves 30 liters/second of water, previously accounted as a loss due to illegal connections and water misuse.

Hours increased during which the drinking water supply was available for both Berat and Kuçova.

- Reduced drinking water provision costs for Kuçova municipality due to a new water supply system design that used free flow rather than mechanical flow.
- Improved drinking water quality for the citizens of Kuçova, due to connection with one of the purest water springs in the county (Bogova spring) and the upgrading of the distribution system.
- The acquisition of a total investment of EUR 6,646,795 used to successfully upgrade the water and sewage system with purification and proper drainage structures.
- Reduction of pollution discharge into the main river system flowing through the cities is expected, due to treatment of discharge waters.
- Cooperation is still too recent to identify its weak points.

3.5 Future Plans for the Development of the IMC

- The present enterprise is undertaking activities to further improve the situation in the cities. These activities include:
 - Further investment and implementation of the feasibility study to guarantee continuous water supply for all consumers.
 - Reconstruction of sewage pipes, and overall system, presently 80 percent damaged.
- The potential to join with the local units of Polican, Skrapar and Ura Vajgurore will be considered and assessed.
- The successful cooperation for water provision triggered present considerations to expand the IMC experiences into waste management. The municipalities and communes looking into such a cooperation are Kuçova, Ura Vajgurore and Otlak. The potential IMC for waste management will seek to benefit from a project regarding the purchase of joint equipment for waste management and the regional management plans for waste and landfill.

3.6 Main Lessons Learned for How to Establish IMC and Make it a Success

There is a potential to have similar cooperation initiatives in other cities. The central government can help with both legal and financial expertise to improve IMC practices among cities and communes. Also, roundtables and seminars can provide municipalities with forums to discuss successful practices and share experiences.

The Albanian Association of Municipalities can provide the necessary information regarding possible donor/funding programs that support IMC projects for the municipalities and Communes. The municipality and communes associations can distribute information regarding donors' requisites for funding qualification.

3.7 Willingness to Support Other Municipalities Establishing IMC

Municipalities involved in IMC are willing to support other municipalities through the sharing of experiences gained in the process, and by providing information and documentation that other municipalities might need for establishing a successful IMC.

4. IMC CASE STUDY: KORÇA REGIONAL WASTE MANAGEMENT, SHAREHOLDERS COMPANY (KRWM SH.A.)

Name of the Local Government Units Involved

(Population numbers based on INSTAT census 2001):

1.	Barmash	949	15.	Maliq	2,498
2.	Bilisht	8,188	16.	Miras	11,148
3.	Buçimas	12,788	17.	Mollaj	7,017
4.	Bulgarec	12,866	18.	Mollas	4,189
5.	Çerravë	9,126	19.	Pirg	9,788
6.	Dardhas	3,675	20.	Pogradec	37,134
7.	Drenovë	10,394	21.	Pojan	17,270
8.	Ersekë	10,003	22.	Progër	6,260
9.	Gore	4,164	23.	Qendër Bilisht	9,255
10.	Hoçisht	7,493	24.	Qendër Ersekë	5,675
11.	Hudenisht	5,811	25.	Vithkuq	3,746
12.	Korçë	82,998	26.	Voskop	6,355
13.	Libonik	14,102	27.	Voskopojë	3,193
14.	Liqenas	4,460	28.	Vreshtas	11,093

Service Area

- Joint waste management, where the IMC will exercise service, administrative and investment competence on behalf of participating local government units for the collection, transportation, administration and disposal of the following waste categories: urban, industrial, hospital, construction/demolition, remains from water treatment, agricultural, livestock and bulky waste.

4.1 Description of the Problem/Need for IMC

Waste management, based on EU standards and waste directives, is quite a new approach in Albania. It was introduced in the Korça region as a necessary means to improve the situation of waste collection and disposal and provide the proper principles and techniques for the protection of the environment. First tier local units are fully responsible for collection, transportation and disposal of waste since the enactment of organic Law

on Local Government in 2000. Despite this legal obligation and an increasing demand by communities for proper waste management, several local units remain unable to offer quality service, or fully cover their respective administrative territory, or even introduce the service (particularly in deep rural areas). On the other hand, dumping in the region has polluted the watersheds of Ohrid and Prespa lakes and endangered water quality of aquifers that supply the population with drinking water.

Proper waste disposal systems remain difficult to establish due to increased service costs (which directly affect consumer fee levels), and also due the difficulty in finding adequate landfill sites and acquiring the necessary investment funding.

KRWM seeks to establish an effective regional system that will handle the process of waste management (collection, transport, treatment and disposal), offer quality service to the citizens of 28 municipalities and communes³⁷ and ensure environmentally friendly practices. Through this cooperation, communes and municipalities in the Korça Region are seeking to fulfill their legal and moral obligations to their communities. Local units see the IMC as the best means to increase efficiency and effectiveness in waste management and to protect the ground and surface water resources in the region.

4.2 Description of the IMC

This IMC is focused in delivering the waste management service and includes also facilitation to set up a fee system applying the principle of cost recovery. Member local units have delegated to the KRWM authority³⁸ to fulfill the function of solid waste management. However, regulatory competence for this function remains with founding members, while the IMC exercises administrative, service and investment competence. KRWM is also expected to provide training and advice for local unit administrations as well as develop standards for various waste management activities, such as for waste reduction, treatment and disposal.

KRWM serves a total of approximately 320,000 inhabitants in the region living in 28 local government units (5 municipalities and 23 communes). Participating units agreed to establish the joint-stock company “Korça Region Waste Management” to provide waste management services and help build the structures needed to perform such services. Participating local units are all shareholders of the Company, sharing the rights and duties according to the number of their shares, which are defined in proportion to the population served (based on official population figures published by the National Institute of Statistics, INSTAT).

The Shareholders’ Assembly is the highest decision-making organ and is composed of all Shareholder local units, with voting power proportional to the number of shares they possess. Shareholders assembly is the authority that has the right to change the Statute. The assembly proposes and elects the Supervisory Council, presently composed

of six members. The supervisory council oversees the KRWM executive's activity during the periods between the Assembly meetings.

The company is represented by a General Administrator who covers the administrative and financial sectors. Overall, KRWM has four employees, including the ones that are presently being hired.

Partnering local units finance the activities of the IMC from the following revenue streams:

- cleaning fees;
- other revenues consisting of fees for service or taxes that are related with waste administration;
- other contributions made by participating local units.

Members may also assist the company with administrative support or other services as deemed appropriate. KRWM can receive and administer loans, while assets needed for its activities remain the property of local units and are used by the company.

Presently, through a loan from KfW,³⁹ the company is planning to start up the construction of a joint sanitary landfill. Future projections consist of a scenario that has service fees as the main basis for financing the activity of KRWM. The fee policy remains a decision of communal/municipal councils, with future projections to cover service cost, although such a cost recovery principle for services rendered was introduced by law in 2000.

The company's present activity is in its initial phase, wherein only the feasibility study has been completed and the IMC legally established with operational staff and headquarters.

Regular reporting mechanisms to the Shareholders Assembly and Supervisory Council are included in the legal documentation of KRWM. It is through the representation at the Assembly of Shareholders and the Supervisory Council that participating local units monitor and control the activities of the Company.

4.3 Establishment of the IMC

Initiating Cooperation

The process, from expression of municipalities' willingness to cooperate to the present establishment and operation of KRWM company, was a long-term exercise involving a seven year time-span (2001–2008).

Mayors of the five municipalities in the Korça region, namely the Mayors of Korça, Pogradec, Erseka, Maliq and Bilisht, carried out the initial cooperation steps in 2001. The initiative, apart from resolving the issue of waste management in the given municipalities, also aimed at making further use of the good cooperation and investment opportunities

offered by KfW. The latter had a very good track record of investment projects in Korça municipality, particularly with the set up of the water company that provided 24 hours drinking water to Korça city.⁴⁰ Investment in waste management for the region would also help the success and sustainability for two already ongoing interventions financed by KfW, i.e., the protection and preservation of Ohrid Lake watershed, in which several municipalities and communes have located dump sites, and the set up of a drinking water system from an aquifer that was exposed to high pollution levels with the illegal dump site on the top crust layer.

The five municipal mayors signed an official agreement expressing intent and willingness to cooperate in setting up a joint waste management system. The agreement stipulated that member municipalities are willing to: use the system immediately and in the future; accordingly arrange existing contractual arrangements and collection systems; apply adequate unified and standardized collection and transportation of waste to a common landfill; ensure equality for all participating members; use a common landfill for all members; be open to include other local units in the region that would want to share the system and are prepared to bear their share of the cost for running it.

Carrying out the Feasibility Study

The initiators carried out successful negotiations with KfW which, in 2003, financed the feasibility and a site selection study for a regional landfill. The studies were carried out under the auspices of Korça Municipality, which was leading the process on behalf of the initiators group. The results of the feasibility study, which aimed to improve environmental conditions, minimize health risks and contribute to sustainable economic and social development by means of a modern waste management system, were:

- A compilation of all the necessary information and planning documents of the investment project covering all technical, organizational, economic, financial, environmental and social aspects.
- Provide foundation for decision-making on the part of the Albanian and the German authority (KfW) with regard to the completion of the project and its financing scheme.

Having generated a very thorough analysis of the waste management situation in the region of Korça, the feasibility study was successfully carried out. It analyzed all of the aspects of waste management in the region, including: a description of the present situation in the project area, geographical, hydrological and climatic data, population data, and demographic development. It also included socio-economic analyses of environmental awareness, up-to-date solid waste management systems in the project area, up-to-date waste management services analysis, the design basis of the waste management system, and an assessment and comparison of conceptual alternatives for treatment of all waste categories.

The partners implementing the feasibility study conducted also obtained relevant approvals from the National Territory Regulation Council for the selected site and design, and a draft statute and program for the selected legal form of the Waste Management Association. They succeeded in extending the service area, including communes, bringing population coverage up to 80 percent of those inhabiting the region.

The outcome of the feasibility study also included recommendations for provisional measures to prepare the community to actively take part in a new waste management system, introduce systems for recycling and reuse, and refurbish existing dumpsites so that they reach an acceptable standard.

Undertaking Intermediate Measures

Supported financially by SIDA and grounded in the recommendations of the feasibility study, the initiators carried out suggested intermediate measures which targeted both local government tiers in Korça region.

At the second tier local level, activities were carried out to support regional authorities in:

- Coordinating and supporting municipalities;
- Establishing a system for distribution of regulations, registration, monitoring, and education;
- Launching public awareness campaigns for waste reduction, recycling and similarly related issues;
- Establishing a Regional Funding Facility for projects carried out in the municipalities and communes;
- Carrying out a study of demolition waste and formulating local rules and regulations.

At the first tier local level, activities were carried out to:

- Undertake a recycling project involving the Roma;
- Start up source separation of recyclables from households in a pilot area;
- Establish a source separation system for waste like garden waste and organic waste;
- Construct a pilot composting plant;
- Improve selected existing dumps taking into consideration that most of them will still be in operation for a number of years;
- Encourage and start up waste collection in villages;
- Support awareness campaigns for the separation of hazardous waste, recycling and waste reduction;

- Assist municipalities and communes in their preparation of Local Solid Waste Plans;
- Draft a structure for a municipal fee system aiming at covering all costs related to waste collection and treatment including customer registration.

IMC Legally Set Up

The Association was legally established in June 2008, at the first meeting of the Shareholders Assembly. The bridging phase project, supported by KfW, started with assistance in 2008 to institutionally strengthen the waste management association and provide resources for the staff to acquire knowledge and skills to properly run the KRWA. Support for the bridging phase was a continuation of KfW's commitment since the preparation of the feasibility study, carried out between 2003 and 2005. KRWM also benefited from the SIDA-funded project a donation of office equipment and a vehicle, and from expertise that was provided by KfW.

Challenges Faced

- Lack of capacity and experience. Given the standards required for waste management, technical knowledge in Albania is scarce. The knowledge gap was filled by providing international expertise on landfill engineering design and waste management techniques, and economic analysis for various waste treatment scenarios including the ability of the population to bear the cost, waste composition analysis and future projections. Lack of experience was also matched with external expertise for institutional issues and to build the structural architecture of KRWM.
- Increased costs when compared with the current level of financing for waste management by partner municipalities. The commitment to set up a sustainable waste management association with improved service performance was directly related to increased costs. Since waste treatment and disposal are to be introduced for the first time in the waste management chain, overall costs are increased. Several communes/municipalities have difficulties proposing the necessary increase in cleaning fees, particularly when the fee increase must first be applied before the service standard is visibly improved.
- Reluctance to cooperate. Anticipated members of KRWM had to be convinced, mainly through analysis and observations of the feasibility study, that the joint landfill is the optimal available solution.
- Distance involved and lack of infrastructure. Joint waste management is difficult in the mountainous Korça region because of its terrain and also due to poor infrastructure. Several technical solutions (including transfer stations) are offered by experts. Transfer stations are envisioned to facilitate waste transportation and

compensate for the difference in distance to the landfill for various local units. However the poor road infrastructure remains a challenge.

Main Success Factors Are:

- Expected increase of service quality. A better waste management service through this regional enterprise is expected by member municipalities and the community;
- Collaboration and common sense among central, local government and community actors has accompanied the process;
- Continuous support by KfW and expertise provided;
- External assistance has been and remains crucial for the set up of an operational and sustainable IMC. Several experts have contributed in the following areas: law, finance, engineering and institutional relations. Without the external financing and expertise thus far provided, the enterprise might not have succeeded;
- Strong leadership by the mayors who began the initiative and strongly supported and guided all steps carried out so far.

4.4 Benefits and Shortcomings

- The partner municipalities benefit from a well-organized and efficient structure to handle the waste management services in the region, carry out considerable investments and negotiate and manage donations, and implement environmentally-friendly practices. In several communes, the service will be introduced for the first time, while in others citizens residing on the periphery of the territory will be included in the waste management chain.
- Expected service standards to be provided by the KRWM will prevent the pollution of aquifers that supply drinking water and the two major watersheds of Ohrid and Prespa.
- The inhabitants will benefit from a cleaner environment and better services, directly improving the quality of life and attractiveness of the region for tourists and investors.
- Increased service area might increase interest of private sector, offering attractive opportunities for experienced and well equipped waste companies.

Presently there are no shortcomings to highlight.

4.5 *Future Plans for the Development of the IMC*

Plans for the future include expanding the cooperation to include other communes in the region, since it is envisioned that KRWM will be a regional enterprise covering the entire regional territory.

4.6 *Main Lessons Learned on How to Establish IMC and Make It a Success*

- Good will and availability to fulfill the conditions of the cooperation through careful negotiations and a willingness to reach a compromise that will satisfy all partners in the undertaking.
- Municipalities that initiated the cooperation have strongly supported and negotiated each step forward, providing leadership for participating local units. Korça municipality expressed a willingness to support smaller units, and carried out the administrative burden in various stages of the process by providing expertise, lobbying and oversight of several issues until the KRWM was officially set up and employed by an executive branch.
- There was a clear articulation of the need to keep the same pace for all participating members when it came to fulfilling obligations for getting involved in the association's issues, including in this case, respective financial contributions.
- A thorough analysis of the waste situation in each local unit was carried out. All members had a clear picture of scenarios that local units had to employ to come up with common standards and this encouraged members to have a full understanding of the efforts each local unit had to make.
- Exchange of experience with international consultants has been crucial to broadening understanding and staying updated about contemporary waste management trends and techniques.

4.7 *Readiness to Support Other Municipalities in the Establishing of IMC*

Participating members and KRWM staff believe that this IMC practice can be successfully replicated in other regions of Albania. In order to increase the chances of successful replication, the central government should work on public awareness campaigns and facilitate the procedures required for the creation of similar IMCs.

The Association of Municipalities can support the replication of their good practices by publicizing and amplifying the benefits and its positive outcomes.

If other municipalities undertake an IMC in the waste management field, KRWM would be willing to share experience with them and provide advice, suggestions and ideas to help them achieve their goals.

NOTES

- ¹ Albanian Constitution, Article No. 108.
- ² Human Development Report, Albania 2002, United Nations Development Program, 2003.
- ³ For more information on local government in Albania see Artan Rroji and Jim Budds, Organization and structure of local government in Albania, 2001.
- ⁴ Municipalities govern mainly urban areas, and communes mainly rural areas.
- ⁵ Spending financed by revenues other than earmarked grants.
- ⁶ Until 2008, local units were distributing salaries to local professional staff.
- ⁷ CoM decision on Decentralisation policies reviewed the health care system nationally and did not transfer any competence to local units.
- ⁸ Such as the Law on Local Financing, update of the Law on Civil Service, clear definition of role of region and definition of minimal standards on service delivery.
- ⁹ In the case of water companies accumulated debts amounted to 85 mln euros.
- ¹⁰ Own calculation based on data from the national register of civil registry launched on February 2009.
- ¹¹ Approved in 2007.
- ¹² Article No. 108 of the constitution on inhabitants' opinion for changing administrative boundaries.
- ¹³ Article 67, on Law No. 8656 on local referenda for changing boundaries.
- ¹⁴ Law 8744, dated 22.02.2001, "On transfer of immovable properties to local governments"; Law 8979, dated 12.12.2002, "On the local small business tax"; Law 8982, dated 12.12.2002, "On the system of local taxes"; Law 9632, dated 30.10.2006, "On the system of local taxes"; Law 9936, dated 26.06.2008, "On the management of budgetary system in the Republic of Albania".
- ¹⁵ Figures do not include spending done in localities for education and health care which does not go through LGs, which might also make it difficult when generalized and compared with other countries.
- ¹⁶ Not accounting here for the communes (small/rural).
- ¹⁷ CoE final remarks on amalgamation, Working Paper 2003: Experts are not entirely convinced that amalgamation is the most efficient way to resolve the present problems of local government in Albania. Territorial fragmentation is not extreme, and merging may lead to positive results but it may also produce conflicts, generate misinterpretation (or even mistrust) of the central government intentions by many local leaders and finally prove to be less effective than expected. In addition, they are still not sure that all the relevant statistical data are available.
- ¹⁸ Belgium, Finland, France, Germany, Italy, The Netherlands, Spain, United Kingdom.

- ¹⁹ July 2001; article 8/V of law Nr. 8652, on the organization and functioning of local government. The above mentioned law, in article 14.1, spells out: “Every unit of local government can exercise the right of inter-communal collaboration ... using one of the following modalities: an agreement to accomplish together one or more functions; contraction with another unit of local government to exercise one or more functions; contraction from the interested local government units with a third party to exercise one or more functions.”
- ²⁰ Article No. 10.
- ²¹ Includes the Membership Association, Center or Foundation.
- ²² Legal basis for the foundation of an NPO is The European Charter of Local Self-Government, article 10, “the right for local municipalities association.” Paragraph 1 states: “The local municipalities have the right to collaborate while exercising their competencies and, according to the law, can be joined with other local municipalities in order to accomplish the duties of common interest.” The law for organization and functioning of local government, no. 8652 article 8/V “the right to collaborate” option “c” says: “they have the right to be organized in associations according to the respective legislation for associations.” The civil law of the Republic of Albania article 39 states: “the association is a legal person that is created by the free will of 5 or more persons or not less than two legal persons, which have a defined legal aim in the interest of the public and the association’s members. Law “On Not for Profit Organizations” defines the rules for the founding, registration, functioning, organization and activity.
- It is important that articles 6 and 7 Law number 8788 date 07.05.2001 “On Non-Profitable Organizations” be applied in the statute of the association. Article 6, “the principle of independence from the power” states: “Non-profitable organizations exercise their activities independently from the central authorities and interests. Article 7 states: “Central authorities do not intervene in the activity of the non-profitable organizations.”
- ²³ Article 39/1 of the Civil Law states: “It is not allowed that the association accomplishes profitable activities.” Does the “sale of the service with a higher value than its cost” mean profitable activity? The Civil Code and the law “for non-profitable organizations” does not determine what kind of activity will be considered profitable. Furthermore, article 36 of this law states “if the non-profitable organization, will make profit through its economic activity, this profit should be used to fulfill the aims defined in the statute and the founding act”, thus creating confusion between the two above-mentioned articles. It is this confusion which represents a disadvantage of the non-profitable associations.
- ²⁴ Law No. 8788 dt. 07/05/2001 “for non-profitable organizations” article 35 titled “sources and usage of income” states: “non-profitable organizations obtain income from the sources acknowledged by this law.” It also states that “the income sources of the non-profitable associations are the income from membership fees, where such exist, funds, grants and donations given by national or foreigner private or public subjects and income from the economic activity and properties owned by the non-profitable association.”
- ²⁵ Article 50 paragraph one of the Civil Law, changed with the law number 8781, date 03.05.2001 states “The member that leaves or is expelled from the association is responsible for its obligations towards the third parties up till the moment of its leaving and has no rights over the moveable property and real estate of the association.”

- ²⁶ As a reference for several private law companies such as: Sole Proprietorship, Unlimited Partnership, Limited Partnership, Limited Liability Company, Anonymous Association, or Joint Stock company is presently used in service providers that used to be state enterprises.
- ²⁷ Legal basis: Law no. 7638 date 19/11/1992 “On Commercial Association.” If the subject of common competencies will be an Anonymous Association, each municipality will be a partner in the founded association. The founding capital of the association will be constituted by the contributes given by each partner, in our case by the 5 municipalities, in the percentage defined by them. The manner of the organization of this association will respect the above-mentioned law “On Commercial Associations.”
- ²⁸ This does not mean that this is a legal condition for the association to result in profit.
- ²⁹ Legal Basis: The law “On State Enterprise,” article 5, states that the enterprises are classified as a) national enterprises and b) local enterprises. Article 7 of the same law states: “local enterprises are created, united, split, merged or divided by decision of the local authority.” Considering what is stated above the subject of common competencies may be a State Enterprise.
- ³⁰ The law on the State Enterprises, article 1, states: “the State Enterprise, that will further be called Enterprise, is property of the State.”
- ³¹ Article 43 of the law on State Enterprises’ states: “The members of the Head Council are chosen once in two years having the right to renew the mandate. The members of the Head Council of the Enterprise can be persons that have no legal work relations with the Enterprise, excluding the members of the Government, the heads of local government, the general bank managers, the judges, the investigators, the arbitrators, the notaries and the heads of the directories of the municipal councils. The head of the Enterprise is a member of the Head Council.”
- ³² Foundation of Local Autonomy and Governance.
- ³³ Municipalities and communes are both first tier of local government in Albania, exercising the same set of functions and responsibilities, with the difference that municipalities are mainly urban while communes mainly rural.
- ³⁴ Municipalities and communes are both first tier of local government in Albania, exercising the same set of functions and responsibilities, with the difference that municipalities are mainly urban while communes mainly rural.
- ³⁵ National Council of Territory Regulation.
- ³⁶ Ministry of Environment, Forests and Water Administration.
- ³⁷ Municipalities and communes are both first tier local governments in Albania, exercising the same set of functions and responsibilities, with the difference that municipalities are mainly urban while communes are mainly rural.
- ³⁸ The transfer of authority is accomplished through an agreement between participating local units, approved by respective local councils.
- ³⁹ KfW stands for Kreditanstalt für Wiederaufbau/The German Bank for Development.
- ⁴⁰ Korça was the first city in the country to provide 24-hour drinking water to the inhabitants, through financing and cooperation with KfW.

Voluntary Intermunicipal
Cooperation in
Bosnia and Herzegovina
Bridging the Differences

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Table of Contents

Executive Summary	102
Voluntary Intermunicipal Cooperation—A Bridging Framework	103
1. Introduction to Local Government Systems in Bosnia and Herzegovina	105
1.1 Two Local Government Systems.....	105
1.2 Weak Economic Position Concerning the Scope of Local Duties.....	110
1.3 The Shadow of Centralization Hovers above Local Communities.....	112
1.4 Intermunicipal Cooperation Prior to the 1990s.....	113
2. The Cultural, Legal, and Economic Aspects of Intermunicipal Cooperation.....	114
2.1 Why Is Intermunicipal Cooperation Important in Bosnia and Herzegovina?.....	114
2.2 Trust and Social Capital As the Missing Building Blocks for Cooperation.....	116
2.3 Legal Framework for Intermunicipal Cooperation.....	118
2.3.1. Entity Laws on Local Self-Government	118
2.3.2. Other Sectoral Legislation Mostly Hinders Intermunicipal Cooperation	121
2.4 Economic Incentives from the Upper Level and Donors.....	122
3. Current Intermunicipal Cooperation Arrangements	124
3.1 Handshakes and Lax Contracts	124
3.2 Public Enterprise DEP-OT	128
3.2.1 The Structure of the Public Enterprise	130
3.2.2 Financing of DEP-OT.....	132
3.2.3 The Basic Characteristics of the Region	133
3.2.4 Main Challenges.....	134
3.3 IMC in the Region of Eastern Herzegovina.....	135
3.3.1 Structure of the Association of Municipalities.....	136
3.3.2 The Basic Characteristics of Eastern Herzegovina	138
3.3.3 The Main Challenges.....	140

4. Improving the IMC Framework	142
4.1 Minimal Territorial Changes with a “Reduction” of Competences.....	142
4.2 Options for IMC Improvement.....	143
Sources Cited	150
Appendix	152
Notes	160

EXECUTIVE SUMMARY

This study tries to examine the situation related to intermunicipal cooperation in Bosnia and Herzegovina in order to provide enough evidence and findings for the improvement of the intermunicipal cooperation arrangements. The main hypothesis was accepted after careful analysis: that the effective exercise of the right to cooperate depends not as much on legislative corrections as it does on political affiliation and the existence of (economic) incentives for intermunicipal cooperation.

The current territorial organization, in which more than 30 municipalities¹ are not in the position to provide all necessary services to their citizens due to their limitations (human, technical, financial), needs to be coupled with the intermunicipal cooperation arrangement for the provision of services. Although intermunicipal cooperation is defined broadly within current local government laws, the intermunicipal practices reveal only several cases that were initiated by local government units.

The culture of cooperation in Bosnia and Herzegovina is at the lowest level in Europe (Salaj 2008) because of tradition, ethnic relationships and the recent war (1992–1995). Since improved efficiency or reduced costs are not a public option for citizens, the culture of cooperation manifests politically and in the lack of mutual cooperation between municipalities. The upper levels of government provide the framework for cooperation between municipalities but they do not provide any economic incentives for the joint provision of services.

The recently announced minimal territorial changes within Republika Srpska will require more focus in the area of intermunicipal cooperation. At the same time, the current IMC arrangement needs to be institutionalized in order to prevent clashes in financing and decision-making. Studies have shown that there is a tendency for bigger municipalities to try to dominate smaller ones if there is no unanimity in decision-making or respect for minority rights. Up until now, citizens have not been involved with the intermunicipal cooperation arrangement but there is a desire for their involvement. The accountability and transparency within IMC is still hazy due to the fact that most IMCs were mostly externally financed.

This paper is divided into four parts. The first part deals with an institutional overview and the context of Bosnia and Herzegovina. The second part is focused on the legal framework, economic incentives and the cultural aspects that emerge in political life. The third part deals with the current IMC arrangement within the country, jointly with two in-depth covered practices—the establishment of the public enterprise DEP-OT and the Association of Municipalities of Eastern Herzegovina. Finally, some policy recommendations are given with respect to current and future policies that could have an effect on the improvement of intermunicipal cooperation arrangements.

VOLUNTARY INTERMUNICIPAL COOPERATION—A BRIDGING FRAMEWORK

The improvement of voluntary intermunicipal cooperation in Bosnia and Herzegovina is necessary to overcome territorial organization problems and to introduce economies of scale in producing goods and services. The joint provision of public services is a way to overcome production-related obstacles and meet the rising expectations of citizens (Hulst *et al.* 2007).

The investigation of the context for intermunicipal cooperation in Bosnia and Herzegovina that will be presented in this study reveals that municipal mergers in the last 50 years were disturbed by the consequences of the war (1992–1995). The war and inter-ethnic division along administrative lines deeply rooted the level of distrust among ethnic/religious groups. The current territorial division, with respect to local government units, has had even more consequences for the level of social capital within the country. The establishment of new municipalities within inter-entity lines has created local governments that are not capable of fulfilling basic entrusted responsibilities, but there is no intention to include them in cooperation with others.

Later findings will demonstrate that there were no economic incentives from upper-level government tiers that introduced intermunicipal cooperation for the provision of goods and services because upper-level politics is biased toward politicizing intermunicipal relationships and exerting control over local level authorities. When it comes to responsibilities and finances, the local governments in Bosnia and Herzegovina are still opting for vertical rather than horizontal cooperation. Traditionally, the political system in Bosnia and Herzegovina has been constructed in the manner of a strict and thorough centralization, so the centralist tendencies of today can partly be recognized in this historically acquired predisposition.

There are many, mostly donor driven, projects that were identified in this study as having the intention to boost intermunicipal cooperation by gathering municipalities and solving some jointly defined problems. However, there are no IMC databases in the country that summarize all IMC arrangements. The special consideration within this study is given to the social capital aspects, revealing that Putnam's "bonding without bridging" argument for Bosnia and Herzegovina had affected intermunicipal cooperation as well. The cooperation among different units and institutions depends on the dimension of social embeddedness, while distinguishing between the repeated exchanges between the partners (temporal embeddedness), relations with third parties such as donors (network embeddedness) and social institutions that allow for credible agreements and commitments (institutional embeddedness). These arguments are taken from previous analysis within the business sector (Rooks *et al.* 2000). The more stable, inter-entity cooperation requires a certain level of social institutions that allow for cooperation.

Municipal leadership, that is, directly elected municipal mayors and/or an elected legislative body (local councilors) are considered one of most the important driving forces in the struggle for local government reform and decentralization (EDA 2006). The role of leadership is also crucial for creating voluntary intermunicipal cooperation. However, since improved efficiency or reduced costs are not among the public's choices at the local level in Bosnia and Herzegovina, mayors and local councilors usually tend toward representing the interests of parties or interest groups rather than the citizens and their needs. The specificity of Bosnia and Herzegovina is the domination of mayors over local councilors and citizens when looking at the decision-making process (Zlokapa *et al.* 2009).²

In the initial focus was an analysis of the legal framework for intermunicipal cooperation via desk research. It is an overview of the legal framework and available reports and studies, and the context is local government systems in Bosnia and Herzegovina (the Federation of Bosnia and Herzegovina and the Republika Srpska) and current trends within intermunicipal cooperation arrangements in the country. The desk research was complemented by interviews with relevant representatives from local self-governing ministries and from municipalities (mayors and councilors). The interviews were based on the desk research of available data and surveys done in more than half of the municipalities. Finally, two examples of intermunicipal cooperation arrangements were analyzed thoroughly—voluntary municipal alliances and contractual relationships with specific tasks.

Notably, intermunicipal cooperation is not a typical issue within local government affairs in Bosnia and Herzegovina, along with many other topics that are common for countries within modern Europe. The previous political system, previous war (1992–1995), current administrative framework and politicians are the main points that have to be taken into consideration with every public policy decision. The specific problems that are deeply rooted within Bosnia and Herzegovina society such as distrust, dishonesty and ethnic/religious differences and polarization are present in nearly every aspect of life and public policy within the country. This study was generated by respecting the current context while also trying to offer policy recommendations related to intermunicipal cooperation that will be useful for bridging the differences.

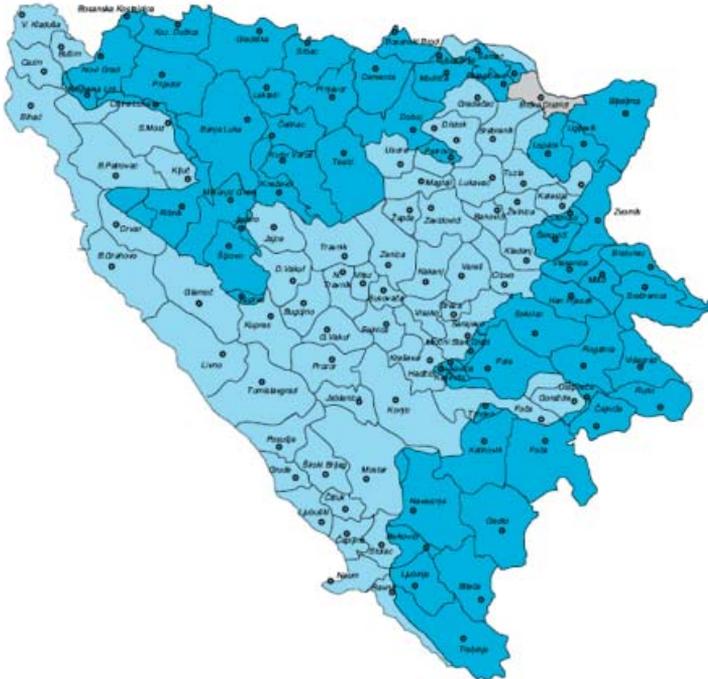
1. INTRODUCTION TO LOCAL GOVERNMENT SYSTEMS IN BOSNIA AND HERZEGOVINA

1.1 Two Local Government Systems

Bosnia and Herzegovina is a complex state made up of two entities, the Federation of Bosnia and Herzegovina and the Republika Srpska, with Brcko district acting as a special territorial unit within the country. With its area of 51,209 km², Bosnia and Herzegovina is one of the smallest countries in the region. The entities share the territory at a ratio of 51 percent : 49 percent with the Federation of Bosnia and Herzegovina having the larger portion.

The territorial division within the country can be seen in the picture below, where the darker color represents the territorial structure of the Republika Srpska and the lighter color represents the Federation of Bosnia and Herzegovina.

Figure 2.1
Territorial Organization of Republika Srpska and the Federation of Bosnia and Herzegovina



Bosnia and Herzegovina has two local government systems, one in the Republika Srpska (RS) and one in Federation of Bosnia and Herzegovina (FB&H). The Republika Srpska is a centralized entity with 63 local government units while the Federation is a decentralized entity with 10 cantons and 80 local government units. Cantons are not another level of local government but rather political and territorial units with pronounced state-like features.

The differences between the municipalities in Republika Srpska are immense, just as are the differences between the municipalities in the Federation of Bosnia and Herzegovina (Zlokapa *et al.*, 2008). Municipalities differ in terms of territorial size, population, development, employment rate, number of large and profitable companies, number of pupils, students and citizens with university degrees, etc.

Table 2.1
Municipalities in the Republika Srpska and the
Federation of Bosnia and Herzegovina by Area

Municipalities with territory size	Republika Srpska	Federation of Bosnia and Herzegovina
up to 200 km ²	20	27
up to 100 km ²	10	13
from 100 to 200 km ²	10	14
from 200 to 500 km ²	21	36
200 to 300 km ²	9	17
from 300 to 400 km ²	7	15
400 to 500 km ²	5	4
exceeding 500 km ²	21	15
from 500 to 600 km ²	5	6
from 600 to 700 km ²	6	0
from 700 to 800 km ²	3	3
from 800 to 900 km ²	4	0
from 900 to 1,000 km ²	0	3
exceeding 1,000 km ²	3	3

Source: Republika Srpska Statistical Office and Federation of Bosnia and Herzegovina Statistical Office.

Table 2.2
Municipalities in Republika Srpska and the Federation of
Bosnia and Herzegovina by Population

Municipalities with population size	Republika Srpska	Federation of Bosnia and Herzegovina
up to 1,000 inhabitants	4	1
from 1,000 to 5,000 inhabitants	12	10
from 5,000 to 10,000 inhabitants	7	5
from 10,000 to 25,000 inhabitants	23	31
from 25,000 to 50,000 inhabitants	10	19
from 50,000 to 100,000 inhabitants	4	9
exceeding 100,000 inhabitants	2	4

Source: Republika Srpska Statistical Office and Federation of Bosnia and Herzegovina Statistical Office.

When considered spatially and demographically, the current territorial organization of local government units demonstrates a significant discrepancy between geographic and demographic size (Bijelic *et al.* 2008). Primarily, this imbalance is the consequence of the war (1992–1995) and established inter-entity lines that have created 30 new municipalities (18 of them in the Republika Srpska and 12 in the Federation of Bosnia and Herzegovina). According to data from 2007, the difference between the largest and smallest municipality in the Republika Srpska is 49 times taking into consideration territory and 6,343 times taking into consideration population. The difference between the biggest and smallest municipality in the Federation of Bosnia and Herzegovina was 116 times taking into consideration territory and 203 times taking into consideration population. In all cases, the differences are between municipalities that existed before 1992 and newly established municipalities. Municipalities next to inter-entity borders are characterized by small territorial and demographic size, and a low level of socio-economic development. Out of 18 newly established municipalities in the Republika Srpska, 16 of them fall into categories of underdeveloped and extremely underdeveloped municipalities according to the classification in 2008.³ The same situation exists in the Federation of Bosnia and Herzegovina.

However, all municipalities within the Republika Srpska and within the Federation of Bosnia and Herzegovina have the same responsibilities (Zlokapa 2008). Local self-government legislation⁴ does not distinguish among municipalities in terms of their abilities, regardless of the size and economic power of the municipality, the degree of urbanization, or any other important feature. Entity laws on local government make a distinction between municipalities and cities, but still accord them the same responsibilities. All local government unit responsibilities can be divided into two categories:⁵ regulatory and service provision duties. The tables below show local government duties

established by laws on local self-government units in the Republika Srpska and the Federation of Bosnia and Herzegovina.

Table 2.3
Regulatory Competences in Republika Srpska and the
Federation of Bosnia and Herzegovina

Regulatory competences	Republika Srpska		Federation of Bosnia and Herzegovina	
	Entity level	Local government	Cantonal level	Local government
Adopting local government budget, development program, spatial, urban and regulation plan, as well as other policies related to municipal tasks and in accordance with the law	—	x	—	x
Establishment of municipal bodies, organization of services and their coordination	—	x	—	x
Collection, collection control and enforcement when collecting the municipality's original revenue	—	x	—	x
Adopting regulations on taxes, fees, duties and tariffs under the duties of the local government unit	—	x	—	x
Establishing and carrying out inspections, surveying the implementation of regulations under the responsibilities of the local government unit	—	x	—	x
Determining policies for managing natural resources in the local government unit and distributing the income from their use	x	x	—	x
Determining the policies and fees for the use of public goods	—	x	—	x
Devising and implementing policies of disposal, use and management of construction sites	—	x	—	x
Organizing the communal police	—	x	—	x

Table 2.4
Service Provision Responsibilities in Republika Srpska and the
Federation of Bosnia and Herzegovina

Service provision competences	Republika Srpska		Federation of Bosnia and Herzegovina	
	Entity level	Local government	Cantonal level	Local government
Education—preschool	x	x	x	x
Education—primary and secondary	x	x	x	—
Education—higher	x	—	x	—
Public administration	x	x	x	x
Police	x	—	x	—
Civil protection	—	x	—	x
Firefighting	x	x	—	x
Civic affairs registry	x	x	—	—
Healthcare centers	x	x	x	x
Centers for social work	—	x	x	x
Geriatric centers	—	x	—	x
Theaters and galleries	x	x	x	x
Sport and culture halls	—	x	x	x
Water supply	—	x	—	x
Gas supply	x	x	x	x
Heating	—	x	—	x
Sanitation	—	x	—	x
Waste disposal	—	x	—	x
Local and uncategorised roads and streets	—	x	—	x
Cemeteries	—	x	—	x
Protection of environment	—	x	x	x
Public transportation (local)	—	x	—	x
Trade and tourism	x	x	x	x
Crafts	—	x	—	x
Water management	x	—	x	—
Employment	x	x	x	x
Local media (newspaper, radio, TV)	x	x	x	x

As can be seen from the previous tables, laws entrust local government units with many and quite important authorization abilities. Laws also allow local governments to deal with other issues of local importance that are not excluded from their jurisdiction and are not entrusted to another level of government. This is completely in line with the European Charter on Local Self-Government, since the laws are formulated in line with this European document, which was ratified by Bosnia and Herzegovina in 2002.

The Laws on Local Self-Government in the Republika Srpska and the Federation of Bosnia and Herzegovina explain some municipal capacities in detail, while for others it merely invokes other laws pertaining to their fields and determines municipal abilities. Almost 100 laws in the Republika Srpska and the Federation of Bosnia and Herzegovina regulate the work of the municipal administration (Miovcic 2008).

The duality of local government systems in Bosnia and Herzegovina, coupled with problems of territorial division among both entities, are partly the consequence of the capacity of local government policy makers. The central policymaking body in the Republika Srpska is the Republika Srpska Ministry for Administration and Local Self-government and has generally weak capabilities for coping with vast problems related to local self-governance.⁶ The situation is even more problematic in the Federation of Bosnia and Herzegovina where there is no formal structure within the administration responsible for local government issues and policies. Within this entity, local government framework policies are given responsibility under the Federation of Bosnia and Herzegovina's Ministry of Justice, with every canton having one or two people within their administrative structure responsible for local government (cantonal ministries of justice and/or general administration).

1.2 Weak Economic Position Concerning the Scope of Local Duties

The territorial organization and consequential distribution of state and society functions have a major influence on the economic position of a particular level of authority (Draganic *et al.* 2008). Since Bosnia and Herzegovina has four levels of authority (state, entity, cantonal—in Federation of Bosnia and Herzegovina—and local), the position of local self-government units in this context is not surprising at all. According to the data set forth in the next table, it is evident that the allocation of public expenditures for local government are significantly lower in Federation of Bosnia and Herzegovina than in Republika Srpska (2.27 percent as compared to 7.28 percent of the respective entity's gross domestic product in 2006 and 7.64 percent to 4.33 percent in 2007). At the same time, the allocations for the middle level of authority (entity and cantonal level in Federation of Bosnia and Herzegovina, and entity level in Republika Srpska) are lower in Republika Srpska than in Federation of Bosnia and Herzegovina.

Table 2.5
Distribution of Public Expenditures in Bosnia and Herzegovina in 2006 and 2007

	In percent GDP B&H		In percent GDP RS		In percent GDP FB&H	
	2006	2007	2006	2007	2006	2007
Municipalities in FBiH	1.56	2.72	—	—	2.27	4.33
Municipalities in RS	2.73	2.65	7.28	7.64	—	—
Total municipalities in BiH	4.29	5.37	—	—	—	—
Cantons in FBiH	8.49	8.57	—	—	12.34	13.64
Entity FBiH	5.45	7.70	—	—	7.92	12.26
Funds FBiH	9.64	9.02	—	—	14.00	14.37
Entity RS	6.31	6.75	16.83	19.50	—	—
Funds RS	4.92	3.62	13.12	10.47	—	—
BiH level	4.84	4.92	—	—	—	—
Brčko District	0.98	1.25	—	—	—	—
Total	45.00	47.19	39.84	37.61	36.53	44.60

Source: Data on public spending in 2006 and 2007 for all levels of authority (Bosnia and Herzegovina Central Bank, Directorate for Economic Planning, Ministries of Finance, Macroeconomic Analysis Unit).

The share of local government unit expenditures as part of gross domestic product (GDP) of Bosnia and Herzegovina (4.29 percent in 2006 and 5.36 percent in 2007) is extremely low compared to other countries in Europe (see Table 2.6).⁷

Table 2.6
Local Government Expenditures in Percent of GDP in 2006

	Euro 25	Euro 15	Denmark	Czech Rep	France	Germany
Percent of GDP	11.5	11.5	33	11.9	11.1	7.2

Source: Eurostat statistics.

The revenues structure of local government units in the Republika Srpska is such that approximately two-thirds of local government unit revenues come from taxes (particularly significant is the component of indirect taxes) whereas one-third comes from non-taxation revenues (including grants).⁸ According to the Law on Budgetary System of Republika Srpska,⁹ local government units receive: 24 percent of revenues from indirect taxes that are attributed to the Republika Srpska, 25 percent of income tax, 70 percent of fees charged for re-categorization of agricultural land, 70 percent

of fees charged for utilization of minerals, 30 percent of repossessed property and resources from sales within the capacities of the republic's market inspectorate, as well as other revenues from donations and other business activities according to relevant regulation.

The revenue structure for local government units in the Federation of Bosnia and Herzegovina is such that approximately half of all local government unit revenues come from taxes (particularly significant is the component of indirect taxes) whereas the other half comes from non-taxation revenues (including grants and other revenues).¹⁰ According to the Law on the Origin of Public Revenues,¹¹ local government units receive 8.42 percent of revenues from indirect taxes that are attributed to the Federation, at least 28.5 percent from income taxes, 100 percent of fees for construction, and other fees according to relevant regulation.

The current financial position of local government units is generally weak, especially in municipalities with a small number of inhabitants where all local government revenues in the form of local taxes (consumption taxes, property and income taxes), and various administrative and utility levies are just sufficient to cover current administrative costs (employees' wages and material costs). In these municipalities, the provision of communal services is completely neglected—an extension of the poor condition in communal infrastructure. In the economic literature, it is diversely claimed that the number of inhabitants is the decisive criterion for determining the optimal size of a local administrative body (Steiner 2003). However, this is not the case in Bosnia and Herzegovina, where numerous duties require that even small municipalities provide the conditions for various services. The investments and maintenance of infrastructure depends primarily on larger grants for the improvement of conditions in this field. It is very difficult to quantify how many municipalities adhere strictly to the law in fulfilling their duties, but the general impression is that most municipalities adapt their operations to the means at their disposal and the situation “in the field.” Thus, it happens that even the richest and most developed municipalities fail to meet all the legal standards in providing certain services, while the poorest and most underdeveloped fail to provide these services entirely.¹²

1.3 The Shadow of Centralization Hovers above Local Communities

One of the most noticeable characteristics of the local government system in Bosnia and Herzegovina is the considerable tendency of local units to orient themselves toward mid-level state organization: the entity authorities in Republika Srpska, and the cantons in Federation of Bosnia and Herzegovina (Zlokapa 2007). In centralized political systems, the state has a monopoly over a lot of information and activities, which links all the parts of the system to the state center and makes them dependent on this center.

Traditionally, for centuries now, the political system in Bosnia and Herzegovina has been constructed in the manner of a strict and thorough centralization, so the centralist tendencies of today can partly be traced to this historically acquired predisposition. Although the system was radically decentralized by the Dayton Agreement,¹³ centralism remained rooted in key areas of the system. Local communities greatly depend on the assistance of upper levels, which is why they subordinate all other relationships to their relationship with the state. The municipality finds it simplest to maximize its relations with the state by reinforcing its position within the centralized system. Under such circumstances, intermunicipal cooperation is the exception, not the rule. Previous studies on the priorities of the municipal mayor (Zlokapa *et al.* 2007) have shown that after maintaining good relations with upper levels, mayors feel the need to devote their energy to local inter-party and intra-party struggles for power and prestige. Efforts to strengthen the capacities of the municipality as a whole and improve the quality of services for citizens are third or fourth on most mayors' lists of priorities.

1.4 Intermunicipal Cooperation Prior to the 1990s

There are still examples of functional linking that testify to the fact that cooperation can occur when there is a concrete interest for it even in the previous communal model of local government organization. IMC was often established for the purposes of water supply since some municipalities in the Bosnia and Herzegovina did not have their own water systems, so they latched onto the water systems of neighboring municipalities that had better water sources, better distribution and higher flow rates in their water system. Unfortunately, these were only sporadic cases, since most municipalities insisted on constructing a local water supply system (Zlokapa 2007).

The reasons for such municipal behavior were seen in the communal model of local governments in former Yugoslavia, where frequent territorial merging led to the attempt to create an optimally sized municipality that would provide all communal services (Draganic 2008). The prototypical local government unit¹⁴ structuring was justified with the argument of economies of scale (provision of cheaper services with given investments) for all services provided by the local government. This meant that efforts had been made to find an adequate territorial organization and the distribution of responsibilities that would improve all the activities entrusted to the local government. Development of Bosnia and Herzegovina's local government territorial organization during the period between 1952–2007 is shown in the Table below.

Table 2.7

Development of Territorial Organization in Bosnia and Herzegovina from 1952

Year	Area (km ²)	Population	Number of municipalities	Average area of municipality (km ²)	Average population of municipality
1952	51,221*	2,791,000**	418	122.54	6,677
1962	51,197	3,336,000**	122	419.65	27,344
1991	51,197	4,377,033	109	469.70	40,156
2007	51,197	3,873,000	142***	360.54	27,275

Source: Correction or remodeling, EDA Banja Luka 2008.

Notes: * Bosnia and Herzegovina area in 1953

** Population, midyear—estimate

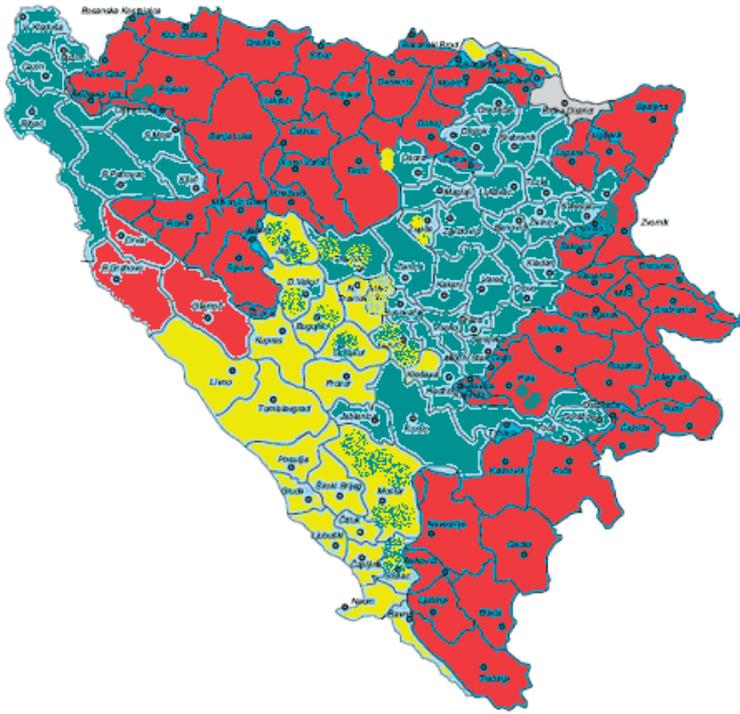
*** includes Brcko District

2. THE CULTURAL, LEGAL, AND ECONOMIC ASPECTS OF INTERMUNICIPAL COOPERATION

2.1 Why Is Intermunicipal Cooperation Important in Bosnia and Herzegovina?

Bosnia and Herzegovina is highly divided, not just administratively but also along ethnic and religious lines. Prior to the 1990s, almost every municipality had a dominant majority from one ethnic group in the specific territory (the so-called leopard skin pattern of territorial organization within Bosnia and Herzegovina¹⁵). The territorial split that occurred during the war corresponded with the separation of “minorities” from majorities, with few exceptions. The war that ended in 1995 institutionalized these ethnic differences by administrative organization of the country, providing a Serbian majority to the Republika Srpska, while the Croatian and Bosniak majorities settled in a few cantons within the Federation of Bosnia and Herzegovina. Currently, 80 percent of municipalities are dominated by one ethnic group. The picture below shows municipalities with the data on ethnic majorities as it is today. The municipalities marked in red are areas where Serbs are in the majority, the green marked municipalities are areas where Bosnyaks are the majority and the yellow municipalities are areas where Croats are in the majority. Dashed areas (where there is more than one color) represent municipalities without an ethnic majority *per se*.¹⁶

Figure 2.2
Territorial Distribution of Ethnic Groups in Bosnia and Herzegovina



The most important aspect within the ethnic division of the territory is that elected politicians, even at the local level, follow policies that do not endanger the current state of territorial majority. Thus, it is hard to see even incremental intermunicipal cooperation arrangements initiated by municipalities themselves¹⁷ that cross inter-ethnic or even inter-ethnic boundaries (more on this in the later section). However, the situation must change, especially due to the fact that there is a need for tighter cooperation with regard to the provision of some services or the joint initiative to solve citizens' problems. At least 30 municipalities, created after the war, required some changes in policy related to intermunicipal cooperation. The next table demonstrates territorial and demographic characteristics for the 10 smallest municipalities in the Republika Srpska and the Federation of Bosnia and Herzegovina regarding territory that they cover.

Table 2.8
 Characteristics of the Ten Smallest Municipalities by Area

Republika Srpska				Federation of Bosnia and Herzegovina			
No.	Municipality	Area (km ²)	Population	No.	Municipality	Area (km ²)	Population
1.	Istocna Ilidza	23	16.665	1.	Doboj-Jug	10	4.809
2.	Istocno Novo Sarajevo	44	9.089	2.	Teočak	28	7.045
3.	Kupres	45	478	3.	Doboj-Istok	34	10.623
4.	Donji Zabar	49	2.894	4.	Domaljevac-Šamac	44	5.008
5.	Jezero	65	1.306	5.	Usora	50	7.107
6.	Istočni Drvar	84	60	6.	Dobretići	59	3.243
7.	Istočni Mostar	87	786	7.	Sapna	121	14.370
8.	Stari Grad	90	3.168	8.	Bužim	130	18.300
9.	Vukosavlje	94	5.420	9.	Čelić	136	15.396
10.	Osmaci	95	4.773	10.	Ravno	331	1.854
Total		676	44.639	Total		943	87.755

Source: Republika Srpska Statistical Office and Federation of Bosnia and Herzegovina Statistical Office.

2.2 Trust and Social Capital As the Missing Building Blocks for Cooperation

Robert Putnam, the most popular author on the social capital concept, once said: “*Bonding without bridging results in Bosnia and Herzegovina,*” (Salaj 2008). By this, he wanted to point out that the bridging of social capital is missing, while bonding social capital is, on the other hand, very strong.¹⁸ The political reflection about an absence of bridging social capital was manifested in political life, particularly after the war. Generally, everyone from the same ethnic group has their own “national” political party and most municipal mayors and local government assembly representatives originate from these parties. This hardens cooperation between municipalities where different political (and ethnic) priorities run local policies. The lack of cooperation is the consequence of cultural factors, and the lack of trust between people. Recent findings (Salaj 2008) on social trust in Bosnia and Herzegovina that question the above (Putnam’s hypothesis on the existence of bonding social capital) reveal low levels of trust among people. Generalized trust levels reveal that only 16 percent of the population within the country believes that most people can be trusted. At the same time, 74 percent of those surveyed believe that in a relationship with other people it is necessary to be careful. The slight difference can be found when we take into account the ethnic factor where Croats are most suspicious with only 10 percent believing that people can be trusted (see Table 2.9).

Table 2.9
Level of Trust among People within Ethnic Groups

Ethnicity	Most people can be trusted	In a relationship with other people it is necessary to be careful	Don't know/Not certain
Bosniak	17%	73%	10%
Croatian	10%	76%	14%
Serbian	18%	73%	9%

Source: Sozialer Zusammenhalt in Bosnien und Herzegowina, Friedrich Ebert Stiftung, Sarajevo, 2009.

The one unique response related to Bosnia and Herzegovina and trust is the trust citizens have in government institutions, as well as in social and political institutions (UNDP's Early Warning System Report (quarterly), 2000–2008). General findings¹⁹ reveal that the majority of people are not proud of institutions where they consider themselves the minority with respect to ethnicity, religion or status. This implies a great division within the society that prevents any improvement in cooperation among people. In the matrix below, some aspects of inter-ethnic relations can be seen.

Table 2.10
General Attitudes Among the Main Ethnic Groups

	Percent of full acceptance (March 2008)		
	Bosnyaks	Croatian	Serbian
To live in the same country with Bosnyaks	100	48	37.5
To live in the same country with Croatians	92	100	38.5
To live in the same country with Serbians	90	48	100
To live in the same neighborhood with Bosnyaks	100	46	36.5
To live in the same neighborhood with Croatians	92	100	36.5
To live in the same neighborhood with Serbians	91	43	100
To have a boss who is Bosnyak	100	40	26
To have a boss who is Croatian	90	100	27.5
To have a boss who is Serbian	88	41	100
To have Bosnyaks' children that go to school with your children	100	44	36
To have Croatians' children that go to school with your children	92	100	37
To have Serbians' children that go to school with your children	90	43.5	100
To have member of the family who marries a Bosnyak	100	22	13
To have member of the family who marries a Croatian	28	100	17
To have member of the family who marries a Serbian	27	25	100

Source: EWS statistics, www.undp.ba.

The table above reveals that the level of distrust between different ethnic groups is high. This hardens any formal cooperation arrangement since everybody (especially political representatives) has to be careful with their moves, particularly in relation to other ethnic groups. The level of ostracism is high if particular accepted norms are broken. This implicitly moves policies forward that do not favor cooperation between different ethnic groups, except in cases where the international community and donors are heavily involved.

2.3 Legal Framework for Intermunicipal Cooperation

2.3.1 Entity Laws on Local Self-Government

There are no visible obstacles in the legal system of Bosnia and Herzegovina at the state, entity, cantonal, or municipal level that prohibits, forbids, diminishes, disables or in any way limits the right of municipalities to cooperate with one other through association, enrollment in joint projects, or jointly carrying out common interest tasks (OSCE 2009).

It should be reiterated that Bosnia and Herzegovina have ratified the European Charter on Local Self-Government and that upon ratification, the Charter has supremacy over all domestic legal acts. Article 10 of the convention deals with the issue of cooperation between municipalities and their right to association, and therefore permits the concept of intermunicipal learning and problem-solving and innovation.

Box 2.1

Article 10: Local Authorities' Right to Associate

Article 10

1. Local authorities shall be entitled, in exercising their powers, to cooperate and, within the framework of the law, to form consortia with other local authorities in order to carry out common interest tasks.
2. The entitlement of local authorities to belong to an association for the protection and promotion of their common interests, and to belong to an international association of local authorities, shall be recognized in each state.
3. Local authorities shall be entitled, under conditions that may be provided for by the law, to cooperate with their counterparts in other States.

Furthermore, laws on local government for the two Bosnian and Herzegovina entities establish the right of municipalities to cooperate with each other in greater detail. For example, the Law on local government in the Republika Srpska deals²⁰ with this issue in chapter VII.

Box 2.2

Chapter VII.: Cooperation Between the Local Government Units

Article 93

In performing their duties the local government units shall be entitled to cooperate with one another for the purpose of performing the tasks of common interest.

The local government units shall enter into agreements concerning the forms and methods of cooperation referred to in the paragraph 1 of this Article.

Article 94

The local government units may conjoin to form the Association of Municipalities and Cities of the Republika Srpska to the effect of promoting and protecting their common interests.

The Association of Municipalities and Cities of the Republika Srpska referred to in paragraph 1 of this Article may become a member of international associations of local authorities and work together with the relevant associations of local authorities in the Federation of BiH and abroad as provided by law.

Article 95

The local government units may accede to national or international associations of local authorities **and cooperate with relevant local government units from the Federation of Bosnia and Herzegovina and abroad, as provided by law.**

It is Article 93, Paragraph 2, which through its broad and open wording, leaves space for wide-ranging forms of cooperation between municipalities. In this instance, intermunicipal problem-solving and the provision of some services is the very minimum that they can engage in. As can be ascertained from the above cited article, any form and any method of cooperation is allowed. Furthermore, article 95 clearly allows for such cooperation to take place across entity lines.

A similar situation can be found in the Law on the Local Government Principles of the Federation of Bosnia and Herzegovina,²¹ where Chapter XI deals with issues of cooperation. This chapter states:

Box 2.3

Chapter XI.: Cooperation of the Units of Local Self-Government

Article 50

In performing their duties, the local government units shall be entitled to cooperate with one another for the purpose of performing the tasks of common interest.

The local government units shall enter into agreements concerning the forms and methods of co-operation referred to in the paragraph 1 of this Article.

Article 51

To the effect of protecting their common interests and promoting and improving the local government, cities and municipalities may form association at the level of Bosnia and Herzegovina and the Federation of Bosnia and Herzegovina.

The association at the level of the Federation shall be entitled to:

1. act as a legal representatives of its members before the authorities in the Federation,
2. prepare draft laws and amendments to the draft laws with the aim to improve the law and regulations regulating the work of the units of the local government,
3. provide its opinion and proposals in relation to the allocation of public revenues, in a part affecting financing of the units of local government,
4. establish contacts and co-operation with similar organizations in the country and abroad, and become a member of international associations,
5. Perform other functions in accordance with the statute of the association.

The rights referred to in this Article may be exercised only if the association at the level of the Federation of Bosnia and Herzegovina gathers more than two thirds of cities and municipalities in the Federation of Bosnia and Herzegovina.

It is in Article 50 where, along with the corresponding law from Republika Srpska, sufficient space for the formation of any type of cooperation is created. The law does not explicitly mention the Republika Srpska local government units as the Republika Srpska law does with the ones from the Federation. Such formulation does not mean that cooperation is forbidden, but allowed.

2.3.2 Other Sectoral Legislation Mostly Hinders Intermunicipal Cooperation

As previously mentioned, more than 100 different laws within the Republika Srpska as well as within the Federation of Bosnia and Herzegovina oblige municipalities to use them to run everyday activities (Miovcic 2005). Most of them were taken from the previous system where the municipality was at the center of a communal model and where all services were provided individually, within every local government unit. During the research, some of those laws from the Republika Srpska were analyzed in order to discover whether or not they provide obstacles or encouragement to intermunicipal cooperation arrangements.

*The Law on Public Companies*²²

The law regulates the establishment and management of public enterprises for the Republika Srpska. Article II within the law states that a public enterprise can be established by the Republika Srpska or by local government units in order to fulfill common interest tasks. The focus is on the words “local government unit,” where it is explicitly not stated that several units can be founders of the public enterprise.²³ Up until now, only one example of a functional public company (Public enterprise DEP-OT), organized by several local government units can be found within the Republika Srpska.

*The Law on Enterprises*²⁴

The law regulates the establishment and management of several forms of legal business entities. Article II within the Law states that enterprises can be established by individuals or legal subjects for the purpose of conducting business operations and in order to acquire profit. It does not exclude the possibility for a legal subject to be established by local government units, or their association. It will be seen later that the Association of municipalities of Eastern Herzegovina used this interpretation of the law in order to establish three companies (agencies) in the form of private companies limited by shares (Ltd.). However, this example is unique and we will explain this more deeply later in the study.

*The Law on Fire Protection*²⁵

The law introduces the possibility to organize a joint-entity from two or more municipalities that will be responsible for fire protection. Article 40 encourages intermunicipal cooperation since it states that two or more municipalities can be founders of a territorial fire brigade by joint agreement. However, Article 41 creates ambiguity since it states that the head of fire brigade is appointed by the municipal assembly where the fire brigade resides. Also, the law does not specify any responsibilities for the participating municipalities (finance, management, etc.). This uncertainty related to the management and

financing of the jointly-established body is probably one of main reasons why there is no registered cooperation in this field.²⁶

*The Law on Managing Waste*²⁷

This is the most comprehensive law related to intermunicipal cooperation due to the fact that the law creates a framework for municipalities introducing the principle of regionalism to the creation of facilities. The law on managing waste, introduced to the Republika Srpska in 2002, created many intermunicipal cooperation initiatives and the implementation of the law was backed by heavy support from the World Bank during the creation of a joint sanitation dump and the establishment of joint companies. However, even within the most successful example in this area (Public enterprise DEP-OT), some problems have occurred and this will be elaborated on in later sections.

The list of regulations that have influenced intermunicipal cooperation does not stop here. There are a lot of laws and regulations that recognize only municipalities and no other forms of intermunicipal cooperation arrangements. It should be mentioned that the Law on Property Rights²⁸ was adopted a few months ago. In the law, some aspects of joint ownership and decision-making are established for the first time after the change in political system in the 1990s. It is to be expected that this will move in a favorable direction for future intermunicipal arrangements within the country.

2.4 Economic Incentives from the Upper Level and Donors

Generally, upper levels of government do not promise economic incentives for the conduction of joint tasks and intermunicipal cooperation arrangements. Since the majority of services and infrastructure are tailored for an optimally sized municipality in the previous communal model, the findings are not surprising. As previously stated, the upper level (canton or entity) chooses a rather heavy investment in each municipality without analyzing possible regional problems related to services or infrastructure.²⁹

When examining the intermunicipal cooperation arrangement in countries that share the same legacy—ie, the history of a communal model in former Yugoslavia—one can see that the territorial fragmentation that occurred in the 1990s was a good ally for the introduction of solutions related to intermunicipal cooperation. It was also a good argument for asking for/receiving financial support from the upper level entity or for the joint provision of communal services. For example, the number of municipalities in Slovenia had more than tripled from 1990 until today (62 in 1990 and 212 in 2007).

Box 2.4
IMC in Slovenia

Intermunicipal cooperation is developed on the basis of Law on local self-government. Most of it is the result of shared communal utility infrastructure built during the existence of earlier communities. After the dissolution of municipalities into several smaller ones, public enterprises, which usually manage public utilities, were divided among such municipalities pursuant to legislation on shared property. It thus became/remained a shared enterprise. Joint management is effected through cooperation among representatives of all the municipalities in supervisory bodies of such enterprises. The seat of the company usually stayed in the same municipality where the old seat was. Preservation of a shared management system over public utility infrastructure ensures efficiency and quality of services. Municipalities which decided to leave the shared management system (such as Dobje, Gornji Grad, Vitanje) now have problems securing existing utility services or developing new ones, as they do not have the necessary financial or professional resources. A new form of cooperation has been developed over the past few years on the basis of voluntary decisions by municipalities to merge their administrations to provide better quality of service for the citizens, or to rationalize their operations. Thus, cooperation has been developed in the areas of inspections, urban planning, etc. The state provides financial incentives for the establishment of joint intermunicipal administrative bodies, so that it covers one half of their operating costs. Such bodies may or may not have a legal personality. The state supports the establishment of joint intermunicipal administrative bodies for administrative and professional tasks, as it proved impossible for small municipalities to provide such services with so few employees. The state provides for 50 percent of the total cost of such services, which is favorable and motivates the municipalities to opt for such arrangements.

Source: Block by Block, It's Good to Build Well. Banja Luka: EDA.

The donor and international organization funds have been immense in the last 13 years and they have kept their focus partly on local government issues.³⁰ International organizations and donors have mostly been engaged in the reconstruction of homes, roads, water-supply systems, etc. to help with the disturbing consequences of the 1992–1995 war. The other important aspect on which the international community was focused was the attempt to generate peaceful conflict resolutions with warring neighbors in all aspects of life (providing help to returnees and refugees, support for building multinational communities, etc). There has been no international project focused on the local level in the last 10 years that hasn't had at least one project component focused on the joint cooperation of participating municipalities and their representatives. However, there are only a few examples of concrete cooperation, besides handshakes between municipal representatives or signed Memoranda of Understanding (MoU). Many donors, such as the World Bank's Community Development Project,³¹ gave more weight

to intermunicipal cooperation projects compared with interventions/projects in just one municipality (in terms of providing possible funding or grants). However, there were no examples of joint projects for the building of local roads or communal infrastructure initiated by two neighboring municipalities with their own initiative. The success of the World Bank's promotion of intermunicipal cooperation is more visible in the field of waste disposal. The reasons for success are seen in the accepted mechanism of financing where funds were available only when the joint company was formed by participating municipalities with additional proof tied to the fulfillment of the regionalism and sustainability principle (through the feasibility study).

3. CURRENT INTERMUNICIPAL COOPERATION ARRANGEMENTS

3.1 Handshakes and Lax Contracts

Many intermunicipal cooperation arrangements can exist if all forms of cooperation (occasional coordination and exchange of information, regular consultations, joint projects and the joint provision of service/s) are considered. However, these cases cannot be found in one place, such as a database or a registry.³² The research done within this study has shown that intermunicipal cooperation is based mostly on informal agreements or lax contracts and that decision-making is based on occasional consultations between involved local governments. Only a few examples of IMC, such as the public enterprise DEP-OT or the Association of municipalities in Eastern Herzegovina, established a legal form with formal decision-making mechanisms. The municipalities in Bosnia and Herzegovina are still relying more on upper-level support for the provision of services and not considering cooperation as alternative for the provision of some services.

The size of intermunicipal cooperation arrangement differs, from bilateral agreements to multi-stakeholder arrangements, particularly within the international projects. However, size obviously creates problems with decision-making, especially when multiple stakeholders want decisions to be made on non-unanimous items. Reality puts smaller and weaker municipalities under the pressure of bigger and stronger municipalities. This will be later confirmed in both case studies. Stronger cooperation generally exists between municipalities where there is no dominant player within the arrangement. Although several IMC practices were registered between groups of entities/cantons, stronger voluntary cooperation exists within the same administrative framework (entity/cantons).

Box 2.5 How to Capture the Logic

Initially, the plan was to use regression analysis in order to identify whether there are some patterns which can be interpreted with econometric modeling (based on the sample of 32 municipalities that provided the data). The logit/probit model was used to check the incidence of cooperation with respect to size, budget, existence of communal infrastructure, the year in which the municipality was established and the existence of economic incentives.

The prevailing logic was that small municipalities (in terms of population) are more eager to go into some cooperation agreement with similar rather than bigger municipalities for the provision of services. Also those municipalities with smaller budgets, and no communal infrastructure, that were created after the war are more eager to be involved with cooperation. The existence of economic incentives would also have an effect on the incidence of cooperation. This model was later expanded with respect to ethnic majority within a municipality.

The results have shown ambiguous logic where only economic incentives hold within the model. Other aspects were not significant according to defined criteria and the sample used.

The rest of this section focuses on findings gathered during research.³³ All practices were examined in terms of the number of municipalities involved, topic (scope) of cooperation, source of financing, decision-making, form of cooperation, the presence (or lack of) inter-entity/regional cooperation, and description of the current status. More on examined practices can be seen in Appendix 1, but the summary of 17 analyzed practices throughout Bosnia and Herzegovina with approximately half of the municipalities involved can be found in Table 2.11.

Table 2.11
Statistics of Analyzed IMC Arrangements

Characteristic	Description of IMC	Number of initiatives
Number of municipalities involved	2 municipalities	3
	3 municipalities	3
	4 municipalities	2
	5 municipalities	4

Source: Research conducted during preparation of the study (Annex 1).

Table 2.11 (continued)
Statistics of Analyzed IMC Arrangements

Characteristic	Description of IMC	Number of initiatives
Topic (scope) of co-operation	Joint project	10
	Joint provision of single service	5
	Joint provision of several services	1
	Occasional coordination/Exchange of information	1
Source of financing (more than one can be used)	Outside grant financing for establishment	4
	Outside grant financing (for the project purpose)	10
	Fees/charges for jointly provided services	5
	Occasional contribution of involved local governments	5
	Regular contribution of involved local governments	1
Decision making	Decisions made on a regular basis by meeting of involved local governments with majority vote	6
	Occasional consultations of involved local governments	9
	Board/council of the “association,” the same number of representatives for each municipality	2
Form of cooperation	Joint (Intermunicipal) Company	5
	Contract among local governments	5
	Informal agreement	6
	Public Law Body (Legal entity)—multi purpose	1
Administrative framework	Inter-entity/regional cooperation	8
	Within entity/regional cooperation	9
Description of current status	Ongoing	7
	Problems in decision making	6
	Problems in financing	2
	Finishing	3

Source: Research conducted during preparation of the study (Annex 1).

Generally, the number of municipalities involved within intermunicipal cooperation varies from two to three; when the cooperation represents a joint project of six or more, it is usually to provide single services (See Annex 1 for description). No permanent

institutions or cooperation forms are made between two or three municipalities for projects such as joint waste collection or water supply, although the previous analysis showed that more than 30 municipalities cooperated in fulfilling basic competences.

Most analyzed intermunicipal cooperation arrangements are made in the form of joint-projects while the joint provision of a single service is characteristic in cases where donors introduce the regional concept. The regional approach is typical for waste disposal, which corresponds to the World Bank approach and regional clauses within laws on waste management in Bosnia and Herzegovina. Other services (water supply, sewage, tourism promotion, etc.) are usually the subject of the IMC arrangement in the form of a joint project. The joint provision of several services was seen in the creation of the Associations of municipalities of Eastern Herzegovina. One analyzed tourism and the development of the project was realized through occasional coordination and exchange of information.

Most intermunicipal cooperation arrangements had outside financing schemes, either for establishment or for support of regular activities. The previously mentioned lack of finances within local governments shows that most municipalities do not use their scarce resources for joint purposes or joint projects within IMC arrangements. Fees for services are generally introduced within the waste disposal regional initiatives, charging local communal enterprises some fixed fee for waste disposal, while citizens pay for these services directly to local communal enterprises for waste collection and disposal within the same service. Also, there is the occasional financial contribution from involved local governments in some intermunicipal cooperation arrangements, but usually these represent an agreed portion in order to get outside financing. Only one practice, the Association of municipalities in Easter Herzegovina, shows a regular contribution of local governments to intermunicipal cooperation in the amount of three percent of their budgets.

The majority of analyzed intermunicipal cooperation arrangements have decision-making systems based on the occasional consultation of involved local governments. More permanent forms are seen within the regional waste disposal companies, organized through regular meetings of involved governments with majority votes. The most advanced form of decision-making is seen in the case of the Association of Municipalities of Eastern Herzegovina, in the form of the joint council with delegated members from involved local governments.

When looking at the form of cooperation, the most prevalent arrangement is related to the informal agreement between participating municipalities. Usually, the signed MoU within certain donor projects represents it. Contracts between local governments are signed where the mutual obligations within joint projects (construction of roads or water supply system) need to be elaborated in depth. It can be noticed that contracts between local governments are more typical when local governments provide some additional funds in realization of the joint project. The joint intermunicipal company is

the approach used in regional waste disposal but it should be mentioned that only a few of them experience no problems in decision-making. Since associations of municipalities are usually founded with broader and more permanent purposes, they are registered as lawful public bodies, i.e., legal entities, with some independent competences agreed in their statute. Participating municipalities through the association's council constantly monitor these bodies.

By examining intermunicipal cooperation cases, it appears that administrative boundaries do not create big problems related to intermunicipal cooperation. Eight out of seventeen analyzed cases represent intermunicipal cooperation that couples municipalities from different entities (Republika Srpska and the Federation of Bosnia and Herzegovina) or different regions. However, all of them are initiated and heavily financed from outside, i.e., by a donor community. These arrangements are usually in the form of informal agreements or multilateral contracts with the precise definition of all responsibilities within defined activities. The more permanent institutions between municipalities from different entities or regions, such as joint companies in the area of waste disposal, show that problems occur even during the phase of their establishment.

3.2 Public Enterprise DEP-OT

Intermunicipal cooperation in the form of a joint public company can be seen through the example of the public enterprise DEP-OT. Public enterprise DEP-OT was established in March 2003 in order to reorganize and (re)build a regional sanitation dump in Ramici, Banja Luka, and had heavy initial support from the World Bank providing favorable loans for initial equipment and facilities. The government of Republika Srpska provided guarantees for the loan taken by DEP-OT.³⁴ The enterprise is accountable for its work to founders (the city of Banja Luka and the municipalities of Gradiska, Prnjavor, Laktasi, Srbac, Kotor Varos, Celinac, and Knezevo) while it is governed through a shareholders' assembly, supervisory board, and management.

The prevailing reasons for the foundation of this enterprise was to reorganize and rebuild the regional sanitation dump in Ramici, based on accepted standards from the Law on Waste Management in Republika Srpska,³⁵ as well as EU standards and regulations related to waste disposal. It was also established in order to improve the current situation in this field by removing unprotected dumps, conducting public consciousness-raising and educational campaigns for citizens about the needs for waste selection, and to provide an infrastructure for separate waste disposal through the introduction of primary recycling (DEP-OT's statute). As functions, waste collection and waste disposal were separated, with waste collection remaining the activity of municipal communal enterprises.

The collection and disposal of waste has been a municipal competence for decades in Bosnia and Herzegovina.³⁶ Prior to 2002, due to joint function wherein waste collection and disposal were not separate, every municipality had a local communal enterprise that collected and disposed of waste, among other things. The separation of waste collection from waste disposal was accomplished under the new legal framework and with heavy financial support from the World Bank. Due to the fact that many municipalities did not have well-established places for waste disposal, which hindered progress toward the EU standards and requirements related to waste management, the Republika Srpska government produced the new law on waste management that has provided a basis for the regionalization of this function.

Republika Srpska's Law on Waste Management introduces the necessity for inter-municipal cooperation via the principle of regionalism (Article 5).

Box 2.6

Article 5—Law on Waste Management (Republika Srpska Official Gazette 53/02)

Article 5

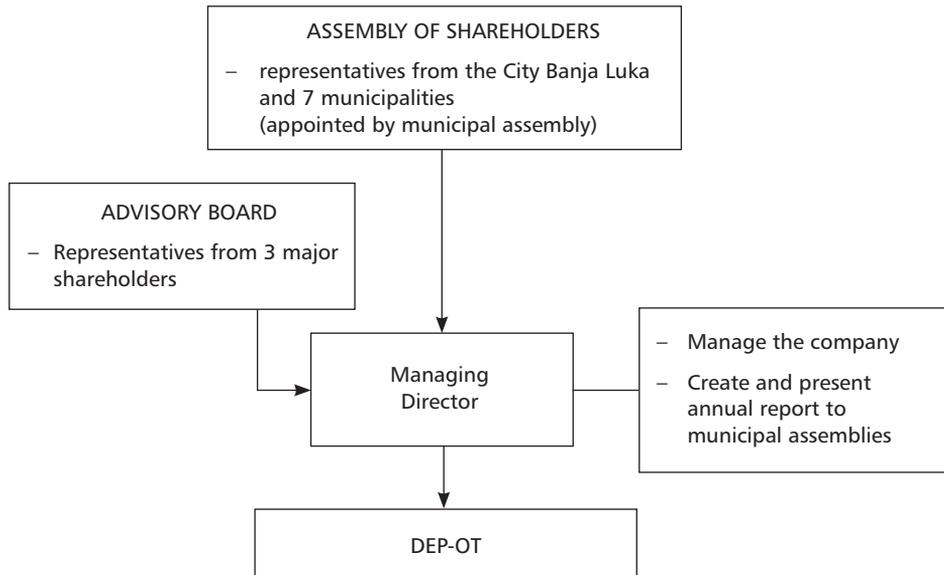
Principle of regionalism—it is required to construct equipment and buildings for waste treatment and disposal in order to comprise regional needs and to provide the sustainability of these facilities.

The Law on Waste Management does not prescribe standards related to the region, nor force municipalities into undesired arrangements. The principle of regionalism simply gives direction to municipalities to organize themselves into rational regions for the establishment of waste disposal facilities. All details related to regionalization of waste disposal are a matter of decision-making among municipalities.

3.2.1 The Structure of the Public Enterprise

Figure 2.3

A Waste Management Public Enterprise in Banja Luka



The Assembly of Shareholders

The resolution on which DEP-OT was established is the joint contract on establishment of the public enterprise, concluded between assemblies of the participating municipalities and the city of Banja Luka. All shareholders have paid their shares according to the contract on the establishment of enterprise. Initially, nobody held a majority (although Banja Luka had 50 percent of ownership) and decisions were won with majority vote. The shareholders assembly consists of representatives participating in local governmental units. However, after an increase in capital in 2007, Banja Luka became a major shareholder, with 60 percent of votes. This has created some problems that will be explained later.

Table 2.12
Shareholders in DEP-OT

City/Municipality	Ownership share in percent (2003)*	Ownership share in percent (2008)
City of Banja Luka	50	60
Gradiska	14	14
Prnjavor	10	10
Laktasi	8	8
Srbac	7	2
Kotor Varos	4	1
Celinac	4	4
Knezevo	3	1

Source: DEP-OT financial reports 2008.

Note: * originally, the shares were dispersed according to percentage of population within the region.

The Advisory Board

The advisory board members are persons from the enterprise's three biggest shareholders (Banja Luka, Gradiska and Prnjavor). They meet occasionally and develop business policy with DEP-OT's executive director. Their role is also to monitor the implementation of joint decisions made by municipal assemblies and the executive director. However, during the examination of this intermunicipal practice, interlocutors were not in a position to tell either why this function exists or their precise competences.³⁷

Executive Director

The enterprise's executive director is appointed by DEP-OT's shareholders' assembly and he is in charge of business policy and everyday operations. The executive director does not have a mandate or represent the enterprise's professional position.

Employees

The enterprise has 37 employees. Out of that total, 34 represent full-time employees and are paid from the enterprise's own sources. The three additional employees are the experts connected to the World Bank due to the fact that the enterprise was established with heavy finance from their side. It is not clear how these experts will exist within the company's further development.

3.2.2 Financing of DEP-OT

The main sources of revenue (95 percent) are fees that are charged to legal entities that dispose of waste at the dump under DEP-OT management. The other sources of revenue are related to individuals or businesses that bring waste to the dump. The initial funding of the company was secured from the World Bank through a credit line aimed at waste management improvement in Bosnia and Herzegovina. The public company DEP-OT received a 5 million USD loan under the IDA conditions for investment in equipment,³⁸ facilities and machines where the Republika Srpska government provided guarantees for the loan.

Box 2.7

Not in My Backyard

Aside from necessity, the prevailing reason to abide by new regulations and the Law on Waste Management is reflected in an answer from the DEP-OT director. When asked what motivated municipalities to participate in the enterprise, he answered, "Not in my backyard." Waste disposal is a very controversial local government function. Citizens do not want to have waste dumps in their neighborhoods. Thus all founders were thrilled when DEP-OT was established and the regional waste disposal location was set in Ramici, near Banja Luka. The dump in Ramici was previously used only for the waste disposal needs of Banja Luka.

DEP-OT is not directly accountable to citizens nor can citizens influence the enterprise's business policies (individually or through elected council members). The business policy is completely detached from the participation of citizens and even some municipal representatives due to the fact that the executive director communicates DEP-OT's policies (including the price for its services) directly to municipal assemblies. The policy can be changed only by the city of Banja Luka, as a major shareholder. Citizens pay services to their local waste collection companies, calculated by their own operational efficiency, business policy and financial needs. The prices set out by DEP-OT are universal and do not take into account the transportation cost of local communal garbage collection companies to the dump. This creates problems since citizens in different municipalities pay different prices for waste collection and disposal. Though there are no official records of the attempt, some municipalities tried to change this practice. However, there is record that some local communal companies stopped disposing of their waste at the dump in Ramici.³⁹

3.2.3 The Basic Characteristics of the Region

The territory of the region covered by DEP-OT services represents almost 19 percent of the total territory, containing 31 percent of the total population in the Republika Srpska. The areas covered are fully within the Republika Srpska and represent the country's most developed region, with sound infrastructure and services. The joint municipal budgets amount in total to around 243 million KM, which represents 42 percent of total local government expenditure for the year 2007. The main source of revenue is indirect taxes, coupled with grants and loans from the Republika Srpska level.

Table 2.13
Basic Characteristics of Municipalities Involved in DEP-OT

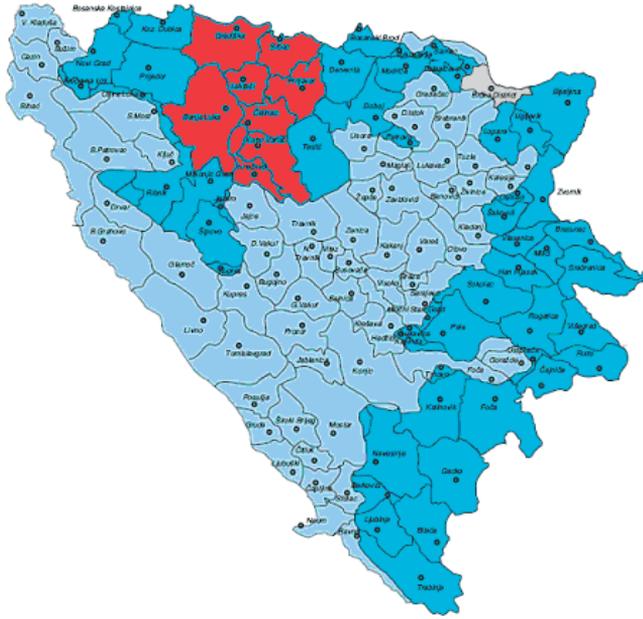
	Population	Territory (km ²)	Budget* (2007)	Waste disposal collected from local communal companies (in tons)	Paid fees (KM)
Banja Luka	224,647	1,239	143,865,867	66,222	1,324,440
Gradiska	61,440	762	33,725,694	10,093	201,860
Prnjavor	49,821	630	12,335,285	7,630	152,600
Laktasi	40,311	388	26,162,646	5,097	101,940
Celinac	17,536	361.8	9,573,880	215	4,304
Kotor Varos	20,025	560	4,954,611	176	3,520
Knezevo	12,278	320	2,354,423	172	3,440
Srbac	24,739	453	10,362,837	247	4,940
Total	450,797	4,714	243,335,243	89,852	1,797,044

Source: Municipal budgets, DEP-OT financial statements, Republika Srpska Institute for Statistics.

Note: * in Convertible Marks (KM). 1 KM ≈ 0.51 EUR.

In 2007, DEP-OT collected the biggest amount of waste from the city of Banja Luka with KM 1.33 million charged for those services (almost 74 percent). Other municipalities participate at significantly lower levels; some participate minimally if we consider the size of their territory and population. The latest development related to the ownership structure (wherein Banja Luka became the major shareholder) and the financial situation in some municipalities created problems when local communal enterprises and municipalities stopped disposing of their garbage at DEP-OT's premises. In order to maintain the same price for their services related to waste collection and disposal, some municipalities closed their eyes in reestablishment of new/old wild waste dumps in their territories.⁴⁰

Figure 2.4
Municipalities That Established DEP-OT (marked in red)



3.2.4 Main Challenges

Although initially seen as a good practice related to intermunicipal cooperation, the IMC arrangement of waste management needs considerable improvement. The legal framework on waste management in the Republika Srpska (and the Federation of Bosnia and Herzegovina) coupled with financial incentives provided by the government (with World Bank support) created a sound base for municipal cooperation in this field. However problems occurred when DEP-OT detached itself from the regional aspect of the waste management problem and became an enterprise whose business policy is based on maximizing profit. Although the aim of DEP-OT was to improve the waste management situation by removing wild dumps, its business policy does not fall in line with that intention.⁴¹ With this in mind, the next period of challenges concern:

- A change in the decision-making process via improvement related to the minority vote. Municipal mayors and representatives from municipal assemblies with whom the issue has been discussed are not requiring unanimity voting, but the possibility to influence business policy with respect to the problems of their

municipality. For example, some problems could be solved by introducing representatives from municipalities with a small portion of shares as members of the advisory board.

- The creation of a reloading station from which DEP-OT would accept part of the expenses related to transporting waste from that reloading station to the main dump in Ramici. However, it seems that this will be problematic since DEP-OT management does not expect such an investment and believes such costs should be charged to the municipalities. Since there is a problem with the majority vote, where Banja Luka has 60 percent of all shares, and where decisions are brought about in respect to the majority, the current advisory board has no incentive to change their policy related to the reloading stations.
- The improvement of the triangle relationship within the local communal enterprise for waste collection, DEP-OT and the municipality, with special focus on improving accountability to citizens. The citizens require quality services at reasonable prices and due to the fact that this is a solely municipal competence, municipalities have to initiate improvement in their relationship with local communal companies that are state-owned as well as with the public enterprise DEP-OT.

3.3 IMC in the Region of Eastern Herzegovina

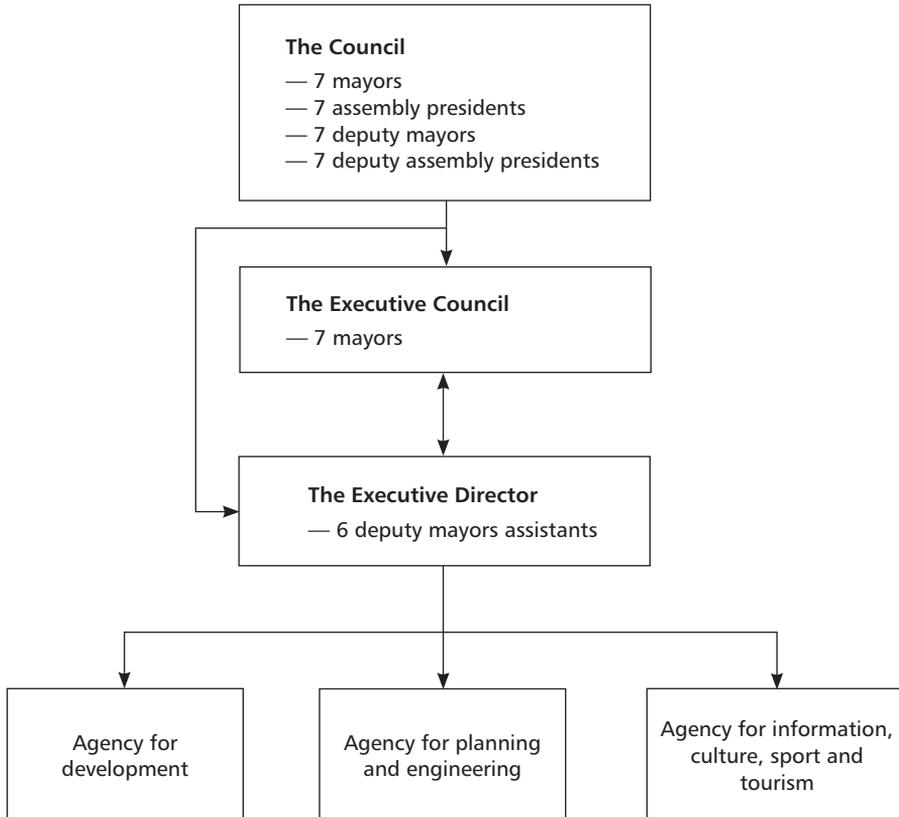
The agreement on intermunicipal cooperation between the municipalities of Trebinje, Nevesinje, Gacko, Bileca, Ljubinje, Berkovici and Istocni Mostar in November 2005 created an association of Eastern Herzegovinian municipalities. It is a voluntary association of local government units accepted by the municipal assemblies and signed by municipal mayors.

The aim of the association agreed by its members is:

- Development, protection, promotion and improvement of local governments
- Cooperation and connection of municipalities in achievement of common goals
- Realization of mutual projects (development from regional projects, improvement of road infrastructure, improvement of civil protection capacities, regional economic development)
- Improvement of public institutions and social groups (strengthening the institutional network in the area of culture, sports and media; environmental protection, and the establishment of common institutions and agencies).

3.3.1 Structure of the Association of Municipalities

Figure 2.5
The Association of Municipalities in Eastern Herzegovina



The association assembly is called the council, comprised of municipal mayors, deputy mayors, presidents, and vice-presidents of the municipal assembly (for a total of 28 members). The president and vice-president of the council are chosen from the poll of municipal assembly presidents at six-month periods. Municipal mayors (seven of them) are members of the executive council. The executive council has its own president and vice-president who are chosen at six-month periods, and the president of the executive council cannot be from the same municipality as president of the council. The executive director is chosen from the deputy mayors and the others represent her assistants. The executive director and the executive council supervise the work of three common agencies:

- Agency for development;
- Agency for planning and engineering;
- Agency for information, culture, sport and tourism.

The association council meets at least twice a year and it decides on: a work plan and program, the statute, acceptance of the annual report, a financial plan, members of the executive council and the executive director, honoree members, etc. The decisions can be made if a majority is present, and with majority vote.

The executive council is responsible for conducting determined tasks and achieving goals within the scope of an agreed aim. It decides on: a work plan and a financial plan, programs and projects of common interest, priorities within programs and projects, modes of financing, the executive director, proposals and initiatives to other institutions, and other bodies (commission, boards, etc.). The executive council has a joint secretariat for conducting administrative, professional, organizational and technical assignments relevant to its work. The decisions are made with unanimity of all members intact.

The executive director is responsible for public representation and everyday operation within the boundaries determined by the executive council. She organizes the professional and technical support to the council and manages supervision of joint projects. She is responsible for regular reporting to the council and to the executive council. The mandate of the executive director is linked to the mandate of the executive council.

The joint agreement between municipalities determines the minimum level of funds necessary for financing programs and projects of common interest in the amount of 3 percent of their municipal budgets. It also determines that they will work jointly on attracting donor funds and grants from upper-level sources in order to realize jointly agreed projects. This joint agreement was breached on a few occasions in previous periods, not because municipalities didn't have the funds but mostly because of political clashes within the associations.

Box 2.8
Political Interference in IMC

The prevalent reason for establishment of the Association of Municipalities in Eastern Herzegovina was seen as a reaction to continuous neglect on the part of Republika Srpska. Although established with six municipalities (out of seven) where the majority of mayors were from the same political background as the upper level elected government officials, the problems manifested as a notable lack of support due to mayors' isolated positions in relation to the upper level. Eastern Herzegovina is almost 400 kilometers away from the capital of Republika Srpska and receives less support from the upper level in terms of the financial development of municipalities. The municipalities thought their voices would travel farther if they shouted together, so to speak. In an interview with one mayor he repeated the old saying, "If you have one stick, it is easy to break it, but if you have seven adjoined it's much harder." At the time of the association's establishment, the Republika Srpska government did not interfere, perhaps because of the fact that those six mayors were members of the same party as the upper level government. When the upper level government changed in 2007, problems occurred in the form of a lack of financial contribution from the municipality Trebinje, the most developed and biggest municipality within the association. The reason for Trebinje's withholding of financing was seen as the result of pressure from the upper government level upon the local mayor to prevent further development of the association and their agencies in the forthcoming local election year. This was not publicly announced, but mayors within the association suspected that this was the case.

3.3.2 The Basic Characteristics of Eastern Herzegovina

The territory of Eastern Herzegovina represents 16 percent of the total territory of the Republika Srpska, with only 5.5 percent of its population. The area is devastated due to continuous neglect from the upper level in terms of development.⁴² The former Yugoslavia had previously provided heavy support to this part of Bosnia and Herzegovina by creating business subjects and state institutions such as military facilities within this area. The breakdown of socialism and the new administrative framework that emerged after the war (1992–1995), left this area to cope with their problems alone and with limited funds for investment in the development of infrastructure. The joint municipal budgets amount in total to around 38 million KM, which represents 6.5 percent of total local government expenditures for 2007. Although the budget is almost proportional to the population, the huge territory and unfriendly terrain requires more funds for maintenance and the construction of basic infrastructure. The main sources of funding within municipal budgets are reimbursements for the use of natural resources, aside from the indirect taxes received from the upper level.⁴³ Financing of the association

and its agencies is determined within the mutual agreement of municipalities and the association's statute, in the amount of KM 1,135,520.

Table 2.14
Basic Characteristics of Municipalities in the Association

	Population	Territory (km ²)	Budget* (2007)	Financial contribution to the association (3 percent of budget)
Berkovici	2,799	270	1,285,731	38,572
Bileca	12,282	633	6,201,956	186,059
Eastern Mostar	794	88	184,150	5,525
Gacko	10,300	736	8,561,867	256,856
Ljubinje	4,258	321	1,597,193	47,916
Nevesinje	18,955	1,040	4,647,382	139,421
Trebinje	31,299	858	15,372,373	461,171
Total	80,687	3,946	37,850,652	1,135,520

Source: Republika Srpska Institute for Statistics, Republika Srpska Ministry of Finance, Municipalities.

Note: *in Convertible Marks (KM). 1 KM ≈ 0.51 EUR.

According to the research conducted, the majority of funds in previous periods were spent on the renovation of premises and the operational costs of the association and its agencies. The tangible results are also seen in the publishing of a joint newsletter and Internet portal where all relevant information for Eastern Herzegovina and its municipalities can be found. The newsletter is published under the auspices of the Agency for Information, Culture, Sport, and Tourism (KIST), in the town Nevesinje. Two other agencies are placed in the towns of Bileca, the Agency for Development (ARIH); and in the town Trebinje, the Agency for Planning and Engineering. A lot of effort and financial funds were spent in order to make the association and agencies visible to the public. The few projects pertaining to the promotion of potential tourism were launched through several initiatives (EU IPA, Republika Srpska Development program, etc.). However, it is evident that neither the upper level nor the donor community wants to support the association, only individual municipalities.⁴⁴

some tax could be more appropriate. By using a new scheme, the contribution will correspond more to the number of inhabitants and be more proportional to the particular municipality's size.

- Additional funds related to projects and programs of the association and its agency need to be collected from various sources. The ARIH was actively involved in a couple of events (fairs, cross-border projects with Croatia, etc.) that presented some potential for Eastern Herzegovina. These potential opportunities were presented as possible projects in the areas of tourism and energy but still lacked external support from upper level donors. The story of seven municipalities gathering in mutual provision of several services would be praised in other parts of Bosnia and Herzegovina. However, the current cooperation arrangement does not fit into a “proclaimed” European region (as per the EURED project) that is heavily politicized and still questioning administrative boundaries within the country.
- Accountability to citizens has to improve. Since the association's agencies have taken some competencies from the local level,⁴⁹ their work needs to be more transparent and public. The association's statute and other documents articulate this aspect that needs to be further elaborated through practical actions. It means that coordination between municipalities has to improve in order to adjust local government statutes and provide new mechanisms for participation. The most important reason for this can be seen in the fact that the association of cities and municipalities of Eastern Herzegovina was ranked near last in a list of institutions whom citizens trust.⁴⁶ Also, the association of municipalities has to spend more time explaining to citizens the association and its agencies' purposes and aims in order to maintain the initial support that helped establish the association. According to a survey conducted in 2006, 73.3 percent of citizens see establishment of the association as something positive in Eastern Herzegovina. At the same time, 12.8 percent of citizens were not familiar with the initiative.⁴⁷
- The role of municipal council members within the association's council will depend on the general position of local council members and local assemblies in Bosnia and Herzegovina. It is perceived that more effort must be shown from their side in order to create a better framework for cooperation in terms of accountability and transparency. However, the most important players are seen to be the municipal mayors with their role in supporting further development of the association.⁴⁸

4. IMPROVING THE IMC FRAMEWORK

4.1 Minimal Territorial Changes with a “Reduction” of Competences

The start of this paper on IMC already conducted activities within the project, “Introduction of multi-type units of local government.”⁴⁹ The main findings within the previous two publications⁵⁰ are seen in the fact that the most favorable options consist of minimal territorial correction (known as the “keep and improve option”) in both Bosnia and Herzegovinian entities. Territorial fragmentation (creation of smaller municipalities in order to improve local democracy and bring local government closest to the citizens) and territorial amalgamation (with respect to reduction of unit costs, coherent local economic planning and simplification of allocation of resources and grants)⁵¹ are not seen as favorable options from both sides, municipal leadership (mayors) and decision makers (the entity’s assembly representatives).

Republika Srpska’s Spatial Plan until 2015 provides the elements for the “keep and improve” option. The application of criteria such as population size, population density, commercial potential, technical and social infrastructure, implies that the three present municipalities in Republika Srpska do not satisfy the minimum prerequisites. This option is confirmed through the Republika Srpska Local self-government development strategy, accepted by the Republika Srpska National Assembly session on June 22, 2009. The application of the same criteria as in the Republika Srpska case (population size, population density, commercial potential, technical and social infrastructure—with modified values), for minimal territorial changes in the Federation of Bosnia and Herzegovina, would lead to the abolishment of five municipalities that merge with larger neighboring municipalities (Bijelic 2008). However, there is currently no clear political will to go in the same direction as the Republika Srpska.

The implementation of the territorial corrections would probably mean a reduction in the number of Bosnia and Herzegovina municipalities from 142 to 134; however more than 20 municipalities would probably still be in a state of urgency related to fulfilling basic competences. As previously mentioned, nowadays municipalities perform only those competencies for which they have sufficient resources and which their municipal leaders see as priorities. That is a stringent logic derived from the monotype categorization of municipalities in situations of chronic financial deficiency. Nevertheless such behavior puts poor and undeveloped municipalities in at the mercy of the central authority that fully finances their budget and has discretionary powers in the allocation of resources intended for their very development and capital investments. Introduction of the multi-type model of local government would allow undeveloped and poor municipalities to have a reduced scope of original competencies, whereas other competences, those essential for normal life in those municipalities, would be directly

assumed by the state or through the intermunicipal cooperation. This solution does not imply transferring the competences to the upper level but it represents the incentive to create joint administrations to provide several services. The Republika Srpska Local Self-government Development Strategy implies changes in local government regulation that will be implemented beginning in 2011.

4.2 Options for IMC Improvement

The policy options related to improvement of voluntary cooperation arrangements are not numerous according to previous analysis. The first option is related to the status quo, where processes within this area will be ad-hoc and under the influence of projects initiated outside, at the upper level or donor community, with some exceptions as can be seen in the case of the association of municipalities of Eastern Herzegovina. This is not a satisfactory option if we consider that almost 30 municipalities struggle with fulfilling their present competences and need more resources in order to provide funds for progressive development. However, this is the favored option within municipalities that think the upper level will provide them with enough money for individual development.

The second option is related to changes in legislation (be it minimal change or the creation of a Law on IMC) that will, jointly with ad hoc economic incentives, create new impulse for the intermunicipal cooperation arrangement with respect to regionalism and sustainability.⁵⁶ This is not a simple redrafting of the law but a changing of the logic previously accepted in the communal model of the former Yugoslavia where municipality was seen as a basic provider of all local communal services. The existence of institutions such as the law creates the possibility of sanctioning opportunistic behavior. Agreements and commitments can be made legally enforceable. Consequently, institutional integration makes agreements and commitments credible: transactions take place under the shadow of the law (Rooks *et. al* 2000).

Finally, the third option consists of radical moves from the upper level (among decision makers related to local government status) where legal changes will be coupled with economic incentives or even a portion of costs covered for the services provided through the IMC. The new standards, derived from sectoral laws, will force municipalities to jointly provide some services with respect to rationality and efficiency. This option, coupled with the current state of social trust within the country, could initiate further instability in the short run but it can also represent a new start for inter-ethnic relationships among local governments in the long run. The extensive interactions between different municipalities, especially with different ethnic majorities, within the proper legal framework can influence an increase in social capital. Here, the intensity of mutual interactions through common interest (water supply, sewage systems,

licence provision, etc.) will have a rather positive effect on current reform processes and better understanding between ethnic groups. For more on viable policy options, see the next table.

Table 2.15
Policy Options to Improve IMC

	Policy options		
	Status quo	Improving legal framework	Improving legal framework + economic incentives
The effectiveness of the policy ▪ No. of municipalities involved	Ad hoc	Slight increase in number	All municipalities
The effectiveness of the policy ▪ No. of services provided	Ad hoc	Slight increase in number	All services with respect to joint interest
Influence on social capital ▪ The general level of trust among people	∅	Framework for bridging +/- in the short run	Increase of the social capital due to intensity of mutual interactions (+++)
Influence on social capital ▪ The level of trust among different ethnic groups	∅		
Cost reduction ▪ Average cost per user of service	Ad hoc	Slight improvement	General improvement
Cost of the policy	∅	Reduction of costs for service provision	Significant increase of transfers/funds from upper level Significant reduction of costs for service provision
Current capacity for policy implementation	Ambiguous	External support needed	New capacity (technical and financial) need to be created
Acceptability ▪ Citizens	∅	+	++
Acceptability ▪ General politics	+++	+	+/-
Support to current reform processes ▪ No. of decentralised services	Low	Low/moderate	Moderate/high

Defined within the Republika Srpska government in their strategy agreement, the new course of the multi-type model of local government units represents a critical point for introduction and promotion of intermunicipal cooperation arrangements. Although legal solutions within the current Law on Local Self-Government do not present obstacles for intermunicipal cooperation, they should further explain the possibility of cooperation in fulfilling competences. Also some sectoral legislation needs to be updated in order to provide a more clarified argument for intermunicipal cooperation. The preconditions are seen in the detailed study of how much every competence costs per capita.⁵² This could be a sound base on which to establish the allocation of resources and a transferring system in order to further promote intermunicipal cooperation.

As previously seen, economic support from the upper level and donors provide strong incentives for municipalities to realize in providing services to citizens. The cultural obstacles to cooperation, which are reflected in political life, will not be easy to overcome in the short run. However, strong and persistent approaches coupled with the announced regionalization will probably increase the number and scope of intermunicipal cooperations within the Republika Srpska, and Bosnia and Herzegovina.⁵⁸

The situation is not so clear in relation to policy options in the Federation of Bosnia and Herzegovina, since the Law on local-self government principles (2007) has not been implemented fully.⁵³ The reasons are twofold—the favoring of for centralization in some locations as well as ethnic clashes between Bosnians and Croats. The legal solutions that will further boost IMC would have ambiguous effects since there are possibilities that initiative will be politicized. It can be said that the current institutional set-up provides enough space for intermunicipal cooperation, at least within the provinces. Thus, the more favorable policy option can be seen in the provision of heavy economic incentives for cooperation among municipalities (within province and between municipalities from different regions and entities if initiatives occur). The Law on intermunicipal cooperation can be introduced after solidifying strong practices in the form of either an update of the current Law on local government principles or via the creation of a new Law on intermunicipal cooperation.

*Box 2.9***IMC Already on the Republika Srpska Government Agenda**

The government of Republika Srpska has accepted the Local Self-government Development Strategy 2009–2015, wherein special focus has been given to intermunicipal cooperation. Here are abstracts from the Focus and SWOT analysis within strategy.

Vertical orientation of municipalities—towards government and entity institutions—is considerably stronger than horizontal—cooperation with municipalities they shared some problems with and could join resources for more effective resolution of problems. Municipal management, especially of weaker municipalities, almost totally relies on assistance from the Republika Srpska Government and the Republic’s institutions. Despite the fact that the law on local self-government prescribes intermunicipal cooperation for the purpose of performing competencies, intermunicipal cooperation is more an exception than a rule. There are sporadic cases of cooperation in the field of water supply systems while it takes a lot of effort to establish methods of cooperation in formation of regional waste dumps even with strong international assistance. Cooperation in the field of environmental protection is also far from satisfactory since most of the rivers serve as sewage collectors while municipalities are building their water production factories on the same rivers. One of the rare “self-initiated” projects of intermunicipal cooperation is the Association of Municipalities of Eastern Herzegovina, which is still not operational at the envisioned level.

Strengths

- There are a number of Republika Srpska institutions which function according to regional principle.
- Conducted high-quality analysis of situation and possibility of regional (self) organization.
- Municipalities are normatively enabled to connect with other municipalities, in order to better execute local competencies.
- Positive examples of intermunicipal projects, initiated by the municipalities and/or donors.

Weaknesses

- Insufficient municipal interest for intermunicipal cooperation and regional (self) organization.
- Opportunism of the municipal management, which spends more time and energy in obtaining direct assistance from entity level and attitude of the entity level which supports such opportunism and dependence.
- Political differences are very often a reason for absence of inter-municipal cooperation.
- Undeveloped capacities for managing intermunicipal projects, which are normally complex, difficult and expensive.
- Lack of financial instruments for financing intermunicipal cooperation.

Opportunities

- International support to intermunicipal and cross-border cooperation.
- Council of Europe initiative for improvement of intermunicipal cooperation.
- Creating new economic motivation through the Republika Srpska Development Fund and Investment Development Bank, stimulating intermunicipal projects.
- More flexible categorization of responsibilities (for example: competences that are carried out independently by each municipality, and intermunicipal responsibilities that could satisfy the wider region, while formally retaining the local character.
- Creating a “critical mass” of good intermunicipal examples and their promotion.

Threats

- Negative experiences with economic regionalization of Bosnia and Herzegovina promoted by European Commission in Bosnia and Herzegovina.
- Unwillingness of local and entity authorities to renounce a part of responsibility and resources.
- Strengthening dependency of local and Intermunicipal relations towards entity government.
- Politicization of relationship between entity and local governance.

Source: Republika Srpska Local Self-government Development Strategy 2009–2015, adopted by Republika Srpska National Assembly, June 2009.

The main challenges within a new approach toward intermunicipal cooperation in Bosnia and Herzegovina, also seen cases of current intermunicipal cooperation arrangements analysed in the previous chapter, are:

- Creation of IMC databases.
- Strengthening arrangements in terms of legal power and binding mutual interest.
- Provision of economic incentives for intermunicipal cooperation.
- Drafting financial schemes for IMC financing.
- Institutionalization of the decision-making process within complex IMC arrangements.
- Increase of accountability of IMC services to citizens.
- Improvement of skills and knowledge to manage complex relationships within intermunicipal cooperation.

The cultural aspect that prevents cooperation among people is still one of the greatest obstacles for intermunicipal cooperation in Bosnia and Herzegovina. The ethnic relationships, coupled with the low level of democratic values, will effect politics (at all levels) in the next period. If properly introduced, IMC can be seen as a new window of opportunity towards bridging social capital. It should be kept in mind that the IMC has its opposition also: people fear job losses if services are combined or control is lost. Thus, the approach should be very cautious in order not to incite ethnic or political arguments that do not favor cooperation. The citizens' roles are crucial but only after some period of time, when they start to consider the possibilities and benefits of the intermunicipal cooperation arrangement in the provision of services.

There are several players that could have supportive roles in the improvement of the country's IMC arrangement. All relevant stakeholders within both entities can be seen in the following table.

Table 2.16
Main Actors in the Improvement of IMC within Bosnia and Herzegovina

	Role	Responsibility
Mayors	Leaders of IMC arrangements	Initiate (and negotiate) the IMC arrangements with other municipalities Initiate joint studies on possibilities of IMC within different services Bridge social capital over time
The entity/regional government	Decision makers (Facilitators)	Create supportive legal solutions (re-drafting the current laws, introduction of laws on the IMC) Provide economic incentives for intermunicipal cooperation arrangement Institutionalize the social trust within the change of attitude in their policies
Associations of municipalities and cities	Advocate for change	Participate in the advocacy for improvement of IMC arrangements Keep records of all intermunicipal cooperation arrangements Organise best practice contests (Beacon scheme)
The current IMC entities	Best practice	Show the viable possibilities of joint cooperation to solve common problems and provide joint service/s
Donors	Supporters	Support projects that create sustainable IMC
Citizens through their representatives	Benefactor and beneficiary	Support "Best value for money" concept Active participation and advocacy for better services

The role of local mayors is seen as crucial for improvement of IMC. Although many countries within Europe consider local assemblies and local councils as IMC's most important partners (Hertzog 2008), the role of municipal mayors is enormous in Bosnia and Herzegovina due to legitimacy received through direct elections and functions attached to local executives. However, the municipal assembly, particularly if not supportive of the mayor's policies can create obstacles and prevent the execution of IMC. These clashes between directly elected mayors and directly elected assembly representatives are present in some cases where the holder of executive function differs from the political options that have majority within the local assembly (CCI 2009). However, the research conducted in previous periods (Jevdjovic 2008) show that communities that have strong mayors prosper faster than communities where the municipal leadership role is not observed.

The role of the regional government is also essential to intermunicipal cooperation. The research conducted within this paper shows that regional government considers intermunicipal cooperation defined within the current legal framework. However, the upper level still favors centralization over decentralization (Draganic 2008). Analysis shows that the legal and economic aspects need to be more defined within the policies and laws related to local government. New legal solutions backed by economic incentives could promote a further cultural shift against the current lack of cooperation. However, one should keep in mind all of the political implications that can arise during this process.

The regional association of municipalities and cities should take over the advocacy role related to IMC arrangement. However, up until now regional associations of cities and municipalities have had a weak role in advocating solutions to improve local government (Miovcic 2005). Although they've signed memoranda of understanding with regional governments, they are not seen as real partners in local government development.⁵⁴ The future roles of regional municipality and city associations are seen as a provision of support to the establishment of IMC, as well as the keeping of records of all established IMC units. At the same time, they could organize a best practice contest regarding intermunicipal cooperation within an already established Beacon scheme framework.

Research on current IMC practices within the country show that most intermunicipal cooperation arrangements are funded from outside of the country. The role of donor and international organisations in promotion of IMC arrangements is immense. This support should continue in the future, especially when considering the use of EU funds.

Citizens are generally the most important aspect of IMC arrangements. However, the previous analysis and general attitude show that the participation of citizens is still at a very low level (CCI 2009). Public hearings and local communities (Mjesna zajednica—MZs) are completely neglected. Although new performance management accepted through various projects at the local level was introduced, the insistence upon securing the best values for money is still at rock bottom. Better participation in decision

making and requests for effective and efficient local services force local governments to consider new ways to provide services, among which is intermunicipal cooperation (Jevdjevic 2008). Although theoretical discussion goes in the direction of more IMC accountability to citizens, analysis show that the situation in Bosnia and Herzegovina implies the necessity of raising awareness in order to involve citizens as benefactors and beneficiaries of the more effective services. The effective cooperation between different municipalities will increase the level of citizen satisfaction with local government services and will have a positive impact on the level of social capital with the country.

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APPENDIX

Practice	Municipalities involved	Topic (scope) of cooperation	Financing	Decision making	Form of cooperation	Inter-entity/inter-regional cooperation	Description
Constriction of the joint waste disposal facilities in the Dobož region	Dobož, Teslić, Dobož Jug, Tesanj, Dobož Istok, Usora	Joint provision of single service	Outside grant financing for establishment Fees /charges for jointly provided services	Decisions made on a regular basis by meeting of involved local governments a with majority vote	Joint (Intermunicipal) Company	X	The company is still in the process of establishment. The rule of origin determines which laws (entity law for public companies) will be applied. Problems are foreseen in ownership, decision-making and general interest.
Tourism development project	Gracanica, Srebrenik, Gradacac Kladanj	Occasional co-ordination/ Exchange of information	Outside grant financing (for the projected purpose)	Occasional consultations of involved local governments	Informal agreement		The project is realized through the MoU among partnering municipalities, Italian partner and donor and the Federal ministry (FBiH) for environment and tourism.

Practice	Municipalities involved	Topic (scope) of cooperation	Financing	Decision making	Form of cooperation	Inter-entity/inter-regional cooperation	Description
Joint initiative for construction of the joint waste disposal facilities in the Samac region	Orasje, Samac, Gradacac, Modrica and Odzak	Joint provision of single service	Outside grant financing for establishment Fees /charges for jointly provided services	Decisions made on a regular basis by meeting of involved local governments with majority vote	Joint (Intermunicipal) Company	X	Still in the process of establishment.
Construction of local road	Doboj Doboj Istok	Joint project	Occasional contribution of involved local governments Outside grant financing (for the project purpose)	Occasional consultations of involved local governments	Informal agreement	X	The project was realized through joint cooperation of two municipalities. Since the project covered two neighboring municipalities from two entities, it was heavily supported from the donor community.

Practice	Municipalities involved	Topic (scope) of cooperation	Financing	Decision making	Form of cooperation	Inter-entity/inter-regional cooperation	Description
Regional development planning	Municipalities in 5 regions (economic) within Bosnia and Herzegovina	Joint project EURED (EU regional economic development)	Outside grant financing (EU)	Board/council of the “association” the same number of representatives for each municipality	Contract among local governments	X	Although the project started seven years ago, the results are dubious due to the political aspect of regionalization. Heavy support from the EU does not provide results in closer contacts among municipalities. No joint projects are visible. Actually, situation is highly politicized and the Republika Srpska municipalities do not participate in the EURED. The regional development agencies mostly have purpose for themselves.

Practice	Municipalities involved	Topic (scope) of cooperation	Financing	Decision making	Form of cooperation	Inter-entity/inter-regional cooperation	Description
Joint initiative for construction of the joint waste disposal facilities in the Tuzla region	Tuzla, Srebrenik, Lukavac, Celic, Kladanj	Joint provision of single service	Outside grant financing for establishment Fees/charges for jointly provided services	Decisions made on a regular basis by meeting of involved local governments with majority vote	Joint (Intermunicipal) Company		Still in the process of establishment (the problem occurred in finding a location for the dump).
Joint water supply system	Travnik, Novi Travnik, Zenica, Busovaca, Vitez	Joint project	Outside grant financing	Occasional consultations of involved local governments	Contract among local governments		Still not finished. Municipalities support activities but regional ministry is in charge of the project.
Joint reconstruction of local roads	Trnovo (Republika Srpska) Trnovo (FBiH)	Joint project	Outside grant financing	Occasional consultations of involved local governments	Informal agreement	X	The reconstruction of local roads between municipalities that were separated with inter-entity line. International donors funded activities.

Practice	Municipalities involved	Topic (scope) of cooperation	Financing	Decision making	Form of cooperation	Inter-entity/inter-regional cooperation	Description
Regional project—Posavina, the heaven for hunting and fishing	Bosanski Brod, Samac, Orasje, Vukosavlje	Joint project (tourism promotion)	Outside grant financing Occasional contribution of involved local governments	Occasional consultations of involved local governments	Informal agreement	X	The promotional activities with Italian partners in order to encourage tourists to come to Posavina. No formal relationship within partners, just occasional meetings.
Joint initiative for construction of the joint waste disposal facilities in the UNA/SANA region	Bihac, Cazin, Buzim, Bosanska Krupa, Sanski Most, Velička Kladusa, Ključ	Joint provision of single service	Outside grant financing for establishment Fees/charges for jointly provided services	Decisions made on a regular basis by meeting of involved local governments with majority vote	Joint (Intermunicipal) Company		The company US REG DEP was founded. However, although activities started in 2006, establishing activities are still ongoing.
Development of business zones	Odzak, Orasje, Domaljevac	Joint project	Outside grant financing Occasional contribution of involved local governments	Occasional consultations of involved local governments	Informal agreement		All municipalities built their own business zone and intermunicipal cooperation was realized in the process of their establishment.

Practice	Municipalities involved	Topic (scope) of cooperation	Financing	Decision making	Form of cooperation	Inter-entity/inter-regional cooperation	Description
Preservation of the Vrbanja river basin	Banja Luka, Kotor Varos, Celinac	Joint project	Occasional contribution of involved local governments	Occasional consultations of involved local governments	Informal agreement		The project intended to clean the banks and river basin of the Vrbanja river, jointly with creation of the action plan.
Creation of LAGs (Local Action Groups) for strategic planning	Several initiatives within the country	Joint project	Outside grant financing	Occasional consultations of involved local governments	Contract among local governments	X	The LAGs are created within the UNDP's sustainable return and strategic planning project. The intention is to create closer connections between different municipalities at the entity border.
Joint water supply project	Doboj Jug Tesanj	Joint project	Occasional contribution of involved local governments	Occasional consultations of involved local governments	Contract among local governments		Two neighboring municipalities solving problems with water supply on a contractual basis. The well and water distributions are still under the competence of each municipality.

Practice	Municipalities involved	Topic (scope) of cooperation	Financing	Decision making	Form of cooperation	Inter-entity/inter-regional cooperation	Description
Joint initiative for construction of the joint waste disposal facilities in Zvornik and neighboring municipalities	Zvornik Osmaci Kalesija Sapna Sekovici	Joint project	Outside grant financing	Decisions made on a regular basis by meeting of involved local governments with majority vote	Contract among local governments	X	The project is still in its initial phase although it started almost 3 years ago. The problems are seen as poor communication and general interest of participating municipalities. Three municipalities are from the Republika Srpska and two are from the Federation of Bosnia and Herzegovina.
Joint construction of the waste disposal facilities and establishment of the public enterprise DEP-OT	Banja Luka, Gradiska, Prnjavor, Laktasi, Celinac, Kotor Varos, Knezevo, Srbac	Joint provision of single service	Outside grant financing Fees /charges for jointly provided services	Decisions made on a regular basis by meeting of involved local governments with majority vote	Joint (Intermunicipal) Company		The company was established in 2003 with shares proportional to the population of participating local government units. It showed positive results until Banja Luka took over the majority within the company assembly (2008). Local communal companies that collect waste in 4 participating municipalities do not use their services anymore. More in the case study.

Practicep	Municipalities involved	Topic (scope) of cooperation	Financing	Decision making	Form of cooperation	Inter-entity/ inter-regional cooperation	Description
Association of municipalities of the Eastern Herzegovina (with 3 joint agencies)	Trebinje, Ljubinje, Berkovici, Gacko, Bileca, Istocni Mostar, Nevesinje	Joint provision of several services	Regular contribution of involved local governments (3 percent of their budgets)	Delegation of members from involved local governments (the same number of representatives for each municipality) and majority vote	Public Law Body (Legal entity) multi purpose		The association was formed in 2005 with a joint agreement signed between participating municipalities. The council, as highest decision-making body, has representatives from executive and legal bodies from every municipality. According to interlocutors, the association was established in order to strengthen the position of the region with regard to upper level and in order to deal with regional development. More in the case study.

NOTES

- ¹ According to certain criterion (population, level of urbanization, state of social services, etc.), there are 35 local governments that are classified as underdeveloped in Bosnia and Herzegovina (source: Republika Srpska Ministry for Administration and Local Self-government and Federation of Bosnia and Herzegovina Institute for Development Programming).
- ² Although legislators in Bosnia and Herzegovina, following the example of the European Charter of Local Self-Government, tried to emphasize the primacy of the legislative over the executive power, the past ten years demonstrates that it was an ineffective effort. During the last decade, mayors became the masters of local politics, including the domination over local assemblies. This situation is mostly due to the changes in executive function, where the collective executive body was replaced directly by the elected mayor. This has disrupted the former balance of power at the local level.
- ³ Ministry for Administration and Local Self-government of the Republic of Srpska (Decision on development of municipalities).
- ⁴ The Law on Local Self-government in the Republic of Srpska (2004) and the Law on Local Self-government Principles in the Federation of Bosnia and Herzegovina (2006).
- ⁵ In the Federation of Bosnia and Herzegovina, there is one more group that can be called evaluation duties. Evaluation duties are those responsibilities for which the local units are explicitly authorized by this law to analyze and assess. This includes the work of certain cantonal and entity bodies, organizations and services. The law specifically points to the following cases: assessing the work of institutions and the quality of services in healthcare, social security, education, culture, and sports, as well as securing the financial means for the improvement of their operation and the quality of services in accordance with the needs of the population and the capacities of the local self-government units; and analyzing the state of public law and order, personal and property security, and proposing measures to authorized bodies pertaining to these issues.
- ⁶ The data gathered through the analysis show that there are almost 5,000 employees in local government units in Republika Srpska while there are only four people within the Republika Srpska Ministry for Administration and Local Self-governance that is responsible for local government policies.
- ⁷ The local government expenditures exclude social security funds, state and central government.
- ⁸ Particularly noteworthy and significant for future consideration of the local government units and source of funding for intermunicipal cooperation in Republika Srpska, is the coefficient of determination of revenue types as compared to the number of inhabitants. According to the data for Republika Srpska, it was established that 93 percent of municipal revenues deriving from taxation sources are explained by the number of inhabitants, while the rest is attributed to other factors.
- ⁹ The Law on Budget System of Republika Srpska (Republika Srpska Official Gazette Nos. 96/03, 14/04, 67/05, 34/06, 128/06, 117/07, 54/08 and 126/08).

- ¹⁰ According to the data for the Federation of Bosnia and Herzegovina, it was established that 76.57% of municipal revenues deriving from taxation sources are explained by the number of inhabitants, while the rest is attributed to other factors.
- ¹¹ The Law on the Origin of Public Revenues in the Federation of Bosnia and Herzegovina (Official Gazette of the Federation of Bosnia and Herzegovina, No. 22/06).
- ¹² It is interesting that small municipalities which do not have capacity (human, technical, etc.) to provide some services by themselves would rather sign a contract with professionals from neighboring municipalities than initiate intermunicipal cooperation with municipalities where this professional is employed.
- ¹³ Constitution of Bosnia and Herzegovina (Annex IV—Dayton Peace Agreement), 1995.
- ¹⁴ The prototypical organization of local government units represents the organization where all local government units have the same competences, no matter the size, potential or possibility to fulfill given functions. On the contrary, multi-type organization of local government represents the organization where there are some differences in competences related to the type of local government (urban/rural, city/town/municipality, etc.).
- ¹⁵ Leopard skin is an expression used for the regional distribution of ethnic groups in Bosnia and Herzegovina (Opacic et al. 2005).
- ¹⁶ Source: Author's rough calculation on the ethnic distribution of population based on the local elections, prior census data, municipalities and entity institutes for statistics.
- ¹⁷ In the later sections, it will be demonstrated that there is some intermunicipal cooperation across inter-entity borders, but all of them represent donor projects.
- ¹⁸ The concept of social capital was popularized in Putnam's "Making Democracy Work: Civic Traditions in Modern Italy" (1993). Social capital is used to explain that the quality of social relationship, how they influence the success of individuals and entire societies related to democracy, economic development, education achievement, health, etc. Bonding social capital keeps people together who are similar in specific characteristics such as ethnicity, religion, social class, etc. Bridging social capital keeps together people who are not similar/don't look alike.
- ¹⁹ The Early Warning System (UNDP) represents a methodology that examines quarterly public opinion polls related to economic, political, social, ethnic, and institutional aspects of Bosnia and Herzegovina. More can be found on www.undp.ba under the publication section.
- ²⁰ The Law on Local Self-Government in Republika Srpska (Republika Srpska, Official Gazette Nos. 101/04, 42/05, 118/05).
- ²¹ The Law on the Local Government Principles of the Federation of Bosnia and Herzegovina (Official Gazette of the Federation of Bosnia and Herzegovina, No. 49/06).
- ²² Republika Srpska Official Gazette No. 75/04.
- ²³ Interlocutors from the Republika Srpska Ministry for General Administration and Local Government state that the law does not prohibit establishment of public enterprise but still there is some ambiguity in the interpretation.
- ²⁴ Republika Srpska Official Gazette Nos. 24/98, 62/02, 66/02, 38/03, 97/04, 34/06.

- ²⁵ Republika Srpska Official Gazette Nos. 16/95, 16/02, 2/05, 1/08.
- ²⁶ See later sections with results from research conducted jointly with the table in the Annex.
- ²⁷ Republika Srpska Official Gazette No. 53/02, 65/08.
- ²⁸ Republika Srpska Official Gazette Nos. 124/08, 58/09.
- ²⁹ It is interesting that the Law on Local Self-government was created based on the dominant prototype model of local self-government organization with respect to the principle “one size fits all.” An interlocutor from the Republika Srpska government who worked on the current law on local self-government has said that responsibilities are given with the respect to the biggest local government in the Republic of Srpska. Actually, responsibilities were given to the city of Banja Luka due to the fact that the president of the Banja Luka Assembly was also a member of the team that worked on the law.
- ³⁰ Bosnia and Herzegovina is a rare example in Eastern Europe, where centralization still prevails over decentralization (at least from an international organization’s perspective). This relates particularly to state functions that need to be transferred from entity/cantonal level. This creates a lot of controversy within a country where local self-government tries to find its place within the administrative division of the country.
- ³¹ The Community Development Project is the World Bank project that was launched five years ago with the intention to provide funds and grants to underdeveloped and extremely underdeveloped municipalities in Bosnia and Herzegovina. It is conducted through two institutions (the Fund for Development and Employment in Republika Srpska and the Development Agency ODRAZ in the Federation Bosnia and Herzegovina).
- ³² There is no register of the current intermunicipal cooperation arrangements within Bosnia and Herzegovina. If an intermunicipal cooperation was established as a legal body, then there is some registered data within the local courts. For all other cases, the main source of data are local governments, which determined their approach toward collecting practices during this study.
- ³³ Data collection of intermunicipal cooperation cases was done within the UNDP’s Integrated local development planning (ILDLP) project during the assessment phase of the project. All municipalities in Bosnia and Herzegovina were asked about their current status on intermunicipal cooperation where 70 municipalities have provided the data. 17 practices involving 40 municipalities were identified from questionnaires.
- ³⁴ The World Bank approved the Solid Waste Management Project to Bosnia and Herzegovina on July 20, 2002. Jointly with the Second Solid Waste Project, more than USD 50 million was approved. The public enterprise DEP-OT received around 10 percent of that amount (approximately USD five million).
- ³⁵ Law on Managing Waste (Republika Srpska Official Gazette 53/02).
- ³⁶ According to practices and laws related to local government from 1952 onwards.
- ³⁷ Previous analysis of the role of advisory boards in public enterprises in the Republic of Srpska show that this represents most highly politicized bodies wherein political parties install their strongest members (Divjak 2007).
- ³⁸ International Development Association.

- ³⁹ Although called local communal companies (waste collection, water, sewerage, collective heating), they represent state own companies with management that is chosen by decision of the Republika Srpska government. They are obliged to provide services in coordination with local government, but problems sometimes occur when the local government majority and municipal mayors were from different political background than the Republika Srpska elected representatives. This highly irresponsible behavior was always paid for by citizens (low quality of services, high prices, poor availability of services, etc.)
- ⁴⁰ The year 2008 was characterized by the enormous rise of operating costs related to fuel and transport which make up a significant part of garbage collection and disposal activities. The situation has worsened due to the fact that reloading stations (originally intended) were never established on the territory of participating municipalities.
- ⁴¹ Interlocutors from participating municipalities see DEP-OT as the city of Banja Luka's company without taking into consideration the regional aspect of the problem. This is due partly to the fact that there is no protection of the minority vote and business policy is based on domination by majority.
- ⁴² It should be mentioned that this part of the Republika Srpska and Bosnia and Herzegovina are characterized by many mountains that create obstacles for the creation of physical infrastructure such as roads, water and sewage provision.
- ⁴³ At least 30 percent of municipal budgets represent the fee that is charged to upper level government and the Republika Srpska Public Electricity Company due to the fact that two hydro and one thermoelectric power plants are located in this area. The power plants are charged according to regulations on environmental protection and flooding of agricultural land.
- ⁴⁴ As previously mentioned, Republika Srpska is a centralized entity. Regional policy and instruments are not developed although some functions are organized regionally such as employment offices, statistics, public health institutions, and courts). The European Commission launched the EURED project in 2002, introducing economic regions within Bosnia and Herzegovina. The project brought controversy to the regional policy since some political parties from the Federation of B&H back this project that introduced regionalism without corresponding to entity boundaries. The fear within the political elite in the Republika Srpska is that the regionalization (even Eastern Herzegovina) weakens the position of the Republic of Srpska within the unsettled constitutional framework. Thus, the Republika Srpska government has extra reason for neglecting the effort of municipalities related to intermunicipal cooperation. During this research, it was discovered that the politicians from the governmental upper level prevented the creation of an association of municipalities in the Birac region (region that covers six Republika Srpska municipalities in the northeastern part of Bosnia and Herzegovina) through support from "loyal" mayors. It should be mentioned that the ruling party at the entity level have mayors in 38 out of 62 municipalities after local elections in October 2008.
- ⁴⁵ In May 2009, during revisions of this paper, the association came up with the declaration stating the following: they want to be classified as an underdeveloped region, that the Republika Srpska government has to provide funds for projects as well as funds for agencies' operational costs, and that they are requesting money for the establishment of the Development Fund for Eastern Herzegovina.

- ⁴⁶ The survey was conducted by the Agency for Information, Culture, Sport and Tourism (KIST) through the Internet portal Virtual Herzegovina (www.virtualnahercegovina.com). The better-ranked institutions are churches, NGOs and the municipal assembly. Only the police were ranked worse in terms of citizens' trust. This situation is partly due to the weak presence of the association in public but also partly because citizens do not perceive them as trustworthy since the general level of trust toward public institutions is weak (see also the EWS reports, www.undp.ba).
- ⁴⁷ Survey conducted by the Agency for Information, Culture, Sport, and Tourism (KIST) through the internet portal Virtual Herzegovina (www.virtualnahercegovina.com).
- ⁴⁸ Mayors, as elected leaders, are the masters of local politics in Bosnia and Herzegovina. They make almost all the decisions in local governments (Zlokapa et al. 2009). Although lawmakers in Bosnia and Herzegovina have predicted that the right and the ability of local authorities to regulate and manage a substantial share of public affairs under their own responsibility and in the interests of the local population is exercised by councils or assemblies, the practice in the last ten years has placed mayors as leaders at the local level.
- ⁴⁹ The project was seen as a major precondition for fiscal decentralization within the Local self-government development strategy in Bosnia and Herzegovina (2006). The immense differences in territory and population, and consequently in the financial position of local government units were seen as a major obstacle to decentralization since the sustainability of decentralization rests on the potency of the weakest municipality to fulfill legal competences.
- ⁵⁰ *Block by Block—It's Good to Build Well* (study of comparative practices) and *Corrections or Remodeling—It's Good to Build Well* (policy study related to options for territorial and functional changes within local self-government units) in Bosnia and Herzegovina.
- ⁵¹ P. Swianiewicz (2004) "Is Territorial Consolidation a Necessary Precondition for Further Decentralization? Territorial Organization in South Caucasus Countries." Paper prepared for Fiscal Decentralization Initiative Workshop, Lithuania.
- ⁵² The Strategy for Local Government Development in Republika Srpska, Republika Srpska government, 2009.
- ⁵³ Every region has competences related to establishment of local governments. Regions are not local government units and they represent administrative units within the Federation of Bosnia and Herzegovina that have constitutional competences over local government. The Federation of Bosnia and Herzegovina Law on Local Self-government principles is the basis for organization of local self-government within every province but they have exclusivity in the implementation of these principles. It corresponds to a situation in which there are ten local government systems within the same Federation of Bosnia and Herzegovina framework.
- ⁵⁴ The reasons behind this rest in the fact that associations' capacities (financial and human) are very weak due to permanent neglecting of their possible role by all stakeholders (local government units, upper level, international donors, etc.). A particular problem within a country such as Bosnia and Herzegovina is the issue of ownership since effective association could be competitive to various local government projects funded by internationals.

Voluntary Municipal Associations
in the Czech Republic:
Unfulfilled Expectations?

Lucie Sedmihradská

Table of Contents

Executive Summary	167
1. Introduction	169
2. Local Government in the Czech Republic	171
2.1 Local Government Structure and Responsibilities	171
2.2 Municipal Size Structure.....	173
2.3 Local Government Financial Management.....	174
3. Legal Framework of Intermunicipal Cooperation	176
3.1 Forms of Intermunicipal Cooperation and their Regulation.....	176
3.2 Special Type of Legal Entity: Voluntary Municipal Association	177
4. Why, How and How Much Czech Municipalities Cooperate	180
5. Voluntary Municipal Associations—a Tool Especially Designed for Intermunicipal Cooperation	183
5.1 Development of a Number of Voluntary Municipal Associations and the Volume of Financial Resources They Manage	184
5.2 A More Detailed Financial Analysis	188
6. Main Findings from the Elaborated Case Studies	191
7. How to Exploit the Potential of Intermunicipal Cooperation	193
7.1 Possible Next Steps	194
7.2 Evaluation of the Proposed Options.....	196
8. Conclusions	199
Appendix: Review of the Elaborated Case Studies	200
Sources Cited	208
Note	209

EXECUTIVE SUMMARY

Municipal structure in the Czech Republic is extremely fragmented. Out of 6,249 municipalities, 87 percent have less than the average number of inhabitants (1,675). Small municipalities are often less equipped with technical infrastructure and civic amenities; their citizens claim insufficient provision of public transportation and the lack of cultural and social events, and expenditures on municipal councils and administration per capita are higher in small municipalities. Intermunicipal cooperation (IMC) is the most promising solution because it is very flexible and it does not imperil a municipality's self-governance.

Intermunicipal cooperation is widespread in the Czech Republic and only a minimum of municipalities are not involved in any such cooperation arrangement. The law on municipalities defines three forms of intermunicipal cooperation: contracts, mutual legal persons, and voluntary municipal association. Voluntary municipal association is a special legal form designed for intermunicipal cooperation. Municipalities are familiar with this form and use it frequently. Currently there are about 800 voluntary municipal associations in the Czech Republic.

Voluntary municipal associations are either microregions or non-microregions. Microregions usually have a general goal (such as the common development of the involved municipalities' territories), while non-microregions are usually single-purpose. About 60 percent of voluntary municipal associations are microregions.

Total expenditures of voluntary municipal associations amount to only about 1–2 percent of total municipal expenditures. Two thirds of their expenditures are capital expenditures. Most of the expenditures are in the area of sewer, sewage plants and water (71 percent), communal services, territorial development, waste treatment and road transport.

While the number of voluntary municipal associations has been stable over the last five years, the volume of expenditures has continued to decrease significantly since 2006. About a quarter of voluntary municipal associations operate with such limited resources that no reasonable activity is possible.

The Czech Republic's central government does not have a single policy regarding intermunicipal cooperation. This fact can be considered both a cause and a result of extremely fragmented responsibilities regarding various aspects of intermunicipal cooperation. Lack of exact and complete data on the magnitude and character of existing IMC initiatives hinders formulation of intermunicipal cooperation policies and leads to instances of solitary interventions with limited impact.

Intermunicipal cooperation today does not reduce the consequences of the existing fragmented municipal structure nor limit some of the problems with which small municipalities must deal with. In this paper, three possible options are discussed: (1) the status quo, (2) the formation of a new form of intermunicipal cooperation such as the municipal community

which would participate in the tax sharing system, and (3) the formation of an IMC unit.

As part of a central government agency, the IMC unit would have a clear purpose and responsibilities and would stop the duplication of activities. This unit would act: (1) as an information service for all relevant stakeholders (municipalities, intermunicipal arrangements, regions, other central government agencies) regarding the formation and operation of intermunicipal cooperation arrangements; (2) as an information data bank responsible for the complex monitoring of intermunicipal cooperation activities and the evaluation of realized policies, and (3) as a policy research entity that would identify areas suitable for intermunicipal cooperation and design relevant support and incentives.

The IMC unit offers an efficient, equal, and feasible solution to improving situations in small municipalities through information provision and design of targeted measures. These units enable equal treatment for all municipalities regardless of size, region, and distance, and do not depend on support from the new tax sharing system.

1. INTRODUCTION

Municipal structures in the Czech Republic are extremely fragmented. Out of 6,249 municipalities, 5,440, i.e., 87 percent, have less than the average number (1,675) of inhabitants. This high number of small and very small municipalities frequently raises a question: do all municipalities have the capacity sufficient to deliver public services at the expected level and, in general, ensure the necessary standard of living? Recent research shows that small municipalities lack both technical infrastructure (such as water, sewage, sewage plants, or gas) and civic amenities (such as schools, health services, post offices, or police offices), and that citizens claim insufficient public transportation and a lack of cultural and social events (see Maříková 2004). On the other hand, municipal officials do not claim difficulties regarding local public administration in the area of their own responsibility, only in the area of delegated power (see Gavlasová et al. 2007b). At the same time a detailed analysis of municipal expenditures showed that expenditures on municipal councils and administration per capita are higher in small municipalities (see Tománek 2009).

Davey (2004:87) lists four alternative solutions for municipalities unable to fulfill their expected services, i.e., those municipalities unable to develop their territories or achieve effective delivery of their assigned public services. These alternative solutions include: amalgamation, transfer of competencies to the intermediate government level, contracting out (to either the private sector or other local governments), and intermunicipal cooperation.

The former two approaches are not presently realistic in the Czech Republic. Direct forced amalgamation would certainly cause considerable resistance, as it would repeat a similar practice instituted between 1960 and 1989. Only 1.5 percent of mayors of small municipalities consider amalgamation with a bigger municipality (see Maříková 2004). Also, indirect stimuli in the form of advantageous tax sharing formulas for bigger municipalities, applied since 2001, have not proven sufficient in covering costs associated with massive municipal merges.

The transfer of competencies to the intermediate government level is also problematic, especially when successful municipalities are asked to absorb the responsibilities of troubled ones. The constitution guarantees equal status and therefore equal responsibility to all municipalities (regardless of size) in regard to addressing their specific municipal issues. Therefore transfer of competencies is not desirable from the point of view of bigger municipalities, which have not encountered any difficulties in delivering their own public services or developing their particular territory.

The latter two options are well suited for the Czech Republic and are used frequently. For example, detailed information on the methods of municipal public services delivery in the Czech Republic with special attention to contracting out can be found in Ochrana and Fantová (2007).

Intermunicipal cooperation (IMC) is the most promising solution because it is very flexible and it does not lead to the disappearance of a municipality as a self-governing entity. The flexibility of IMC is beneficial for several reasons. There is no optimal municipality size for all the provided services, thus a municipality can choose to participate in several IMC arrangements for different services and IMC is available to all municipalities, regardless of their size. Even big municipalities may find cooperation in one particular area convenient. If conditions change, the IMC arrangement can be adjusted or abolished quite easily in comparison to both amalgamation and the shift of competencies to the intermediate government level.

IMC is one of the attempts to improve the ability of municipalities to respond efficiently to the demands of their citizens and to inter-jurisdictional problems. The rise and existence of cooperations is associated with benefits and costs that the participants assess continuously. Feiock (2007) makes a distinction between collective and selective benefits and costs. Collective benefits arise mostly from greater efficiency gained through economies of scale and the ability to capture cost and benefit spillovers. The major collective costs are caused by lower local control, allocation inefficiencies and increased transaction costs. In the case that overlapping jurisdictions compete for the same resources, a common pool resource problem occurs. Selective benefits are associated with the benefits of municipal officials, who through a successful IMC can increase their “value” as managers or reap political benefits such as re-election or promotion in their party hierarchy.

The objectives of this paper are to evaluate the current state of intermunicipal cooperation in the Czech Republic with special attention to voluntary municipal associations (VMA), to identify major problems, and to propose measures to increase the use and development of IMC potential.

First, local government in the Czech Republic and its financing is characterized and the legislation pertaining to IMC is described. Next, the extent and area of activity of the IMC and various aspects of the VMA are explained. Then, elaborate case study findings are presented. Finally, the main findings are summarized and possible options for improvement of IMC in the Czech Republic are identified.

The paper is based on detailed analysis of four main data sources:

- Recent research reports dealing with intermunicipal cooperation (Vajdová et al. 2006 and Gavlasová et al. 2007a), voluntary municipal associations (Škrabal et al. 2006 and Pápol et al. 2006), local public administration (Gavlasová et al. 2007b) and small municipalities (Maříková 2004).
- Legal framework, i.e., both the law, its interpretation and responses to related questions provided by the professional journal *Moderní obec*.
- Compilation of a database of existing voluntary municipal associations based on several publicly available databases.
- The elaboration of eight case studies garnered from in-depth interviews and document analysis.

2. LOCAL GOVERNMENT IN THE CZECH REPUBLIC

The purpose of this chapter is to briefly introduce the local government system and its financing in the Czech Republic. First the local government system's structure and the responsibilities of regions and municipalities are set forth. Special attention is paid to explaining that municipalities simultaneously exercise both their inherent and delegated responsibilities. Then, the municipal size structure including its development is distinguished. Finally, local government financial management is briefly described together with the composition and volume of the budgets of municipalities, regions, and voluntary municipal associations.

2.1 Local Government Structure and Responsibilities

The Czech Republic is a unitary state. The 1993 Constitution establishes two levels of local government: regions and municipalities. The 14 regions were established in 1997. The first regional representatives were elected in November 2000, and the regional governments have been at work since January 1, 2001. Regions care for the general development of their territory and the needs of their citizens, especially in the fields of social care, environmental protection, transportation, education, culture, and security.

Until December 31, 2002, there also existed 76 districts. These districts were de-concentrated branches of the central government. They oversaw implementation of state policies at the local level, supervised the legality of performance of local authorities on delegated functions, coordinated intermunicipal affairs and supported smaller municipalities in the discharge of their duties. The existence of districts came to an end as a part of the public administration reform.

Municipalities are basic territorial self-governing communities, i.e., public corporations with their own property. There are currently about 6,250 municipalities. Municipalities exercise simultaneously both their own responsibilities, which are carried out by the municipality and its bodies on its own behalf, and their delegated responsibilities, which are performed on behalf of the state while the state assumes legal responsibility for the performance of the delegated power.

The Law on Municipalities (128/2000 Coll.) recognizes three types of municipalities regarding the scope of delegated power: municipalities with basic delegated powers (includes all municipalities, about 6,250 in total), municipalities with authorized municipal offices (second type municipalities, 388), and municipalities of extended scope (third type municipalities, 205). Municipalities belonging to the latter two groups are listed exhaustively in a special law (314/2002 Coll.).

The execution of each municipality's delegated power is financed through a special grant. The volume of this grant is determined as part of the approved state budget ac-

according to the extent of the executed delegated power. Although there is a clear purpose to the grant it is not earmarked, as the municipality does not have to account for it separately. This practice implies that there is very limited space for the municipality's independent decision-making regarding delegated power (e.g., the number or assignment of employees dealing with the execution of delegated power).

In the area of their own responsibility, municipalities are responsible for: the delivery and implementation of a civil registry and the enforcement of national regulations, pre-primary and elementary nine-year schools, recreational activities, sport and park facilities, secondary hospitals and primary healthcare, local library services, pensioner residential homes, orphanages, homes for the mentally handicapped, nursing homes for the elderly, local roads, local transport, local police, collection and treatment of solid waste, street cleaning, sewage treatment plants and operation, water treatment and supply, natural gas supply, heating, maintenance of public housing and buildings, city planning, local environmental issues and local tourism (see de Carmo Oliveira and Martinez-Vazquez 2001). Table 3.1 shows the major municipal spending categories. Regarding their own responsibilities all municipalities are equal according to the law; of course in reality the level of provided services depends upon available financial resources that vary among municipalities (see Vedral et al. 2008: 331).

Table 3.1
Major Municipal Spending Categories
(Share of Total Municipal Expenditures, 2008)

	Current expenditures	Capital expenditures	Total
Local administration	18.1%	5.2%	14.3%
Pre-primary and primary education	9.8%	9.6%	9.7%
Road and rail transportation	7.7%	8.5%	7.9%
Social transfers	10.1%	—	7.2%
Roads	5.3%	19.4%	9.4%
Communal services and territorial development	5.2%	11.1%	6.9%
Housing	3.7%	7.8%	4.9%
Waste water treatment	0.6%	11.4%	3.8%
Sports	2.2%	6.2%	3.4%
Waste treatment	4.3%	0.9%	3.3%

Source: Grouping of spending categories as individual spending lines adopted from Tománek (2009), data from ARIS.

2.2 Municipal Size

The Czech Republic is characterized by a high number of settlements, which today form about 6,250 self-governing municipalities. Table 3.2 illustrates the results of compulsory amalgamation between 1960 and 1989, and a very fast and massive disintegration between 1990 and 1993. The law on municipalities did not set any size limitations for newly established municipalities at that time. However, since 1994 new municipalities have had to consist of at least 300 inhabitants and since 2001, 1,000 inhabitants.

Table 3.2
Number of Municipalities Between 1921 and 2009

Year	1921	1930	1950	1961	1970	1980	1989	1991	1993	1995	2009
Number of municipalities	11,417	11,768	11,459	8,726	7,509	4,778	4,120	5,768	6,196	6,234	6,249

Source: Vajdová (2006:17) and Czech statistical office (<http://www.czso.cz/csu/2009edicniplan.nsf/p/1301-09>, June 19, 2009).

Table 3.3 shows the size groups of municipalities in the Czech Republic. Small municipalities are usually considered municipalities with less than 2,000 inhabitants. Then, there are 5,594 small municipalities in the Czech Republic with 2.7 million inhabitants, i.e., 26.4 percent of the entire population. A comparison with 1991¹ shows that the population of small municipalities grew by 70,000, i.e., 0.5 percent.

Table 3.3
Sizes of Municipalities (January 1, 2009)

	Number of municipalities		Population	
199	1,561	25.0%	193,328	1.8%
200–499	1,991	31.9%	651,689	6.2%
500–999	1,330	21.3%	935,658	8.9%
1,000–1,999	700	11.2%	972,484	9.3%
2,000–4,999	392	6.3%	1,184,204	11.3%
5,000–9,999	142	2.3%	964,895	9.2%
10,000–19,999	70	1.1%	981,219	9.4%
20,000–49,999	42	0.7%	1,243,739	11.9%
50,000–99,999	15	0.2%	1,058,196	10.1%
Over 100,000	6	0.1%	2,282,130	21.8%
Total	6,249	100.0%	10,467,542	100.0%

Source: Czech Statistical Office, <http://www.czso.cz/csu/2009edicniplan.nsf/p/1301-09> (May 29, 2009).

2.3 Local Government Financial Management

Local government financial management is guided by two laws: (1) the Law on Budgetary Rules for Local Governments (250/2000 Coll.), which regulates the revenues, expenditures, budget, budgetary process and property management of local governments, and the management of budget organizations established by local governments; and (2) the Law on Tax Assignment (243/2000 Coll.), which specifies the tax sharing mechanism.

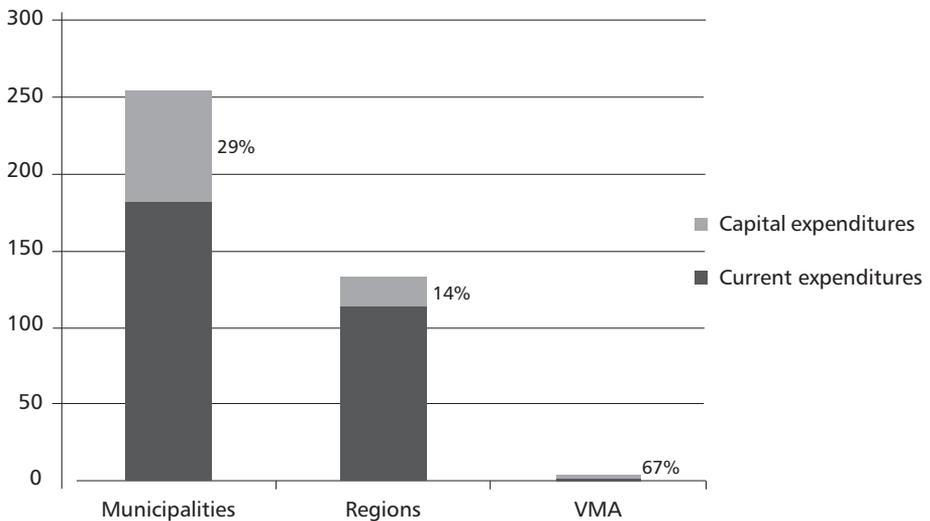
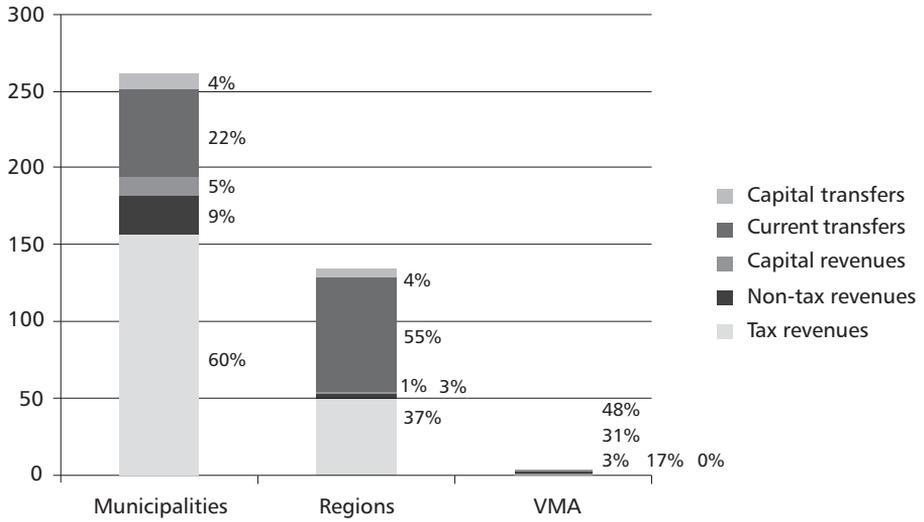
The share of local government expenditures in total public expenditures was about 25 percent in 2008 and about 10 percent of the GDP. These shares have been quite stable over time.

Although municipal fiscal autonomy is very low, it still remains much higher than regional fiscal autonomy. The majority of municipal tax revenues (95 percent) come from shared taxes; the remaining tax revenues come from property tax and local fees. Municipalities have some autonomy regarding the rate and base of both the property tax and local fees; however, this autonomy is quite limited and when considered in relation to the volume of revenues coming from these two sources it becomes almost insignificant. The regions also do not have any discretion regarding tax revenues.

Currently the revenues coming from income taxes (both personal income tax and corporate income tax) and the value added tax are shared among the three government levels. With some simplification, municipalities receive 21.4 percent, regions 8.92 percent, and the state 69.68 percent of the proceeds from these taxes. These revenues are distributed among the individual municipalities and regions based on a formula. For municipalities the formula includes these characteristics: number of inhabitants, size-group coefficient, and land area. For the regions, the above-mentioned law fixes the shares. For more information on the tax sharing system and its evolution see de Carmo Oliveira and Martinez-Vazquez (2001:31–33), Hemmings (2006:14–15) and Sedmihradská (2008).

Figure 3.1 shows the volume and the structure of revenues and expenditures of municipalities, regions and VMAs in 2008. The comparison of municipalities and regions shows clearly that the role of municipalities as a local government is much higher than that of the regions and that municipalities are more fiscally independent than the regions (most of the grants received by the regions only pass through their budgets to various organizations' budgets, such as schools). The volume of regional capital expenditures is significantly lower than that of municipalities. The VMA are shown for comparison only and their revenues and expenditures will be explored in more detail later. Here it is worth pointing out the fact that two-thirds of their expenditures are capital expenditures.

Figure 3.1
Volume and Structure of Revenues and Expenditures
 (2008, CZK Billions and Percentage of Total)



Source: State budget proposal for 2009, Part F, estimates only.

3. LEGAL FRAMEWORK OF INTERMUNICIPAL COOPERATION

A legal framework determines the way municipalities cooperate. While the first part of this chapter deals with the legal framework for intermunicipal cooperation in general, the second part focuses on a special type of legal entity intended for intermunicipal cooperation: the voluntary municipal association (VMA).

3.1 Forms of Intermunicipal Cooperation and Their Regulation

Valid legislation offers a range of legal arrangements for IMC. In case the cooperation includes subjects other than municipalities, different structures are applied than in the case of solely municipalities as members. Cooperation of any kind is allowed only in the area of municipalities' own responsibilities.

Regarding IMC we can distinguish three periods: (1) between November 24, 1990, and August 20, 1992; (2) between August 21, 1992, and November 11, 2000; and (3) onward from November 12, 2000. In the first period the Law on Municipalities (367/1990 Coll.) included only a very general paragraph (§17): municipalities can form associations, start partnerships, and cooperate with municipalities from other countries and participate in international associations of local governments. In the second period, based on the Amendment to the Law (410/1992 Coll.), Paragraph 17 was cancelled and the form of voluntary municipal association was introduced for the first time (in §20a-d and §20e), making possible various forms of international cooperation. At the same time, based on the Law on Civil Associations it was prohibited for municipalities to associate (83/1990 Coll.). However, there was no mention of cooperation in the form of the interest-based association of legal persons and so municipalities used this form frequently. At that time the legal differences between interested association of legal persons and a voluntary municipal association were very small as both of them were mostly regulated by the civil code. The differences appeared later with the new law on municipalities.

The third period started with a completely new law (128/2000 Coll.), which brought forth more detailed and restrictive legislation regarding IMC: it exhaustively listed the allowed forms of IMC, it prohibited the formation of interest-based associations of legal persons formed solely by municipalities, and it brought several changes to the VMA.

Cooperation of municipalities can now take the following three forms:

- Contracts signed for fulfillment of special tasks,
- Formation of a voluntary municipal association, and
- Formation of mutual-interest associations of legal persons based on the appropriate legislation.

Regarding the cooperation in the framework of contracts signed for fulfillment of special tasks and formation of mutual legal entities, special laws based on the exact type of the contract or the established legal entity regulate the cooperation.

General requirements for the contracts are written form and approval of municipal councils of all involved municipalities before the signature of the contract. There is also specified compulsory content to each contract. Municipalities can jointly establish various types of legal entities based on the relevant legislation (Vedral et al. 2008: 272–273), which lists these allowed types of legal entities: joint stock company, limited company, limited partnership, co-partnership, cooperative, not-for profit organization, and foundation.

3.2 Special Legal Entities: Voluntary Municipal Associations

The voluntary municipal association (VMA) is a special type of a legal entity intended for intermunicipal cooperation. A VMA is not a local government; however, some local government regulations apply (e.g., the Law on Budgetary Rules of Local Governments, 250/2000 Coll.).

A VMA can be founded by two or more municipalities that need not be neighbors. One municipality can be a member of multiple VMAs. The VMA is established based on a contract that must be approved by the municipal councils of all participating municipalities. The VMA legally comes into being when the regional office registers it. The VMA ends its existence based on an agreement, lapse of the designated period, or fulfillment of the task defined in the founding contract.

The activity of a VMA is guided by its status. The law on municipalities (128/2000 Coll., §50:2) defines these obligatory parts of the status: name and seat of the VMA and all member municipalities; the VMA's area of activity; bodies of the VMA including their foundation, scope and decision-making process; property placed into the VMA's care by the member municipalities; revenue resources; methods of profit division and sharing of loss; conditions for entry or leaving of the VMA; and the content and scope of the control provided by member municipalities. As the VMA's status can be changed, it is necessary to define the rules for approval of its amendments (see Neumannová 2000).

There are no rules regarding VMA executive structures, i.e., VMA bodies. The decision-making mechanism and financing is regulated by the status of the VMA. Neumannová (2000) suggests utilizing a supreme authority, an executive body and a control body, i.e., to use a structure common in other types of legal entities as well.

VMAs have three main financial sources: member contributions, non-tax revenues resulting from their own activity, and external resources such as grants (see Gavlasová et al. 2007a: 62). Member contributions (contributions from the member municipalities) usually include annual and entrance fees. The annual fee is mostly given as a per capita amount, while the entrance fee is a lump sum per municipality. In case of the

realization of an investment project, contributions are often calculated based on the cost principle (see the elaborated case study of Sdružení obcí-Plynofikace Pocidliní in section 10 of the Appendix to this chapter). In these cases citizens of the municipalities often pay, for example, a connection fee, which may be revenue either of the VMA or the municipality. Box 3.1 presents a typical example of the executive structure, decision-making, and financing of a VMA.

Citizens of the member municipalities are allowed to participate in a general nature at the meetings of the VMA bodies, to look into the records, to submit proposals to the budget, and view the VMA's final account.

Based on the current legislation VMAs can found their own legal entities with the exception of a budgetary organization. Mockovčiaková (2003) prefers the foundation of a legal entity by the individual municipalities as a joint legal entity instead of a legal entity founded by the VMA, since the latter option may limit transparency. Mockovčiaková (2003) suggests including prohibition of the foundation of a legal entity by the VMA in the very status of the VMA.

The management of the VMA is regulated by the Law on Budgetary Rules of Local Governments (250/2000 Coll.), so the same regulation applies to municipalities, regions, and VMAs. This arrangement increases the transparency of VMA financial management. A body of the VMA, which is assigned by its status declaration, prepares and approves its annual budget. The VMAs use the budget classification and their management is subject to an annual audit. The law on accounting (563/1991 Coll.) also applies to VMAs.

There are two major problems in the current legislation regarding the VMA: (1) fragmentations of the regulation as all the issues not directly regulated by the law on municipalities (128/2000 coll.) are regulated by the Civil Code (40/1964 Coll.) (see Ministry of Interior 2005), and (2) a VMA is not a local government; however, sometimes the regulation of local governments applies and this creates ambiguity in the interpretation of the law for VMAs.

Many ambiguities arose when interpreting the law on budgetary rules of local governments (205/2000 Coll.) as it applies to local governments and it was not clear which arrangements are applicable to VMAs as well. A recent amendment to this law (477/2008 Coll., effective since April 1, 2009) should decrease this problem as it added the words "svazek obcí" to all the paragraphs that apply to VMAs.

One of the issues coming from the second legal problem is bankruptcy. Based on the law on bankruptcy (182/2006 Coll.) a local government cannot go bankrupt; however, a VMA can. If one VMA were to declare bankruptcy, it would probably cause a loss of trust in many other cases. Guarantees are another matter of concern. The law on municipalities severely limits the power of a municipality to issue a guarantee for a private subject. This regulation, however, does not apply to VMAs, and thus VMAs can issue guarantees without any legal limitations. Resulting problems have not been reported in practice so far. Existing uncertainty could lead to choice of another legal format or limit cooperations as a whole.

Box 3.1

Executive Structure, Decision-Making, and Financing—The Case of Ladův Kraj

Ladův kraj is a VMA that associates 24 mostly small municipalities at the southeast border of the capital city, Prague, and is active in the area of tourism.

The VMA's highest body is an assembly of mayors, wherein each member municipality has a representative and each representative has one vote. The assembly of mayors decides on changes in status or membership, sets the volume of entrance or annual contributions, elects the chairman of the association, approves the annual budget and final account, and approves purchase or sale of property if its value exceeds CZK 40,000.

The chairman is the statutory body of the VMA and he calls together the assembly of mayors, directs the manager, acts on behalf of the VMA, ensures management of accounting and approves purchase or sale of property if its value exceeds CZK 10,000. In the case of absence, the chairman is substituted by the vice chairmen, who is also elected by the assembly of mayors.

The executive body of the VMA is a council with five members elected by the assembly of mayors. The council approves all activities of the VMA including the purchase or sale of property if its value exceeds CZK 10,001 but is less than CZK 40,000.

The association does not have any employees. The manager of the association works based on a contract. Accounting, preparation of the budget, and the final account are done by the financial department of the town Říčany, and is based on another contract. The seat of the association is in the information center of Říčany; the association does not pay rent, which is compensated through the voluntary work of the manager in the information center.

Each member municipality contributes CZK 25 ZK per person annually to the budget of the association. Refusal of payment of the contribution would lead, based on the contracted status, to exclusion of that municipality from the association. The entrance fee for a new municipality is CZK 3,000. The structure of revenues (in CZK thousands) is shown in the following table.

Table 3.4
Structure of Revenues in CZK Thousands

	2001	2002	2003	2004	2005	2006	2007
Non-tax revenues	2	5	12	81	72	61	194
Member contributions	547	527	562	562	770	777	802
Transfers from the state budget			119			81	
Transfers from EU funds		567					
Transfers from the region				193	186	293	950
Total revenues	549	1,099	694	836	1,027	1,218	1,946

Source: Statutes of VMA Ladův kraj, ARIS.

An interesting issue is the regulation of the property of a VMA, as the law prohibits transfer of property from a municipality to a VMA. VMAs can only act as managers of this property. Despite this regulation a VMA can have property. Based on Vedral (2001) we can distinguish two sources of VMA property: property gained through the VMA's own activity regardless of the time of acquisition, and property received from its member municipalities before 2001.

The regulation of VMA property may also complicate its activity. Vedral et al. (2008: 285) describe how the regulation of VMA property can limit the potential of the VMA. For example, one municipality places property in the care of a VMA; according to the law the municipality remains the owner of that particular property. Then if the VMA appreciates this property through an investment, the municipality freely collects this appreciation from the costs of other partnering municipalities.

The monitoring and evaluation of VMA activities suffers the same problems as the monitoring and evaluation of municipal activities. The legal requirements ensure procedural control (i.e., legal compliance); however, the outcome-based control is missing. Especially regarding the VMA there remains an important element of external monitoring and evaluation realized by the grant providers, who require fulfillment of the conditions associated with a particular grant.

4. WHY, HOW, AND HOW MUCH CZECH MUNICIPALITIES COOPERATE

The law on municipalities defines three forms of IMC: contracts, mutual legal entities, and VMAs. However beside VMAs, which constitute a special legal configuration, we can observe the parallel existence of so-called microregions, which in contrast have no special legal form, although they mostly resemble VMAs. The definition of a microregion is very vague: a microregion is an association of municipalities with no specific legal form and its goal is the common development of the territory of involved municipalities (see Škrabal *et al.* 2006). Basically, a microregion is any municipal association that claims to be a microregion. Thus, this creates two overlapping groups of municipal associations.

IMC in the Czech Republic is very widespread and only a minimum of municipalities are not involved in any IMC. Previous research shows that only 1.3 percent of municipalities do not participate at all and that simultaneous participation in various IMC arrangements is common: 49 percent of municipalities have a contract signed for fulfillment of special tasks, 83 percent participate in a VMA, and 8 percent have established a joint legal entity (Šelešovský et al. 2004). Newer data shows that the involvement of municipalities in microregion IMCs is even higher. Labounková (2008) indicates that 88 percent of municipalities are members of at least one microregion.

The current magnitude of intermunicipal cooperation was influenced first in the early 1990s by the fact that newly established breakaway municipalities kept relations with

other municipalities with which they had recently been part of the same municipality. The quite general legal regulation valid in the 1990s enabled the formation of many IMC initiatives. Since the end of the 1990s, support from EU pre-accession instruments and structural funds has grown gradually and it has become popular belief that bigger projects are more likely to be supported. This was an important impulse for the formation of many VMAs.

Gavlasová et al. (2007: 61) list these main reasons for intermunicipal cooperation: the sharing of experience, technical cooperation, and the matching of financial resources and savings. In general, conducted interviews show that most IMC networks expected that they would be able to attract resources that single municipalities would never receive. This expectation was stronger in direct relation to how less specific (or more general) the IMC purpose was. Of course, in each case there are specific motives for cooperation (see section 6 and the Appendix to this chapter), which allow justification of IMC formation.

The availability of aggregated, nationwide information differs considerably among different types of IMC networks. While we can easily get a full list of registered (both active and extinct) VMAs, to obtain a list of the remaining two types is impossible. In the instance of single municipalities, we can easily find lists of municipal-owned trading companies (in the trade register); however, tracking down the co-owners is challenging work. Based on the trade register, municipalities (as owners) are involved in about 2,400 trading companies. Obtaining information on these individual contracts would require direct communication with each individual municipality.

All the VMAs are registered and thus included in the ARES (Administrative Registry of Economic Subjects, provided by the Ministry of Finance, in cooperation with the Czech Statistical Office). Based on this registry, there were 811 active and 106 already dissolved VMAs, by November 22, 2008. The Ministry of Finance runs the ARIS (Automated Budget Information System) which records VMA financial statements. The statements of 899 VMA are found in ARIS, including statements of some dissolved VMAs. Out of them, 707 include all relevant years. The ARIS also includes statements from 54 municipal associations with varying legal statuses; however, the number of these associations gradually decreases among the records.

The records of microregions are even more fragmented. The Institute of Spatial Development (which belongs to the Ministry of Regional Development) kept a registry of microregions between 2000 and 2005, when individual regions overtook the agenda. The Czech Statistical Office (its regional offices) publishes information on microregions gained from individual regions. Based on this data, there were 533 microregions in January 2007, out of which about 60 had a legal structure other than a VMA.

A random cross check of various easy explanations did not lead to any simple conclusion: The VMAs which are not microregions have been founded continuously since 1993; they are active at least to the same extent as the microregions and some of them are not even single-purpose organizations.

A consequent problem with exploration of VMAs comes from the fact that these associations are voluntary, so while they seem stable based on the number of VMAs, the contrary is true. Changes in the membership of VMAs are frequent and information from different sources may differ (see also Ryšavý 2006). The founding municipalities of a VMA are listed in its status; however, the Law on Municipalities does not require amendment of the status when and if membership changes.

All the information presented below is based on an inquiry of a sample of VMAs for which data was available regarding particular characteristics.

It is very difficult to estimate IMC volume and especially the volume of expenditures realized through IMC. Based on a detailed exploration of the data available from municipal statements, we can label IMC associated expenditures as transfers and loans to VMAs, other municipalities, and budget organizations established by other municipalities. The picture is distorted by the fact that it is not possible to get information on the volume of services contracted out and especially contracted out to joint companies.

Table 3.5 shows the expenditures of municipalities and VMAs for six functional areas. The first column shows total municipal expenditures. The second column shows transfers and loans to other municipalities. In total they account for three percent of municipal expenditures. Unfortunately from the data available we can only partly link these expenditures to their purpose: 628 million CZK were used as contributions on obligatory education for children frequenting school in another municipality (part of the services for inhabitants), 670 million of administration expenditures were loans, 707 million went to non-specified financial operations, and 997 million were spent on other non-specified activities.

Data in the third and fourth column show the transfers and loans to VMAs and budget organizations established by other municipalities. The loans to both the VMAs and organizations are negligible. The current transfers to VMAs are directed mostly to public transport (CZK 55 million), communal services and spatial development (CZK 55 million), local administration (CZK 45 million), drinking water (CZK 21 million), sewage (CZK 31 million) and tourism (CZK 11 million). Capital transfers are allotted for sewage (CZK 284 million), drinking water (CZK 107 million), communal services and spatial development (CZK 32 million), roads (CZK 20 million), and housing (CZK 10 million). In the area of budget organizations the capital transfers concerned mostly roads (CZK 65 million) and hospitals (CZK 20 million), while the current transfers concerned healthcare (CZK 53 million), education (CZK 33 million), culture (CZK 23 million), and sport (CZK 21 million).

Data on expenditures of VMAs in the fifth column are shown for comparison only and are analyzed in greater detail later.

Table 3.5
Expenditures of Municipalities and VMAs (2007, CZK Millions)

	Municipality (1)	Transfers/ loans to other municip. (2)	Transfers/ loans to VMA (3)	Transfers to org. (4)	VMA (5)
Agriculture, forestry and fishery	1,586	4	0	0	6
Industry	57,231	46	550	88	3,403
Services for inhabitants	98,327	740	132	171	533
Social affairs	28,052	5	3	16	13
Public safety	6,712	23	0	2	1
Administration	49,669	2,493	105	2	194
Total	112,763	3,312	791	279	4,151

Source: ARIS, author's calculations.

Note: Column (1) total municipal expenditures, (2) transfers and loans to other municipalities, (3) transfers and loans to VMA, (4) transfers to budget organizations established by other municipalities, (5) total expenditures of VMA.

The data presented in Table 3.5 suggests that VMAs are used more for cooperation in the area of industry (i.e., physical infrastructure such as water, sewage, and transportation) and that other forms of IMC are used for cooperation in the field of services for citizens (i.e., education or healthcare). Although the presented numbers do not give a complete picture of IMC, the data definitely shows the directions and also the methods of cooperation in the different fields.

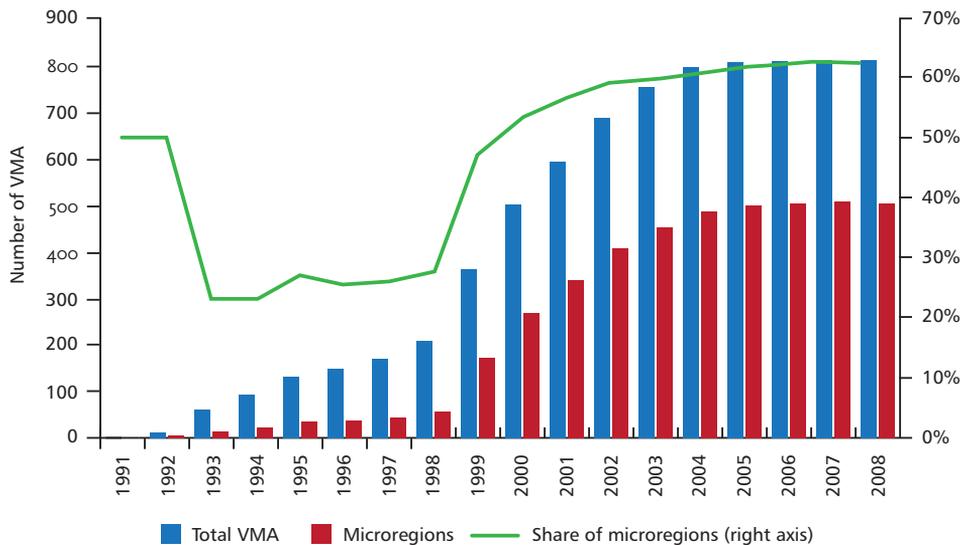
5. VOLUNTARY MUNICIPAL ASSOCIATIONS: A TOOL ESPECIALLY FOR INTERMUNICIPAL COOPERATION

As the voluntary municipal associations are a special type of legal entity, related data can be quite easily obtained from various databases, as mentioned in part 4. This allows us to analyze the number of VMAs, the volume and structure of their revenues and expenditures, as well as their development. The results of this analysis are presented in the first part of this section. The second part focuses on individual VMA expenditures and compares the revenues and expenditures of microregions and non-microregions.

5.1 Voluntary Municipal Associations and the Financial Resources They Manage

The first VMAs were founded in 1991 and after quick diffusion of this form of cooperation in the first half of the 1990s we can observe only a modest growth until 1998. Between 1998 and 2002 the number of VMAs in the Czech Republic more than tripled. Since 2004 the number of VMAs has remained more or less stable (see Figure 3.2).

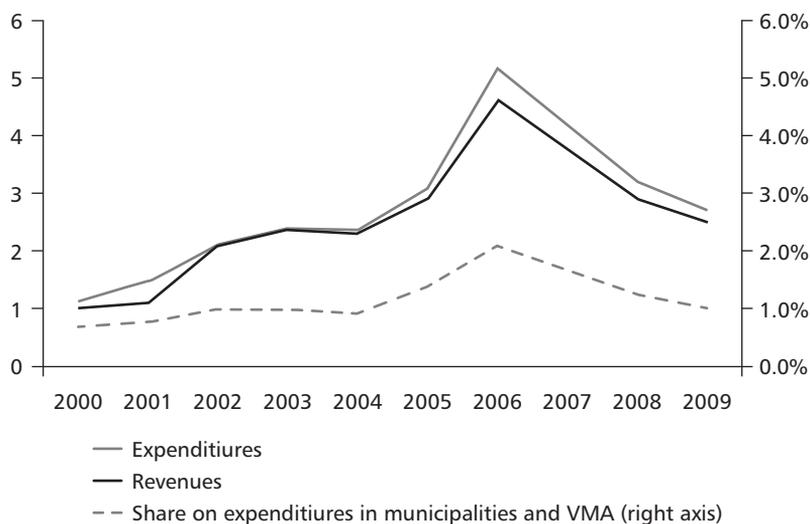
Figure 3.2
Number of VMAs, Microregions, and Share of Microregions
(as of November 22, 2008)



Source: ARES, recognition of microregions based on Czech statistical office.

Despite a standstill in the growth of the number of VMAs, the volume of their budgets grew until 2006. 2006 was exceptional not only for VMAs but also regarding municipal management; unusually high capital revenues and capital expenditures were realized, probably partly due to municipal council elections. Furthermore, it coincided with the final year of the previous programming period for EU structural funds. The total revenues were higher than in other years not only thanks to higher received transfers from both the EU and national sources, but also due to increased capital revenues which came mostly from contributions from individuals for investments such as the development of sewer networks. Since that year a fast decline, or return to a more common state is notable.

Figure 3.3
Revenues and Expenditures of VMA (2000–2009, CZK billions)



Source: ARIS (2000–2008), State budget for 2009 (estimates only).

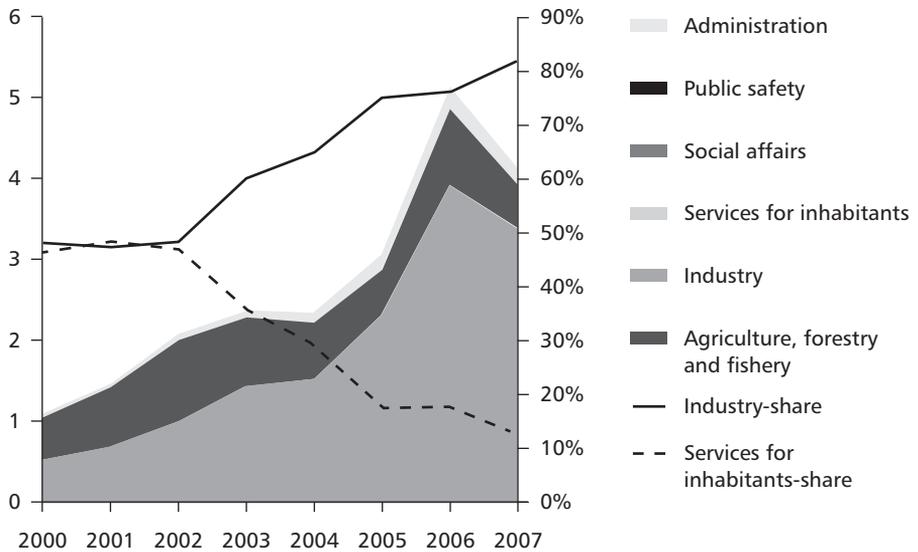
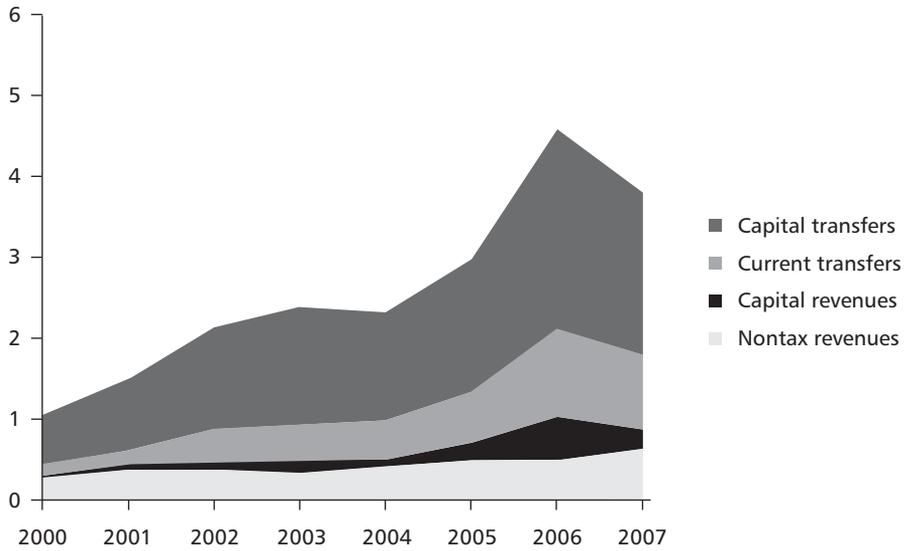
Figure 3.4 shows the volume and structure of the main revenue sources and the functions of expenditures.

The share of owned revenues (non-tax revenues and capital revenues) fell from 28 percent in 2000 to 23 percent in 2007. Transfers are a dominant revenue source for the VMA. There are two main sources of transfers: internal, e.g., municipalities and owned funds, and external, which were quite balanced in the observed period.

The examination of expenditure development shows a fast growth (both nominal and relative) in the area of industry. On the contrary, expenditures for the services for inhabitants (mainly communal services and waste treatment) are nominally stable.

The expenditure structure does not confirm the common claim that the role of single purpose VMAs is decreasing (see Ministry of Interior 2005). Table 3.5 shows the most important areas of expenditure (using a more detailed classification than in Figure 3.4) together with the share of capital expenditures in total expenditures for the particular functional area in the whole period of 2000–2007. Capital expenditures were dominant in all areas with only two exceptions: road transport and local administration.

Figure 3.4
VMA Revenues and Expenditures (2000–2007, CZK Billions)



Source: ARIS, author's calculations.

Table 3.6
Areas of the Most Important VMA Expenditure
(2000–2007, CZK million)

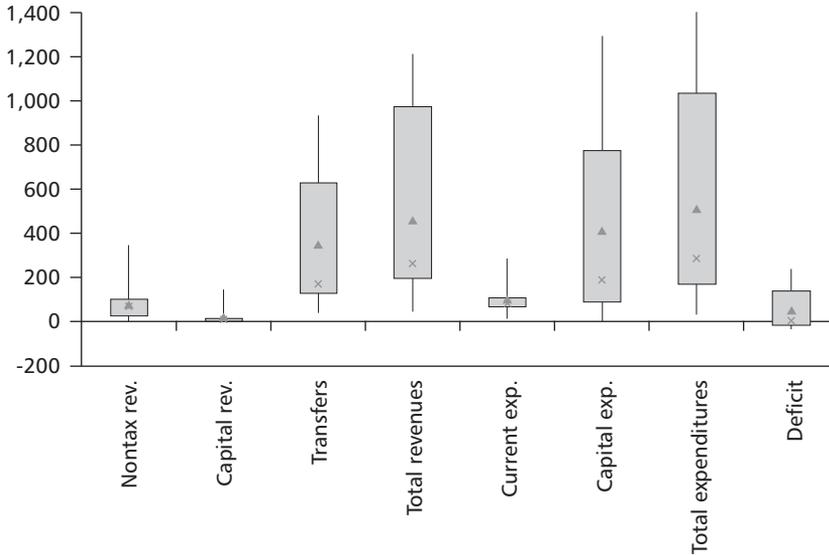
	2000	2001	2002	2003	2004	2005	2006	2007	Cap. exp.
Sewage and sewage plants	110	203	402	782	705	1,403	2,625	2,064	88%
Drinking water	370	441	462	524	646	685	1,023	1,028	85%
Communal services and territorial development	434	676	905	748	553	300	410	265	81%
Waste treatment	48	29	56	46	56	81	155	164	61%
Road transport	32	43	96	62	68	102	74	62	14%
Local administration	15	28	41	43	62	90	105	76	21%
Healthcare	4	2	2	17	39	78	245	29	79%
Roads	12	4	18	30	41	58	82	137	73%

Source: ARIS, author's calculations.

Note: Cap. exp. = share of capital expenditures in total expenditures for a particular functional area in the whole period from 2000–2007.

Comparison of the main sources of revenue and types of VMA expenditures per capita in different regions showed surprisingly high differences. Based on detailed analysis of the individual VMAs in the Central Bohemia region and anticipation of a similar pattern in other regions, I assume that the main reason is the realization of a few sizable projects, while the majority of the VMAs are not exceptional. A more detailed exploration of the grant sources in different regions showed that the major differences are caused by the differences in grants from the state and state funds. Although the differences in grants from the regional budgets are smaller and do not explain the differences in total grants received, they do show that the regional policies regarding the VMA differ quite significantly.

Figure 3.5
Comparison of per Capita Revenues and Expenditures in 13 Regions
(CZK, 2007)



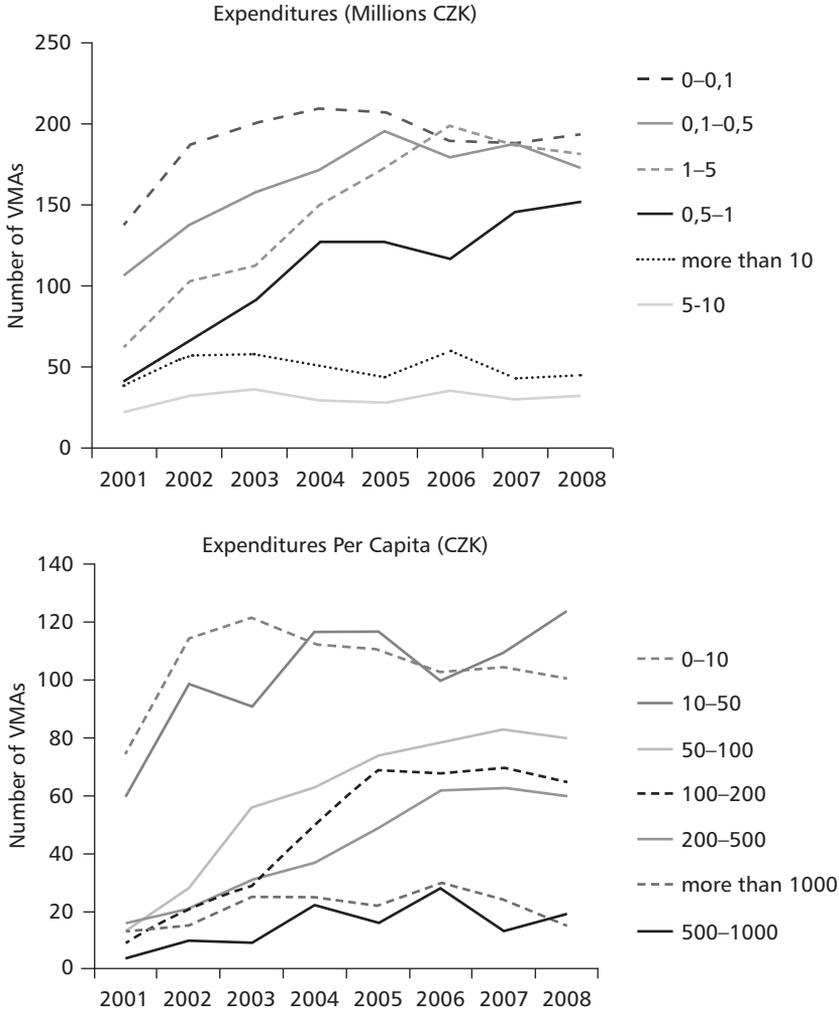
Source: ARIS, author's calculation; number of inhabitants from Czech Statistical Office.

Note: The figure shows minimum, maximum, and 25th and 75th percentiles.

5.2 A More Detailed Financial Analysis

Figure 3.6 shows that the majority of VMAs operate with very limited resources. This is especially evident when analyzing expenditures per capita (the number of inhabitants can change frequently, so the presented numbers may be inaccurate to some extent; however, the conclusion remains the same). More than one-fifth of VMAs operate with less than CZK 10 per inhabitant and about a quarter of VMAs operate with a total budget smaller than CZK 100,000.

Figure 3.6
Number of VMAs with Particular Expenditure Volume
(In CZK Millions and in CZK Per Capita)



Source: ARIS, author's calculation; number of inhabitants from Czech Statistical Office.

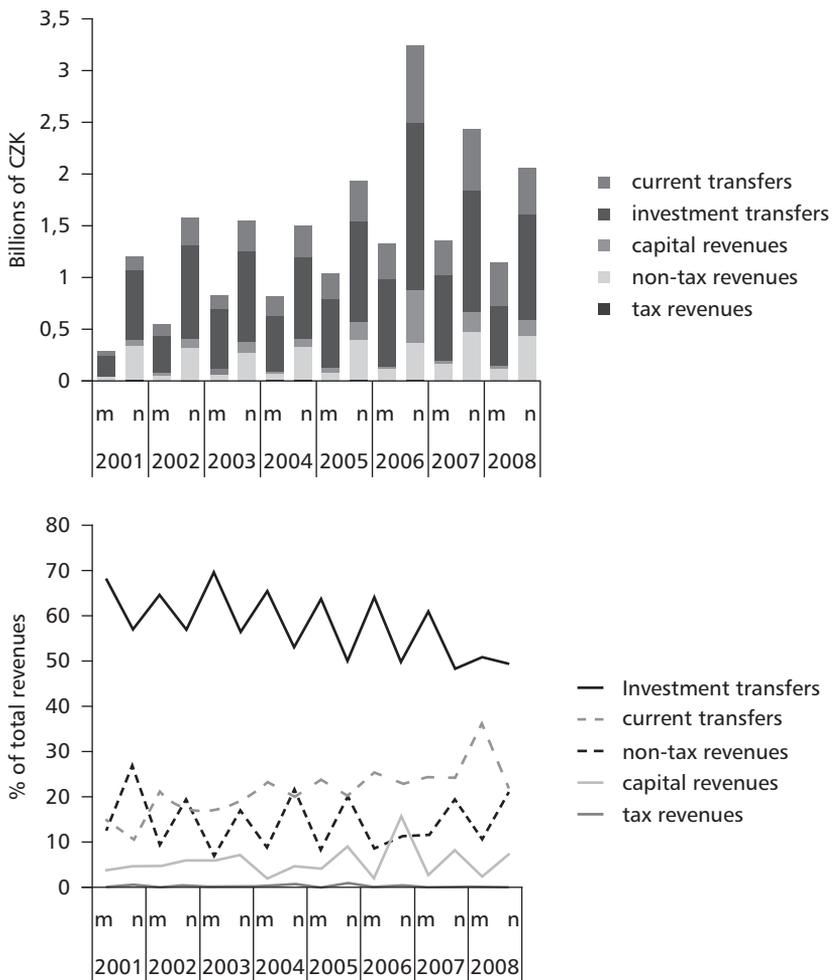
Despite the fact that the distinction between microregions and other VMAs (non-microregions) may be vague in some cases, a separate financial analysis of these two groups shows interesting differences.

Figure 3.7 shows that microregions operate with significantly smaller resources than non-microregions. In 2008 the average revenues of a microregion were CZK 2.3 million

while non-microregions averaged CZK 7.2 million. At the same time, their revenue structures differ: the microregions rely more on transfers, especially investment transfer. In the examined period transfers formed 86.9 percent of revenues in microregions and 72.2 percent in non-microregions on average. Non-tax revenues, i.e., revenues from own inherent activity and incomes from rents, interest, and sale of small property, are more important in non-microregions, accounting for 9.5 percent of revenues in microregions and 19.7 percent in non-microregions on average during the examined period.

Figure 3.7

Revenues of microregions and non-microregions: volume and structure

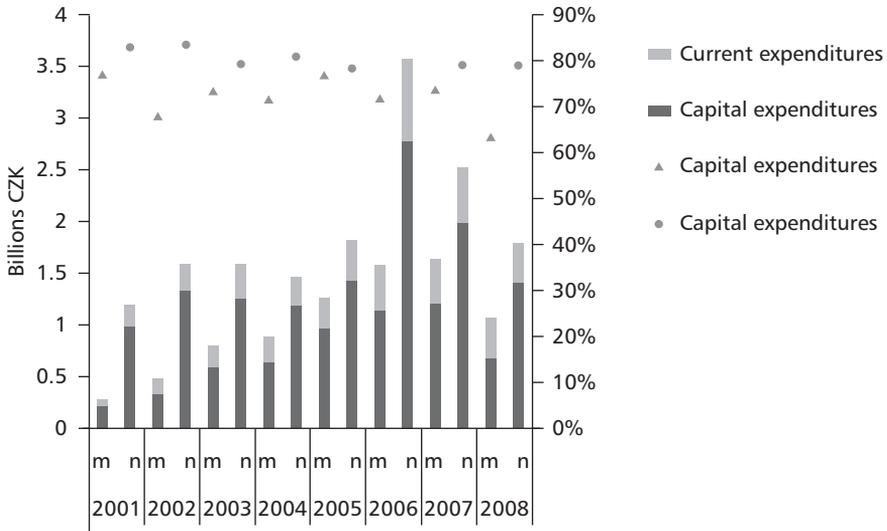


Source: ARIS, recognition of microregions based on Czech statistical office.

Figure 3.8 shows similar comparison of expenditure volume and structure. The expenditures copy the revenues, thus the expenditures of non-microregions are higher than that of microregions. For the whole period, the share of capital expenditures was higher in non-microregions. The difference was between one and 16 percent.

Figure 3.8

Expenditures of microregions and non-microregions: volume and structure



Source: ARIS, recognition of microregions based on Czech statistical office.

While mostly financial, the provided analysis shows that VMAs strongly rely on transfers both from internal and external sources; only about one-fifth of VMAs are financially self-sufficient, i.e. are able to finance their activities from user fees or rental incomes; about a quarter of VMAs do not operate with a budget which allows reasonable action; VMAs act mostly in the area of building infrastructure (water and sewer) and less in either provision of services or tourism; there are significant differences among the grants received by VMAs in different regions, and there are differences among microregions and non-microregions regarding revenue and expenditure volume and structure.

6. MAIN FINDINGS

The practice of IMC in the Czech Republic is extremely patchy; therefore my selection of the examined cases was guided by the attempt to include this heterogeneity in my

sample. Eight cases were elaborated in total. Their brief summary is presented in the appendix. The interviews realized with the heads of the selected IMC units were accompanied by a detailed review of related documents.

Municipal cooperation in the case studies started because one of the mayors wanted to do something (build a landfill, manage the water pipes, start an information center, or provide gas service) and the mayor could not do it alone because of insufficient financial resources, limited territory, or an inherited and binding drinking water infrastructure. None of the interviewees mentioned inspiration by another similar and successful IMC, and (with some exception) they were not aware of the existence of similar cases. This observation supports the supposition that the rise of an IMC is the result of exploitation of an opportunity, either real or expected (in the case of Přemyslovské střední Čechy).

Municipalities know that they can cooperate and they know how. However most of the interviewees who were present in the early sages of the IMC recalled difficulties connected with specific steps such as the choice of the proper legal structure or compilation of the status. Only two interviewees acknowledged some (limited) assistance by the district office (which existed only until 2001) during the process of formation of their IMC. The formation of an IMC is not supported (not even methodically) by either a government agency or the regions. However, regions do offer some assistance regarding the available grant schemes for existing VMAs.

Despite the defects in the legal framework of the VMA described above, none of the interviewees made a direct claim in that regard. At the same time they were content with the strict regulation of budget related issues, which ensure that proper financial management is exercised.

One interviewee (Veltrus Dominio) was aware of his strong personal role in the VMA and expressed doubts about continuation of the VMA if he is not re-elected next year. Dependence of the continuation of the IMC on one or a few persons (either one of the mayors or the manager) was quite strong in all multipurpose VMAs (Ladův kraj, Přemyslovské střední Čechy, and Veltrus Dominio); on the other hand in the technically oriented IMC (water or waste management—Svazek obcí Boží voda, Vodárenská společnost Tábořsko, and SOČ Černošín) this dependence did not exist. For example, both in Svazek obcí Boží voda and SOČ Černošín, the management of the IMC has changed without any influence on its functioning.

Changes in membership are quite frequent: for example, Vajdová et al. 2006:53 reports that 68 out of 150 surveyed VMAs observed changes in membership; in my sample four out of eight IMC networks observed changes in membership. Despite my expectation this was generally not considered a problem. The entrance of new municipalities was considered positive. Termination of cooperation was perceived as a significant risk in case of the IMC providing waste management (SOČ Černošín), as their service area and thus revenues would decrease. However, in the multipurpose VMA either actual or potential exit of some municipalities was considered a logical step

for municipalities participating in more similar IMC units (e.g., Přemyslovské střední Čechy). On the other hand, participation in more IMC units with different purposes is almost a rule and is evaluated positively.

The interest of both council members and the public in the activities of an IMC is low. For example, in Ladův kraj they decided to abolish a control commission because it required the involvement of additional persons next to those already involved in the council.

7. EXPLOITING THE POTENTIAL OF INTERMUNICIPAL COOPERATION

The present analysis shows that since 1991 to date in the Czech Republic, numerous IMC arrangements have been established and are operating. The vast majority of them have now taken the legal structure of a voluntary municipal association (VMA) and run their financial management in accordance to the budgetary rules of local governments. This process was driven from the bottom-up. Municipalities have tried and still try to take advantage of cooperation despite minimal support from the central government and with only recent interest from some regions. The reason for cooperation in the form of a VMA is attributed to its familiarity and public status. There is much less experience with cooperation of other legal forms such as limited companies, especially due to the lack of information and council members' anxiety of over loss of municipal property and control.

The lack of a central government policy regarding intermunicipal cooperation brings two main deficiencies to light on the municipal level: (1) needlessly high transaction costs for municipalities when starting a cooperation, and (2) limited or delayed cooperation in areas which proved convenient for cooperation elsewhere.

At the same time on the central government level, the efforts of various agencies are overlapping (e.g., number of various registers of VMA or a recent compilation of a handbook for the formation of a school by a VMA, put out by the Ministry of Education, see MŠMT 2009).

Experiences with IMC show that Czech municipalities are very flexible and that they react sensitively to all sorts of financial incentives. Spontaneous development and expectations of more significant support, especially from the EU structural funds, have created microregions and non-microregions that exist side by side, and microregions are now often perceived as a more advanced form of cooperation. Unfortunately, most of the microregions were created as a tool to access or receive EU grants. This influences the common perception that "a good manager is able to sustain the microregion without contributions from the member municipalities" (quote comes from interview realized by Kasalová 2009), and they rarely overtake an activity previously exercised by individual municipalities (such as the operation of a water network or waste management).

At the same time not all grant schemes were designed to support cooperation. Some even seem to exploit the advantages of cooperations. For example, grants provided by the Královehradecký region to VMAs for the acquisition of equipment such as lawn mowers or small tractors, lacked clarification regarding ownership of the acquired equipment, which became the property of only one member municipality without an obligation to share it with the others (see Ryšavý 2007). Also, the provision of gas service in Sdružení obcí-Plynofikace Pocidliní, despite the fact that the project was carried out by the association, remained in many aspects three independent projects in which each of the municipalities made its own technical documentation, hired a building firm, and realized work inspections (see Appendix to this chapter). Although municipalities are in favor of this situation they still hesitate to contribute significantly because of the suspicion that someone else would profit on their account.

7.1 Possible Next Steps

There are three general approaches of the central government in relation to intermunicipal cooperation in the Czech Republic. Our focus here is centered upon the central government, because only it can change the approach to IMC on all levels. Of course, each of the options presented here involve other subjects as well.

1. Status Quo

With no action from the central government the situation will not change much. We will observe the parallel existence of microregions and non-microregions. Professionalized microregions with a “self-sustaining” manager will continue their activities, while weaker microregions managed by one of the mayors may be adversely affected by each municipal election. It is very unlikely that VMAs would overtake municipal responsibilities. It is also unlikely that they would significantly contribute to overcoming problems related to the fragmentation of municipal structure and limited facilities of small municipalities.

2. IMC Unit

This second approach is that the central government formulates a clear statement regarding intermunicipal cooperation with special attention to VMA practice. A subsequent step would then be to create an integrated unit that would be in charge of all issues related to IMC (contrary to the current situation wherein intermunicipal cooperation is the partial responsibility of at least four ministries).

The character of the IMC unit, i.e., the ministry that would create it and its organizational form, depends on the stated objectives. The responsible branch should

be either the Ministry of Interior or the Ministry of Regional Development. The IMC unit could be a department within either ministry or a part of its organization. Thus the relationship would be like that of the Institute for Local Administration within the Ministry of Interior, or the Institute of Spatial Development within the Ministry of Regional Development.

The IMC unit would act in these areas:

- Acting as an information service for municipalities, VMAs and regions regarding the formation and operation of particular intermunicipal cooperatives, provision of sample documents, collection of good practices, and other relevant issues.
- Monitoring and evaluation of current cooperatives, i.e., the continued monitoring of microregions as realized at the Institute of Spatial Development between 2000 and 2005, as well as a widening of other forms of cooperation.
- Identification of areas especially suited for IMC, the proposal of support forms for the creation of cooperation in the desired areas (this should be composed mostly of support from other central government agencies which deal with the particular areas, including close cooperation with the Ministry of Education and the IMC unit when preparing the above-mentioned handbook).

3. Společenství obcí (Municipal Community)

A third approach would be the return to and finalization of the proposal prepared by the Ministry of Interior in 2005. This proposal suggested establishing a new form of IMC which would in comparison to the VMA be more strictly regulated by law, slightly limited regarding participation (participating municipalities must have less than 10,000 inhabitants and the total number of inhabitants in a municipal community should be between 15–20,000), and which would participate within the tax sharing mechanism. Each municipal community would have to act in at least two of the following areas: transportation, education, tourism, water management, waste management, social and health services, and cultural development, and perform accounting for the member municipalities. In contrary to a VMA, a municipal community could act in the area of delegated power (see Ministry of Interior 2005). The government cancelled elaboration of this proposal in May 2005 (Resolution No. 623/2005), and since the 2006 elections nobody has returned to it.

Theoretically, there exists a fourth option wherein options two and three would be realized simultaneously; a new form of IMC would be proposed and codified together with establishing a supporting IMC unit. However, I consider this fourth option strictly theoretical due to the current social and (especially) political situation, and therefore it is not discussed further.

7.2 Evaluation of the Proposed Options

In the Czech Republic there is not any integrated policy regarding IMC and thus we have to formulate our own tentative objectives in order to evaluate the effectiveness of the proposed alternatives:

The aim of IMC in the Czech Republic is to reduce the consequences of the existing fragmented municipal structure and to limit some of the problems small municipalities deal with, i.e., insufficient technical infrastructure and civic amenities, limited public transportation and cultural and social events and higher administration costs.

The evaluation of the three proposals' individual aspects is provided in the outcome matrix (see Table 3.7).

Each of the three proposed alternatives can improve the first four areas to some extent; however, only the IMC unit would be able to alter the current spontaneous and selective way to a more strategic, targeted approach based on the research of needs and available tools. A selective approach would mean fulfillment of some of the above-mentioned objectives regarding IMC initiatives; however, these objectives would not be fulfilled on the national scale. A targeted approach means that through usage of specific tools particular objectives of IMC will be fulfilled nationwide, or that the progress in a particular area will be widespread, not isolated. An example of a selective result may be the creation of two joint elementary schools thanks in part to elaboration contained within the aforementioned handbook. An example of a targeted approach is the identification of geographic areas where joint schools would be beneficial, the supply of information, technical and legal assistance to these municipalities, and the provision of a start-up grant which would lead to the formation of joint schools in 30–50 percent of identified cases.

Improvement in the fifth area (the lowering of administration costs) could, to a certain extent, ensure a well-functioning municipal community.

A comparison of associated costs and benefits must take a variety of several types of costs and benefits into account. Among these are central government costs related to the realization of chosen policy, central government costs related to the change of the tax sharing system, and the costs of municipalities and VMAs or municipal communities. The volume of the costs in the first group would be quite similar for both the IMC unit and municipal community, thanks to a staff reduction and the number of units now dealing disinterestedly with IMC at different agencies. Municipality related costs would very much depend on the way municipal communities are implemented and what kind of assistance would be provided. For the central government, benefits are mostly associated with cost reduction as a result of new policies as opposed to the current state. The benefits toward municipalities and IMC initiatives flow first

from varied transaction cost reductions and in the case of municipal communities, from tax sharing.

The change of the tax sharing mechanism, even when without regard to municipal communities, is the subject of heated discussion for which a consensus is not approaching. I suppose that the time for changing the tax sharing mechanism has not yet arrived, and that the connection between improvement of intermunicipal cooperation and a change in the tax sharing mechanism hinders the feasibility of this proposal. If, in the future, the interest in municipal communities is heightened, it may be useful to modify the proposed method of finance: rather than the politically sensitive tax sharing method, provide unconditional grants calculated on a based formula.

Any arrangement should ensure equal opportunities for all municipalities regardless of location traits such as region, distance, and neighbors. Currently, each region argues its individual policy regarding VMA and significant interregional differences are apparent. Municipal communities are designed for small and medium-size municipalities. Thus, starting this type of cooperation limits municipalities neighboring bigger towns on one side and only small municipalities on the other. Comparison of the three defined options shows that the creation of an IMC unit enables improvement in four out of five target areas, it is feasible from a cost standpoint as well as its ability to obtain necessary political support, and it ensures equal access to all Czech municipalities. The status quo option does not lead to significant improvement in any of the targeted areas and based on the careful analysis of recent developments, the role of IMC initiatives is decreasing in many areas. Creation of municipal communities is unfortunately associated with the need to change the tax-sharing mechanism. Presently, this is an obstacle impossible to overcome. Depending on the exact design of the municipal communities and on possible assistance, municipal communities could contribute markedly to needed improvements as stated above.

The municipal community's lack of political feasibility and the status quo option's substantial deficiencies are my reasons for choosing the creation of an IMC unit as the preferred policy option.

Table 3.7
Outcome Matrix

Efficiency	Status quo	IMC unit	Municipal community
Improvement of Technical infrastructure	Selectively	Selectively	Selectively
Civic amenities	Selectively	Targeted	Selectively
Public transportation	Selectively	Targeted	Selectively—Targeted
Cultural and social events	Selectively	Targeted	Selectively—Targeted
Lowering administration costs	Unlikely	Unlikely	Possible

Table 3.7 (continued)
Outcome Matrix

Efficiency	Status quo	IMC unit	Municipal community
Additional costs for central government or regions	None	Formation and operation of the IMC unit	Finalization of the proposal; Elaboration of methodical guidelines; Decrease in the share of the state budget on shared taxes.
Costs for municipalities and VMA/municipal communities	High transaction costs when establishing new cooperation.	NA	Depends on the extent of provided methodological guidelines: in case of low methodological assistance, very high transaction costs especially for the early birds.
Additional benefits for central government or regions	NA	Reduction of duplicate activities and staff.	Lower costs of delegated power in the long run and thus lower grants from the central government budget.
Additional benefits for municipalities and VMA/municipal communities	NA	Reduced costs thanks to extensive information service.	Participation in tax sharing.
Political feasibility	NA	Objection from effected units (their mother agencies or respective ministers), which will be replaced by the new units.	Change in the tax sharing system is extremely sensitive because there is no solution without losers, either state budget or big municipalities; reaching a consensus during the current term is not feasible.
Equity	Small municipalities lag behind in above mentioned areas; Any municipality, regardless of size can cooperate; Some regional differences.	Targeted support to small municipalities is possible; Any municipality, regardless of size can cooperate; Limitation of regional differences.	Targeted at small municipalities; Big municipalities are excluded; possible impact on municipalities neighboring only big municipalities; Regional differences may occur due to size structure of municipalities and division of coordination and assistance roles between central government and regions.

8. CONCLUSIONS

The Czech Republic is a country with a high number of municipalities (6,249) out of which 89 percent have less than 2,000 inhabitants. Small municipalities are often less equipped with technical infrastructures and civic amenities, citizens lack frequent public transportation and cultural and social self-realization, and the costs of local administration are rather high.

Since the early 1990s the law on municipalities allows municipalities to cooperate and the preferred form of cooperation is a special type of legal entity: the voluntary municipal association, which is in many aspects (especially regarding financial management) regulated in the same way as local governments.

The central government does not have a single policy regarding intermunicipal cooperation, which can be both the cause and result of extremely fragmented responsibilities regarding various aspects of intermunicipal cooperation. Lack of exact and complete data on the magnitude and character of existing IMC initiatives hinders formulation of such a policy and leads to the realization of solitary intervention with only limited impact.

Interviews highlight the absence of a place to go to for advice. All the interviewed founders of intermunicipal cooperation units had to contract out for a lawyer who prepared the founders' contract and the status. When IMCs took a legal structure other than voluntary municipal association, they dealt with the lack of information necessary to make an informed decision.

Formation of an integrated IMC unit as a part of a central government agency should have a clear purpose and responsibilities, and should stop the duplication of activities that now happens frequently. This unit would act: (1) as an information service for all relevant stakeholders (municipalities, intermunicipal arrangements, regions, other central government agencies) regarding the formation and operation of intermunicipal cooperation arrangements; (2) as an information data bank responsible for the complex monitoring of intermunicipal cooperation activities and evaluation of realized policy; and (3) as a conductor of policy research that would identify areas suitable for intermunicipal cooperation and design of support and incentives.

It would remove the main shortcomings of the current system (insufficient monitoring and minimal assistance to municipalities). At the same time, careful analysis of the existing intermunicipal cooperation and of municipalities—their management, provision of services, endowment, etc.—will help to identify areas especially suitable for intermunicipal cooperation together with the proper incentives.

IMC units offer an efficient, equal, and feasible solution as they can improve situations in small municipalities through information provision and the design of targeted measures; they also enable equal treatment for all municipalities regarding size, region, and distance, and they do not depend on the support of a new tax sharing system.

APENDIX: REVIEW OF THE ELABORATED CASE STUDIES

Name of the IMC	Přemyslovské střední Čechy
Type, number of municipalities involved	VMA, 21 and Local action group, 79
Number of inhabitants	VMA 22,811 and Local action group 66,761
Interviewee	Jaroslav Huk, manager of the VMA and member of board of the Local action group.
Year of formation	2004
Area of activity	Development of the region

The region northwest of Prague battles with its heritage: coal mining and iron processing, collective agriculture during socialism, and having the unfavorable position as a satellite of Prague without its own local center. The region is deprived in the sense that the environment and facilities in the municipalities are below average (e.g., water and sewer systems). Many of the inhabitants work in Prague and have little interest in their municipality's development. The described IMC tries to deal with the resulting problems. Its purpose is very general: restore and develop the region.

The initiators of the partnership believed that the principles of partnership supported in the local action group (LAG) and by the program, LEADER, are the right tool. So far they have done well.

LEADER is an initiative financed by EU structural funds and is designed to help rural actors consider the long-term potential of their local region. It seeks that public subjects cooperate with non-profit subjects and entrepreneurs. The LAGs participating in LEADER obtain a block grant, which they further distribute to small-size projects proposed by subjects from the particular territory.

Although it is not an example of a joint provision of services or construction of infrastructure, there are clear and tangible benefits to the cooperation.

The following is an example of the most recent type of IMC in the Czech Republic. It shows how difficult it is to bring together such varied subjects.

The following table shows the main revenue sources and the expenditure structure in CZK thousands.

	2004	2005	2006	2007	2008
Revenues from inherent activity	5	105	5	0	0
Member contributions	61	39	122	85	72
Current transfer from the region	—	90	—	—	—
Investment grants from the state budget	—	4,188	450	—	—
Other investment grants	—	5,281	433	33	—
Current expenditures	18	159	72	12	37
Capital expenditures	—	9,457	1,058	—	—
Balance	48	87	121	106	34

Source: ARIS.

Name of the IMC	Přemyslovské střední Čechy
Type, number of municipalities involved	VMA, 21 and Local action group, 79
Number of inhabitants	VMA 22,811 and Local action group 66,761
Interviewees	Jaroslav Huk, manager of the VMA and member of board of the Local action group.
Year of formation	2004
Area of activity	Development of the region

There was no gas service available in the municipalities; however, there was substantial interest from both municipal officials and citizens. Forming the cooperation was the only possible avenue toward reaching this goal as none of the individual municipalities were big enough to convince the gas company (Východočeská plynárenská a.s, today RWE) to build high-pressure gas pipelines into the municipalities. Through cooperation, however, the municipalities ensured the gas company that there would be enough consumers to justify high-pressure pipelines. The gas company built the pipelines up to Žiželice (settlement Loukonosy), as well as establishing an adjustment (regulation) station from high-pressure to intermediate pressure for the total value of CZK 11 million. The rest of the pipeline was built by the municipal association and financed mostly via the state environmental fund.

Although the association carried out the project, these were in many aspects three independent projects: each of the municipalities made its own technical documentation, hired a building firm, and realized work inspections. Thus, no economies of scale could be realized!

The following table shows the revenue and expenditure of the association during the lifetime of the project in CZK thousands. The capital revenues in 2002 and 2003 are contributions from the inhabitants who were connected to the network, while 2006 reflects revenues from the sale of the network. The investment transfers came from the state budget, state environmental fund, and the central Bohemia region. Current expenditures in 2007 are transfers of the proceeds from the sale of the network to the member municipalities. Capital expenditures are related to the construction of the network. Over its lifetime the association's budget is balanced (the first three years of its existence are not presented).

	2001	2002	2003	2004	2005	2006	2007	2008
Capital revenues	—	1,233	890	—	—	9,000	—	—
Current transfers	1	1	—	—	12	5	—	—
Investment transfers	—	15,961	11,352	651	401	—	—	—
Current expenditures	1	1	11	1	352	1	9,006	1
Capital expenditures	—	15,194	14,232	4,506	100	—	—	—
Budget balance	0	2,002	-2,000	-3,856	40-	9,005	-9,005	1-

Source: ARIS.

Name of the IMC	Svazek obcí Ladův kraj
Type, number of municipalities involved	VMA, 24
Number of inhabitants	33,601
Interviewee	Dana Grossová, manager of the VMA.
Year of formation	2001
Area of activity	Tourism
<p>A group of mostly small municipalities located at the southeastern border of the capital city, Prague, wanted to promote themselves in respect to both their citizens (who mostly work in Prague and stay in their home municipalities only overnight) and to potential visitors. No first class sightseeing location is promoted within the region. Therefore 10 municipalities, today having grown in membership to 24 municipalities, established an association that identifies itself as the region of Josef Lada, whose drawings immediately recall childhood to everyone. The association managed to build a handful of natural and cycling trails, some of them especially designed for families with children. These activities make the region attractive for its own citizens as well as others, who would hardly visit the region without the image of Ladův kraj and the new trails. Despite only being adopted eight years ago, the name Ladův kraj has now attained brand-status. The municipalities, resulting benefits are a higher number of visitors which has enabled the survival and even the start-up of new restaurants and boarding houses. This success has also increased citizens' patriotism, as they now tend to be proud of being from Ladův kraj instead of simply from southeast of Prague.</p> <p>An example of a typical microregion with a good manager who applies for grants and runs projects with only little attention from the member municipalities and their officials.</p> <p>The revenue structure of this association is described in Box 3.1, a vast majority of the expenditures are current expenditures and the budget over the lifetime of the association is in surplus of CZK 200,000.</p>	

Name of the IMC	Vodárenská společnost Tábořsko, s.r.o.
Type, number of municipalities involved	Limited company, 3
Number of inhabitants	46,525
Interviewee	Bedřich Beneš, deputy of the company and mayor
Year of formation	2003
Area of activity	Provision of drinking water, sewage and a sewage plant
<p>Today, as a result of past development and geographical characteristics, these three municipalities form an agglomeration, i.e., one town is attached to another without a clear border. Thus the water system was always built as a single system. The first sewage plant from the 1970s was built as a joint investment. Therefore, in the 1990s when the former centralized water system was decentralized, the three municipalities had to run the system together. Until 2002 they cooperated in the framework of an interest association of legal persons when one member of the association was also the operator of the network (Vodovody a kanalizace Jižní Čechy, a.s.). This arrangement seemed unfavorable for the partnering towns as their position was not strong enough when negotiating with the operator, which was a member of the same association. Therefore, they decided to establish a limited company without direct involvement of the operator in 2003. The company is now subcontracting the operator.</p> <p>Impressively, despite the differences in the size of populations of the three towns and the initial capital they gave to the company, each of the mayors is acting as a deputy of the company and has one vote.</p> <p>The annual revenue of the company in 2008 was CZK 53 million. The profit in the same year was 18.8 CZK million.</p>	

Name of the IMC	SOČ Černošín							
Type, number of municipalities involved	VMA, 31							
Number of inhabitants	38,910							
Interviewee	Pavel Filipčík, manager of the VMA and council member.							
Year of formation	1993							
Area of activity	Waste management, landfill, education centre							
<p>Until the early 1990s the communal waste in the area was disposed of at a number of small, partly illegal landfills. Plans to build a bigger, modern landfill in Černošín trace back to the 1980s when suitable plots were identified. In 1991 the neighboring municipalities started to take steps to build the landfill; in 1993 they created a voluntary municipal association; and in 1994 they founded a limited company. The landfill started to operate in 1995. Today, the limited company provides complex waste management services for more than 25,000 inhabitants. Since 2008 an environmental education center has also operated there, financed by the state budget and the region (see the table below).</p> <p>The company operates in a competitive environment and the member municipalities are not obliged to contract it out, so the biggest town (Tachov) contracted out a competitor. If more municipalities were to do so the company and VMA would hardly survive.</p> <p>The table below shows the revenue and expenditure structure in CZK thousands. The association finances its activities and the majority of its investments from its own resources.</p>								
	2001	2002	2003	2004	2005	2006	2007	2008
Revenues from its own activity	6,157	1,678	2,620	2,794	3,036	17	1,255	—
Revenues from rent, interests and sale of small property	940	562	1,035	1,065	842	1,061	971	2,504
Capital revenues	—	—	—	—	—	—	1,067	33
Current grants from the region	—	—	—	—	—	—	33,893	—
Current expenditures	2,567	1,237	6,797	3,609	3,188	1,107	960	1,319
Capital expenditures	5,940	1,484	—	149	930	3,654	39,981	667
Balance	-1,410	-481	-3,141	100	-241	-3,684	-3,756	551
<i>Source:</i> ARIS.								

Name of the IMC	Svazek obcí Boží Voda
Type, number of municipalities involved	VMA, 4
Number of inhabitants	1,686
Interviewee	Josef Ulman, manager of the VMA and mayor.
Year of formation	1995
Area of activity	Provision of drinking water
<p>Between the years 1954 to 1965 a sizable drinking water network was built in central Bohemia. As there are rich sources of high quality underground water in Liběchov, water from the local sources flowed to this network. In this period all the households in Liběchov and the surrounding municipalities were connected to this network. After 1990 the prices of water rose rapidly (due to price liberalization and the abolishment of various types of subsidies) and consequently, consumption fell dramatically. Thus, water sources from Liběchov were not as necessary for the water supply in distant places as before. The water sources in Liběchov became important only for that area, while wider importance disappeared.</p> <p>In the framework of privatization and restitution, four municipalities created an association and requested the transfer of the group water supply (pipes) from the National property fund to the ownership of that association. This transfer was realized in 1995 and the association has continued to run the water supply since that time.</p> <p>Due to the technical aspects of the water supply system it was not possible to divide it among the four municipalities; therefore they acted together.</p> <p>The association collected revenue from operation of the water network and expenditures related to it. The average annual revenues in the period 2004–2008 were CZK 2 million; the association operated with a surplus of CZK 200,000 to 500,000.</p> <p>The association collected revenue from operation of the water network and expenditures related to it. The average annual revenues in the period 2004–2008 were CZK 2 million; the association operated with a surplus of CZK 200,000 to 500,000.</p>	

Name of the IMC	Technické služby Benešov, s.r.o.
Type, number of municipalities involved	Limited company, 2
Number of inhabitants	21,856
Interviewees	Zděněk Březina, deputy of the company and mayor. Martin Kadrnožka, vice-mayor.
Year of formation	1997
Area of activity	Waste management, cemetery management and maintenance, maintenance of public greens, repair and maintenance of local roads, town cleaning, and winter maintenance
<p>Týnec nad Sázavou provided all the communal services directly through its municipal office and its own 2–4 employees. This situation was not very satisfactory for a few reasons:</p> <ul style="list-style-type: none"> ▪ They had to rely on one garbage pickup. Thus in case of any breakdown (frequent due to the age of the pickup) they had enormous difficulties collecting the garbage. ▪ They owned several other machines (small lorry, small digger, and other mostly single purpose machines) that were used only occasionally. ▪ The person responsible for the communal services was overloaded, as he was also responsible for housing and investment. <p>Týnec nad Sázavou wanted and needed to solve the described situation. Benešov transformed its communal services unit into a limited company (Technické služby s.r.o.) in 1994. By the time Týnec nad Sázavou's problems cumulated in 1995–1996, Benešov's company was already a well-functioning one. Due to the shared knowledge of the situation in this geographical area the two towns agreed that Týnec nad Sázavou should enter into the company as a second owner.</p> <p>The main objective of Týnec nad Sázavou was to provide necessary services in an efficient manner, and especially, to capitalize upon the low usage of previously owned equipment.</p> <p>The annual revenue of the company in 2008 was CZK 84 million, out of which about 60 percent was realized in the two partnering municipalities; the remainder was revenue from servicing other municipalities. The profit in the same year was CZK 153,000.</p>	

Name of the IMC	VeltrusDominio
Type, number of municipalities involved	VMA, 8
Number of inhabitants	5,469
Interviewee	Bronislav Havlín, manager of the VMA and mayor.
Year of formation	2007
Area of activity	Development of the territory
<p>During the 2002 floods, the park next to the castle Veltrusy was severely damaged. The park is state property and the National monument institute manages it. Mayors of the surrounding municipalities were not satisfied with progress in the park's renovation and established the VMA as an interest group, which would have a stronger negotiating position regarding renovation of the park. They gradually also realized other (mostly) renovation projects in their territory.</p> <p>Veltrusy is also a member of Přemyslovské střední Čechy. Mr. Havlín did not consider the double membership a problem, as the interests of both VMAs are different according to him. However, based on two in-depth interviews, the declared purposes of both VMAs are very similar.</p>	

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Establishment and Development of
Intermunicipal Cooperation
in the Republic of Macedonia

Tome Sekerdziev

Table of Contents

Executive Summary	214
1. Methodology	216
2. Profile of Local Self-Government in Macedonia	217
2.1 Population and Territory	217
2.2 Competencies.....	221
2.3 Finance.....	222
2.4 Ethnic Diversity and Language	224
2.5 The need for Intermunicipal Cooperation in the Republic of Macedonia’s Municipalities.....	225
2.6 Intermunicipal Cooperation as a Solution	227
3. Legal Regulations Addressing Intermunicipal Cooperation	228
3.1 Law on Local Self-Government	228
3.2 Law on Intermunicipal Cooperation	230
3.3 Law on Equal Regional Development.....	235
4. Inventory of Intermunicipal Cooperation in the Republic of Macedonia	236
4.1 Local Economic Development.....	237
4.2 Primary and Secondary Education.....	239
4.3 Urban/Rural Planning.....	240
5. Obstacles and Incentives for Intermunicipal Cooperation	241
5.1 Obstacles to Intermunicipal Cooperation	241
5.2 Incentives for Intermunicipal Cooperation	242
6. Examples from Voluntary Municipal Cooperation in Macedonia	246
6.1 Cooperation among the Municipalities of Veles and Chashka in Renting Services among Municipalities.....	246
6.2 Cooperation among the Municipalities of Bosilovo, Novo Selo and Vasilevo in Establishing Joint Administrative Bodies....	249
6.3 Cooperation among the Municipalities of Ilinden and Gazi Baba in Establishing a Joint Communal Enterprise	252

7. Policy for Establishment and Improvement of Intermunicipal Cooperation in the Republic of Macedonia.....	255
7.1 Policy Recommendations	256
7.2 Concluding Remarks.....	261
Sources Cited.....	262
Notes	264

EXECUTIVE SUMMARY

The concept of intermunicipal cooperation (IMC) is not unknown in the Republic of Macedonia. The decentralization process has commenced with the adoption of the Law on Local Self-government of 2002 and the Law on Financing of Units of Local Self-government of 2004. Even though these laws transferred more functions and more sources of income to the municipalities, there are still areas of competence that cannot be performed in their entirety by the municipalities mostly because of scarce financial and administrative resources. In order to tackle such deficiencies, and under the threat of withdrawing the functions back to the central level, several municipalities have discovered that IMC can provide them with the necessary critical mass of resources. These critical resources would enable them to perform all given functions in the initial stage, while later to develop and improve them by providing better and/or cheaper services to their citizenry. These solutions remain exceptional and are examples of spontaneous case-by-case resolutions of particular mayors that had the political goodwill to enter into cooperation. Overall, however, the country still lacks a well-designed and developed IMC policy system.

With the above issues in mind, the paper will discuss Macedonia's overall situation in light of the decentralization functions and financial resources allocated to municipalities, and will also present the sentiments of municipalities toward IMC and its potential.

The legal framework for local self-government in the country is mainly presented through the Law on Local Self-government. It is broad in allowing various forms of IMC when providing services to citizenry and enabling local economic development. This law does not impose any restrictions on the establishment of forms of cooperation, and by the same token, does not provide any clarification in the matter. Still, the law has proven sufficient in allowing proactive mayors to pioneer IMC in practice and to trail blaze for other municipalities with similar needs which can also be resolved through certain forms of cooperation.

The lack of a systematic approach towards incitement, establishment, implementation, monitoring, and replication of the good practices of IMC has been targeted by a special Law on Intermunicipal Cooperation, adopted by Parliament during the creation of this paper. Prepared over the course of several years with the help of various experts, ministerial, local, and other concerned stakeholders, this Law on IMC has emerged in its final state. Now only practice and time will show the effectiveness of the solutions provided therein.

In order to convey the efforts of international and domestic stakeholders to initiate IMC, this paper presents all of the available incentives that are provided for municipalities. Predominantly presented are the initiatives of international organizations such as the OSCE mission to Skopje and the UNDP project team, which is currently managing a multifaceted biannual project in the amount of EUR 900,000. The incentives section shall show that foreign organizations are leaders in promoting IMC while national institutions are more

dormant and need to become proactive. Areas of such needed activity include participation in the financial incentives as well as in the capacities to influence the municipal political leadership and to render skills to municipal administrations for the successful implementation of IMC forms on the local level.

As a counterweight to the incentives, the research also presents obstacles that municipalities face in their efforts to implement cooperation. The most probable among these obstacles will be defined in order to find solutions by which to overcome them by creating policy proposals and implementation methods.

Aside from research that addresses the overall faults and virtues of IMC in Macedonia, several specific examples are presented as good practices. These examples cover different forms of cooperation such as the selling of services in the field of tax administration management for Veles and Chashka; the creation of joint administration for collection of taxes, urban planning and inspectorate services for Bosilovo, Vasilevo, and Novo Selo; and the creation of a joint communal enterprise for water supply in the municipalities of Ilinden and Gazi Baba. The level of detail in the examples serves not only as description, but also as an inspiration for the replication of these examples throughout other municipalities in the country.

At the end of the policy paper, proposals are made according to various aspects since a comprehensive policy is versatile by nature. However, different scenarios will not be offered as it is best for policymakers to write their own scenarios and decide which recommendations will be implemented according to political will and achievability.

These policy proposals involve recommendations for:

- Correct implementation of the Law on Intermunicipal Cooperation.
- Extensive translation of the law to enable easier and more versatile IMC.
- Financial support through granting or loaning available from national and international sources.
- Building of the administrative capacities of local and national IMC stakeholders.
- Adequate monitoring and evaluation of the IMC in order to remedy mistakes in short term and create improved policy in the long term.
- Stronger promotion of IMC benefits and greater political will for cooperation.

It is important to mention that IMC in Macedonia has a special attribute that goes beyond the technical cooperation of two or more municipal administrations providing services or forming a public utility enterprise. Even though research shows that ethnic belonging is neither the key incentive for cooperation nor the key impediment for dismissal of cooperation, IMC also needs to be viewed as a tool for building social capital among the diverse ethnic groups populating this small country. All opportunities should be taken to connect municipalities and form alliances among them since participation by different ethnicities represents added value to the effort of establishing IMC.

1. METHODOLOGY

The research methodology for this paper includes several methods ranging from desk research analyzing the national decentralization strategy and legal framework, in addition to local bylaws, manuals, and other written documents, and also includes interviews, questionnaires, and discussions with relevant stakeholders of the IMC topic in the country.

The desk research was used to analyze the written legal documents that would allow for correctly positioning IMC within local self-government's general legal system. The provisions from the Law on Local Self-government,¹ the Law on Financing of Units of Local Self-government,² and the Law on Intermunicipal Cooperation³ were analyzed in more detail. The specifics of these laws and their bylaws were scrutinized to view the course of IMC in Macedonia mostly through its allowed forms as well as the financial regulation and sources for initiation of IMC.

Interviews conducted with mayors and council members included in the development of functioning IMC practices are presented below in the paper. The questions were composed to clarify what reasons and identified needs determined IMC as a solution. They were also asked what political steps were necessary in order to reach the consensus to join funds and other local resources with other municipalities. March 2009's local municipal elections, in which some mayors were replaced, presented the need to discuss future IMC development with newly elected mayors. On a more technical front, consultations were done with members of the municipal administration responsible for the actual implementation of IMC in the field. They provided valuable information on how IMC functions in practice and helped in pinpointing specifics of IMC where their municipality is included.

As a key institution, the Ministry of Local Self-government was consulted regarding the design and implementation of both the Law on Intermunicipal Cooperation as well as the policy for future development.

ZELS⁴ was consulted in the drafting of this paper as a potential partner to the municipalities to alleviate the importance and the number of areas of IMC in the future.

The most relevant in-country international organizations that financially support IMC were also consulted. Primarily this was the team of the UNDP project "Inter-municipal cooperation for better service provision and EU accession," but also the OSCE Mission in Skopje program for support of IMC. The responses of all the stakeholders are included in the parts that are connected to their scope of activities.

Some of the findings related to the relation of the municipalities towards IMC used in this research are drawn from the six surveys made by a project financed by the EU and managed by the European Agency for Reconstruction "Technical assistance for implementation and coordination of the process of decentralization (II)," together in cooperation with the Ministry of Local Self-government, for the purpose of assessing

the factual situation within the municipalities regarding the preparation of the Law on Intermunicipal Cooperation. These six surveys were conducted nationwide and questionnaires were sent to all of the municipalities. The questionnaire contained questions regarding established forms of IMC, areas of cooperation, obstacles to IMC, the level of human resources for IMC, future challenges and possible areas of future IMC, etc. However, not all municipalities replied to all questions so this leads to the conclusion that numbers of the replies may vary on a case-to-case basis. It is also possible that not all municipalities correctly understood the questions and their answers might not prove useful.⁵ The clearest answer that may be deduced from the surveys is that although they may show a general indicative direction there is no absolute clear assessment of the needs of the municipalities, nor is there a valid evaluation of their interest in IMC.

The methodology encompasses a comprehensive consultation of all relevant stakeholders in IMC in order to secure all the different perspectives of this matter, which is in the beginning of its serious development in the Republic of Macedonia.

2. PROFILE OF LOCAL SELF-GOVERNMENT IN MACEDONIA

2.1 Population and Territory

According to the definitive 2002 census results announced by the State Bureau of Statistics,⁶ Macedonia has a population of 2,022,547. Broken down into ethnic groups, the population consists of 64.18 percent or 1,297,981 Macedonians, 25.17 percent or 509,083 Albanians, 3.85 percent Turks, 2.66 percent Roma, 1.78 percent Serbs, 0.84 percent Bosniaks, 0.48 percent Vlachs, and 1.04 percent or 20,929 other ethnic groups. It should be mentioned that this ethnic versatility is relevant since the political parties, although declaring themselves oriented to the left or right, are still predominantly composed along ethnic lines. The alignment of ethnic political parties with territorial organization are evident during local elections when the ethnic majority in the municipalities always wins the mayoral seat. The political platform of mayoral candidates is often attacked on the basis of their ethnic origin.

The territorial organization of the Republic of Macedonia has been altered twice since dissolution from the Yugoslav Federation in 1991. After the proclamation of independence, the number of units of local self-government was 34, functioning continuously from the previous system but in a centralized environment with limited functions and little resources to manage the competencies awarded.

In 1996, Macedonia's territorial organization was redistributed by a Law for Territorial Division that formed 123 new municipalities, among which several had only a

few hundred inhabitants. Several also lacked both financial and staffing resources (often conditioned by central approval as allocated in 1995's Law for Local Self-government) to implement their limited functions.

The Law on Territorial Organization in 2004 designed the current territorial organization of the Republic of Macedonia. With this Law, the formerly 123 municipalities were reorganized into 84, merging smaller local self-governments with larger ones. The intent was to form local centers capable of administering two main processes: that of transferring competencies awarded by the 2002 Law on Local Self-government; and the process of fiscal decentralization as per the 2004 Law on Financing of Units of Local Self-government.

This new territorial arrangement was carried out during a tense atmosphere accompanied by an unsuccessful referendum against the proposed change. To succeed, the new local competencies stemming from the amended constitution in 2001 following the Ohrid Framework Agreement and the 2002 Law on Local Self-government needed a new framework. It was necessary to alter the territorial organization in order to achieve a system of municipalities with the capacity to implement all their new functions. The experts that were included in the defining of the optimal size of the municipalities suggested that the Republic of Macedonia should have 50⁷ municipalities produced through amalgamation of the existing 123. However, the creators of the new municipal map were influenced not only by easing the technical functions of the new municipalities but also by political pressure coming from the ethnic diversity of the country's population. The units of local self-government with greater competencies and financial resources were very tantalizing spoils for political parties from dominant Macedonian and Albanian ethnic blocks. The political discussions regarding municipal boundaries not only considered the successful implementation of functions but also their demographics. This consideration produced consequences in the areas of official language,⁸ child education, and mayoral elections, based on the presumption that an ethnic population would elect a mayor from its own ethnicity. Therefore a majority ethnic Albanian municipality will always have an ethnic Albanian for mayor.

Practice demonstrated and confirmed this presumption when during the 2009 local elections,⁹ when out of the 84 municipalities, 16 municipalities that have an ethnic Albanian majority elected ethnic Albanian mayors regardless of their political party. This ethnic election of mayors is even visible with smaller ethnic groups such as the Roma, who have the majority in one municipality (Shuto Orizari) and have a Roma mayor. Likewise ethnic Turks have the majority in the municipality of Centar Zhupa where an ethnic Turk was elected mayor.

For the reasons listed above and after tough political negotiations, it was agreed to propose a total of 84 new municipalities. This was met with dissatisfaction from smaller

municipalities¹⁰ whose existence was terminated. They organized local referendums against the new organization; however, the referendum results were not taken into consideration since they had only an advisory, not an obligatory function.

A nationwide referendum for keeping the old territorial organization was initiated by the gathering of 180,000 citizens' signatures. However, conducted on November 7, 2004, the referendum was unsuccessful since there was less than a 50 percent turnout of the total number of voters.¹¹ This was due mainly to the fact that the governing coalition, the ethnic Macedonian SDSM (Social Democrat Alliance of Macedonia) and the ethnic Albanian DUI (Democratic Union for Integration), boycotted the referendum. Therefore, the final result was the present solution of 84 municipalities, out of which some were the collateral damage of ethnic political arrangements.

The approach of determining the municipal boundaries through amalgamation was not very efficient since there were a number of municipalities that remained with quite a small number of inhabitants. These municipalities also remained unequipped to collect the taxes that were given to them, make urban and spatial planning, manage education, and provide efficient water supply and sewage systems. At the same time, the smallest municipalities often could not resolve the issue of debts from previous years and found their bank accounts blocked by their creditors through the courts.

These newly composed municipalities started their work without any skilled staff or with only a small number of employees transferred from the local units of several ministries. These human resources were neither trained nor adequate for overtaking the new tasks of the local self-government. For example, even now, several years after the beginning of the decentralization process, there are a number of municipalities that do not have a unit for managing the education process even though this undertaking comprises almost half of the municipal budgets. Furthermore, a specific function such as urban planning is rarely executed in the smaller municipalities simply because there are no qualified personnel or adequate modern technical equipment for such a task. Another noticeable issue is in the area of conducting inspections of local competences where small municipalities do not have their own inspectors.¹²

Table 4.1
Population Profile of Municipalities

Population profile of municipalities	
Below 5,000	16
5,000–10,000	16
10,000–20,000	21
20,000–40,000	14
40,000–60,000	8
60,000–80,000	5
80,000–100,000	3
Above 100,000	1

Table 4.2
Surface Area Profile of Municipalities

Area profile of municipalities	
Less than 100 km ²	15
100–200 km ²	20
200–300 km ²	16
300–400 km ²	8
400–500 km ²	13
500–800 km ²	8
800–1,000 km ²	3
Above 1,000 km ²	1

As Tables 4.1 and 4.2 show, municipalities in Macedonia are not large in terms of population. With only one metropolitan city among them, they are not very large in area either. The territorial dispersion of municipalities consists predominantly of several small rural municipalities around one larger city, which is among other things an administrative, educational, and cultural center. The smaller municipalities gravitate to the larger one for business and institutional needs. The larger municipalities always have more developed institutions that serve as a council for the smaller ones, establishing a specific dependent relationship between the two parties. This is quite visible in the area of IMC as well, since the cooperation is very often among the smaller and the larger municipality, even though there are examples of cooperation between small municipalities.¹³

2.2 Competencies

Local self-government in Macedonia is regulated with several benchmark documents. The first one is the Constitution of the Republic of Macedonia, adopted on November 17, 1991, wherein Chapter V is dedicated to establishing a single tier system of local self-government. The Constitution determines the right of the people to organize in units of self-government in the form of municipalities and awards the discretion to organize even smaller neighborhood units in the form of *mesna samouprava*.¹⁴ This supreme legal document also distinguishes the capital of the country, the city of Skopje, as a separate unit of local self-government whose competencies are determined by special law.

Since 1991, Macedonia has adopted two laws regulating local self-government. The first one was adopted 1995 and came into use in 1996. This law regulated the competencies and organization of municipalities but it also actually confirmed their centralized functioning and central government oversight.

The later and still valid Law on Local Self-Government was adopted in 2002 following the constitutional amendments of 2001. This law provided for an extensive list of original competencies awarded to the municipalities as well as the option for the central government to delegate functions to the municipalities, granted that the financial means for their execution are also provided. The list of original competencies¹⁵ now includes:

1. Urban and rural planning;
2. Protection of the environment and nature;
3. Local economic development;
4. Communal (public) utilities;
5. Culture;
6. Sport and recreation;
7. Social security and protection of children.
8. Education;
9. Health protection;
10. Conducting preparations and undertaking measures to protect and rescue citizens from war, natural and other emergencies, and their consequences;
11. Fire protection;
12. Oversight and control over the execution of competencies;
13. Other matters determined by law.

These enumerated competencies are only listed in the general (organic) Law of Local Self-government, while for each competence there are sectoral laws determining

detailed regulation of education, environment, culture, fire protection, and other such matters. The long list of original competences adequately reflects the broad scope of possibilities for cooperation among municipalities in the process of executing their tasks in accordance with the provisions of sectoral laws.

Each of these sectoral laws has a different impact on IMC. Some lend themselves to intermunicipal cooperation while others simply order mandatory cooperation. For example, the Law on Fire Protection adopted a regional approach for resolving this matter, ordering groups of municipalities to cooperate in order to provide a service that is available to all of them at affordable prices through the use of scale economies joint manpower and other joined resources. However, It would not be correct to categorize such laws within the IMC framework that is being presented here.

Other laws are interesting for IMC because they provide for a certain task to be executed by a specific number of qualified staff that not every municipality has on hand.¹⁶ Without such staff the municipality is in danger of losing or not being able to execute the functions that are transferred to them according to the process of decentralization. This danger seems to be pushing smaller municipalities to ask for assistance and cooperation, most often from the bigger neighboring municipalities, to share skilled administration and assist them in performing these tasks. The examples can be found in the laws regulating the financial management of the municipality as well as legal provisions regarding the municipal inspectorates.

The final group consists of municipalities that are self-sufficient but have identified interest in providing better, broader, cheaper, closer services to their citizens. These municipalities voluntarily cooperate to achieve a higher level of municipal functioning. They use the sectoral laws to find methods and models of cooperation that best suit them and employ such options for the benefit of their citizens. These municipalities have formed joint communal enterprises¹⁷ or have created a local development strategy for the microregion they occupy.

2.3 Finance

The Law on Financing Local Self-government Units was adopted by the Parliament of the Republic of Macedonia on September 6, 2004. The aim of the law was to put into practice (in a consistent manner) the constitutional provisions related to the independence of the local self-government units.

The law regulates the financing of municipal functions and defines two types of revenue sources: inherent revenue sources and other financing sources. The law defines and separately details revenue sources, both inherent revenue sources and transfers provided from the general budget of the Republic of Macedonia, including loans.

Inherent revenue sources should provide funds for implementing the functional and financial independence of municipalities.

Inherent revenue sources in compliance with the law are the following:

- local taxes (property taxes and other local taxes stipulated by law);
- local fees (communal fees, administrative fees and other fees stipulated by law);
- local charges (communal construction charge, communal service charges, spatial and urban plan charges and other local charges stipulated by law);
- property income (rent income, interest and property sales income that do not interfere with the public functions and competencies of the municipality);
- a portion of the personal income taxes collected in the current year (100 percent collection from natural persons performing crafts within the municipality territory in compliance with the Law on Crafts);
- a three percent collection of personal income tax from natural persons with permanent or temporary residence in the municipality concerned;
- income and in-kind contributions;
- income from fines stipulated by law;
- income from donations;
- other income stipulated by law.

By means of earmarked grants from the general budget of the Republic of Macedonia and from funds, the central government provides additional revenue for the smooth performance of legally stipulated competencies.

The Law on Financing Local Self-government Units defines the following transfers from the central budget and the funds:

- income from the value added tax (three percent from the overall income on the basis of VAT collected in the previous fiscal year; municipalities are given complete freedom regarding the use and purpose of these funds);
- earmarked grants (for specific activities, transferred from ministries);
- capital investment grants (strictly determined amounts for capital investments);
- block grants (financing entire sectors for municipalities in the 2nd stage of fiscal decentralization);
- delegated competency grants (for specific delegated competencies).¹⁸

Fiscal decentralization in Macedonia, according to law, was planned to occur in two phases. The first phase started in July 2005, and for municipalities that had

fulfilled the criteria for progression, the second phase began in September 2007. One of the criteria for progression in fiscal decentralization was the requirement that the municipality have adequate staff for financial management and tax administration, which was an inspiration for intermunicipal cooperation between less developed and more developed municipalities.

With healthy management, local authorities can increase revenue from their own inherent sources. Local taxes and fees can and should be the most important municipal revenue sources. Appropriate implementation of legislation enables expansion of tax basis, introduction of new types of fees and charges, as well as an immediate increase of income and improvement of budgeting and financial planning, leading to an increase in indirect revenue.

An important option for municipalities to obtain financial means outside their sources of revenue is local borrowing or the taking of loans or credits by the municipality for capital means and investments. The Law on Financing Units of Local Self-government allows the municipality to take loans only after consent from the government of the Republic of Macedonia based on the Ministry of Finance's opinion. The Ministry of Finance must determine that two conditions have been fulfilled by the municipality, namely that in 24 months prior to the application of the Law on Financing Units of Local Self-government, the municipality has regularly submitted positively evaluated financial reports and in this period has no outstanding obligations to its service providers and business partners. The municipal council must adopt the taking of the loan after a public debate in the municipality regarding the loan. The loan imposes a limitation on the annual return of the loan, citing that it be no greater than 15 percent of the operational budget of the municipality for the previous fiscal year. Local borrowing is a viable option to accumulate funds for initiating IMC, especially for projects of great financial cost such as the construction of a system for drinking water, sewage, and waste management.

2.4 Ethnic Diversity and Language

The Constitution of the Republic of Macedonia and the Law of Local Self-government stipulate that the official language in all municipalities is Macedonian and the Cyrillic script. Since amendments to the Constitution in 2001, in municipalities where more than 20 percent of the population uses a language other than Macedonian and the Cyrillic script, that language and script are now also in use. If communities that make up less than 20 percent of the population populate a municipality, the municipality council can introduce another language into official use by its own decision. At the moment in 32 Macedonian municipalities languages and scripts other than Macedonian and Cyrillic script are in use where their communities make up more than 20 percent of the population in the municipality:

- In 28 municipalities, Albanian language and script are in use;
- In 4 municipalities, Turkish language and script are in use;
- In 1 municipality, Serbian language and script are in use;
- In 1 municipality, Romani language and script are in use;
- In 1 municipality, Vlach language and script are in use.

However, the real situation within the abovementioned ethnically mixed municipalities is not identical with the one presented. Namely, many municipalities do not actually implement bilingualism into their everyday work due to the lack of financial and human resources. Research has shown that 14 out of the 32 municipalities do not provide for the official use of minority languages, whereas in 15 out of the 32 there are problems with offering services in Macedonian when the ethnic Macedonian population is not in the majority.¹⁹

In surveys regarding relations among local governments, ethnicity and language have never been considered relevant factors toward intermunicipal cooperation or impediments against it. Bilingual municipalities cooperate in exactly the same areas as monolingual ones because they must all tackle the common problems of effectively executing local tasks. Examples²⁰ of municipalities with varied ethnic compositions are numerous throughout the country. Therefore the perception from all interviewed stakeholders that ethnic composition is neither a reason nor a barrier to cooperation is understandable, despite the fact that such ethnic composition must be taken into consideration as relevant factor towards or against IMC.

In a country such as the Republic of Macedonia it is prudent to see this issue from the opposite perspective, in other words, rather than consider how the ethnic structure influences IMC, take into account how the practice of IMC relates to ethnic cohabitation and cooperation. The important function of IMC as a problem-solving tool may prove of utmost importance in building social capital among multiethnic municipalities. Cooperation according to strictly technical issues can foster a tradition of cooperation and mutual trust for greater collaboration with the higher political importance necessary for the adequate functioning of all municipalities.

2.5 The Need for Intermunicipal Cooperation in the Republic of Macedonia's Municipalities

The profile of the Macedonian municipality presented above provides us with an idea of the array of local entities that vary in size, with populations that differ both in number as well as in ethnic composition, and of municipal administrations that

vary in their number of employees and their capacity to execute local functions. Most municipalities have scarce budgetary resources stemming from their small line of income in the face of the large expenditure essential to municipal functioning and administrative services.

Regardless of the named differences, all of these municipalities share an equal number of competencies under the country's single tier system of local self-government. Among other duties, each of the 84 municipalities is equally responsible for tax collection, education management, urban and spatial planning, and local economic development. Comprehensive execution of all delegated responsibilities allows the municipalities to exercise the benefits of fiscal decentralization; this includes (but is not limited to) alleviating the managerial level of the municipality regarding local financing, transferring of block donations, allowing the option for taking loans, and the collection of local taxes. Furthermore, each municipality must provide all delegated services in a quality manner to their citizens under the threat of surrendering the given competences to the central level and the related ministry.

Considering the country's territorial established process for organizing and forming municipal territorial lines, it is obvious that a new territorial organizing method, one that creates bigger more sustainable municipalities by absorbing smaller neighboring municipalities, will be a very difficult and dangerous task. The political price of this kind of reorganization will be much more costly than the benefits that any such amalgamation could offer if ever achieved. Political stakeholders shall always look beyond the technical practicalities of amalgamation when redesigning the municipal territorial map, which will only confirm the prominence of this issue's "bone of contention." Consequently the option for regionalization and amalgamation seems much too dear a solution, which in the long term may provoke consequences beyond the theme of this research.

Discarding for a moment the possible political implications of territorial amalgamation, it is necessary to return to the aforementioned technical practicalities. Included among these technical practicalities are the provision of cheaper services to citizens by utilizing an economy of scale, provision of better services to the citizens for the same price, optimal usage of quality administration by the municipalities, administering of large infrastructural systems, and other tasks which are greatly needed by Macedonian municipalities.

The provision of services by the municipalities is often expensive since all of the municipalities must have the same institutional structure for providing the services. In this case the fixed expenses are identical regardless of the number of citizens that are served (for example every municipality needs an education inspector regardless of whether the municipality has one or ten schools). The only other option would be that the municipality does not provide the expensive service, which would lead to the conclusion that the citizens of such a municipality are discriminated against in relation to other municipalities that did receive such service.

2.6 Intermunicipal Cooperation as a Solution

Despite seeming like a large problem, the problems of the current local self government system can be tackled by political good will and the establishment of intermunicipal cooperation. IMC, defined as “*cooperation deliberately organized between two or several municipalities, for a certain duration or permanently, on matter(s) falling into the legal competences of the municipalities, with the aim of improving municipal functions and obtaining mutual benefits,*”²²¹ actually provides for the joining of available resources to meet the municipalities’ identified needs. Questions regarding the form, duration, and the results of cooperation should remain defined by the partners’ agreement, but IMC should be accepted as a plausible tool for overcoming some of the problems of local self-government in Macedonia.

Indicative sources of information regarding the need of IMC are the several surveys conducted through the “Technical Assistance for implementation and Coordination of Decentralization Process (Phase 1 and 2),”²²² as well as from the Ministry of Local Self-government. In April 2007 a very important question was: What was the main reason for establishing intermunicipal cooperation?

The reasons that were collected from the replies of municipalities were the following (ranked from most to least important):

1. Lack of finances and saving on expenditure (referring to the lack of finances for setting up municipal institutions and the savings produced when a function was performed through cooperation);
2. Improvement of service delivery at same or lower cost (services provided either by the municipalities or the public enterprises founded by the municipalities);
3. Lack of specialized human resources (prompting the buying and selling of intellectual services, mostly from a larger municipality with skilled staff to a smaller, poorer municipality);
4. Successful cooperation in one area triggered cooperation in another (social capital built in one area produced a tradition of cooperation among municipalities).

As mentioned in the introduction, IMC is not a new concept in the Republic of Macedonia. There have been several very successful cases that have produced positive results and helped promote the idea of cooperation through achieved benefits, primarily through saving on expenditure, but also in providing quality services to citizens. Beyond financial profit, IMC has contributed to the development of a tradition for cooperation among municipalities. Because of their acquired confidence as reliable partners those municipalities now seek to continue their relationship and tend to work together on activities not related to their original area of cooperation. Built in such a manner, this

social capital is important for a country like Macedonia where turmoil in the early 2000s drew deep lines, especially between the Macedonian and Albanian ethnic communities. This intermunicipal cooperation may serve as a valuable instrument to connect people on the local level, helping destroy nationwide stereotypes that hold the country hostage to interethnic tensions.

The final conclusion does not pertain to whether or not the practice of IMC is needed, but rather that a comprehensive and systematic approach to this issue is needed and desired. In fact, sometimes the correct approach appears to be the only solution.

3. LEGAL REGULATIONS ADDRESSING INTERMUNICIPAL COOPERATION

The need of intermunicipal cooperation was presented to be more than evident both in the identification of municipalities' existing needs, the realization on their own behalf of the importance of IMC, as well as the role of IMC in building social capital among citizens and administrations of two or more municipalities especially if they are from different ethnic backgrounds.

The following chapter presents the legal environment regarding the possibilities for municipalities to cooperate among themselves.

3.1 Law on Local Self-Government

The Law on Local Self-government, in Article 14 (Paragraphs 2 and 3), gives the option for intermunicipal cooperation for the purpose of fulfilling common interests and executing common services through the joining of funds, creation of joint public enterprises, and using joint administration:

(2) "For the purpose of fulfilling of common interests and conducting joint competences of the municipalities, they can join funds and create joint public services, in accordance to law."

(3) "For the purpose of executing certain competencies, the municipalities can form joint administrative bodies in certain areas in accordance to the law."

This article only sets up the options for cooperation without further regulating it, while other laws like the Law on Public Enterprises, the Law on Waste Management, and the Law on Urban and Spatial Planning act as *lex specialis* for more detailed codification of the cooperative relationship. These laws rarely limit the options for cooperation and are very broadly designed to allow for the development of IMC. Apart from these specific

laws, there is an abundance of legislative acts that provide opportunity for cooperation. These laws cover environmental issues, sport, culture, regional development, tourism, fire protection, social protection, and more.²³

Article 15 of the Law on Local Self-government also provides the option to create an association of local self-governments. In Macedonia such an association is ZELS, or the Association of Units of Local Self-government. Its role is to act as an organized body for cooperation among municipalities and a relevant stakeholder as well as legitimate participant in negotiations and legislative drafting with the government and line ministries that concern the municipalities.

The Ministry of Local Self-government, on the other hand, according to this law, has no responsibilities (such as issuance of permits or inspection of cooperative relations) in the area of municipal cooperation. The Ministry's only task is to keep record of international inter-municipal cooperation. On the other hand this does not mean that it is forbidden for the Ministry to provide incentives for municipal cooperation in execution of the national governmental plan relating to local self-government.

Article 61 of the Law on Local Self-government provides for the establishing and dismissal of joint administration among municipalities. These forms of joint administration are established and dismissed by a majority decision within each of the concerned municipalities' municipal Councils.

Based on the decisions of each of the councils, an agreement is concluded which establishes the joint administrative body, its seat, the object and manner of performing its activities, usage of the material equipment and other assets, and finally the control, oversight, and dissolution of the joint administrative body. This agreement is published specifically in the *Official Gazette of the Republic of Macedonia*, while other decisions and agreements of local self-government are published only in the municipalities' official gazettes.

In the complete text of the Law on Local Self-government there are no impediments to the establishment of any kind or form of IMC in the country. The municipality can freely choose the area, scope, methods of management, division of powers, accountability, and all other components for forming a functioning IMC. Actually the only limitations that are present arise from the laws that regulate the specific content of the matter arranged by sectoral laws.²⁴

The absence of such kinds of limitations or exceptions to the freedom for cooperation, together with the broad wording of the Law on Local Self-government, present plenty of opportunities for municipalities to join efforts for *ad hoc* project management as well as building continuous long-term alliances.

3.2 Law on Intermunicipal Cooperation

The Law on Intermunicipal Cooperation was adopted and published on June 24, 2009. It represents a legislative instrument to institutionalize various forms of cooperation among municipalities and has the goal of “completing the legal regulations regarding specifically the legal forms or shapes of IMC as well as the forms of joint administrative bodies.”²⁵

The need for such regulation was identified and is the reason that there is a single tier local self-government featuring a number of small municipalities with small financial and human resources as well as a lesser degree of responsibilities resulting from the process of decentralization of power. The size of the municipalities however is not as small as the comparative perspective would show. For example, the Czech Republic has more than 6,000 municipalities, Georgia has 900, while Italy has 8,100 municipalities, out of which 75 percent have a population below 3,000 inhabitants.²⁶ The representation of municipalities in the Republic of Macedonia as “small” mostly reflects their small capacity for execution of the functions given to all of the units of local self-government regardless of elements such as their size, population, administration, or infrastructure.

As Article 2 of the Law declares:

“Intermunicipal cooperation as in this law is the cooperation established among two or more municipalities for more efficient and more economic performance of the competences of the municipalities determined by law and fulfillment of their joint interests and goals.”

One of the main benefits directly expected from this law is the more efficient and economic execution of competencies by municipalities using available administrative capacities in conjunction with the principle of economy of scale. The law, however, does not instruct nor order any certain type of forced cooperation, but is based on the principle of relevant stakeholders’ voluntary discretion to choose the adequate form.

The initiative for establishing IMC can be started by the mayor of the municipality as well as members of the municipal council, and also by 10 percent of registered voters in the municipality (identical to any other citizen initiative).²⁷ The possibility to initiate IMC by the citizens represents a direct democratic option as a viable tool for local decision-making. In the future this option may be especially important for providing certain services like water supply or garbage collection to hamlets outside the center of the municipality. It may also be used for connection and cooperation among municipalities in the social and cultural sphere for common promotion of the socio-cultural characteristics of a region consisting of several municipalities. Leaders in the creation of IMC that stem from the citizens initiative can be of two types. The first one is the NGO sector with organizations established in one or more municipalities, while the other key initiator may be the so-called *mesna samouprava*,²⁸ which is a submunicipal form of organization without the status of a legal entity but historically significant in

smaller habitats. These two stakeholders have the greatest chance to realize the letter of the mentioned provision. These possibilities need to be explored in the future, since there is no record of such citizen initiative in past IMC establishment.

The initiative containing the goal, the relevant competence, and the form of the proposed IMC is submitted to the municipal council. The council must decide upon the proposal in 90 days upon its submission and inform the citizens of its decision. If the council approves the initiative for IMC, it prepares an official proposal for establishing IMC and delivers it to the other potential partner municipalities.

The municipal council/s to which the proposal for IMC is directed, must confer within 90 days from the day of receiving the proposal. The mayors of these municipalities also give their opinion regarding the proposal.

If the councils accept the proposal for IMC, a joint commission consisting of an equal number of representatives from each municipality is formed for preparation of the draft document for establishing the IMC and all necessary documents prescribing the form of the IMC.

The law provides for the following options for IMC²⁹:

- a) Formation of bodies for IMC
 - Joint working body and commission
 - Joint administrative body
- b) Establishment of joint public services³⁰
 - Joint public enterprise
 - Joint public institution

The draft version of the text of this law also contained the option to form a joint trade company, which allowed the IMC to include the private sector through creation of a trade company that would utilize the capital of the cooperating municipalities as well as a component of private capital. This would enable the poorer municipalities to form partnerships among themselves and a private investor in providing public services to the citizens. The deletion of this provision, however, does not impede this kind of public-private partnership because it is allowed by the Law on Public Private Partnerships and Concession (Official Gazette No. 7/2008), as well as with the Law on Trade Companies (Official Gazette Nos. 28/2004, 84/2005, 25/2007, 87/2008).

“Intermunicipal contracts” can be also made for:

- Joining of financial and other means;
- Performing certain works by one municipality for one or more other municipalities.

The law continues to elaborate on each of the forms of IMC, determining necessary provisions for straightforward operation of the selected manner of cooperation. The law determines the elements of each of the forms of IMC (although they are already provided in other laws and bylaws) thus bringing the provisions into a document that compiles previous regulations.

The law also does not present obstacles through conditions for establishment, ministerial approval, or any other criteria by central (ministerial or other) bodies toward the choice for cooperation by the municipalities.

The law provides for “instruments for inciting IMC” listing them as:

- Irreversible grants.
- Financing and co-financing of preparation of analysis and studies pertaining to areas of broader importance and interest with the goal of conducting activities in such areas.
- Other instruments in accordance to law.

The instruments for inciting IMC are very weak since they do not provide any substantial assistance to the municipalities. Rather they are undefined in their amount, method of allocation, and areas of activity, among other criteria.

The municipalities need a financial instrument to commence the initial phase of functional IMC. The needed resources for activities like renovation of premises, buying of furniture, vehicles, computers, wireless links, and others cost money which the municipalities are sometimes unable to afford at the time, although one year of IMC-related expenditure savings would probably provide them enough money to repay these expenses. For this reason the municipalities need a well developed and approachable grant scheme that would allow them to secure a grant and make the investment. An alternative for the municipality is the loans that would allow repayment in several years under a low interest rate. This solution is preferable to irreversible grants for the incitement of IMC units by municipalities, since such grants would be scarce if established at all, and would incite a political battle to determine which municipalities would be the beneficiaries. The finances used to “jump start” IMC surely pay off in the long-term perspective and this is one of the real incentives for mayors to support IMC.

The second instrument for inciting IMC is also not the most favorable. Financing studies is only one step in the initiation of IMC, no matter whether we call it a “feasibility study,” “project assessment,” “cost benefit analysis,” or any other euphemism from the project terminology. Financing of the analysis does not incite IMC *per se*, but rather gives a theoretical perspective on possible solutions.

The third instrument is the use of general provisions in accordance to law, but since this is the *lex specialis*, it is unclear which law applies.

All of these, especially the financial incentives, are determined only as a possibility rather than an obligation by the government to provide budgetary means for IMC. Throughout the law the wording is that the government “may” plan financial resources from the previous budget as a projection for the next year.

These kinds of “incentives” do not demonstrate a serious will for initiating new practices of IMC in the country.

The government is obliged to support and encourage IMC as well as secure financial means to enhance cooperation. The government is also obliged to prepare a special document specifying the criteria and complete procedure for allocation of funds earmarked for IMC.

The government is also obliged to create a commission³¹ for initiating and following IMC with the mandate to track the established forms of IMC, initiate changes in IMC legislation, identify the best practices of IMC, and support initiatives for IMC. The versatile composition of this commission is as follows:

- two representatives from the Ministry of Local Self-government;
- one representative from the Ministry of Transport;
- one representative from the Ministry of Environment and Spatial Planning;
- one representative from the Ministry of Education and Science;
- one representative from the Ministry of Labor and Social Policy;
- one representative from the Ministry of Culture;
- one representative from the Ministry of Finance;
- Each of the eight “Plan Regions” through municipal mayoral elections within the region (from the Law of Equal Regional Development) appoints one representative as a member of the commission;
- one representative from ZELS.³²

The purpose of the commission is to be the key policymaker in the area of IMC and to be responsible for insertion of IMC into all programmatic and strategic documents regarding decentralization. This body will also be responsible for liaising with all relevant central and local governmental stakeholders as well as associations and representatives of interested donors. The commission should be used as a forum for coordination and policymaking on a wider level.

The intermunicipal cooperation is envisaged to be financed from several sources:

- Municipal budgets
- Donations and grants
- Other sources.

It is notable that there are no pledges from the national budget for support of IMC and the line “(from the) national budget” which existed in the draft law was erased in the adopted version. This may not be the optimal solution since it is sometimes necessary that initial IMC incentives (as well as the phase of IMC sustainability and replication) originate from the central level and up. With this solution the legislature decided for a different approach (in comparison to the provision of the Law on Equal Regional Development): for a concrete amount of financial support to be allocated from the central budget to the eight planned regions where the amount of annual subsidy was established at one percent of GDP.

A special article in the law is dedicated towards the registering of the IMC which prescribes that all of the forms of IMC need to be documented in the Registry of IMC no later than 30 days after their establishment. However, the law does not impose an obligation for IMC units formed prior to the adoption of the law, leaving doubt whether the named registry will include all IMC units in the country and will settle the lack of any systematic inventory of forms of cooperation among municipalities.

The law provides for dual “oversight” regarding IMC. Municipalities may establish an oversight coordinative body, while oversight over the implementation of the law lies in the hands of the ministry. Yet the law does not specify the methods of central control or if there are any at all regarding, for example, the preparation of an annual report by the ministry to the government about the progress of intermunicipal cooperation in the country.

A virtue of this law is that it has compiled forms of IMC and has identified the most relevant stakeholders as well as established a body that will initiate and follow IMC in Macedonia. The Registry of IMC is also an important tool which needs to be operated by the Ministry of Local Self-government and which can be used to analyze needs and trends so that an adequate policy for IMC development can be designed in the future.

The overall added value of the law is rather limited and it does not resolve any problems because there are no innovative solutions, nor does it provide for regular or guaranteed financial incentives for establishing IMC. The law declares that IMC “may” be financed by the central budget, which leaves tremendous discretionary power in government hands for decisions pertaining to purely municipal matters. Financial support should be present and independent from governmental and ministerial decision.

The law as it stands will only reflect the value that it is given by proper and *bona fide* implementation of its provisions. Its rules should never be understood in ways that are restrictive towards IMC.

3.3 Law on Equal Regional Development

The necessity of accumulating greater capacity for development and for providing equal treatment, impeded by the dispersed territorial organization of the municipalities, allowed for their regional organization. This new organization of municipalities was ordained by the Law on Equal Regional Development, adopted in May 2007 (*Official Gazette* No. 63/2007). The term “ordained” is used because the municipalities did not voluntarily decide to form such an organizational structure, rather, the regions were determined by the NUTS-3³³ classification and therefore cannot be considered voluntary intermunicipal cooperation units, which are the subject matter of this research.

The bodies of governance of these regions do not have their own original competencies or other capacities by which to be considered as a second tier of local self-government. They are established to enable more equal allocation of central budget funds directed toward implementing regional projects.

Equal regional development is achieved through the *Strategy for Equal Regional Development*, proposed by the government for a ten-year period and adopted by the National Assembly; as well as by the *Program for Development of the Plan Region*,³⁴ developed and adopted for a five-year period by the Council for Development of the Plan Region, and later implemented by annual *action plans* for implementation of the planning documents.

The policy creators for regional development are, apart from the government and Ministry of Local Self-government, the newly established Council for Equal Regional Development as well as the eight special Centers for Development of the Plan Region. The composition of the Council for Equal Regional Development is made of the vice premier, nine ministers from the government, all of the presidents of the Councils for Development of the Plan Regions, and the president of ZELS. The Councils for Development of the Plan Regions are composed of mayors of municipalities included in the plan region out of which a president of the council is elected for a two-year renewable term.

The planning regions do not follow the exact concept of IMC, which is researched in this paper. However, the importance of this kind of organization of municipalities must be identified especially as a forum for neighboring municipalities to convene and discuss their mutual problems as well as common interests. These would be implemented parallel to the organization of the planning region through forms provided in the Law on Intermunicipal Cooperation.

4. INVENTORY OF INTERMUNICIPAL COOPERATION IN THE REPUBLIC OF MACEDONIA

In order to direct the future development of IMC in Macedonia, it is necessary to determine the stage of past and present forms of cooperation. This shall also demonstrate how hospitable an environment the previously explained legal provisions have actually provided. The correct arrangement of status for IMC in the municipalities' current work should contribute in developing the working mechanism for upgrading the level and effectiveness of joint administrations, joint enterprises, and other forms of cooperation. A comprehensive "inventory" of IMC would allow us to identify the areas where IMC is most present and where it is lacking, helping us to deduce positive conclusions from collective experiences.

In the Republic of Macedonia there is no comprehensive register of IMC that identifies and presents patterns of IMC. Instead, numerous and sporadic pieces of information exist depending upon the implementer and organization connected to the IMC.

The most relevant sources of information are the several surveys conducted through the "Technical Assistance for Implementation and Coordination of Decentralization Process (Phase 1 and 2),"³⁵ as well as from the Ministry of Local Self-government. However, these results must be considered with great reserve. Even though they provide a general perspective, they do not reflect the complete situation. The surveys were sent to all municipalities but not all replied to all of the questionnaires. It is possible that a municipality answered several of the total of six questionnaires and this must be taken into consideration when drawing conclusions or drafting strategies. It appears also that the municipalities did not answer the questionnaires in a uniform way; for example, some municipalities that cooperate in the manner that an inspector from the larger municipality goes to the smaller municipality and renders services may have replied differently regarding the form of cooperation, since one might answer that they have joint administration and others that they are providing services.

Another important issue in need of mentioning here is the presence of *pro forma* IMC cases, in which the municipalities only formally agree to cooperate but in reality the IMC does not exist. These are the cases when IMC is needed in order for the municipalities to enter the second phase of fiscal decentralization, or when there is an objective danger that some competencies might be revoked. In these cases the service or the competence is not delivered or executed, although on paper it appears that it is being performed through some type of IMC. This is also why it appears that there are many more cases of IMC in practice than there really are.

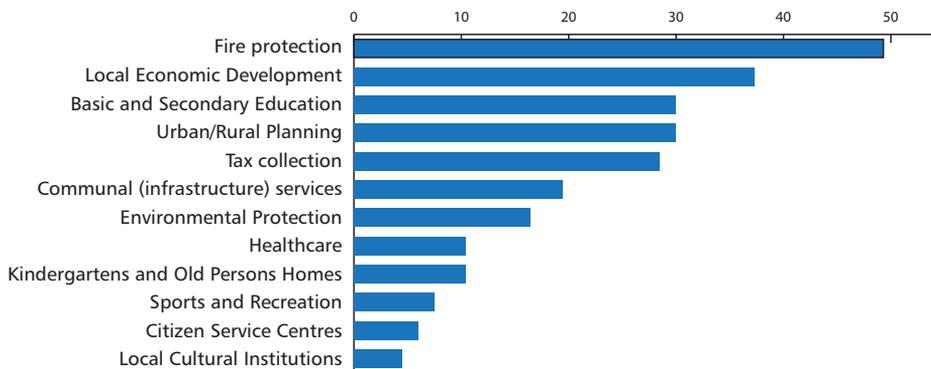
The final conclusion is that there is no hard, reliable data especially regarding the number and form of the present practice of IMC. The need for such an inventory is realized in the Law on Intermunicipal Cooperation where the minister is obliged to create

the registry as well as to maintain and update it with information regarding established IMC from the municipalities.

Although imperfect in their presentation of the IMC situation in the Republic of Macedonia, the surveys still present the most interesting competences for cooperation among the country's municipalities. Conducted in 2008 the surveys show the frequent areas of intermunicipal cooperation.

Figure 4.1

Proportion of Municipalities Involved in IMC Related to Certain Areas in 2008



The survey shows that 49 percent of municipalities cooperate in the area of fire protection, however this is the direct result of the Law on Fire Protection, which institutes a regional approach towards the execution of this function; therefore, it is incorrect to perceive this high percentage as voluntary cooperation for a field emerged in identification of necessity and urgent actions.

In the following text, the most frequent areas of intermunicipal cooperation will be demonstrated according to the criteria of the employed forms of IMC and with the names of the municipalities that are involved and participating in such cooperation. Because cooperation in the area of firefighting, as mentioned above, is not a voluntary one, we shall proceed with the following three areas of cooperation, namely: Local Economic Development, Primary and Secondary Education, and Urban/Rural planning.

4.1 Local Economic Development

Local economic development is a new competence of municipalities awarded by the law of 2002, which is complementary to other competences such as urban and rural planning, discretion of local taxes and fees, communal utilities, and other similar responsibilities. The approach of local economic development is to combine the listed competences in an effort to attract investors, create beneficial conditions for new

companies, promote local comparative economic advantages, as well as use the local workforce and increase employment.

In order to achieve these goals, municipalities in Macedonia are cooperating in the production of multiyear local development strategies that mostly encompass a wider region of several municipalities. All of the municipalities join together into a task force or other kind of informal team composed mostly of representatives of the Local Economic Development Units within the municipal administrations. These teams, often assisted by external experts, design the local economic development strategies that are approved by all of the municipal councils after the production of the final text. The strategies are composed of profiles of the involved municipalities, SWOT³⁶ analysis, identification of projects and their prioritization, as well as action plans and the financial means for their implementation. After the adoption and publication of the strategy some of the teams that created it are dissolved, some continue to operate informally, and others are upgraded and become centers for local economic development (such as the cooperation between Strumica, Vasilevo, Bosilovo, and Novo Selo).

Table 4.3
Municipalities with IMC in LED

Municipalities that have established intermunicipal cooperation in the area of local economic development	Karbinci, Shtip, Sveti Nikole
	Kriva Palanka, Rankovce, Kratovo, Makedonska Kamenica, Probishtip, Kochani, Cheshinovo-Obleshevo
	Pehchevo, Berovo, Delchevo, Vinica, Radovish
	Radovish, Konche
	Drugovo, Vraneshtica
	Vinica, Kochani
	Oslomej, Zajas
	Lipkovo, Arachinovo Kumanovo
	Novaci, Bitola, Mogila, Prilep, Resen, Krushevo, Krivogashtani, Demir Hisar
	Novo Selo, Strumica, Bosilovo, Vasilevo
	Jegunovce, Tearce
	Kavadarci, Rosoman, Demir Kapija
	Ohrid, Resen, Struga, Prilep, Bitola
	Zelenikovo, Kisela Voda, Sopishte
	Struga, Ohrid, Kichevo, Debar, Debarca

The municipalities involved in local economic development cooperation do not follow the patterns of the territorial boundaries of municipalities (meaning within the plan region). Rather, they cooperate on the basis of practicality and the willingness among municipality mayors and administrations.

4.2 PRIMARY AND SECONDARY EDUCATION

The primary and secondary educational system is a very specific competence included in the process of decentralization. The municipalities control the widespread network of primary schools and need to provide safe and adequate working conditions, provide for the hiring process and payrolls of the teachers, and almost everything except the content of the teaching curricula. According to the Law on Primary Education, it is the municipal education inspector's duty to oversee new education competencies. Since the smaller municipalities have only one or a few primary schools, they do not necessitate a full-time special municipal education inspector. Therefore, they very often arrange agreements for the contracting of services from the neighbor municipality.

Other forms of cooperation among municipalities occur in relation to secondary school networks. Since smaller municipalities do not have secondary educational institutions within their own territory pupils must travel to bigger municipalities. The municipalities cooperate for the purpose of transporting children to high schools so that they may proceed towards a quality education.

The larger municipalities keep such relationships in mind when managing education. When designing their Local/Municipal Education Strategy they include the students from the neighboring municipalities in their prognosis and needs assessment, The use of data from smaller municipalities assists in providing quality education for all future pupils.

Table 4.4
Municipalities with IMC in Education

Municipalities that have established intermunicipal cooperation in the area of Primary and Secondary Education	Gradsko, Negotino, Veles
	Berovo, Pehchevo
	Radovish, Konche
	Makedonska Kamenica, Delchevo
	Gevgelija, Bogdanci
	Veles, Chashka, Lozovo
	Tearce, Jegunovce, Tetovo
	Bitola, Novaci,
	Bitola, Mogila
	Mavrovo I Rostushe, Gostivar
	Ohrid, Debarca
	Rankovci, Kumanovo,
	Debar, Centar Zhupa

It should be noted from the list of cooperating municipalities that cooperative units always consist of one larger municipality and one smaller neighboring municipality.

4.3 Urban/Rural Planning

There are several reasons for widespread intermunicipal cooperation in the area of urban/rural planning. The smaller municipalities rarely have the database, the equipment or the necessary staff to execute all the relevant competencies. Thus cooperation is essential in order for the citizens of these small municipalities to obtain building permits, to receive property confirmation, and perform other planning-related tasks.

Table 4.5
Municipalities with IMC in Urban/Rural Planning

Municipalities that have established intermunicipal cooperation in the area of Urban/Rural planning	Brvenica Tetovo
	Butel Chair, Shuto Orizari, Gazi Baba, Chucher Sandevo
	Centar Zhupa, Mavrovo-Rostushe
	Cheshinovo-Obleshevo, Zrnovci
	City of Skopje with 10 Skopje municipalities
	Debarca, Ohrid
	Dojran Gevgelija
	Karbinci, Shtip
	Kavadarci, Rosoman
	Konche, Radovish
	Krivogashtani Krushevo
	Mogila Bitola, Novaci
	Novo Selo, Bosilovo, Vasilevo
	Plasnica, Makedonski Brod
	Probishtip, Kochani, Obleshevo, Makedonska Kamenica, Kratovo, Kriva Palanka
Staro Nagorichane, Rankovce	

The listing of IMC shows that municipalities cooperating in multiple areas create a tradition of cooperation that is born of necessity, mostly on the side of smaller municipalities. This listing represents a good basis for the new registry envisioned as part of the Law on Intermunicipal Cooperation. This law will need to be renewed and shared in order to provide valuable perspective on the forms and functions of cooperation, as well as to allow further valuable research for promoting and supporting IMC in the country.

5. OBSTACLES AND INCENTIVES FOR INTERMUNICIPAL COOPERATION

5.1 Obstacles to Intermunicipal Cooperation

It has to be noted that there are serious obstacles that impede the potential for these IMC processes. The obstacles can differ in nature and range from political, financial, strategic and other challenges. Replies from municipalities researched in the above-mentioned survey: are presented in Table 4.6.

Table 4.6
Obstacles to IMC

Obstacles to IMC (percentage of responding municipalities in survey of 2008)	
Lack of financial resources (lack of capital for initial investment)	73%
Municipalities have not understood the benefits of IMC	58%
Lack of strategies for long term development	53%
Lack of legal regulation of IMC	37%
Municipalities have not realized the need for cooperation	31%
Lack of human resources in municipalities	29%

It is very important to elaborate further on the answers given by these municipalities. It is easy to see that the main obstacle in establishing IMC is the lack of financial means although the same IMC unit's greatest benefit would be saving on expenditure and maintaining financial resources. Closer analysis shows that municipalities lack the initial financial means to establish IMC that would generate long-term savings. The municipalities need these initial funds to invest in database updates (taxpayer registration, urban plots, assessment of school conditions, buildings, etc.), to make feasibility studies, buy necessary equipment (computers, printers, software, vehicles) and other expenses needed to make the proposed IMC functional. Only after these financial resources are secured and directed towards the IMC are mayors and other stakeholders more willing to further support and promote the idea of cooperation, which in one or several years would create a profitable financial arrangement for all the municipalities concerned.

Apart from the obvious lack of early financial means to initiate the IMC, the other most relevant group of obstacles is that the benefits of IMC have not been properly promoted to concerned municipalities. Mayors concentrate on resolving problems single-handedly and often do not have a clear strategy by which to employ IMC as a problem-solving instrument. This is also the product of political determination, which

deems the municipalities' priorities, and consequently the direction of the municipal budgetary means.

Another realistic obstacle is the weighing of political costs against the financial benefits of IMC. Establishing a joint administration can be a politically costly endeavor for any mayor, since actual power over the administration becomes divided. However, rather than concern themselves with how many people they employ and manage, mayors should recognize the financial benefits of IMC and should prioritize the opportunity to use such finances to implement development policies for their municipality.³⁷

In tandem with these factors, prior to the adoption of the Law on Intermunicipal Cooperation, there was an unclear legal framework that did not impede IMC but also did not regulate it in any detailed way. For the municipalities it represented a risky endeavor, an uncharted territory or "no man's land" in which they did not feel comfortable including themselves.

Although of lower urgency among identified obstacles to IMC, a very relevant issue is the lack of trained human resources with practical experience in municipal and central administrations. This obstacle is latent since it is obscured by the lack of financial means and political influence; nevertheless it is one of the most important for the practical execution of cooperation.

All these obstacles are not specific to Macedonia nor do they represent a barrier that cannot be overcome. Some of the obstacles are being tackled through the adoption of legislative provisions and bylaws, while others should be addressed through specific financial mechanisms and the capacity building of local administrations. The greatest obstacle is the lack of interest or will to enter into cooperation even though a need has been identified and benefits are attainable. The municipalities must perceive that the potential benefits shall exceed costs (including political ones) and then obstacles can be overcome.

5.2 Incentives for Intermunicipal Cooperation

The incentives for establishing intermunicipal cooperation are an important factor in the initial stage for this kind of collaboration among units of self-government with scarce financial resources and a lack of developed capacities in its employees. As mentioned above, currently in Macedonia there are few (although significant) incentives that stimulate this kind of cooperation. Though these incentives are primarily external and performed through international organizations, they are still relevant as a beginning point for such activities. These incentives also must be evaluated for their ability to appeal beyond the aforementioned obstacles and how adequate they serve this purpose.

The government of the Republic of Macedonia in its *Program for Implementation of the Decentralization Process 2008–2010*³⁸ (pages 24–25) appointed the creation of

favorable conditions for effective and efficient intermunicipal cooperation as a strategic goal. Special annual Action Plans 2008 and 2009 were adopted for the program's implementation. These plans demonstrated in detail all the necessary steps for implementing priority activities and measures for achieving the envisioned strategic goals. Measure 6.2.1: Introduction of legislation for governmental grants, consists of similar wording. Through amending the regulations for the methodologies for preparation and allocation of grants, this measure seeks to give advantage to municipalities involved in IMC for infrastructure development and improvement of the approach and quality of public services.

Even while recognizing the importance of the obligations undertaken by the government ministries, there are still only sporadic and ad hoc incentives being offered by national institutions. There is no systematic institutional support specializing in the development of intermunicipal cooperation, although a special unit for IMC has been established in the systematization of the Ministry for Local Self-government. This unit should have five employees working on the problem, but currently there is only one position filled. The legislation and especially the bylaws specifying criteria for allocating finances to support IMC are being developed, but the process is being prolonged and even when adopted there will be no guarantees that money will be allocated. At present there is no financial incentive in the form of direct financial allocation; there is neither any grant earmarked for IMC, nor options for municipalities to receive low interest credit with a repayment grace period. Considering all this, it appears that IMC is not an immediate priority for the ministry; there is neither institutional capacity to tackle the challenges of initiating or supporting IMC, nor is there a financial subsidy for interested municipalities.

On the other hand, the international organizations' missions are providing significant incentives for the establishment and development of intermunicipal cooperation. These activities are done in direct cooperation with the municipalities or in liaison with the Ministry of Local Self-government, ZELS, and the municipalities.

The OSCE Spillover Monitor Mission to Skopje (OSCE SMM to Skopje), based on the knowledge acquired through their annual decentralization surveys, have concluded that there is a need to support the establishment of IMC by several grants awarded to the applicant municipalities interested in IMC.

The 2008 and 2009 grant scheme of the OSCE SMM to Skopje had the aim to provide incentive for initiation of IMC as a contribution to realize initiatives of mutual benefit to the applicant municipalities. This granting scheme was initiated upon the findings from the annual decentralization surveys as well as from the perception that there was a lack of initiative and funds for establishing IMC. The total amount of the grant scheme was EUR 60,000 in 2008 and the same amount in 2009, while the maximum amount per IMC project was determined at EUR 20,000 in both years. The criteria for selection included that the intermunicipal cooperation should be intended to resolve needs of an administrative nature such as tax collection, tax administration, urban

planning, issuance of license and permits, joint inspection, and similar tasks. Also an important criteria (especially in 2009) was that “Participating municipalities are of mixed ethnic composition,” which coincides with the thesis that IMC also produces social capital among the population of the country. Although the amounts of the grants were not very significant, they still assisted municipalities in raising their administrative capacity and opening the way for future activities in intermunicipal cooperation. In 2008 and 2009 the municipalities supported were from all over the country and covering different areas of cooperation. The grants were awarded for development of rural tourism in municipalities of Ohrid and Debarca, a joint urbanism unit in Cheshinovo-Obleshevo and Zrnovci, as well as an IMC unit within the microregion of Delchevo, Pehchevo, Vinica, and Berovo. All of the projects were implemented primarily with the concerned municipalities and with limited coordination and assistance from the Ministry of Local Self-government. However, even though the support of IMC has presented results, apparently it is not a high priority for the OSCE SMM to Skopje, since the granting scheme will not be continued in 2010.

The United Nations Development Program has significantly acted in building local capacities for undertaking intermunicipal cooperation activities. The UNDP has successfully participated in IMC success stories through its initial project, “*Intermunicipal partnership for improved public service quality*,” assisting Bosilovo, Vasilevo, and Novo Selo in achieving results in intermunicipal cooperation (these examples will be explained later) in liaison with the Ministry of Local Self-government, the Civil Servant Agency, and ZELS. However it must be stressed that the carrier of the project is UNDP while the other bodies have a more cooperative role instead of having the status of equal partners. The Ministry for Local Self-government and ZELS are practically assisting the UNDP project team in the implementation of project activities. Based on the premier stage of this project there has been continuation of similar activities under “*Intermunicipal partnership for improved public service quality—II*,” aiding the municipalities of Veles and Chashka as well as Tetovo and Brvenica in the area of tax collection and administration. Under these programs a total of 12 municipalities have already received support in establishing IMC.

At the time of writing, the UNDP support of IMC in Macedonia continues with the capital project, “*IMC for better service provision and EU accession*,” worth EUR 900,000 for the years 2009/2010.

“The overall strategy of the project is to provide a comprehensive and multi-faceted approach to promoting and supporting intermunicipal cooperation on a national scale, which would include activities aimed at:

1. Building a critical mass of knowledge and capacity for replication of existing IMC practices and implementation of new models of IMC in the areas of municipal competences;

2. Establishing an effective financial mechanism to support municipalities' identifying IMC opportunities, and to initiate and implement IMC activities;
3. Establishing an IMC knowledge management system that collects, systematizes and disseminates information on IMC as a means to raise awareness, knowledge and capacities on an ongoing basis and stimulate the replication of good practices;
4. Facilitating an ongoing policy dialogue between central government, municipalities, donor communities, financial institutions and private sector for coordinated strategic approach and national policies in support of IMC".³⁹

The UNDP approach is to build the capacities of national and local institutions for the opportunities for IMC through presentations and training for mayors, members of council, municipal administration, and civil servants employed in the Ministry of Local Self-government and other line ministries. These institutions should later be able to receive all the products that emerge from the project and maintain the sustainable progress of IMC in the country. In line with this project activity is the insertion of "Program for IMC" into the Ministry of Local Self-government's working plan in order to develop the necessary bylaws (registry of IMC, criteria for financial incentives for IMC, etc.) envisioned in the Law on Intermunicipal Cooperation. Together with these bylaws a set of templates of contracts, agreements and other documents are being produced which can help the municipalities to easier conclude forms of IMC. As a final activity in the program is a grant scheme of EUR 100,000 (EUR 10,000–20,000 per award) designated for replication of current IMC forms (in tax and urbanism-related work, for example), and the development of innovative IMC practices (within sport, culture, social protection, and other areas).

It is notable that the incentives and assistance in establishing various forms of IMC are generally directed towards tackling the objectives which were identified in the previous pages through financial support, promoting the concept of IMC, as well as providing universal documents, such as templates and trainings for concerned administrations. However, it must be noted that IMC is predominantly supported by international organizations rather than from central or local sources. From a short-term perspective this "foreign donor support" process may be useful to establish the foundations for development of the cooperation; however, in order to secure sustainability and continuous progress of municipalities it is essential to employ national resources. It is essential to acknowledge that this support should not lead to the creation of "dependency." To avoid such dependent relationships, a clear policy must be developed by the national actors to use all the external support up to the point of self-sustainability and future development of IMC. Through this policy the broad scope of present incentives should lead to more specific incentives. These

more specific incentives should fall in line with central and local government strategies for advancement in certain competence areas that would attain their optimum performance through IMC. It is important for local and national stakeholders to show greater enthusiasm and willingness to promote and develop IMC, since the foreign donor programs are only as valuable as the capability of the Macedonian institutions to employ them. Of course, this value is furthered by an institution's ability to sustain results after the donor community is no longer present.

6. EXAMPLES FROM VOLUNTARY MUNICIPAL COOPERATION IN MACEDONIA

The good practices section of the research presents several successful cases of IMC different in their nature. The objective of the presentation of these cases is not only to demonstrate but also to inspire replication of these cases in sizes and manners appropriate to other municipalities' local specifics. The examples present solutions of different municipalities by size, population, level of development, and other indicators; however, their common denominator is the shared vision that IMC may aid them in achieving certain goals that they could not achieve alone. The examples will also show that it is not often the financial and commercial interests that are predominant, but rather the investment in assisting a neighbor municipality and building long-term strategic alliances.

The three examples presented include the "rendering of services" by the municipality of Veles to the municipality of Chashka; the establishment of joint administration among the three municipalities Bosilovo, Vasilevo and Novo Selo; and the creation of joint public enterprise by the municipalities of Ilinden and Gazi Baba.

6.1 Cooperation among the Municipalities of Veles and Chashka in Renting Services among Municipalities⁴⁰

The municipality of Veles is a relatively large municipality with approximately 55,000 inhabitants and a great traditional existence as a cultural, business, and administrative center. On the other hand, the municipality of Chashka (7,600 inhabitants) is a smaller and poorer local government that gravitates to the municipality of Veles with scarce human resources and overall poor administrative capacities.

According to the Law of Financing of Local Self-government (Article 45), in order to commence with fiscal decentralization (usage and management of block grants instead of earmarked grants and greater fiscal autonomy), each municipality, regardless of its size, needed to have within its staff at least three persons that would be responsible for municipal tax administration in order to competently and successfully operate the

financial sources awarded by the decentralization. The municipality of Chashka did not possess such capacities; therefore, it could not further continue with the process of decentralization. The small municipalities were faced with the problem that they could not afford the staff necessary for progress and ultimately could not receive the benefits of the fiscal decentralization.

Another impediment to the successful implementation of local competences was the lack of adequate staff for conducting inspectoral oversight in areas such as education, traffic, environment, and construction. The lack of inspectoral capacities always threatened the municipality of Chashka with the possibility that some of the awarded competencies might be revoked. On the other hand, Chashka could not afford to establish a full-time inspectorate unit and such a position was economically inefficient since Chashka's territory contained only a small number of facilities, institutions, and businesses to be inspected.

After careful analysis of the situation and keeping in mind expenses and the quality and timeliness of executing the competences of the municipalities, the mayor of Veles made a proposal for cooperation to the mayor of Chashka, offering to provide human resource services in the area of tax administration as well as inspection in education, environment, traffic, and construction. For this purpose, a special *contract for rendering intellectual services* was signed by the mayors on October 4th, 2006, which determined in detail the cooperative relationship.

According to the agreement, the Municipality of Veles makes the capacities of its administration available in the enumerated areas according to the needs of the Municipality of Chashka. Veles's administration visits Chashka upon request and conducts the necessary activity for which a special record is produced regarding the activity undertaken. This record includes the time that was necessary to perform the activity (e.g., inspection of a school), which is important because depending on the number of hours of engagement of the inspector, Veles sends an invoice to Chashka as billing for the intellectual service. The amount of the hourly rate depends on the position of the inspector or the tax administration staff that was engaged in providing the services; however, the amount per se is rather symbolic and does not really reflect a market value for the provided expertise since in practice invoices are only sent for inspectoral field visits and rarely if ever for the assistance in the field of tax administration. This is a substantial benefit for the Municipality of Chashka because only one full-time staff at the position of advisor may cost the municipal budget several thousands of euros per year. Under the current arrangement, however, Chashka pays only for the time the person is needed to conduct the competence. The municipality of Chashka's overall savings for all the received services amounts to around EUR 12,000 annually, which would be spent if this intermunicipal cooperation had not been established.

Accountability is ensured through regularly reporting to the two municipal councils regarding implemented activities and financial resources obtained. It is also ensured

through meetings with the neighborhood communities (*mesna samouprava*) to inform them of the results of IMC.

Monitoring and evaluation through continuous and regular communication are carried out between the respective units and sectors of the two municipalities' administrations. Additionally, the municipality of Chaska, in agreement with the signed contract, may at any time be informed of the quality and timing of the service provided by the municipality of Veles, and may thus have insight into the documentation and the overall administrative procedure.⁴¹

Even though the contract equally approaches the inspectorate services and the tax administration services, the practical implementation of this IMC has shown development in two streams. Since the municipality of Chashka does not have a need for a full-time inspectoral unit and is satisfied with services provided by the administration of Veles, it does not build its own capacities but is determined in the long term to continue to use the capacity of Veles. On the other hand, the situation with the tax administration is the complete opposite. The present employees of Chashka are developing their own capacities to administer taxes independently in the near future. For this purpose, they are trained and advised by the Unit for Tax Administration of Veles, to fulfill this competence and update their database of information regarding local taxes. At the same time, the municipality of Chashka was awarded support from the UNDP project ("Intermunicipal partnership for improved public service quality—II"), which provided IT equipment, a wireless connection between Veles and Chashka, as well as assistance in establishing and training Commissions for Evaluation of Real Property in order to be able adequately to set the property tax, which is a municipal income.

The cooperation produced numerous benefits for the municipalities. Mainly these benefits included the saving of financial resources, greater work effectiveness and efficiency, new experiences, skills, and knowledge for employees working on IMC-related issues, and timely submission of the decisions on various taxes. Meanwhile citizens benefited by improved quality and reduced waiting time for services now available in their place of residence, as well as indirectly by increased standards of living (since saved resources are invested in improving services in education, healthcare, local infrastructure, and other areas).⁴²

This cooperation represents a model for agreements between two neighboring municipalities in order to provide assistance to the one with lesser capacities, with the intention that it may develop itself and successfully execute awarded competencies. The lack of a detailed legal framework did not represent an impediment for successful development of this cooperation, which clearly achieved many benefits for the municipalities. Among these benefits are: fulfillment of conditions for commencing the decentralization process in the municipality of Chashka, financial saving, optimal usage of both municipalities' administrations, building of administrative capacities, and the creation and development of a tradition of cooperation among the municipalities (which broadens the possibility

of future collaboration). Even though the benefits for Veles are not immediately visible nor can be converted into a substantial financial amount, this cooperation constitutes a long-term partnership endeavor, whereby these two municipalities seek a higher level of local development by which they can achieve much more in the future.

6.2 Cooperation among the Municipalities of Bosilovo, Novo Selo, and Vasilevo in Establishing Joint Administrative Bodies

The cooperation among the municipalities of Bosilovo, Vasilevo, and Novo Selo is interesting for two reasons. The first is that the current case was a pioneer formation of joint administration, while the second is the broad scope of their IMC, which includes several competences (urban planning, collection of incomes and inspectorate).

Among the three municipalities, the activities for creation of a joint administration commenced early in the second half of 2005 and was one of the initial attempts by the municipalities to jointly tackle the challenges of the decentralization process. The latest survey from the Ministry of Local Self-government showed increasing interest by the municipalities to form a joint administration. At the end of 2006, 26 percent of municipalities had formed joint administration, in the 2007 survey, 29 percent of municipalities claimed that they had some form of joint administration while the percentage has significantly increased to 34.3 percent in 2008.

However optimistic these figures may be they are not accurate, since there is only one case of joint administration presented here. All others are a different form of cooperation, wherein one administration does services for another one. Therefore a great deal of these percentages include the buying or selling of services from a smaller to a bigger municipality or vice versa, without establishing a formal joint administration. For these reasons, it should be noted that only very few municipalities have a real joint administration that provides services for more than one unit of local self-government.

The municipalities of Bosilovo, Vasilevo, and Novo Selo have a fully functional joint administration. Such is their achievement that they received the 2007 Best Practices Award from USAID. Their experience is presented below.

The cooperation among the three municipalities differs since instead of having one big municipality that is “dominant” and provides services for the other municipalities, all of these local self-governments are similar in size, population (barely exceeding 10,000 inhabitants each), education facilities, and urban planning, for example. The catalyst of the formation of the joint administration was similar unfavorable conditions found in each of the municipalities; these included, for example, the quality of rural habitats, lack of institutional capacities within the municipalities, and a common weak financial strength combined with growing competencies from the decentralization process.

With the joint administration the municipalities hoped primarily to enhance their capacities and to provide effective and efficient services for their citizens while employing an economy of scale and dividing the joint administration's operational expenses.

The joint administration establishment process was not an easy and fast process since all decisions needed to be made within each participating municipality simultaneously. Any lack of political will, even by one municipality, would mean blocking the complete cooperation endeavor.

Figure 4.2

TIMELINE OF ACTIVITIES FOR ESTABLISHMENT OF JOINT ADMINISTRATION	
Consultations with the Ministry of Local Self Government and Civil Servant Agency and defining areas for joint administration	July/August 2005
Initiative for establishment of joint administrative bodies by the Mayors of Bosilovo, Vasilevo and Novo Selo to the Municipal Councils	September 2005
Decision for establishment of joint administrative bodies adopted by the Municipal Councils of the three municipalities	October 2005
Agreement for joint administration signed by the Mayors of the three municipalities	October 2005
Agreement for number of staff in each unit within the joint administration	December 2005
Harmonization of decisions for systematization of municipal administration	January 2006
Agreement for financing the joint administration	January 2007

The joint administration was organized in the sense that the Tax Administration Unit was located in the municipality of Vasilevo, the Urbanism Unit in the municipality of Novo Selo, and the Inspectorate Unit in the municipality of Bosilovo. Each unit is under direct management of the mayor of the host municipality but other mayors also manage regular control through monthly reports and ad hoc control upon the discretion of any mayor. The civil servants working in each unit are direct employees of the host municipality and receive their salaries from the host municipality's annual budget.

The joint administration provides services for 10,098 households living within the territories of the three municipalities through use of the "one stop shop system" of

Citizen Service Centers. These centers are established in each of the municipalities and staffed by at least two civil servants. Regardless of where a citizen resides within these municipalities, she can approach the nearest center and request all necessary documents that are of the competence of the joint administration. For example a person from Vasilevo may request from the center in their own municipality urbanism and building issues that are processed in Novo Selo. The employee of the Vasilevo center based on the joint database that the three municipalities use, shall send the request on behalf of the citizen. Once the request is processed, the joint administration notifies the center in Vasilevo who informs the citizen and issues him or her the requested document. This procedure provides for timely and correct provision of services for all citizens based on the principle that the documents move within the administration rather than the people that request the service.

The financial expenses for the joint administration are equally distributed among the municipalities and they consist of a portion for the units' physical functionality (such as electricity, equipment, working conditions) and the expenses for salaries of the civil servants within the joint administration. The actual physical functioning expenses are smaller than the expenses for salaries, which represent the greatest portion of functioning expenses. The amount of salary a civil servant receives is based on her education as well as the position that she holds. Since all of the employees in the Inspectorate Unit in Bosilovo hold a university education, the expenses for their salaries are the greatest. Because of this, the municipalities primarily pay the salaries of the administration located in their own premises from the municipal budget. In this way Bosilovo's payroll yearly allocates MKD 2,000,000⁴³ for the joint administration while Novo Selo allocates MKD 1,900,000 and Vasilevo MKD 1,700,000. This apparent financial discrepancy among the municipalities is leveled yearly by transfers from the budget of the municipality that pays less to the municipality that pays more. In this way the municipality that initially pays more for the salaries of the joint administration is compensated from the other two municipalities.

The established IMC enables cost distribution for a minimum 12 employees (according to the requirements of the normative framework) between the three municipalities. The average cost is about EUR 800 monthly per employee, or EUR 115,200 for 12 employees for one year. If the municipalities had established separate units, the additional costs for 24 new employees would have been EUR 230,400; this resulted in a savings of EUR 75,000–80,000 per municipality annually, which can be used towards other priorities in the municipalities.⁴⁴

The successful operation of this system for providing services called for both human and technical capacities. The building of these capacities was aided by a great number of international development organizations such as USAID (in the form of USD 30,000), VNG International from Holland (for training), and the biggest assistance by the UNDP's "Intermunicipal partnerships for improved public service quality," which do-

nated EUR 400,000 towards equipping the Citizen Service Centers with computers, internet, and other necessary equipment, and which also provided for extensive training of the municipal staff. While the initial funding for the establishment of IMC is much higher than the actual annual savings produced, it must be noted that this investment will financially “pay off” by the third year of the joint administration’s functioning, and the benefits of the formed alliance will be visible for other projects although not transferable to a monetary value.

The benefits of the joint administration proved to be manifold, including providing better, more efficient and effective services to the citizens based on the updated database and the collecting of a higher percentage of taxes and fees into the budgets of the municipalities, which can then be used for municipal activities. The other also very important benefits were identified as minimizing administrative operational expenditures such as salaries and equipment, having an optimal number of employees in the municipality, maximum usage of human resources, raising the level of communication among citizens and municipalities, and improving municipalities’ images.

6.3 Cooperation Among the Municipalities of Ilinden and Gazi Baba in Establishing a Joint Communal Enterprise

The Law on Public Enterprises in Macedonia provides for the option for formation of a joint public enterprise by several municipalities as an important tool for quality deliverance of services to their citizens. The dominant model of creating a joint public enterprise occurs in the communal sphere of collection, purification and supply of drinking water and shall be presented through the example of the enterprise between the municipalities of Ilinden and Gazi Baba.

Their joint communal enterprise was formed shortly after the signing of the Agreement for Intermunicipal Public Enterprise for the supply of clean drinking water among the mayors of both municipalities. The mayors were the initiators for this form of intermunicipal cooperation although the legally binding decision was adopted a month later by the municipal councils of the two cooperating municipalities. The enterprise was not a completely new one since it was detached from the previous Public Enterprise Ilinden (both waste management and water supply) and transformed into Public Enterprise Vodovod Ilinden (only water supply for Ilinden and four villages of Gazi Baba).

The decision for establishment of the joint communal enterprise regulated the rights and obligations of the founding municipalities regarding the enterprise’s aim, the initial capital, the governing bodies and adoption of decisions, as well as oversight and control mechanisms.

The joint communal enterprise was designed to service 12 habitats⁴⁵ within the municipality of Ilinden and four habitats within Gazi Baba, which territorially form

a spatial unit inclined for the joint provision of clean drinking water. The initial capital necessary for the establishment of the enterprise was determined to total EUR 70,000 out of which 65 percent or EUR 45,000 were covered by the municipality of Ilinden while the remaining 35 percent and EUR 25,000 were transferred from the municipal budget of Gazi Baba in proportion to the number of households, counted by the Census of 2002, that were to be served by the new communal enterprise. The other technical means were provided from the current communal enterprise existing on the territory of Ilinden.

The current maintenance of the water supply systems, managed by the PE Vodovod Ilinden, is financed by the enterprise. The costs for the maintenance should be calculated and included in the water supply cost. The water supply cost is decided by the council of the municipality of Ilinden based on a bylaw (a methodology regulated by bylaw procedures), and is approved by the council of the municipality of Gazi Baba. The councils of the municipalities approve both the Regulation on the Use of Assets from the operations of the PE Vodovod Ilinden, and the coverage of losses, as well as the Regulation on the Liability of PE Vodovod. The founders of the PE Vodovod distribute profits from its operations and cover potential losses according to the percentage of their contribution to the assets for its establishment. PE Vodovod Ilinden will distribute water supply bills to the citizens of the settlements of municipalities of Gazi Baba and Ilinden.

The governing bodies of the joint communal enterprise are the executive board, the supervisory board and the director/manager of the enterprise. The executive board is comprised of seven members out of whom four are appointed by the municipal council of Ilinden and three by the municipal council of Gazi Baba. However, the agreement contains a clause that if in the following four years the number of users of service from Gazi Baba becomes more than 30 percent of the overall users, then Gazi Baba will appoint four and Ilinden three members to the executive board.

The supervisory board is composed of five members where two are appointed by Ilinden and three by Gazi Baba. As with the executive board the reverse clause as is also applicable regarding the next four years in the composition of this supervisory body. The director/manager is directly appointed by the mayor of Ilinden but there is also a technical director who is appointed by the director upon proposal from the mayor of Gazi Baba. The director is responsible for implementing the decisions of the executive board.

Even though there are a lot of checks and balances in the management of the joint communal enterprise, the agreement still provides for dual approval from both municipal councils for all of the most important actions and documents adopted by the enterprise.

The IMC unit addresses accountability to citizens as follows: the municipal councils approve the annual account, the annual performance report, and the annual investment program of the PE Vodovod Ilinden. The annual account and the financial report of PE Vodovod Ilinden are subject to audit by an independent audit company. In the case of a change in the service cost, the citizens of both municipalities are informed through

special announcements, municipal websites and the *Official Gazette*, the local media, bill collectors of the enterprise, and citizens' gatherings.

Joint monitoring and evaluation of the PE Vodovod Ilinden are carried out by the managing board and the supervisory board of property and finance audit. The director, the councils and the mayors of both municipalities are also involved in the monitoring and evaluation process. The PE Vodovod director prepares and submits regular reports (quarterly and semi-annually) to the managerial and supervisory boards, which following approval, are forwarded to the mayors and the councils. The annual account, annual performance report, and the annual investment program of the PE Vodovod Ilinden are forwarded to the councils of both municipalities.

The endeavor to establish and manage an intermunicipal joint communal enterprise provided numerous benefits for the citizens of both municipalities and at the same time presented itself as a very useful model for implementation of the development plans of both Gazi Baba and Ilinden. The joint communal enterprise project reconstructed and modernized the regional system and supply of clean drinking water, eliminated health hazards, improved citizens' standard of life, and presented the municipalities as reliable partners for investment to domestic and foreign business partners.

The direct and visible benefits from this unit of IMC are:

- improvement of citizens' quality of life;
- fulfillment of the legal obligation as well as the municipal competence to provide water supply to all citizens and legal entities;
- saving of finances by employing joint resources;
- lower unit cost of service provision;
- contribution of the water supply system for promoting a positive climate for investment and the establishment of small and medium-sized enterprises (SMEs) in the microregion (this was confirmed when the municipality of Ilinden received the "Municipality Award" for implementation of the Local Development Plan).

The expenses for establishing the joint enterprise were minor in comparison to the benefits that will be harvested in short time. The reported expenses were the consultant fees that amounted to EUR 5,000 for preparation of certain documents, assessments, and analyses as external contribution. The adequate capacity of the local administration was proven when the departments of both municipalities jointly prepared all legal regulations. Nevertheless, the hard data for the absolute amount of savings and other benefits will require time to calculate once the PE has become operational.⁴⁶

7. POLICY FOR ESTABLISHMENT AND IMPROVEMENT OF INTERMUNICIPAL COOPERATION IN THE REPUBLIC OF MACEDONIA

The profiling of municipal competences, the legal options for cooperation, the main obstacles, incentives as well as the presentation of successful IMC examples still constitute only a list of data which needs to be processed within proactive policy to support IMC and replicate its benefits. The policy is a complex issue since it does not envision one activity in a certain time by one subject, but represents the multiple efforts of various stakeholders over a longer period of time driven to accomplish one general goal. In our case this would be to establish and support formation of IMC in the Republic of Macedonia as a useful tool to harvest the benefits of lowered expenditures and provide cheap and quality services to the citizens.

The policy needs to use all of the good practical examples and include them in its structure. Perhaps such an inclusive policy could resolve the issue of why good practices are not replicated and their results used by a greater number of municipalities. Actually that is the answer to why a policy is needed in the first place. At present, there are successful anecdotal examples throughout the country's territory, but rarely have the good solutions been copied. The policy should address all questions systematically and should initiate replication of the adequate practices as needed, as well as develop new preemptive solutions to avoid replicating the present. If a policy is not created, then long-term sustainability (even of good practices) shall be put at risk.

Keeping in mind that the policy is a complex system of activities by various stakeholders during a longer period, it will be necessary to compare its results to the baseline data, which consists of defining the present situation and determining how things will develop in the area of IMC if there are no policy activities. This baseline data should be compared to policies that are optimal for the development of IMC and that are feasible in terms of their implementation, since optimal solutions made by radical means are almost never politically and practically feasible.

The policy recommendations presented here start with the presumption that the territorial re-organization of the municipalities is not possible and it is dangerous to incite any activities in this direction. As mentioned earlier this amalgamation can easily turn into a tool for political discourse, marginalizing IMC as the primary reason for its creation.

In order to create a policy it is important to determine its elements. The components of the policy are the issues that need to be addressed in a systematic way and they are the problems or the obstacles that need to be tackled. These problems and obstacles are already identified in the financial, legal, administrative as well as in the political sphere of regulating and practicing IMC.

7.1 Policy Recommendations

Legal

After the adoption of the Law on Intermunicipal Cooperation, the most obvious policy recommendation is to follow the law and ensure its practical implementation. Having the law provides a comparative advantage since there exist clear provisions on the thematic issue, which resolves the problem of the “legal vacuum” or at least compiles available options and classifies them in a structural order.

The policy approach should consist of expanding the stakeholders that are allowed to incite the cooperation, mainly the private sector, which will be interested in investing and sharing in the profit of service provision to the citizens. The policy should also aim to attract the NGO sector of the country as a relevant stakeholder in inciting and promoting the IMC concept as there are groups of organizations that have cultural, social and other interests that reach beyond the borders of one municipality. This option was envisioned in a draft version of the Law on Intermunicipal Cooperation where citizens and residents of the municipality, associations, and other legal entities could initiate IMC in all areas. However, this solution was not adopted in the final text of the law. Regardless of the omission of the above provision, if the Law on IMC is interpreted in a narrow way, inclusion of these stakeholders may need an amendment to the law but another and far better solution would be a broader interpretation of the law and their insertion in a strategic paper of the government such as the “Program for implementation of the Decentralization Process,” which should allow them full capacity to promote and initiate IMC.

The inclusion of these stakeholders shall shift the political discourse for the future of IMC beyond the political parties as such, to a dialogue between the local stakeholders (local government, NGOs, citizens) and the central government (Ministry of Local Self-government and the government of the Republic of Macedonia). This will refresh the political decision-making process while giving more value to the bottom-up principle in designing such policies.

The Law on Intermunicipal Cooperation is not a perfect law (as there is no such thing) and its provisions should be implemented as a tool to mainstream the initiation and frame the IMC into a defined shape. The current provisions are not strict in defining IMC and allow freedom for municipalities to tailor the cooperation that they want, the one that most adequately satisfies their identified needs, and in this sense amendments to the law are not immediately needed. The implementation of the entirety of the law’s provisions according to the spirit of promoting IMC will be satisfactory. The correct application of the formation, the broad options for initiation, the right to autonomously decide on every aspect of the IMC together with a real financial support

and regular updating of the registry for IMC will be the route towards implementation of the legal provisions.

The policy, in terms of intervention by the legal standards, will have to be addressed in the future when sufficient information can show whether this legal structure is adequate or stricter and more formalized provisions are needed. Having in mind that cooperation goes beyond regulation, future implementation and interpretation of the law may prove that its lax norms serve adequately; otherwise a revision shall be eminent.

Financial

Present financial support is very weak, both for financial expenditures in starting the IMC, as well as for the continuation of IMC. The wording of the Law on Intermunicipal Cooperation is that the government may (not must) support IMC in “areas of broader importance and interest,” and that the government may support IMC among municipalities based on criteria determined by the government.

The policy recommendation would be in practice to turn the word “may” into “must” or at least a broad “should” through wider and more extensive determination of “areas of broader importance and interest,” hence giving the municipalities support in any of their competences upon willingness to cooperate and having a rational proposal. Another method is to set a scheme of criteria that will enable the government to assist and support pinpointed IMC, but this must be done in a transparent procedure minimizing the arbitrary discretion of the government and avoiding that only municipalities with mayors belonging to the ruling party or coalition prevail.

Another more substantial assistance to the municipalities is the replication of the solution from the Law on Equal Regional Development that provides for one percent of the GDP to be forwarded to the regions for their own projects. The solution for IMC does not need to be as high as this (around EUR 60 million) but can represent a smaller percentage of the GDP, a percentage from the VAT, or any other central tax that should be awarded to cooperating municipalities. The intervention needs to be from the central funds only because an intervention in reallocation of the local funds will raise a lot of objection from the municipalities and create a negative feeling towards IMC. The policy will need to achieve this through legislative amendments both to the Law on Intermunicipal Cooperation and to the adequate taxation laws and this is why it will be the least likely to happen in practice.

Beyond the grant scheme or the tax or GDP allocation, another policy option is to establish a credit/loan line for interested municipalities that need the initial capital for investing into the IMC while they expect in due time to save on expenditure and repay the credit (with interest). The precondition that the municipalities have the capacity

to conceive and run a viable credited project must be secured through credit ratings.⁴⁷ The loan can be from either commercial banks, international loaning institutions that provide financial support with lower interest rates, or even a special fund created for supporting loans that address the establishment of IMC.

Loaning is a very viable possibility that is provided in the Law on Financing of Units of Local Self-government and has already been used by the municipalities for projects that require larger financial investments (such as the building and renovation of schools, public lighting, and other areas of change). The policy recommendation is that the government should assist the municipalities in assessment of their credit capacity and if they are solvent, to be the guarantor for the credit in front of domestic or international creditors. This will provide the initial capital for the municipalities and will cost absolutely nothing to the government while saving in local budgets and improving citizen services in the long run.

One of the methods on municipal borrowing for the initiation and development of IMC is the USAID/Macedonia loan program, called Development Credit Authority (DCA). Under the program DCA guarantees up to 50 percent of loan amounts taken out by municipalities. USAID signed a USD 10 million loan portfolio guarantee so that local governments can borrow money for projects designed to improve energy efficiency and invest in local infrastructure, creating savings for the municipalities and improving their ability to access credit in the future.⁴⁸

Another source of finance can be the loan that the government took from the International Bank for Reconstruction and Development for improving the services of the municipalities in the amount of EUR 18.9 million, with a five-year grace period and a 13-year loan repayment program.⁴⁹

The last policy recommendation in the financial sphere would be for the Ministry of Local Self-government to coordinate donor programs and use financial grants or technical assistance in a systematic way. Currently in the country there are several organizations like UNDP and the OSCE, which have a generous grant scheme that, with central or local contribution, could raise its effectiveness and sustainability. At this point it is important to stress that there can be no possibility for coordination by the ministry if no policy is adopted concerning directions of development for IMC. The determined strategy of the governmental stakeholders will be a key point in the successful coordination of any external assistance.

The financial policy recommendations apply even more so in the present times of economic instability and downturn when public expenditure should be reduced or at least directed toward systematic spending to alleviate the economy. The savings provided by employing IMC are already visible in the first year of their implementation and may save municipal budgets threatened by lowered level of incomes from business subjects within the municipality.

Administration and Institutional Support

The legal and financial policy interventions cannot be productive unless all of the stakeholders (both local and central) have the corresponding capacity to absorb its potential. For of this reason every municipality should determine at least one of its civil servants as a focal point, a person educated in the specifics of intermunicipal cooperation and able to demonstrate these skills by recommending forms of IMC, as well as assessing the risks and the benefits of an eventual cooperation, and among other tasks, indicating necessary expenses from the municipal budget. This person should remain in a professional capacity and not be changed after municipal elections change the municipal political leadership.

The same policy should apply for the Ministry of Local Self-government, which according to its systematization has already established within its organizational structure a sector⁵⁰ for equal regional development and IMC, and a unit for IMC. This unit should: perform the tasks regarding policy creation and legislative drafting, at all times serve as a reference to the municipal employees, and establish a communication channel with the municipalities to exchange information, data, results, indicate problems, etc. These civil servants should maintain the institutional memory of IMC projects and also be the recipients of the products after the finalization of the mentioned UNDP and any other program for IMC. However, even though five people are supposed to be employed in this unit, only one person has been appointed at present and it is uncertain when the other positions shall be filled. For development and further sustainability of present IMC practices it is of utmost importance to fill all the positions in the unit with qualified staff who will receive adequate training and will have the capacity to be the national institutional pillar for supporting IMC.

In order for the municipalities not to feel divided in their individual approach to the ministry, it is important to have a plenary forum of all mayors that would enable them to initiate important questions regarding IMC to national institutions (line ministries, government, etc.). This approach is viable through the general assembly of ZELS wherein each mayor can address the issue and seek the support of fellow mayors to unite under an idea and present it as equal partners in front of the government. Another forum for expressing the concluded joint positions of municipalities can be the "Commission for initiating and following of the IMC," established by the Law on Intermunicipal Cooperation. In this scenario ZELS has one representative as well as one mayor from each of the eight planning regions. This should present a formidable counterpart to the central government when deciding on policies and central funding towards decentralization issues.

This administrative support from the municipalities as well as from the ministry (or ministries) needs to be adequately trained in order to be able to respond to the given tasks. These trainings need to be constantly organized and improved to keep pace with

the demands of practical implementation and real-time problem solving. This kind of capacity building needs to be directed to all parties concerned, including political figures as well as professional staff. The presentations and trainings need to be given to the mayors and members of the municipal councils as well as to the determined staff from the administration. The former need to be introduced on how to develop policies for IMC in their municipalities and how to reach the adequate solution through needs assessment and negotiations, and lastly, to be trained in the proper drafting of documents of legal validity.

Previous experiences should be used to train individuals on the forms of IMC available to municipalities. For example, a guidebook with template forms and useful examples has been designed by LDK consultants for CARDS project, “Technical Assistance for implementation and Coordination of Decentralization Process (Phase 1 and 2),” in order to assist interested municipalities in IMC. Such valuable assets should be broadly promoted both on national and local levels.

Promotion of IMC

The policy should include systematic promotion of the benefits of the IMC, good examples, best practices, successful methods of problem solving and other themes for a more “aggressive” endorsement of intermunicipal cooperation. The promotion should be designed to fit the target group towards which it is directed. The promotion directed to the citizens would include mass announcements, website information, direct meetings in the neighborhoods, articles in bulletins of the municipality, local television and radio stations, etc. The promotion for political stakeholders would vary, so that they are informed about issues of their specific interest. The promotion should overcome the main barriers previously identified, which are the lack of local will and understanding of the value of IMC.

A special kind of promotion of best practices is through competition, namely a prize to be established for a formed and functional IMC practice. This however must not be understood as a prize for establishing IMC, but more urgently, as a reward for the best IMC practices. The example can be found in the Municipal Awards Program⁵¹ which is funded by the EU. For the 2008 awards, the government matched the prize money so the first, second and third ranked municipality received double the prize amount. A condition of the competition can be that the prize money must be used for further improvement of IMC (in the same or other competencies).

Monitoring and Assessment of Policy

The policy will need to be monitored and evaluated and at a due time altered to fit the realistic needs of the municipalities. With this it will be the implementation of the policy that will be monitored and not the selected forms of IMC. Since the policy will include a lot of activities and a lot of stakeholders, it will show its weaknesses in due time and it will be of the utmost importance to establish remedial mechanisms on time. The assessment will also provide data on how to further develop new policies and to achieve greater results.

The most competent body to conduct this monitoring and assessment is the Ministry of Local Self-Government, most specifically the Unit for IMC, which at the same time is responsible for maintenance and use the IMC registry as envisioned in the Law on Intermunicipal Cooperation. It will be very important to manage the registry in such a way that it will provide relevant data that will enable periodical analysis (quarterly, semi-annual, annual, etc.) and thus answer the needs of municipalities in creating adequate IMC development policy.

Political Feasibility

Regardless of the policy recommendations provided above, it must be noted that the policy itself will be successful only if accepted by the political stakeholders and determined as a priority in their work. It is understandable that the milder solutions as well as the ones without significant financial requirements will be easier to implement. Political dialogue will be needed in defining the national strategy between the ruling coalition, local political stakeholders, and ultimately with the citizens. However, the biggest asset of intermunicipal cooperation in this perspective is that it crosses beyond the country's ethnic and party lines since it equally effects all ethnic communities as well as all political parties. The positive feature of the cooperation is that creates a much needed social capital that may lead only to further forms of cooperation.

7.2 Concluding Remarks

The overall presentation of the situation should serve as a good basis for establishment, development, and promotion of practices of intermunicipal cooperation in order for the municipalities to be able to harvest its benefits. However, in order for the law and the other regulations to be implemented in their full capacity, a well-developed policy on IMC must be produced. It is recommended that the political stakeholders who will be ultimately responsible for creation of the policy take into consideration the policy

recommendations provided in this paper. They will serve as a comprehensive approach towards IMC and its potential in Macedonia. Even though some of the recommendations may seem difficult to implement, in the longer trajectory of development and especially for the reason of fully functional sustainability of IMC endeavors, it is necessary to indulge in the extra effort and apply it to the satisfaction and benefit of both municipalities and their citizens.

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NOTES

- ¹ *Official Gazette of Republic of Macedonia* 5/2002 (hereafter, *Official Gazette*).
- ² *Official Gazette* 61/2004, 96/2004, 67/2007.
- ³ *Official Gazette* 79/2009.
- ⁴ Abbreviation from Zaednica na Edinici na Lokalna Samouprava, www.zels.org.mk (Association of Units of Local Self-government).
- ⁵ For example a very high percentage of municipalities declared that they have joint administration although in fact only three of them have functional joint administration as explained in the examples below.
- ⁶ http://www.stat.gov.mk/pdf/kniga_13.pdf.
- ⁷ <http://www.a1.com.mk/vesti/default.aspx?VestID=21098>.
- ⁸ See below in chapter regarding languages.
- ⁹ http://www.sec.mk:90/2009/index.php?option=com_content&view=article&id=111&Itemid=109.
- ¹⁰ <http://www.a1.com.mk/vesti/default.aspx?VestID=27896>.
- ¹¹ The people's vote on the referendum was 94 percent for and 4.89 percent against the continuation of the existence of the old territorial organization of 123 municipalities.
- ¹² Lack of local capacities has been an inspiration for IMC and shall be presented by the example of cooperation between the municipalities of Veles and Chashka.
- ¹³ For e.g. Bosilovo, Vasilevo and Novo Selo; Lipkovo and Arachinovo, Zrnovci and Cheshinovo-Obleshevo.
- ¹⁴ These forms of neighborhood organizations do not possess the status of legal entity and must function within the organization of the municipality and therefore cannot be considered as a separate tier. A great deal of municipalities use this option but there is no obligation to do so.
- ¹⁵ The list is derived from Article 22 of the Law of Local Self-Government.
- ¹⁶ Law on primary education, Law on financing units of local self-government, etc., as examples show if a small municipality does not have the adequate number of staff for tax management it cannot enter into the second phase of fiscal decentralization, therefore the smaller municipality must request services through cooperation from the bigger one in order to fulfill all of the competencies awarded to the local self-government. These cases shall be explained later in the example of the cooperation of the municipalities of Veles and Chashka.

- ¹⁷ As presented below in the example of municipalities of Ilinden and Gazi Baba.
- ¹⁸ The central government rarely delegates competencies to the municipalities. It is rather an *ad hoc* exception rather than a regular delegation and for each special delegation a special transfer is made from central to local authorities.
- ¹⁹ Renata Treneska-Deskoska Ph.D. 2007–2008. Accommodating multilingualism at local level in the Republic of Macedonia, Local government and Public Sector Reform Initiative, Budapest Fellowship Program.
- ²⁰ Kicevo with surrounding municipalities, Tetovo and Jegunovce, Kumanovo and Lipkovo, Saraj and Gjorche Petrov, etc.
- ²¹ Robert Hetzog. Inter-municipal cooperation: a viable alternative to territorial amalgamation?
- ²² The project was referred in the chapter regarding employed methodology. It was financed by the EU and implemented by the European Agency for Reconstruction.
- ²³ The above mentioned option to create public enterprises for performing services of public interest is exercised in the establishment of one joint communal enterprise for the territory of two or more municipalities. Public enterprises can be founded by the government, municipalities or the city of Skopje, but also private and legal commercial entities. The public enterprise can be formed by a combination of these subjects in line with the regulations of the Law on Public enterprises (Official Gazette of RM 38/96; 6/02; 40/03 and 49/06).
In areas that are competences of certain public institutions like education, science, child care, healthcare, social protection, protection of persons with special needs, the Law on Institutions (Official Gazette of RM 32/05 and 120/05) awards the option of several municipalities to form one institution to serve their entire territory.
- ²⁴ These are the rules regarding enterprises, urban design, local finances and taxation, education, etc. For example the municipality is free to join other ones in performing its competence for urban planning as long as it respects the rules for urban planning, urban zones, and other specific provisions.
- ²⁵ Justification regarding the necessity of the Draft Law on Intermunicipal Cooperation.
- ²⁶ Massimo Balducci. 2008. Inter-municipal Co-operation in Italy: a Brief Outline Inter-municipal Co-operation *Ad-hoc* Projects or Permanent Institutional Structures? Second Regional Workshop. Bratislava, Slovak Republic.
- ²⁷ One of the draft versions provided for citizens, interest groups and other local stakeholders to also be included as the potential subjects to initiate IMC in their respective field of operation but the final adopted text of the Law excluded them from such an opportunity.
- ²⁸ As mentioned on page 8.
- ²⁹ Article 9 of the Law on Intermunicipal Cooperation.
- ³⁰ The lawmaker actually establishes the instruments for providing the services and not the services themselves.
- ³¹ On February 2, 2010 the government decided to establish this commission. The initial meeting of the commission was on March 5, 2010 where initial activities regarding the strategic approach for development of IMC were undertaken, especially creation of bylaws and

other “secondary legislation,” as well as plans for determining which would be the strategic areas for IMC development. Source www.imr.org.mk accessed on March 31, 2010.

- ³² In the earlier versions of the Law it was visible that ZELS was not represented in this commission although all of the municipalities are members of this association and ZELS has been an active participant in IMC projects implemented with support of the international donor community. Apparently, ZELS has ascertained its position as a relevant stakeholder in the IMC in the country and succeeded in stating its representation in this commission. The representative of this institution in the commission is selected from its administration and is acting upon directions from the management board of ZELS and its executive director to whom he is also accountable.
- ³³ The Nomenclature of Territorial Units for Statistics (NUTS), is a geocode standard for referencing the administrative divisions of countries for statistical purposes. http://en.wikipedia.org/wiki/Nomenclature_of_Territorial_Units_for_Statistics.
- ³⁴ A “Plan Region” is the terminology used in the law and is composed of several municipalities that form a region for development which does not represent a second tier of local self government but rather a group of municipalities which determine what are the strategic priorities of the named region and try to implement it with resources from the provision in the Law on Equitable Regional Development, which allocates one percent of GDP for them. However, in practice this one percent is never given to the regions.
- ³⁵ The project is financed by the EU and implemented by the European Agency for Reconstruction.
- ³⁶ Strengths, Weaknesses, Opportunities, Threats.
- ³⁷ In an interview, Mr. Georgi Manushev, the former mayor of Bosilovo, a municipality that has joint administration, stated “The most difficult thing is to give up power,” meaning that mayors need to delegate some of their competencies over to the administration in order to establish a functional joint administration.
- ³⁸ <http://www.mls.gov.mk/MLS/FileStorage/File/Zakoni/PSDP%202008%20-2010%20-%20so%20vgradeni%20zabeleski%20od%20MF%20doc%201.pdf>.
- ³⁹ IMC for better service provision and EU accession, UNDP Project Concept Note.
- ⁴⁰ The information for this part was graciously provided by the staff of the Tax Administration Unit in the Municipality of Veles.
- ⁴¹ UNDP Intermunicipal cooperation database (Albania, Armenia, Bulgaria, Croatia, Czech Republic, Macedonia, Romania, Slovakia).
- ⁴² *idem*.
- ⁴³ 1 euro is approximately 61.5 MKD.
- ⁴⁴ *idem*.
- ⁴⁵ Habitat is the term used in Macedonia instead of village when the rural character does not need to be mentioned.
- ⁴⁶ UNDP Intermunicipal cooperation database (Albania, Armenia, Bulgaria, Croatia, Czech Republic, Macedonia, Romania, Slovakia).

- ⁴⁷ For example the municipalities of Strumica and Veles have proven their high credit rating and have the capacities to run such projects. <http://www.novamakedonija.com.mk/NewsDetal.asp?vest=212101035252&tid=10&prilog=0&setIzdanie=21908>.
- ⁴⁸ MLGA implementation of the DCA for Macedonia took a major step forward as the Municipality of Karpos received approval from the MOF for the very first municipal borrowing in Macedonia since municipal borrowing has been enabled by the newly enacted legislation. The Municipality of Karpos signed the first loan agreement with UNI Bank guaranteed by USAID DCA guarantee mechanism in the amount of \$635,000USD. http://www.mlga.com.mk/Project_Components/Planning_Capital_Budgeting_and_Municipal_Credit.php.
- ⁴⁹ Republic Macedonia, Law for taking debt, with a loan from the International Bank for Reconstruction and Development according to the Agreement for loan for the Project for improving municipal services. Official Gazette 71/2009.
- ⁵⁰ A Sector is composed of at least two units.
- ⁵¹ <http://www.municipalawards2008.com.mk/eng/index.htm>.

Fine-Tuning Intermunicipal Cooperation Policy in Romania

Cristina Stănuș

Table of Contents

Executive Summary	272
List of Abbreviations	275
1. Introduction	276
2. Theoretical Background: IMC in Europe	278
3. The Context for IMC: Some Aspects of Local Government in Romania	280
3.1 Types, Numbers, and Size.....	280
3.2 Position in State Structure and Degree of Autonomy	281
3.3 Character and Scope.....	282
3.4 The Pressures: Administrative Capacity and the Development of Public Service Delivery	284
4. Analytical Framework, Methods, and Data	285
5. The Legal, Policy, and Institutional Framework	288
5.1 Available Legal Forms	288
5.2 Encouraging Integrated or Fragmented IMC?.....	292
6. An Inventory of IMC	294
6.1 Regional Patterns of IMC.....	297
6.2 Size of IMC Bodies.....	297
6.3 Areas of Cooperation	298
7. IMC and the Economies of Scope	299
7.1 The Cases Studied.....	300
7.2 Organizational Aspects	306
7.3 Functional Aspects.....	308
7.4 Transparency and Political Control of IMC Operations.....	311
7.5 Vertical and Cross-Border Cooperation	313
7.6 Reframing the Policy Problem	314

8. Policy Options.....	316
9. Conclusion and Recommendations	321
Sources Cited.....	323
Appendix: Synthesized Information on the Cases Studied	326
Notes	328

EXECUTIVE SUMMARY

This paper aims to assess the current state of intermunicipal cooperation in Romania and provide recommendations aimed at increasing the effectiveness and diminishing the democratic deficit of IMC.

The **methodology** used here is mixed, quantitative and qualitative, and combines the macro and micro level perspectives on IMC. We discuss in a comparative perspective the legal framework for intermunicipal cooperation in Romania and we detail some quantitative data showing current patterns of IMC in Romania. Then we analyze five case studies, representative of the different available legal forms and types of local governments involved in an attempt to assess organizational, functional, and accountability-related aspects of IMC in Romania.

IMC was introduced in Romania within a **context** marked by the political unacceptability of addressing the issue of local government size and severe tendencies towards centralism in the national administrative system, inherited from the Communist regime. At the same time, the limited financial autonomy of Romanian local governments (resulting from a lack of parallelism between the process of decentralization and the re-alignment of intergovernmental fiscal relations) makes them dependent on external funding for the initiation of significant projects. Moreover, accessing external funding is closely linked with the ability to plan for local development while accounting for increased policy externalities. These aspects make intermunicipal cooperation highly attractive, as local governments perceive its potential for filling the gaps in strategic thinking and administrative capacity. Another highly important aspect is the fact that basic service delivery is underdeveloped in rural areas, which sheds light on the potential economies of scope associated with intermunicipal cooperation. This latter aspect is so compelling that any assessment of the effectiveness of intermunicipal cooperation in Romania should probably favor the economies of scope over the economies of scale.

The policy problem. Intermunicipal cooperation in Romania is *vision-oriented* and aimed at social, economic, cultural, sustainable development. We may even speak of a natural tendency towards functionally integrated multi-purpose IMC. But functional fragmentation appears in cases where local governments started directly with multi-purpose cooperation, a development that, apart from the technical character of some areas (which naturally fueled fragmentation), seems to be enhanced by legal provisions and the eligibility requirements of funding programs in the area of local public utilities. This fragmentation eventually undermines the extent to which the regional logic gains the upper hand (with consequences over joint planning and policy coordination and collective action) and even leads to some multi-purpose IMC bodies' regression from standing organizations to mere policy networks.

This investigation pointed out that the effectiveness of IMC in Romania should first and foremost be judged, at least at this point, through the lens of *economies of scope*. All the

cases studied here, and knowledge of other cases as well, suggest that IMC is extremely effective in setting up public services (especially local public utilities services) in areas where they did not exist before. By pooling their resources together, even some of the more disadvantaged local governments manage significant steps in improving their services. At this point, economies of scale are visible only if we look at IMC bodies as fundraising and project management offices for the member municipalities (something to be found in all cases studied here).

Another important feature of intermunicipal cooperation in Romania is the “frenzy of cooperation” resulting from the incentives used by the central government, as pointed out by the cases of territorial overlapping of multi-purpose IMC agreements with identical purposes. This reduces the level of involvement on behalf of the local governments and decreases the chances that the IMC body will be a success.

A look at the inner workings of IMC bodies suggests that the highly complicated decision-making procedures prescribed by the law do affect the speed of decision-making. At the same time, however, they ensure a higher degree of control over IMC operations by the local councils, which is why they are accepted as such and dealt with.

Human resources and start-up costs seem to be a problematic area for IMC operations—a consequence of the size and the financial resources of the local governments involved. Future policy in this area should definitely address this topic.

While political control of IMC operations by the local councils is generally achieved, the quantity and quality of information provided to the citizens still requires improvement, along with the implementation of several legal provisions deriving from legal status of different types of IMC bodies.

Based on these findings we believe that the **goals of future policy** in this area should be:

- to further stimulate the set up of IMC bodies, especially of those involving only rural area local governments;
- to stimulate the institutional development of existing IMC bodies along with higher organizational integration of IMC bodies and to diminish tendencies toward IMC fragmentation;
- to increase compliance with transparency and citizens’ access to information, legal provisions, and thus, accountability to the citizen;
- and to improve the informational environment and, through this, to facilitate horizontal communication between local governments on IMC related issues.

The **policy recommendations** we put forward involve a significant but not radical change of policy in this area, without modification to the legal framework. Recommendations build on the idea that a mix of information, support, and funding would best help solve this policy problem. *Information* involves a mix between capacity building for civil servants in charge of

setting up and working with IMC bodies, drafting and distributing a toolkit for intermunicipal cooperation in Romania and generally improving the informational environment around IMC in Romania. The *support* component would focus on building a national network of support for local governments involved in IMC bodies, preferably by networking experts currently working for different IMC bodies or local governments involved in such bodies. The *funding* component would involve the establishment of a program, limited to rural area local governments, which would fund the start up costs of multi-purpose IMC bodies.

LIST OF ABBREVIATIONS

ATU	Administrative-territorial unit (in Romania it legally designates 1 st tier local governments, corresponds to LAUs as designated by the Eurostat)
Banat-Ripensis	Banat-Ripensis Microregional Development Association
CoE	Council of Europe
CSOs	Civil society organizations
CUA	Arieș Urban Community (Comunitatea Urbană Arieș)
EC	European Commission
EDEN	European Destinations of Excellence project
EU	European Union
Horezu	Horezu Depression Association (Asociația Depresiunea Horezu)
Huedin	Inter-Community Development Association of the Vlădeasa-Huedin Microregion (Asociația de Dezvoltare Intercomunitară Microregiunea Vlădeasa-Huedin)
ICDA	Inter-community development association
IMC	Intermunicipal cooperation
ISPA	Instrument for Structural Policies for Pre-Accession
LAU	Local administrative unit
NGO	Non-governmental organization
NUTS	Nomenclature of Territorial Units for Statistics of the Eurostat
PHARE	Programme of Community aid to the countries of Central and Eastern Europe
PODCA	Administrative Capacity Development Operational Programme (Programul Operațional Dezvoltarea Capacității Administrative)
Regio	Regional Operational Programme (Programul Operațional Regional)
UCRAP	Central Unit for Public Administration Reform (Unitatea Centrală pentru Reforma Administrației Publice)
ZMO	Oradea Metropolitan Area (Zona Metropolitană Oradea)

1. INTRODUCTION

Intermunicipal cooperation (IMC) is widely seen as a way of coping with the rising costs of delivering public services to citizens whose demands are also rising, as well as a way of dealing with the issues of municipality size and administrative capacity. To some extent, this is also valid for intermunicipal cooperation in Romania. In addition to the aspects mentioned above, one more element needs to be emphasized in this respect—in Romania intermunicipal cooperation is strongly related to municipalities' need to get external funding (especially EU Structural Instruments funding) for local projects as well as to the fact that cooperation is a vehicle for economies of scope.

The issues to be investigated in relation to intermunicipal cooperation in Romania are similar to the issues investigated throughout Europe—legal autonomy issues, aspects related to democratic legitimacy and citizen participation, as well as a set of functional aspects (responsibilities, resources, and effectiveness). A more recent addition to the list of aspects to be investigated is related to a debatable aspect of IMC in Europe—whether it is more advisable to encourage the integration or fragmentation of IMC, with each side providing its own arguments. To these we add some specific issues that need to be approached given the previously identified dynamics of IMC in Romania, such as the rationality of IMC (size and degree of interdependence between the cooperating local governments, especially in the special case of metropolitan areas) or the issue of territorial overlapping of formal IMC with similar functions.

To various degrees, a set of actors has been involved in debating the issue of intermunicipal cooperation in Romania. On one side, the central government has failed to live up to some of the promises it made related to IMC, such as the preparation of a toolkit for intermunicipal cooperation in Romania and a dedicated funding program. Instead of the toolkit, the Central Unit for Local Administration Reform (UCRAP) limited itself to publishing the presentation of two best practices on its website.¹ These were later complemented by a short guide focusing strictly on some technical aspects of cooperation in the area of local public utilities prepared by a different unit in the Ministry of the Interior and Public Administration Reform. The other promise was partially fulfilled, as no special funding program was created. Municipalities cooperating within the legal framework of inter-community development associations (a type of IMC body, presented in detail in the following sections) were eligible for funding under the Modernization Fund (part of the PHARE 2006 funds). This possibility was poorly reflected in the guidelines for applicants so, from over 1000 applications, only five came from inter-community development associations (the only legal form of IMC eligible), and only one of the five was selected for funding. On the other hand, NGOs working on local government issues, as well as representatives of the Public Services Employers' Association (Patronatul Serviciilor Publice, PSP) pointed to the shortcomings of the existing legal framework—including contradictory aspects in different laws, unclear

status (public or private) of the legal forms introduced by a 2006 law—and advocated a more pro-active policy on behalf of the central government. The associations of municipalities played a limited part in the issue, mostly by promoting some best practices, while some municipalities actually involved in intermunicipal cooperation projects frequently complained about the difficulties of complying with the legal framework and covering some start up costs.

This paper aims at assessing the current state of IMC in Romania and providing recommendations aimed at fine-tuning current policy in this area in view of increasing the effectiveness and diminishing the democratic deficit of current IMC practices in Romania.

This assessment will focus on identifying possible changes in the patterns of intermunicipal cooperation, since earlier assessments (made by several NGOs) were too close in time to the moment when the dedicated legal framework for IMC was introduced. So far, the central point in a series of studies and debates focused on one specific form of IMC introduced in 2006 (inter-community development associations, ICDAAs) emphasized that, according to existing regulations, ICDAAs lie somewhere between private and public law entities. Their status is subject to divergent interpretations of laws (Brie 2007a; Brie 2007b; Pop and Horvath 2008; Pop, Stănuș, and Suciuc 2007), with consequences for their ability to operate in the area of service delivery. In a study of ICDAAs in North-Western Romania, Pop, Stănuș, and Suciuc (2007) pointed out, among other aspects, that existing regulations regarding ICDAAs create favorable premises for using this type of organization in order to set up and develop local public utilities services. At the same time, existing associations have limited effectiveness due to a series of structural problems related to expertise, human resources, inflexible budgets, and fiscal regulations. Also, there is a significant legitimacy and accountability problem, as decisions made in ICDAAs imply only indirect electoral legitimacy and little control through local civic society institutions (the process is less accessible for civil society, so oversight and control is much weaker). These studies are limited in scope and findings, mostly because much effort has been concentrated on pointing out to the policy-maker the inconsistencies between some legal provisions.

Since the legal framework for IMC is recent and municipalities are still becoming accustomed to it, it is not our intention to advocate for significant changes from this perspective. Rather, we will focus on how to rationalize intermunicipal cooperation and to address the issue of IMC integration/fragmentation, as well as specific aspects that would help increase the impact of intermunicipal cooperation on local development.

In the following sections of this paper we will detail some theoretical background aspects related to intermunicipal cooperation in Europe, some of the factors influencing intermunicipal cooperation in Romania and the methodology employed in order to assess the current state of IMC in Romania. We will then discuss, in a comparative perspective the legal framework for intermunicipal cooperation in Romania, and we will detail some quantitative data showing current patterns of IMC in Romania. Then

we will analyze five case studies, representative of the different available legal forms and different types of local governments involved, in an attempt to assess organizational, functional, and accountability related aspects of IMC in Romania. In the same section, we also touch upon the positive and less positive effects of the incentives used by the central government to stimulate cooperation between local governments. In the last two sections of the paper we review alternative policy proposals and make a case for a proposal focused on a mix of actions: the creation by the central government of a financial support scheme for IMC, capacity building actions undertaken by a set of actors, as well as increasing the level of information about the workings of IMC in order encourage a more rational approach to cooperation on behalf of local governments.

2. THEORETICAL BACKGROUND: IMC IN EUROPE

Intermunicipal cooperation is considered instrumental for improving the scope and efficiency of local government activities, allowing them to combine resources in order to provide higher quality services and take advantage of economies of scale (Bahloul 2008; Osterriender et al. 2006, v). IMC is one of the strategies used in Europe to cope with rising pressures on local governments in the past 20 years, along with amalgamation, limitations on the operational scope and autonomy of local government, and the involvement of large privately and publicly owned companies and organizations in the fulfillment of public tasks (Hulst and Monfort 2007, 4–6). In a study of Spanish municipalities, Bel and Fageda find that, in practice, intermunicipal cooperation is actually seen as an alternative to privatization of public services, with many Spanish local governments preferring to use intermunicipal cooperation rather than privatization to exploit economies of scale, regardless of their size (Bel and Fageda 2008).

However, several authors underline the need for tailoring intermunicipal cooperation to country-specific circumstances, such as the institutional context and the policy-making capacity of local governments (see Hulst and Monfort 2007, 2–3; Osterriender et al. 2006, v). This is the obvious explanation for the diversity marking intermunicipal cooperation, pointed out by Hertzog (2008): there are many possible forms of IMC, there are different motivations for their creation, and they differ in terms of objectives and membership. This is of course paralleled by a diversity of policy and institutional frameworks for IMC enacted by central governments around Europe, ranging from highly restrictive to highly permissive (detailed in the Council of Europe's report, *Good practices in intermunicipal cooperation in Europe*).²

An increasing amount of literature on IMC focuses on the set of conditions necessary for successful intermunicipal cooperation. Swianiewicz (2008) lists among these conditions: the existence of a legal framework, incentives for IMC (from the central government and/or the EU, financial and/or functional incentives), and a culture of

cooperation and leadership. Data from Germany, where intermunicipal cooperation is either project- or vision-oriented, reveals that project-oriented intermunicipal cooperation initiatives with a clear goal have been more successful than others (Osterriender et al. 2006, 45).

Some authors point to the existence of capacity development challenges to effective intermunicipal cooperation and quality service delivery and mention several aspects of local government where intervention is needed: leadership capacities, facilitation skills, contract management, project development and management skills, cooperation and negotiation skills, analytical skills and the capacity to evaluate feasibility studies (Osterriender et al. 2006, 40–41). Focusing on Macedonia, Dauti (2008) also lists several challenges: the long-term sustainability of IMC, beyond the terms in office of present local elected officials; the need for permanent facilitation (disseminating experience, balancing interests, providing necessary technical assistance and financial support for the initial set up), and the hesitation of local authorities to embark on IMC due to the lack of resources and experience.

IMC presents a dilemma between effectiveness and democracy (Houlberg 2008), given the fact that it reduces (or even annuls) citizens' capacity to control the decisions in exchange for effectiveness and economic viability. Swianiewicz (2008) includes weak democratic control and transparency in a list of problematic aspects of IMC along with the political costs of cooperation, the slow decision-making process, local particularism, and costs due to the duplication of administrative structures. Assuming we accept as such this reduction of the citizen's role, there are still some questions that need to be asked regarding the extent to which democratically elected local councils are able themselves to control IMC operations on behalf of the citizens. We must link the issue of democratic control over IMC operations with the response we give to the following question: Is intermunicipal cooperation more of a political or a technical problem? Research on IMC in Western Europe, be it from an academic or practitioner's perspective, appears to highlight the technical aspects of the issue. Political aspects are addressed only to mention that IMC is usually the norm in countries where central governments consider the political costs of resorting to other options—such as territorial reform or limitations to the operational scope of local governments—as being too high.

At first glance and in most countries IMC is primarily an issue of voluntary cooperation between local governments. However, the list of conditions for successful intermunicipal cooperation, as well as the various challenges identified in various countries, and the need to solve the problem of the democratic deficit of IMC, suggests that this is an important policy issue for central governments. The manner in which such a policy issue is handled depends though, to a large extent, on contextual factors such as formal state structure, but also on the norms, values, informal rules and traditions that influence intergovernmental relations and interaction (Hulst and Montfort 2007a, 13).

3. THE CONTEXT FOR IMC: SOME ASPECTS OF LOCAL GOVERNMENT IN ROMANIA

Any assessment of government policy in the area of intermunicipal cooperation is highly context based, as previous investigations have pointed to the link between specifics of local government in a given country and the patterns of intermunicipal cooperation (following Hulst and Montfort 2007). In the following paragraphs we briefly look at the scale, position in the state administration, character and scope (functions and level of expenditure), and the degree of autonomy and discretion the Romanian local government enjoys in exercising its functions. The Romanian local government can be characterized as multifunctional territoriality-based or, using Wollman's (1998) wording, the "classical" European model. If we compare the Romanian national administrative system with the ones in Western Europe, we will find a similarity to the Southern European model, mostly due to the unwillingness of elected officials to pay the political costs of forced amalgamation.

3.1 Types, Numbers, and Size

Romania has a two-tier local government. The first level, administrative-territorial units (ATUs), corresponds to the LAU level 2, while the second level—the counties—corresponds to NUTS level 3. There are three types of ATUs: municipality (municipiu), town, and commune. Municipalities and towns correspond to urban areas, but in most cases these units include an urban area plus one or more villages. The distinction between municipalities and towns is traditionally based on criteria such as the size of the population, territorial size, or factors related to the historical, social, economic, and cultural importance. Communes are made up of two or more villages and hamlets. Counties are made up of territorial-administrative units and a county capital that is always a municipality. The capital city of Bucharest has a special status, to some extent similar to the counties.

Table 5.1
Romanian Local Government at January 1, 2009—Synthetic Statistical Data

Number of 1st tier local governments	Minimum population	Maximum population	Maximum population (without Bucharest)	Average number of inhabitants per local government	Average number of inhabitants per local government (without Bucharest)
3,180	142	2,067,545	350,581	7,172.96	6,524.84

Source: National Institute for Statistics, TEMPO Online database and Romania în cifre, www.insse.ro, retrieved March 7, 2009, June 27, 2009, respectively.

National level data as of January 1, 2009 show the existence of 41 counties, 103 municipalities, 217 towns, and 2,860 communes. Also in 2008, the 2,860 communes included 12,487 villages, with an average of 4.37 villages per commune. This figure is highly relevant as it is an argument in favor of the idea that Romanian first tier local government is not community-based but rather service delivery oriented.

Table 5.2
Size of Romanian Local Government, January 1, 2009

Urban —Municipalities and towns (excluding Bucharest)		Rural —Communes	
Under 5,000	21	Under 1,000	75
5,000– 19,999	198	1,000– 1,999	587
20,000– 49,999	57	2,000– 4,999	1,743
50,000– 199,999	20	5,000– 9,999	432
200,000– 999,999	10	10,000 and over	23

Source: National Institute for Statistics, TEMPO Online database, www.insse.ro, retrieved March 7, 2009.

Note: * By law entitled to a metropolitan area.

In terms of size, the Romanian local governments are rather small, 2,405 out of Romania's 3,180 municipalities are communes (rural area local governments) with less than 5,000 inhabitants. This figure suggests that achieving economies of scale for most of the public services is rather impossible if local governments provide services on their own. After 1989 there has been some variation in terms of numbers (an increase from 2,888 ATUs in 1990 to 3,180 in 2008) and the types of local governments (change of ranking), but this did not produce significant shifts in terms of size.

3.2 Position in State Structure and Degree of Autonomy

Any analysis of the formal position of local government only reveals part of its actual autonomy and policy discretion (Hulst and Monfort 2007, 3); and this applies to the Romanian case as well. The principles of local autonomy and decentralization are set forth in the Romanian Constitution. However, the autonomy of Romania's local governments is limited by a series of factors.

First, the reform of the administrative system after 1989 involved the simultaneous application of both the principles of decentralization and de-concentration resulting in overlapping functions between the de-concentrated central government institutions and the local governments, with consequences for sectoral policy-making and implementation (see *Impactul serviciilor deconcentrate ale ministerelor asupra politicilor*

publice locale, 2007). At the same time, de-concentration led to the transformation of the prefect's office into a powerful local actor tending to exercise not only legality control (which is formally part of its duties) but also opportunity control over local governments (Coman et al. 2001; *Impactul serviciilor deconcentrate ale ministerelor asupra politicilor publice locale*, 2007). Secondly, no post-1989 sectoral decentralization was paralleled by a realignment of intergovernmental fiscal relations (Bischoff and Giosan 2007), leaving local governments with local autonomy but no financial resources. Moreover, the same authors speak of *ad hoc* rather than actual decentralization mostly motivated by the need to transfer deficits to local budgets (Bischoff and Giosan 2007). Thirdly, while a 2004 law finally introduced a clear division of functions between different tiers of the national administrative system, this only sanctioned the fragmenting of responsibilities among different layers of the administrative system. This is very well exemplified by the situation in the education system with prerogatives divided among the central government, central government deconcentrated institutions, county councils and local councils. This is said to reflect a lack of administrative capacity, but it also reflects a choice towards bureaucratization and centralization (Bischoff and Giosan 2007, 8). These aspects limit the capacity of local governments to formulate and implement local sectoral public policies, despite their status as entities with full authority and responsibility in all matters related to the local public interest within the limits of their territory.

3.3 Character and Scope

The character and scope of any local government is defined by the functions it performs; the level of expenditures corresponding to local governments can sometimes illustrate this. In this subsection, we look at the functions of local governments in Romania and at the extent to which discretion in exercising these functions is affected by fiscal and financial aspects.

According to 2004 changes to the legal framework, Romanian local governments have three categories of functions: own, shared and delegated. Own functions are the exclusive responsibility of local governments, including financial aspects. Shared functions are divided between local governments and other administrative tiers, each tier being partially responsible for the expenses. Delegated functions involve transfers of responsibilities from the central government to the local governments, accompanied by transfers of necessary funds from the central to the local level. The point of interest is, of course, the exclusive functions of the local governments, representing areas where full autonomy is exercised if enough financial resources are available. The exclusive functions of first tier local governments in Romania include: the management of emergency situations at the local level; local public utilities provision (water supply and purification, sewage, district heating, local waste management, local public transport, public

lightning); maintenance of local roads and streets (municipalities only); administration of local public property; spatial planning; some areas of protection for the elderly and for victims of family violence; management of some public health institutions; and some culture related functions.

The fiscal autonomy of local governments in Romania grew significantly after the 1998 introduction of the Law on Local Public Finances, which gave local governments the right to set up local taxes and decentralized collecting mechanisms, as shown by a steady increase in local government spending illustrated in Table 5.3. This increase must be regarded with caution, because it is paralleled by variation in central government spending and a general increase in spending.

Table 5.3
Local and Central Government Spending, 1999–2008

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Local government spending as percent of GDP	4.0	4.4	6.4	6.5	6.7	7.0	7.1	8.4	9.6	9.8
Central government spending as percent of GDP	27.5	27.9	26.1	25.3	24.9	24.8	24.8	26.9	27.0	28.1

Source: Eurostat. Available online: <http://epp.eurostat.ec.europa.eu>, June 2009.

Sharing mechanisms were introduced simultaneously, and they involved the transfer of a portion of personal income taxes directly to local governments. Based on size in terms of population, local governments' revenues from personal income taxes became a significant portion of local budgets. However, local governments have no control over the tax rate and occasionally the tax base, so local control over budgetary revenues, tax rates, and tax bases is minimal (Copaciu 2007, 80). Other significant portions of the local budgets come from earmarked transfers (part of the value added tax revenues) and the so-called equalization transfers. Equalization transfers come from upper levels in the administrative system and are based on a legal provision that conditions the decentralization of functions by the transfer of appropriate financial resources from the upper to the lower level. While the most important source of revenues for most urban areas comes from the share of personal income tax and local taxes, local governments in rural areas actually depend on earmarked and equalization transfers for their budgets. Data from 2006 dealing with municipalities' revenues, based on a survey, put the own revenues at 36 percent, with earmarked transfers at 53 percent and other transfers at 11 percent (Copaciu 2007). Rural local governments' dependency on equalization and earmarked transfers have led to significant consequences. In the area of education, for example, decentralization made local governments responsible for school maintenance and led to uneven per student maintenance expenditures, as richer local governments had their own

funds to invest into their schools while poorer ones only had equalization funds to draw from (Bischoff and Giosan 2007).

3.4 The Pressures: Administrative Capacity and the Development of Public Service Delivery

While taking into account the systemic features of Romania's local governments, we must also review some of the pressures confronting local governments, as these also influence how intermunicipal cooperation is shaped and how successful it is. The previous subsections pointed to some of these pressures, such as size and the associated political taboo of territorial reform, the problematic autonomy of local governments, and fiscal autonomy issues. To these we can add the low level of administrative capacity and the under-development of public service delivery, especially in rural areas.

A 2006 study by the Ministry of the Interior and Administrative Reform (Raport asupra rezultatelor cercetării administrative... 2006) pointed out some relevant aspects for the level of administrative capacity, linked to local governments' ability to attract external funding for their projects. Among others, we mention the inability to draft local development strategies (in 2006, 48 percent of the municipalities in Romania did not have a local development strategy; 37 percent of the municipalities that have a local development strategy had to ask for outside help or had their strategies developed by third parties). Of course, when you expand out to the next ranks in the administrative system—towns and communes—the administrative capacity is even lower. The low level of administrative capacity of the rural municipalities is highlighted by the success rate in accessing funds dedicated to the modernization of their structures and services (PHARE funds for the modernization of public administration)—9 percent for communes compared to 70 percent for county councils.

Table 5.4
Service Provision—Water Supply and Sewage Services,
Coverage of Urban and Rural Areas, 2004–2006

Year	Water supply		Sewage and water purification	
	Urban	Rural	Urban	Rural
2004	309 98.41%	1,551 54.86%	302 96.18%	373 13.19%
2005	315 98.75%	1,620 56.82%	306 95.92%	386 13.54%
2006	317 99.06%	1,682 58.93%	308 96.25%	400 14.02%

Source: National Institute for Statistics, TEMPO online database, retrieved March 7, 2009.

This level of administrative capacity is combined with poor quality or entirely lacking public services, especially in the area of local public utilities. Taking water supply, water purification, and sewage services, Table 4 shows that, mostly due to the change of ranking for some ATUs, by 2006 even urban areas were not fully covered by such services. For rural areas, the situation is much worse with 58.93 percent of the area covered by water supply services and 14.02 percent by water purification and sewage services.

4. ANALYTICAL FRAMEWORK, METHODS AND DATA

Any in-depth assessment of how intermunicipal cooperation has worked in Romania is, of course, highly contextual. In the following paragraphs, we list some of the basic premises of this assessment which resulted from the previous sections. Then we define some of the terminology used and clarify our view on what accountability and effectiveness mean in this context. We detail the methodology used and briefly describe the data collected before detailing some problems with data collection. We end with some policy recommendations in the area of transparency, citizen information, and the collection of national statistical data.

Intermunicipal cooperation functions in a broader social, economic, demographic, cultural, and technological environment (Hulst and Montfort 2007a, 15). We must keep in mind that the introduction of intermunicipal cooperation in Romania is linked with the political unacceptability of addressing the issue of local government size and severe tendencies towards centralism in the national administrative system, inherited from the Communist regime. At the same time, the limited financial autonomy of Romanian local governments (resulting from a lack of parallelism between the process of decentralization and the realignment of intergovernmental fiscal relations) makes them dependent on external funding for the initiation of significant projects. Moreover, accessing external funding is closely linked with the ability to plan for local development while accounting for increased policy externalities. These aspects make intermunicipal cooperation highly attractive, as local governments perceive its potential for filling the gaps in strategic thinking and administrative capacity. Another highly important aspect is the fact that basic service delivery is under-developed in rural areas, which sheds light on the potential economies of scope associated with intermunicipal cooperation. This latter aspect is so compelling that any assessment of the effectiveness of intermunicipal cooperation in Romania should probably favor economies of scope over economies of scale.

For analytical purposes we use here a somewhat broad definition of intermunicipal cooperation that also includes situations in which two or more local governments cooperate between themselves and with other actors such as NGOs, private companies, and agencies at different levels of the government (for example, the prefect's offices, deconcentrated institutions or county councils). The latter case is usually labeled as

vertical cooperation and is excluded from the definition of intermunicipal cooperation. We did not restrict this investigation to pure forms of intermunicipal cooperation (including only first-tier local governments) due to the particular conditions in which the first instances of IMC appeared in Romania—before a legal framework was enacted and, often enough, donor-driven and stimulated by an NGO.

For the purposes of this analysis, we use a working definition of effectiveness of intermunicipal cooperation that emphasizes, based on previous work reflected in Hulst and Montfort (2007) and the Council of Europe 2007 report on IMC, the following aspects:

- the degree of organizational integration and its impact on planning and policy coordination;
- actual joint projects and service delivery (if it is the case) and the extent to which economies of scale or economies of scope are achieved;
- flux of decision-making (ability to make decisions in a timely and due manner, administrative-bureaucratic aspects of decision-making processes);
- subjective effectiveness (satisfaction of local governments involved, perceived cost-benefit ratio of cooperation).

The investigation of accountability is twofold and accounts for both the political representation aspect of IMC and the similarity with the area of contract public service; that is a look at both the political and technical aspects of accountability. Ingram (2005) identifies three dimensions of accountability in the contract public service, which are also applicable to the area of intermunicipal cooperation: the legal-contractual dimension, the performance dimension, and profit (Ingram 2005, 18–20). Since intermunicipal cooperation is something rather new in Romania it is too early to look at the third dimension. According to previous analyses legal-procedural (statutes, contracts) and performance accountability mechanisms (monitoring bureaus and procedures) do exist. While assessing the functionality of these mechanisms we will also look at the political component of intermunicipal cooperation, with a focus on the organization of political representation and the extent to which IMC in Romania is accountable to elected local officials (mayors and councils). Another distinct aspect taken into account involves a participatory view on local democracy and looks at citizen information, consultation, and engagement in IMC operation and decision-making.

This assessment of intermunicipal cooperation in Romania tries to balance the macro perspective, which is focused on identifying national level trends, with a micro perspective, focused on identifying the inner workings of such forms of cooperation.

The first stage of the assessment involves document analysis on primary legislation (referring directly to different legal forms under which local governments can cooperate), and secondary legislation (with indirect application, such as the law on public

property or the law regarding the contestation of administrative acts). We also look at policy documents by the Central Unit for Local Administration Reform and documents spelling out minimal requirements for accessing EU structural funding in the area of public services. This analysis aims to reveal the type of intermunicipal cooperation that the central government is trying to encourage and the extent to which current policy creates a flexible enough framework for IMC that allows it to address the pressures confronting local government in Romania. Data for this stage of the analysis was collected between June 2008 and October 2009.

The second stage of the assessment tries to identify some patterns of intermunicipal cooperation in Romania by looking at numbers. A secondary data analysis based upon the National Register of Associations and Foundations allows us to account for the number and evolution in time of formal associations of local governments in Romania (including ICDA's and NGOs). At this point, we also address issues such as their size, regional distribution, or the purpose of the association as stated in the establishment documents or in the sector. Raw data for this stage was collected in October 2008 and it consequently covers formal associations of local governments legally registered before September 30, 2008. Data does not allow us to talk about aspects such as the size of the local governments most likely to cooperate. In addition, it does not allow us to evaluate the extent to which there is territorial overlapping of multi-purpose intermunicipal cooperation, one of the key issues pointed out by previous studies (Pop, Stănuș, and Suci, 2007). This happens due to serious problems in data recording and transparency.

The last stage of the analysis involves an in-depth comparative analysis of five cases selected using the *most dissimilar systems design* strategy borrowed from comparativists in political science (Przeworski and Teune 1970), based on several criteria and availability of data issues. The cases analyzed cover the different legal forms available for IMC, cooperation between municipalities of different types, and different purposes of cooperation. Given the lack of official statistics and databases referring to different IMC entities, this stage of the analysis provides the sole opportunity for the in-depth analysis of the effectiveness and accountability surrounding IMC in Romania. The case study protocol designed for this stage of the research involves conducting one in-depth interview with personnel in charge of managing the organizations studied, two or three short interviews with project managers, mayors or other relevant actors, an analysis of the statutes and strategic documents from the organizations, an analysis of annual activity reports (if available), as well as an analysis of these organizations' presence in local media or in available minutes of the local council's meetings. Data for this stage of the analysis was collected between January and February 2008.

5. THE LEGAL, POLICY, AND INSTITUTIONAL FRAMEWORK

This section primarily discusses the legal framework for intermunicipal cooperation in Romania, based on the analysis of both primary legislation³ (referring directly to different legal forms under which local governments can cooperate) and secondary legislation (with indirect application, such as the law on public property or the law regarding the contestation of administrative acts). Because this paper aims at broadly assessing IMC in Romania, and keeping in mind its potential role in furthering local development, we will not focus on highly technical legal provisions associated with cooperation in the area of service delivery, such as those referring to specific steps for concession of service or procurement. Instead, we will focus on the extent to which the legal provisions approach issues such as the need for the integration of planning and policy-making, the degree of flexibility allowed, the organization of political representation and the establishment of minimal accountability mechanisms, and central government obligations to support IMC. In addition, we expand this analysis beyond pure IMC, to include forms of cooperation involving non-local government actors. After a description of the legal forms for intermunicipal cooperation available, we will approach some of the key issues deriving from the critical analysis of this legal framework. We will also briefly look at the minimal policy and institutional framework currently in place and assess its possible influence on the way IMC is shaped in Romania.

5.1 Available Legal Forms

The existing legal framework allows for the following types of intermunicipal cooperation:

- non-governmental organization, based on the provisions of the Law regarding associations and foundations, a form of private law that allows municipalities to cooperate both with other municipalities and actors such as NGOs, private companies, public authorities or individuals;
- inter-community development association (ICDA), based on the provisions of the Law No. 215/2001 of local public administration and its modifications through Law No. 286/2006, with a quasi-public status (to be explained below), which can be either multi-purpose IMC or single purpose;
- inter-community development association for local public utilities (local public utilities ICDA), based on the provisions of the Law No. 51/2006, single purpose bodies with public status, allowed to take over local public utility services whose management implies use of and making investments on public property. The local public utilities ICDA may operate the services itself, contract a private company, or set-up a private company. In each case, the legal entity taking over

the service needs to be authorized as a regional service provider by a central government agency.

Technically, Romanian law allows for other forms of cooperation as well, such as the conclusion of identical service contracts with a private company by a number of municipalities. Nevertheless, these forms of cooperation are rather rare for two reasons. The legalistic tradition in Romania leads to a strong preference on the part of municipalities for legally binding forms of cooperation. Secondly, clear preference is given to forms of cooperation that facilitate access to funds coming through the Structural Instruments in Romania 2007–2013. The eligibility requirements of these funding programs support the increase in numbers of ICDAAs and local public utilities ICDAAs. Consequently, we will focus our analysis on these three legal forms of intermunicipal cooperation.

The basic principles are explicit in several pieces of legislation, most importantly in the Law on Local Public Administration (No. 215/2001) and the Framework Law for Decentralization (No. 195/2006), but also in the Law on Regional Development in Romania (No. 315/2004). These laws specify the right of local governments to voluntarily associate themselves in order to pursue their objectives; they are not limited to the county or the development region they belong to.

Non-governmental organizations. Local governments in Romania may use this private legal form to make their cooperation official. For a long time this was actually the only legal form for IMC available, so its use remains widespread. Three or more local governments can set up an association, based on legal provisions regarding associations and foundations. This legal form allows local governments, if they so wish, to include other actors—such as private companies, public institutions, NGOs, or individuals—in the structure of cooperation. Like any other NGO, associations comprising local governments can apply for and obtain the public utility status—which gives them preferential access to funds from state and local budgets and the use of public buildings. It also compels them to publish annual financial and narrative reports in the official bulletin (*Monitorul Oficial*). These entities cannot take over public utilities and public services from the local governments and are more adequate for purposes such as tourism promotion, cultural activities, or coordination and planning for local development activities. These bodies need to comply with a set of requirements regarding membership, decision-making, funding, procedures to be followed in case of changes in the leadership, and procedures to be followed in case of dissolution. The sources of funding acceptable by law are membership fees, donations, grants, and direct economic activity.

Inter-community development associations (ICDAAs) are private law bodies based on the legal provisions of Law No 286/2006 introducing modifications to Law No. 215/2001 on Local Public Administration. These entities receive by default the public utility status, with all associated rights and obligations mentioned above. This public utility status, along with other legal provisions such as allowing local governments to

transfer responsibilities to these bodies entitles us to mention that these entities have quasi-public status. As mentioned above, this was one of the most debated aspects of IMC policy in Romania so far, with mounting arguments coming from NGOs and representatives of the Public Services Employers' Association to give these entities public status. As long as the law literally states that these entities have private status, legislation regarding transparency and citizen information does not apply.

Based on explicit legal provisions they are able to take over functions from local governments. ICDAAs can be multi-purpose or single-purpose based on the decisions of their members. A debatable aspect related to ICDAAs is their ability to take over and manage local public utility services that imply the use of and make investments on public property due to their unclear (public or private law) status. Only the local council can decide, by a two-thirds majority, whether public property or local public services can be given in administration or concession, or rented to somebody else. Similarly, only local councils, by simple majority of councilors in office, are allowed to make decisions regarding the local budget, contracting loans, participating in county, regional, or cross-border cooperation programs, and on the association or cooperation with other public authorities.

A very important aspect differentiating ICDAAs from NGOs are clear specifications referring to the representation of members. The legal framework clearly states that the representatives of the territorial-administrative units are named by a decision of the local council and must reflect the political configuration resulting from the last local election. This is the single most important legal provision addressing the issue of accountability and legitimacy of the ICDAAs. Similar to local governments, ICDAAs are allowed to appoint a public manager (a position corresponding with that of the city manager) by a unanimous decision.

Funding for ICDA comes from membership fees, grants, donations, companies owned by ICDAAs or direct economic activities, much similar to the structure of funding for NGOs. Additionally, the Law on Local Public Administration states that the central government, through the Ministry of Interior and Administrative Reform, will provide funding for ICDAAs through a national funding program. This legal provision was never applied in full, with representatives of the ministry claiming that the PHARE 2006 Modernization Fund was such a funding program, merely because ICDAAs were marginally eligible for funding.

Metropolitan areas should be treated separately, even though they become functional by the use of one of the above-mentioned legal forms, due to some specific legal provisions. According to the law, only the capital city of Bucharest and the 10 municipalities over 200,000 inhabitants (first-tier municipalities) are allowed to form metropolitan areas. Metropolitan areas can be expanded to include local governments up to a distance of 30 kilometers from the municipality. The only other criterion for inclusion in the metropolitan area specified by law is "the existence of cooperation in multiple areas" between the municipality and the urban or rural neighboring municipalities (Law No. 351/2001

regarding national territorial planning). This criterion suggests that metropolitan areas should be constituted taking into account the degree of interdependence and policy externalities between the respective local governments. There are no provisions that would ensure the enforcement of this criterion. In the absence of other specific legal provisions, metropolitan areas can be organized using either the NGO or the ICDA as a legal framework.

Local public utilities ICDAAs are organized based on the provisions of Laws No. 215/2001 and No. 51/2006 regarding local public utilities services, but some of the provisions of the Governmental Ordinance No. 26/2001 regarding associations and foundations are also applicable. Local public utilities ICDAAs are limited to a specified set of services: water supply, water purification and sewage, centralized heating systems; sanitation and waste management; public lighting; administration of public property; and local public transport. Cooperation in these areas has been approached separately by the legislator due to its technical nature and the need to harmonize general provisions with specific provisions related to service in these areas.

Local public utility ICDAAs are assimilated with public institutions, meaning they are public law bodies. This explicitly entitles them to administer public services and public property. However, due to the specifics of the services in these areas—public property involved and investments necessary—decision-making with regard to key issues remains a prerogative of local governments (specifically, of local councils).

Local public utility ICDAAs can be either single or multi-purpose according to the legal provisions. Due to the complicated technical requirements and the almost complete reliance of local governments on external funding for investments in these areas (with most funding programs requiring the existence of a single purpose association of municipalities), we expect that local governments prefer to organize single-purpose local public utility ICDAAs. This is supported by the cases studied here, as well as by information referring to other cases, collected for the 2007 Public Policy Centre's study of ICDAAs in northwestern Romania.

There are three options for actually managing the services after they are delegated to the local public utility ICDAAs:

- direct management of service by the association, by creating a special internal department with this purpose;
- delegation to a private company whose shareholders must be, at least in part, the local councils or the ICDA;
- delegation to a third party, based on specific legal procedures for delegation, the available options being the concession of services or a public-private partnership.

No matter what the option for actual management of service is, by law, the ATUs remain responsible for policy-making in the respective field and the development of

services. Therefore, they are compelled to establish special units in charge of monitoring, controlling, and supervising the implementation of delegation contracts, the contracts with beneficiaries/citizens, the quality of service, the price of service, the management, and the functionality of utility networks.

5.2 Encouraging Integrated or Fragmented IMC?

The way IMC is being shaped in Romania also depends on *the incentives used by the central government to stimulate cooperation* as part of the policy and institutional framework. However, this framework has remained minimal. The Central Unit for Public Administration Reform from the Ministry of the Interior manages, among a variety of tasks, aspects related to IMC. Policy in this area is focused on promoting IMC via public declarations encouraging IMC, usually made at the meetings of the national associations of local government, and embedding some incentives in the structure of funding programs managed by the ministry (PHARE Modernization Fund, PODCA—Development of Administrative Capacity Operational Program). There was no explicit policy to promote cooperation yet the central government effectively managed to signal local governments that this was desirable. The incentives used are definitely financial in nature, but without involving special expenses made by the central government. Prior to the effective launch of the Structural Instruments in Romania, during a series of public speeches and conferences, representatives of the Ministry of the Interior and Administrative Reform promoted IMC as the only chance most local governments had to access structural funds. This incentive proved to be successful, as pointed out by the increasing number of IMC bodies being legally registered. However, when financial incentives are used to promote joint planning and programming of local policies, it is not uncommon to find that cooperation is more symbolic than actual (Hulst and Montfort 2007b, 235). This also applies to Romania, as representatives of many local governments see IMC bodies only as a way of getting some funds, if possible without the joint planning process.

At first glance, the legal framework allows for a *high degree of flexibility*, allowing local governments to decide with whom they should cooperate, in what areas and under what legal form, and by allowing the change of legal form (accomplished by a full-member decision and ratification by a local court). This does respond to a particular state of mind within the Romanian national administrative system—the introduction of any type of obligation regarding intermunicipal cooperation would have been considered as an attack on the newly obtained local autonomy. At the same time, conditions for abuse were created because local governments were not prohibited from simultaneously joining several organizations with similar purposes. A look at Cluj county in western Romania is illuminating in this area—17 rural local governments are members of dif-

ferent entities focused on local development (multi-purpose IMC registered as ICDA), and are also simultaneously members of the Cluj-Napoca Metropolitan Area Association (having the same purposes, registered as ICDA). Such tendencies undermine the role of IMC in the area of planning and policy coordination and pave the way for a low level of involvement in the respective organizations on behalf of the local governments. This problem is obviously linked to the extent to which legal, policy, and institutional frameworks are *addressing the issue of interdependency* between local governments as a key precondition for intermunicipal cooperation. Some very general legal provisions, especially obvious in the case of metropolitan areas, do point to the need for interdependency between the local governments embarking IMC, but no enforcement mechanisms exist. Moreover, the minimal policy and institutional framework, in place at the central government level, does not involve the promotion of interdependency as a key prerequisite for successful cooperation.

The legal framework seems to encourage a high degree of *integration*, via the introduction of the multipurpose ICDA that could provide necessary planning and policy coordination at a microregional level and take over a series of responsibilities from the local governments involved. Integration is apparently encouraged, but the legal framework does not give a public law status to the multi-purpose ICDA, with consequences for their ability to take over service in the area of local public utilities. At the same time the delegation of responsibilities from the local governments to these entities is not complete, as the former still remain in charge of policymaking in the respective fields and responsible for the quality and the pricing of services provided to the citizens.

The broader policy framework does not address some of the organizational and functional aspects that are key for the desired integration of IMC. Given the local government's position and degree of autonomy, and mostly looking at fiscal and financial aspects, this degree of integration is only achieved if the policy and institutional framework for IMC addresses issues such as start up costs, necessary human resources and long term financial and organizational stability. A previous study (Pop, Stănuș, and Suciș 2007) pointed out that one of the key functional problems of IMC involving small local governments from rural areas is the fact that local authorities were not able to financially support the activity of the organizations because they did not have enough revenues of their own (not earmarked or coming from equalization funds). In view of these aspects, the legal framework does state that a funding program dedicated to IMC should be created and managed by the Ministry of the Interior and Administrative Reform. As mentioned before, such a program was never created.

At odds with what we described in the previous paragraphs, the legal and the policy framework for IMC in Romania also encourages the functional *fragmentation* of cooperation. The legal framework in the area of different local public utilities services is so complex that it is difficult to accommodate within one organization. From this a tendency towards setting up single purpose local public utilities ICDA results. Fund-

ing programs in the area of local infrastructure and local public utilities reinforce this tendency, as most local governments and IMC bodies depend on external funding for their projects. In the case of a group of local governments willing to cooperate in the area of local public utilities services, we will consequently find several single-purpose organizations with separate structures but the same membership (as pointed out by previous studies; see Pop, Stănuș and Suciuc 2007).

The fact that we are unable to assess whether the policy-maker was aiming at promoting functionally integrated or fragmented IMC points out that policy-making in this area completely disregarded the existence of IMC attempts, which displayed a tendency toward more integrated forms of intermunicipal cooperation.

In terms of *transparency, accountability to citizens and political control over IMC operation*, the legal framework seems to be ahead of the capabilities of local governments and, consequently, the organizations they set up. By their assimilation with public institutions, local public utilities ICDA should apply in full the legal provisions regarding citizen access to information and the transparency of decision-making. By their public utility status, both ICDA and local public utilities ICDA are compelled to publish annual reports in the official bulletin (similarly to local governments, but not even local governments apply this provision). Since, despite the formal act of delegation of responsibility, local governments remain in charge of policy-making and all major decisions need to be approved by each local council, the operations of both ICDA and local public utility ICDA are controllable by the local councils and exposed to the public. The control exercised by local councils should also materialize in setting up monitoring bodies in charge of controlling and supervising the implementation of delegation contracts, the contracts with beneficiaries/citizens, the quality of service, the price of service, and the management and functionality of utility networks. However, this is a legal provision that is extremely expensive to implement (involving among other things a change in the organizational diagram of the local government and hiring of staff) for the majority of local governments in Romania. A very interesting provision refers to the representation of local governments taking into account the “political configuration” of the local council—that is, political color—meant to ensure the representation of all interests. The extent to which such a provision is implemented would depend on the decisions made regarding the management of IMC, for example whether the local governments involved decide that each of them should have one or more seats on the organizational board.

6. AN INVENTORY OF IMC

The previous section pointed to the fact that the government policy in this area did not seem to take into account existing attempts by local governments to cooperate. It also

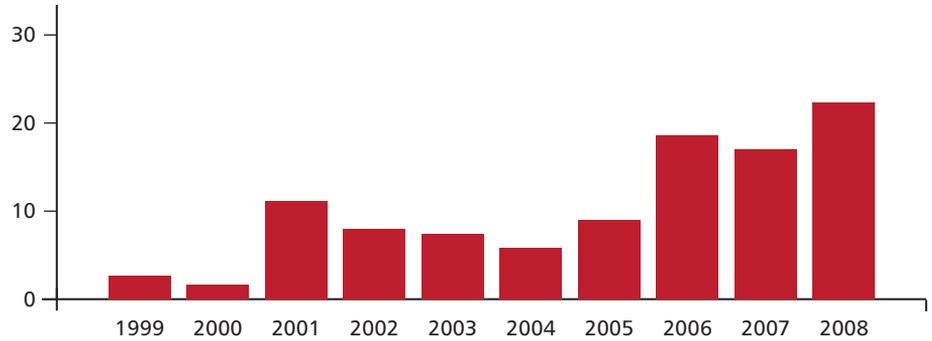
pointed out that it is unclear whether in Romania we should expect a tendency towards functionally integrated or fragmented IMC. This section tries to assess from a quantitative perspective how local governments and existing IMCs coped with the introduction of the dedicated legal framework. After some methodological aspects are clarified, we proceed with a discussion of the main trends in intermunicipal cooperation in Romania in terms of legal forms used, the dynamics of IMC establishment prior to and after 2006, regional patterns, the optimum size for IMC, and the areas of cooperation.

This section is based on the analysis of secondary data coming from the National Register of Associations and Foundations in Romania. Given the fact that legal provisions regarding NGOs also apply to inter-community development associations, and given the lack of any other framework for their registration, all ICDA, local public utility ICDA and metropolitan area ICDA should be listed in this register. The public form of this register contains information related to the date of establishment and geographical placement, the number and the names of founding members, the purpose of the association, data referring to the board of the association, information related to changes in membership and the composition of the board. Based on this data we built an inventory of intermunicipal cooperation in Romania.⁴

The data collected is incomplete as for some entries the register contains only the date of establishment, the county, and name of the organization.⁵ For 83 cases (41.9 percent) we were not able to establish the type of IMC. To these shortcomings we add the problem of establishing the total number of associations between ATUs existing in Romania. After the data described in this section was collected, we had to conclude there is an unknown number of associations between ATUs in Romania. If we add the fact that every month new ICDA or local public ICDA are registered, the situation becomes even more complicated. In several documents, the Ministry of Interior and Administrative Reform mentioned a study of IMC in Romania (made at the beginning of 2008, based on questionnaires sent to the local authorities) that identified over 200 associations exclusively made up of local governments. All these aspects suggest that there is a need to improve the informational environment with consequences for the quality of the policy-making process in this area. Some suggestions in this direction are presented in the last section of this paper.

The section describing some of the characteristics of local government in Romania pointed to the fact that the only viable policy option in dealing with the issue of size and administrative capacity of local governments seemed to be intermunicipal cooperation. Surprisingly, the local governments were the first to discover this fact as indicated by the number of associations between ATUs that were registered prior to the introduction of a dedicated legal framework in 2006. As Figure 5.1 shows, almost half (44.7 percent) of the associations between ATUs registered in Romania between 1999 and September 30, 2008 are dated prior to 2006.

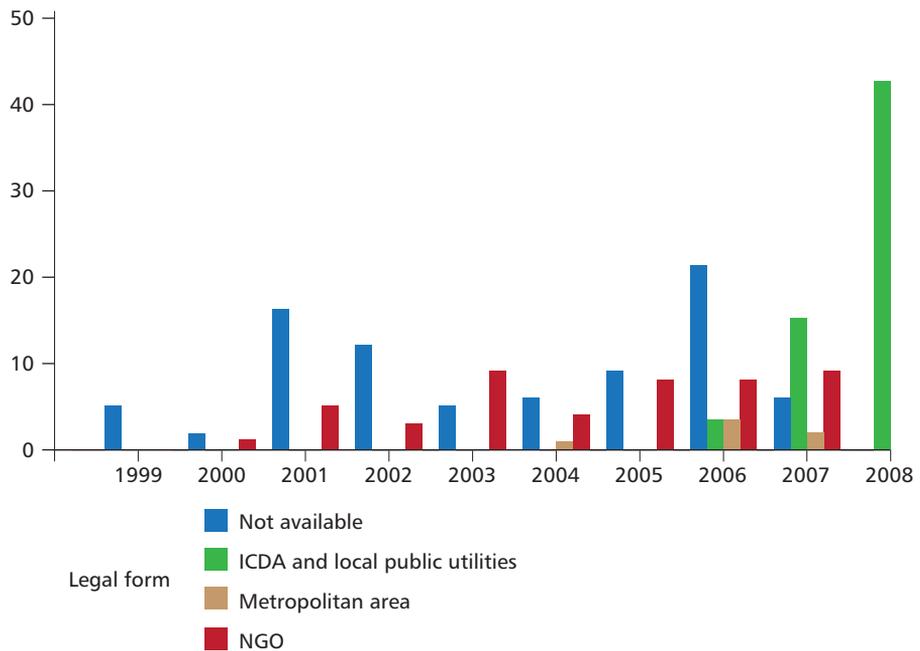
Figure 5.1
 IMC Bodies in Romania by Year of Registration, 1999–2008



Source: National Register of Associations and Foundations, September 30, 2008, available online on the website of the Ministry of Justice, www.just.ro.

Note: N=198.

Figure 5.2
 IMC Bodies in Romania by Year of Registration and Legal Form, 1999–2008



Source: National Register of Associations and Foundations, September 30, 2008, available online on the website of the Ministry of Justice, www.just.ro.

Note: N=198.

The impact of the dedicated legal framework for IMC established in 2006 is obvious if we look at the above taking into account the selected legal form. If data for 2006 and 2007 shows that the legal form of NGO is still being used as a framework for cooperation, numbers for 2008 are very clear—all associations between ATUs registered between January and September 2008 have the legal status of inter-community development association.

In terms of legal form used, the associations analyzed here are distributed as follows: 30.3 percent of the associations analyzed are ICDA or local public utility ICDA, 24.7 percent are NGOs and three percent are metropolitan areas. There are, of course, a number of associations, registered prior to the 2006 introduction of the legal framework, whose type cannot be assessed. An educated guess would lead us to the conclusion that these organizations have the legal status of NGO. But there are significant chances that at least some of these organizations changed the legal form from NGO to ICDA after 2006, changes that would be unrecorded by the National Register of Associations and Foundations.

6.1 Regional Patterns of IMC

One interesting pattern of intermunicipal cooperation in Romania is revealed if we filter information through geographical placement. IMC is associated with geographical placement in Western Romania, in one of the historical provinces of Transylvania (Ardeal, Banat, or Crișana-Maramureș). Together, these historical provinces account for 64.14 percent of the associations we identified. This is explained mostly by cultural factors and slightly different administrative traditions. The regional pattern is as strong if we use the eight development regions as a structuring factor, since three of them (west, northwest, and center) actually cover the historical provinces named above. One very important element becomes visible if we correlate this information with the Index of Community Development calculated for the communes in Romania (see Sandu, Voineagu, and Panduru 2009). A look at the median values at county level places all the counties in Western Romania in the upper half of the classification, with significantly better off rural areas in terms of local development.

6.2 Size of IMC Bodies

Another important aspect that needs to be discussed is related to the size of IMC bodies. Intermunicipal cooperation is a way of coping with a set of problems connected to the size of a municipality. At the same time, the patterns identified here suggest there should be a discussion related to the size of IMC. The analysis showed that associations of local governments in Romania range in size from 2 to over 30 members (probably

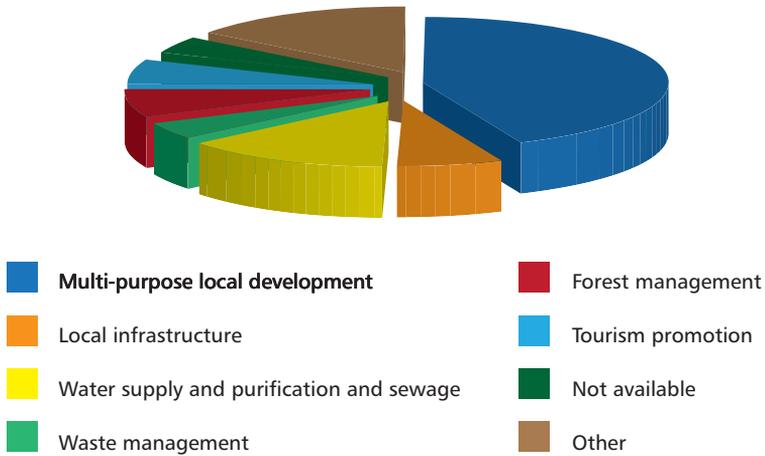
more since the National Registry of NGO lists in such cases a part of the members and mentions “and others”). In fact, several associations actually comprise almost all local governments in a given county, such as the Agency for Sustainable Development of Tulcea County or the Braşov County Sustainable Development Agency, both acting as local development agencies and project management offices for the entire county. The average size of IMC in Romania is 7.7 members, while the most frequent size is seven. Very large IMC seems to be an exception, but it is an exception related to a certain incentive for cooperation: the need to establish county level ecological landfills by 2010 (required by the EU). The issue of IMC size can of course be discussed from several perspectives—size in terms of number of member local governments, size in terms of territory, or size in terms of population. We consider size in terms of number of members to be the relevant factor given the legal provisions that precondition decision-making within ICDA by the approval of the Local Councils.

6.3 Areas of Cooperation

In terms of the declared purpose of cooperation, there is at least one unexpected aspect of the issue. Our expectation in terms of single-purpose IMC was to find a significant number of ICDA established for taking over water and sewage services, waste management or public transport. But, at least one field in need of a single-purpose legal entity for taking over a function of a local government was identified by the ATUs as early as 2001–2002: forest management. After most property was returned to previous owners, local governments from forestry areas had to manage the forest that remained in their property while offering the same service to their citizens. More than seven percent of the associations we identified were established by local governments (exclusively or in cooperation with groups of private owners) with the purpose of managing forests in their territorial area.

Data show that multi-purpose intermunicipal cooperation, usually defined as oriented towards (sustainable) local development (social, economic, environmental), but sometimes also defined as cooperation for improving local infrastructure (referring to local roads, water purification and sewage, waste management), is dominant—43.43 percent and 7.07 percent of the associations we identified. This also applies if we look at IMC set up before and after 2006; for example, 8 out of 17 organizations set up in 2005 and 24 out of 42 organizations set up in 2008 are multipurpose. The tendency toward integrated IMC, with a planning and policy coordination component, existing before 2006, was also maintained after the dedicated legal framework was introduced.

Figure 5.3
IMC Bodies in Romania by Purpose of Cooperation, 1999–2008



Source: National Register of Associations and Foundations, September 30, 2008, available online on the website of the Ministry of Justice, www.just.ro.

In the area of single-purpose IMC, the field of water supply and purification and sewage (13.64 percent) is followed by forest management, tourism promotion, and waste management. All other categories, including purposes of cooperation such as obtaining EU funding, joint planning and project management, attracting investments, conservation of cultural heritage, local transport, cross-border cooperation and others, add up to 14.65 percent of the total number of cases. The areas of cooperation identified here are in line with the type of responsibilities that the Romanian central government has so far transferred to local governments. We should mention that, in preparation for further decentralization, in the case of some multi-purpose local development IMC bodies, the stated purposes of cooperation also included areas where responsibilities had not yet been transferred to local governments. This is probably the result of the fact that any change to the statute of an IMC body does require written approval from all members and it is a rather complicated process requiring time and money.

7. IMC AND THE ECONOMIES OF SCOPE

The previous sections of this paper pointed to the tendency of local governments to opt for integrated forms of IMC that would assume a significant role in planning and policy coordination. This is all within a context marked by limited local government financial autonomy, low administrative capacity and a dedicated legal and policy framework for

IMC that seems to encourage the functional fragmentation of cooperation while not addressing issues such as the territorial overlapping of multi-purpose IMC or the need for interdependency between local governments engaging in cooperation.

This section of the paper takes an in-depth look at intermunicipal cooperation in Romania, approaching a range of issues starting with organizational and functional aspects and ending with the specifics of metropolitan governance or the uses of IMC in enhancing cross-border cooperation. Given the lack of accurate quantitative data on intermunicipal cooperation in Romania, an in-depth assessment, using qualitative methodology, is necessary in order to fully assess the current policy regarding IMC in Romania. After a short presentation of each of the cases under investigation, we will proceed with a look at organizational aspects of IMC (choice of legal forms, evolution from one legal form to another, degree of organizational integration). Next, we will look at functional aspects (size of IMC, staffing, decision-making processes) and we will link them with the extent to which desired effectiveness of IMC has been achieved. In the following subsection we approach the democratic aspects of intermunicipal cooperation in Romania. We then discuss the effectiveness of the incentives used by the Romanian central government in this area and their side effects. We also approach the issue of vertical IMC, as well as intermunicipal cross-border cooperation. In the last subsection we sum up the results of the three stages of the empirical investigation and lay the grounds for possible solutions to this policy problem.

7.1 The Cases Studied

Any in-depth assessment of IMC in Romania needs to cover all available relevant legal forms (single or multi-purpose ICDA and NGO) while taking into account the special situation of metropolitan areas. Another aspect to be taken into account is the type of local governments involved in intermunicipal cooperation, since differences in local government administrative capacity and resources might account for differences in IMC performance. At the same time, we should cover both “hard” and “soft” cooperation, going from highly technical “hard” cooperation in the area of service delivery to “soft” cooperation in areas such as tourism promotion.

Taking into account the above arguments, the cases approached by in-depth analysis were selected, based on previous investigations of IMC in Romania, using the *most dissimilar systems design* strategy. The selection of cases takes into account the following criteria, as well as availability of data issues: purpose (multipurpose IMC vs. single purpose IMC); legal form (ICDA for local public utilities, metropolitan area ICDA, ICDA or NGO); and type of local governments associated. The selected cases are the Inter-Community Development Association of the Vlădeasa-Huedin Microregion (Asociația de Dezvoltare Intercomunitară a Microregiunii Vlădeasa-Huedin, from now on referred

to as Huedin), Arieș Urban Community (Comunitatea Urbană Arieș, CUA), Oradea Metropolitan Area (Zona Metropolitană Oradea, ZMO), Horezu Depression Association (Asociația Depresiunea Horezu, Horezu) and the Banat Ripensis Microregional Development Association (Asociația Microregională Banat Ripensis de Dezvoltare a Localităților, Banat Ripensis). The strong tendency towards integrated IMC made it difficult to identify cases of single-purpose cooperation that were functional for long enough to be suited for the purposes of this analysis. For this reason, only one of the cases selected involves single purpose cooperation. Later in this section, we will discuss the fact that even in this case, a strong tendency towards multi-purpose cooperation and integration is increasingly visible.

Table 5.5
Criteria for the Selection of Cases

	Huedin	CUA	ZMO	Horezu	Banat Ripensis
<i>Sector</i>					
Multi-purpose IMC	√	√	√		√
Single-purpose IMC				√	
<i>Legal Form⁶</i>					
ICDA for local public utilities		√	√		
Metropolitan area ICDA			√		
ICDA	√			√	
NGO	√	√			√
<i>Membership</i>					
City			√		
Towns	√	√		√	√
Communes (Rural)	√	√	√	√	√

Cooperation between the municipalities of the Vlădeasa-Huedin area precedes the 2006 introduction of a legal framework for IMC in Romania and is the result of a 2001 initiative over several years by the Transylvania Ecological Club (Clubul Ecologic Transilvania), a Cluj-Napoca-based NGO that facilitated the initiative. Cooperation includes the small town (just below 10,000 inhabitants) of Huedin and 13 communes from the mountain area of Cluj County in North-Western Romania. Initial cooperation, under the legal designation of NGO, was actually shaped in the form of a loose donor-driven policy network working towards a strategy for the sustainable development of the area.

Based on a sketch of a joint strategy for development, cooperation evolved and expanded to include areas such as waste management services, renewable energy, local infrastructure projects, or small-scale tourism promotion. This also resulted in the multiplication of the legal forms. Presently, the local governments involved in IMC use the following legal forms: an NGO, an ICDA focused on planning, coordination, information and fundraising, some inter-community development associations grouping two or three local governments and focused strictly on service delivery, and contract-based cooperation in the area of waste management. To some extent, this multiplication of the legal structures used also led to fragmentation, for example cooperation in the field of waste management is completely detached from all other legal forms of cooperation and is managed by separate staff.

Cooperation between these municipalities was marked by severe functional problems that were dealt with more or less successfully after donors and the NGO providing facilitation withdrew. Problems were related to the lack of financial and human resources, dependency on external funding for day-to-day operations and the fatigue of cooperation associated with the rather immaterial outcomes in the first years (e.g., strategies, plans, and lists of priorities). To some extent these problems explain why currently, even though more legally binding cooperation structures are used, the framework for cooperation is still more similar to a policy network than to a standing organization.

Like many other successful examples of intermunicipal cooperation in Romania, this can also be characterized in terms of economies of scope, because rather than helping to reduce costs of service delivery, it helped with the provision of services that never existed before its creation (e.g., waste management services in rural areas).

The *Arieș Urban Community*⁷ was established in 2005 and comprises two towns and nine communes; all are situated south of the city of Cluj-Napoca in northwestern Romania, along two of Romania's most high-traffic roads. The two towns—Turda and Cămpia Turzii—act as centers for employment, undergraduate education, some administrative services, healthcare, and public transportation for the surrounding rural municipalities. Except for the metropolitan area cases, this is one of the most obvious cases in which policy externalities triggered cooperation. Before intermunicipal cooperation was actually established, the two urban municipalities were providing services to one another—Cămpia Turzii was buying drinkable and industrial water from the Turda local water company and local transport was integrated in terms of routes and schedules. Cooperation was envisaged as multi-purposed and, so far, there is actual cooperation in the areas of planning, coordination, fundraising, and project management; joint water supply and purification and sewage services, and urban planning and cadastral mapping. Like in other cases, here we also have a situation of economies of scope, as most of the member local governments were not able to provide water supply services on their own and are now in the process of introducing this service to their communities together.

Being established before 2006, the Arieș Urban Community has the legal status of NGO, which it maintains at this moment. However, another legal form is also used as this organization has initiated and is currently implementing a large joint project in the area of water supply and purification and sewage services. Given the fact that legal provisions only allow delegation of water supply services to local public utilities ICDA, and that funding programs (ISPA, later the Cohesion Fund) mandate that responsibilities be delegated to a single-purpose entity, the Arieș Valley Water Association was created. This multiplication of the legal structures used led to fragmentation, as the newly formed local public utility ICDA now functions completely separately from the mother association. The latter was affected in terms of human resources and, for a while, it functioned more like a policy network than a standing organization. For these reasons, representatives of the Arieș Urban Community consider that the main obstacle in the way of smooth and effective cooperation is the legal framework.

The Arieș Urban Community exemplifies the difficulties with initiating cooperation when local governments of different status and administrative capacity are involved. Until recently, the territory covered by this association was discontinued, as two rural municipalities from the area refused to join the others fearing that the two towns, with superior resources and administrative capacity, “would take over”, dominate the IMC, and impose only projects that would be advantageous for them. This fear was enhanced by the fact that the selected principle of representation took into account the size of the municipality in terms of population.

Another highly interesting aspect is the bipolar character of the organization. A look at most IMC bodies grouping both urban and rural local governments reveals a specific pattern. There is usually a larger local government, with superior resources and administrative capacity, acting as a center of gravity for the organization. Sometimes it may dominate the organization, sometimes it will take a leadership role and put its superior resources at work for common benefit. In this case, we have two local governments who occasionally find themselves competing with each other for leadership within the organization. An interesting example is a heated debate over whether the official address of the local public utilities ICDA should be in the same town as the official address of the NGO or in the other one.

The *Oradea Metropolitan Area* (ZMO) encompasses the city of Oradea and the surrounding rural municipalities situated near the Romania-Hungary border. Oradea serves as the major center for employment, education, administrative services, health-care, and public transportation for the surrounding municipalities. This case presents the highest degree of interdependence and policy externalities among the cases studied here. Cooperation was initiated in 2001 and materialized in 2005, prior to the introduction of the dedicated legal framework for IMC in Romania. The interdependence and policy externalities are recognized by the involved local governments, who aim at increasing them based on joint development plans. Planning and coordination were

deemed so important in this case that the first two years of cooperation were dedicated solely to drafting the macro-level development plans for the area (the *ZMO Strategic Framework for Sustainable Development 2007–2006*, the *ZMO Portfolio of Priority Projects 2007–2013*, and the *Territorial Planning Strategy of the ZMO 2007–2020*).

Given the legal framework, the Oradea Metropolitan Area is not able to work as a fully integrated standing organization, even though the local governments involved aim toward full delegation of (own) responsibilities and services provided to citizens towards this entity. In an attempt to achieve a high degree of organizational integration, a complicated structure appeared involving the simultaneous use of several legal structures for cooperation. Initiated as an NGO, and transformed into an ICDA in 2006, the organization named Oradea Metropolitan Area Association aims at creating several local public utility ICDAs that will take over service from the member local governments in specific sectors. In January 2009, two such organizations were functional—ApaRegio (water supply and purification and sewage) and REOSAL (waste management in rural areas). A public company, whose shareholders are the local governments, with the status of regional operator of service, corresponds to each of these organizations. Several other local public utility ICDAs, which will deal with local public transport and forest management, are being arranged. Although this case presents a complicated structure involving the existence of cooperation in several legal forms, so far there is no fragmentation of cooperation. The mother organization retains control over the planning, coordination, and fundraising and supervises the activities of the local public utility ICDAs. This is yet another example of the economies of scope associated with intermunicipal cooperation, as some of the services envisioned to be provided by this organization were inaccessible to citizens from the rural areas.

Another interesting aspect of this case is linked to cross-border cooperation. While commonly used definitions of IMC exclude cross-border cooperation, this case provides some interesting arguments in favor of a revision. The Oradea Metropolitan Area Association is currently exploring the possibility of including five municipalities from neighboring Hungary. They would prefer to be included in the ZMO rather than embark upon cooperation with the Hungarian city of Debrecen because Oradea is geographically closer than Debrecen (and assuming that because of this proximity interdependence is higher). Representatives of the ZMO also view their cooperation with the city of Debrecen, within a European Group for Territorial Cooperation, as an example of intermunicipal cooperation and mention in support of this the advanced stage of development of joint projects focused on improving transportation infrastructure.

Like in many other cases in Romania, the legal framework is considered problematic. Representatives of the ZMO mention, among the success factors of their initiative, the capacity to “innovatively” use the legal framework in their favor, meaning bending the rules. As the lobbying capacity of this entity is quite high, it is no surprise that the representatives of the ZMO mention that they successfully managed to convince the central government to make some changes to the legal framework.

The *Horezu Depression Association* presents the case of the oldest attempt at intermunicipal cooperation in Romania identified by us. As early as 1994, there was an attempt by the local governments in the area to cooperate in order to develop a joint natural gas supply network, but the project was abandoned in 1996 due to some changes in the legal framework. This entity (established in 2005) currently comprises the town of Horezu and four neighboring communes, but the inclusion of other 5 neighboring communes, all situated in a mountain area in South Western Romania, is currently taking place. The town of Horezu acts as the economic and administrative center for this region.

This entity covers an area of tourist interest, including UNESCO protected monuments and natural reservations. The need to upgrade tourism infrastructure and to stimulate tourism-led economic development of the area became the major domain and focus of cooperation. This case was selected as relevant to the analysis of single-purpose cooperation. During data collection we discovered that cooperation is in the process of expanding to other areas such as planning, coordination, and fundraising and to the joint management of emergency services, the latter resulting from the fact that the Horezu municipality was previously providing this service for all neighboring municipalities at its own expense. Cooperation in the area of tourism promotion was definitely the most fruitful so far, resulting in the inclusion of the area in the second phase of the EC EDEN project (European Destinations of Excellence). The major disappointment of these local governments is tied to this domain as well—the loss of a significant tourism infrastructure grant (approx. 4.5 million Euros) because the central government (Ministry of Regional Development) failed to complete a procurement procedure in time.

The legal form of cooperation was initially that of NGO, the only one available in 2005. After the 2006 introduction of the dedicated legal framework for IMC the legal form was changed to inter-community development association. The tendency in this case is towards creating an integrated standing organization, the unusual aspect being the fact that the organization does not employ its own staff but borrows some of the work-time of civil servants from the member municipalities. A complex institutional development project was implemented between 2008 and 2009, which included, among its results, the drafting and adoption of a joint development strategy as well as training of human resources and a revision of the statute of the organization. Until now, cooperation was concentrated on “soft issues” and participating local governments did not confront the highly technical and complicated legal framework for intermunicipal cooperation in the area of service delivery, which led to fragmentation in some other cases studied here.

The *Banat-Ripensis Microregional Development Association* designates the cooperation between the small town of Jimbolia and nine neighboring communes from Timiș County, situated close to Romania’s borders with Hungary and Serbia. Cooperation was initiated as early as 2000, under the legal form of NGO, which has been maintained even after the introduction of the dedicated legal framework for IMC. Cooperation is focused on stimulating local economic development and supporting innovative agriculture (with a

cross-border component) and cultural, sports, and youth projects. Cooperation in the areas of joint waste collection and joint water supply and purification is incipient, but it will be developed under the umbrella of a completely separate organization with the legal status of local public utilities ICDA and no links with the NGO.

This organization operates more like a loose policy network and intends to keep this status and expand its activity in the domains it is currently working in. An interesting component of intermunicipal cooperation in this case is cross-border cooperation. Efforts in the area of stimulating local economic development and supporting innovative agriculture involved cooperation with municipalities from Serbia and resulted in the drafting of the *Agro-Innovative Development Strategy of the Banat-Ripensis Microregion, Romanian and the Northern Banat, Serbia* and the creation of an exhibition center for innovative agriculture in Jimbolia. A cross-border loose policy network seems to be functional in this case and it resulted in efforts for the identification and materialization of cross-border business opportunities.

7.2 Organizational Aspects

The cases presented in the previous subsection actually display a higher than expected degree of diversity, given the selection criteria we used. Intermunicipal cooperation in Romania is, as illustrated by the five cases, *vision-oriented* and aimed at social, economic, and cultural sustainable development. This is linked with the perceived inability of rural areas' local governments to draft strategies for development, which usually leads them to cooperate with similar local governments and with larger and more resourceful urban governments.

Despite this obvious use of IMC to compensate for local governments' own low administrative capacity, one of the key factors that is taken into account when deciding to embark on IMC is the *interdependency and policy externalities* between the local governments involved. In one of the cases studied here, the need to limit cooperation to "the area of influence of the town" is mentioned, while in another case no future expansion of membership is envisioned because it would ruin the "homogeneity" within the association. In the case of the metropolitan area, the decision to limit cooperation to an area of up to nine kilometers distance from the city (when the legally allowed maximum distance is 30 km) is related to the interconnectedness between the city and the neighboring villages.

The search for a development vision and mutual support to compensate for low administrative capacity results in an obvious tendency towards more *integrated forms of intermunicipal cooperation*, namely standing organizations taking over several responsibilities from local governments, with their own strategic documents, staff and financial resources, and with oversight over policy-making in the respective area. European

experience shows that multi-purpose IMC seems to come into existence when the need for IMC grows strongly over a relatively short time span (Hulst and Montfort 2007, 217), and Romania is in such a situation. All IMC in Romania involves the use of some type of association, legally registered with a court and consequently legally binding. However, there does not seem to be a link between the legal form used and the degree of organizational integration. We have here the case of a multi-purpose ICDA working more like a policy network (Huedin), the case of an NGO working like a policy network (Banat-Ripensis), but also a case in which a very complicated structure involving an ICDA and several local public utilities ICDA was built in order to create a framework for this integration (ZMO). These cases suggest that there are limitations to the legal framework, which does not seem to be adequate for the degree of integration desired by the local governments involved. As mentioned earlier, these legal provisions make local governments responsible for policy-making in an area even if they delegate responsibilities to an ICDA or to a local public utilities ICDA. At this point local governments seem to bend the rules and leave more discretion in policy-making up to the intermunicipal bodies, with local councils generally accepting without problems the proposals and decisions of the IMC council or board.

Representatives of the IMC bodies explicitly mentioned the difficulties posed by the legal framework for advanced integration. In one case, there is even a mention of the need to “innovatively interpret legislation in our favor” while in another case the legal framework is blamed for the *fragmentation* of cooperation: “unfortunately we had to create a distinct association for this service, in time it became separate and now we no longer communicate with it.” This fragmentation is visible in all cases studied we studied that began as multi-purpose cooperation, with the notable exception of the ZMO. In this particular case, the resources available and the type of relationships established between the members (with the city of Oradea taking leadership but not dominating) helped to preserve the integrative character of IMC, even though in order to achieve joint delivery of services several legal entities exist or are about to be created. Of course, we may find arguments in favor of both more integrated and more fragmented IMC. But research focused on metropolitan areas, by Lowery *et al.* (1992), finds that consolidated institutions promote the use of constructive problem-solving behaviors (something badly needed at the local government level in Romania) better than fragmented settings, and that consolidated institutions tend to foster and enhance democratic citizenship.

The fact that a group of local governments willing to embark on multi-purpose IMC find themselves compelled to set up more than one legal body in order to achieve their goals does seem irrational. To this, we add the situation of multi-purpose IMC territorial overlap. An obvious case is the above-mentioned case of multi-purpose IMC in Cluj county. Such overlapping is facilitated by a two-stage responsibility delegation process: first, local governments set up an association and designate its goals, and then, in a separate decision, each local government delegates specific responsibilities to the association. The

flexibility allowed by the legal framework (each local government being able to associate with whom it wants in the area it wants) results in abuse because local governments join more than one body and wait to see “what comes out of it.” This approach to IMC suggests that the local logic wins over the regional one and paves the way for a low level of involvement on behalf of the local governments and, ultimately, the failure of IMC.

All the people we interviewed pointed to a very important challenge in cases in which cooperation is vision-oriented. Such cases involve a lengthy process of drafting a joint development strategy. In case of the Oradea Metropolitan Area, this process took two years. Since a development strategy or spatial planning documents are rather immaterial results, cooperation fatigue seems to result from such efforts and may seriously undermine local governments’ commitment. This is surpassed with ease in two cases: if there is strong leadership within the IMC body that mobilizes the local governments or if, along with the planning process, small projects with material results are implemented.

7.3 Functional Aspects

Going beyond the extent to which intermunicipal cooperation actually delivers economies of scale or economies of scope in service delivery, the effectiveness of IMC in Romania is a function of the how decision-making processes are shaped. Two factors seem to be essential in this respect: legal provisions requesting separate approval of each local council when key decisions are being made, and the way the relationships between the member local governments shape the decision-making process.

While they do create a bureaucratic burden to IMC, the provisions requiring the approval of local councils for all key decisions are regarded by the representatives of the organizations studied here as normal. Consequently, they are not seen as a hindrance in the way of making decisions in a timely manner, but simply as imposing a certain degree of administrative planning. In one case, some of the local councils refused to approve some of the decisions made by the IMC body. However, they overturned their initial positions after they were presented with more data. While agreeing that getting all local councils to approve something is difficult (especially if technical issues are involved and there is the need for the same wording in all local council decisions), all representatives of the IMC bodies we interviewed also point out that this compels them to be in permanent contact with the local governments and extremely transparent. Of course, speed of decision-making does depend on the size of the IMC body in terms of the local governments involved. All of the representatives of the organizations studied here acknowledged this and all of them mention this as a decisive factor in not accepting an expansion of membership. When expansions of membership are discussed, interdependence is another key factor in accepting or declining the application of other local governments. The IMC bodies studied here include between 10 and 15 local gov-

ernments,⁸ and in all cases their representatives mentioned that they are “large enough” and that any expansion of membership would make them unmanageable.

The relationship existing between the local governments involved also shapes the decision-making process. This relationship is usually reflected by how the local governments organize their representation on the board of the IMC body. Legal provisions specify the structure of the organization but leave the choice of representation criterion entirely to the discretion of the involved local governments. Two situations are found in practice:

- The “one local government, one vote” situation in which the mayor is usually the representative of the local government. We find such a representation structure in four out of the five cases, including, interestingly enough, the Oradea Metropolitan Area;
- Representation based on the size of the local governments in terms of population, with or without a weighting factor in case of larger municipalities. It is the case of Arieș Urban Community and actually one the factors that, according to a representative of the IMC body, made smaller local governments reticent to become involved in cooperation, because they feared the activity of the IMC body would be dominated by the larger local governments to their detriment. It is also the case of the above-mentioned Cluj-Napoca metropolitan area, where conflicts appeared before the IMC body was legally registered since the representation structure proposed gave the city two thirds of the votes on the IMC board. Conflicts continued afterwards, leading to one local government announcing its withdrawal from the metropolitan area association two months after the legal registration was finally completed.

The first situation eases the decision-making process, while the second is a serious challenge to an IMC project’s transition from project to functional IMC body. The case of Arieș Urban Community studied here illuminates a larger local government’s need to be extremely effective in convincing smaller ones that it does not intend to impose projects that would not be beneficial to all members. Going beyond the decision-making process, this is also a discussion about fairness, for which of the two situations mentioned above is more equitable for the local governments involved? In four of the five cases analyzed, the first situation applies, with representatives of the IMC bodies seeing this as “normal” and mentioning that it would be unfair if larger local governments controlled decision-making in such a manner. In the other case, representation based on the size of a local government is the standard arrangement. We should mention, however, that the size imbalance between the two towns and the communes involved is not that high.

Human resources seems to be one of the significantly problematic areas for IMC in Romania. In the case of the metropolitan area, there are 10 employees in the main

office in charge of planning and coordinating IMC operations, plus minimal staff in the offices of the local public utility ICDA. At the other end of a continuum, we have the situation from Horezu, where local governments lend some of their staff to the ICDA. The general situation seems to be the one in which the IMC body has a minimal staff (1–2, maybe 3 people) and borrows staff from member local governments. This is also aided by the fact that a significant amount of paperwork on IMC operations needs to pass through the local councils. We exclude from this assessment the staff employed by the companies providing local public utilities services, as this is staff usually taken over from other companies or from local governments. A key problem confronting IMC involving small and relatively poor local governments is their dependency on external funding for the hiring of staff to work for the IMC body, as mentioned by the people interviewed. The case of IMC in the Huedin area is relevant—in order to pay its sole employee the IMC body sells consultancy services to local governments interested in IMC. Some local governments' decision that some of their own staff will work on behalf of the association is natural. However, these small and relatively poor local governments usually start with a human resources problem, meaning an inability to attract and retain minimally qualified staff. If the IMC bodies do find some financial resources and hire their own staff, there is the problem of retaining highly qualified staff, even if the IMC body is one with a relatively good financial status as is the case of the metropolitan zone studied here. We should also mention that IMC staff members do not have the status of civil servant and the legal protection that derives from it (for example legal protection in the case of whistle blowing).

Another problematic area is related to ensuring financial resources for the start-up of the IMC body. In all the cases examined there is an obvious reliance on external funding for the starting up of the joint delivery of services in different areas. The financial resources all Romanian local governments are willing to invest into IMC bodies (except maybe for cities such as Oradea or Cluj-Napoca), are relatively small and directly related to the share of own revenues in local budgets. If we look at the membership fees local governments pay to IMC bodies, we see that they are insignificant (amounts such as EUR 0.25 or 1.25 per year per inhabitant) if the local governments involved are rather small. When IMC is nascent, these fees, along with in-kind contributions (offices, communication costs) are the sole source of funding for the IMC body. Transfers from the local governments to the IMC body are possible only by a local council decision and this usually happens if there is a need to co-fund a specific project. These transfers mostly come from the county councils, with some county councils only joining IMC bodies because this would ease fund transferring—instead of passing funds down to local governments that will transfer to the IMC body, the transfer happens directly. The challenge for all IMC bodies seems to be that of surviving until the first external project-based grant is obtained, which can be a rather long time, and raises the question of what would be the possible alternative solution to paying the start up cost.

When asked about the main difficulties the IMC body was confronted with and how they were surpassed, along with the obvious reluctance to cooperate, representatives of these entities mention: the complicated legal framework or the fact that legal framework was nonexistent when the IMC body was set up; conditioning introduced by funding programs, and the lack of information on how to do it. The latter was, in time, compensated by horizontal communication between local governments—in all the cases studied here, assistance was provided by the IMC body to other local governments trying to replicate the example.

7.4 Transparency and Political Control of IMC Operations

Both academics and practitioners focused intensely on the discussion of equity, effectiveness and efficiency in intermunicipal cooperation and less on the democratic quality of intermunicipal cooperation (see Kübler and Heinelt 2005). In a previous section we pointed to the existence of several legal provisions, addressing both aspects of IMC accountability approached here, political representation and technical aspects.

Political control of IMC operations by democratically elected leaders (mayors and councils) is highly facilitated by the legal provisions that require a specific decision by each local council if public funds or public properties are involved. Since IMC bodies are generally at the stage in which they are preparing to implement projects focused on joint service delivery, they frequently need to turn to local councils for decisions on specific topics. This leads to a relatively high degree of control of IMC operations by mayors and councils. Mayors usually represent the local governments on the IMC boards, while in some cases each local government is represented in the general assembly of the IMC body by several local councilors. The direct involvement of mayors and councilors (and sometimes of civil servants on their behalf) in IMC operations depends on the degree to which cooperation is institutionalized. If the IMC body works more like a policy network, mayors are highly involved (in one of the cases studied here this involvement goes as far as having the mayors themselves producing paperwork and solving logistical problems). This level of involvement is to some extent decreased if the IMC body works more like a standing organization and has its own staff. Generally, representatives of the IMC bodies interviewed by us acknowledged this as a sensitive issue that receives a great deal of attention.

Legal provisions do mention the need to ensure that local governments are represented in IMC bodies (ICDAs and local public utility ICDAs) taking into account the “political configuration.” While the law is not specific, in Romania political configuration usually means representation of all political parties that hold seats in the council as a function of their relative weight. In the cases studied here, this is enforced only if the statute of the IMC body stipulates that the general assembly of the association will

include several representatives of each local government (as is the case in the Oradea Metropolitan Area). Usually though, the general assembly only includes a representative per local government and this representative is usually the mayor. From this point of view, Romania is much more similar to other European countries that provide for the representation of different political forces in that it lacks detailed procedures (see Hulst and Montfort 2007b, 223).

The fact that all key decisions need to be filtered by the local councils places all information related to these decisions under the statutory legal provisions regarding freedom of information. The fact that information is available for interested citizens, local CSOs or journalists is evident in the local media coverage of IMC operations in all the cases studied here. In some specific cases there is even national media coverage of IMC operations. If citizens or local CSOs have complaints about IMC operation, they cannot address these complaints directly but they can approach the local councils. The degree of direct citizen involvement in IMC operation also seems to be connected to the degree of integration. In the case of standing organizations that went through the process of drafting a joint development strategy, different citizen participation mechanisms (but mostly public debates) were used to consult citizens on the vision for development (in all four cases studied in which we found a strategy for development or at least a sketch of such a document). In the case of the Banat Ripensis Microregional Development Association we find the highest degree of citizen involvement, as the IMC body runs actions to stimulate youth participation, citizen information and counseling through Citizen Advice Bureaus, and edits a newsletter providing citizens with information on its activities and the activities of the member local governments.

From a technical perspective, at least minimal accountability mechanisms are in place in all the cases studied here. All IMC bodies have specific provisions requiring periodical (usually annual) narrative and financial reports to be presented first to the general assembly of the IMC body and then to the local councils. This is a very important aspect, since there is no specific legal provision in the dedicated legal framework that even mentions the notions of narrative and financial reports. There are of course differences in terms of the degree of complexity of these reports from one case to the other. Deriving from their public utility status (and from a special law on this topic), ICDA and local public utilities ICDA are compelled to publish an annual report in the official bulletin, similar to an obligation instituted for local governments. Not even local governments comply with this.

In terms of performance accountability mechanisms, we have the situation of a legal provision aimed at ensuring such accountability but is not applicable in practice. Even though they have the legal obligations to do so, local governments have not established bureaus in charge of monitoring the quality and cost of the services provided by the IMC, mainly because this involves supplementary staff being hired or staff re-allocated from a different bureau. Only one local government from the ones involved in the IMC

bodies studied here has taken the legal steps to change the diagram and create this bureau and, unsurprisingly, it is the largest and the richest.

7.5 Vertical and Cross-Border Cooperation

The cases approached here, as well as other background information on IMC operation in Romania, point to some interesting aspects usually left outside the scope of the concept, but which are highly relevant if placed in the local context.

Usually, intermunicipal cooperation refers to cooperation between first tier local governments. In Romania the legal framework allows second tier local governments—counties—to be members of IMC bodies. Therefore, as reflected by the inventory of IMC in Romania, we have a significant number of cases in which in the same IMC body we have first and second tier local governments. As quantitative data show, three situations are more frequent when it comes to the involvement of counties in IMC. The first situation is the one in which a county council is a member of all the IMCs established by municipalities from the respective county. It is the case of Mureș, where the county council sees IMC bodies as a vehicle toward implementing its own development plans and applies this logic in its interactions with them (as reflected by strategic documents of the county council and Pop and Horvath 2008). County councils become involved for two possible reasons: the desire to supervise what the municipalities do (not as a result of legal provisions but a stated fact in many counties) or simply because of the need to facilitate the transfer of funds whenever necessary.

Another situation in which county councils are also directly involved with IMC results from the structure of EU funding. Funding for regional emergency services for all eight development regions in Romania is available via the REGIO program (European Regional Fund) but only for one regional project per development region that must be implemented in association by all counties in the region. Therefore, ICDA's made up strictly of county councils were created in order to ensure access to such funding.

A third situation related to county involvement in IMC goes back to the year 2002 when, again in view of EU funding, associations of local governments, county councils and private companies delivering services were created in each county to prepare for county level, service delivery integrated projects in areas such as waste management and water supply and sewage.

Among these situations the first one deserves special attention since with these forms of vertical cooperation there is a risk of losing policy discretion in exchange for access to upper government level resources (Hulst and Montfort 2007b, 231). This tendency is reinforced by the 2008 changes to law no. 51/2006 regarding local public utilities services (introducing the local public utility ICDA). These changes stipulated that, in the case where the infrastructure resulting from IMC is not limited to the territory

of one local government and the county council is a member of the association, the county council automatically becomes the owner of the infrastructure, which gives it leverage.

Vertical cooperation also produced some positive results in terms of stimulating IMC and providing support to first tier local governments experimenting with IMC. Often, county councils built upon the positive experience of one IMC body and disseminated information about this practice to other local governments—such as the Vâlcea County Council, which shared information about one of the IMC bodies studied here with other first tier local governments from the county, or, to a lesser extent, the Cluj County Council. In Braşov and Tulcea, we have county level IMC bodies focused on development, comprising almost all first tier local governments in the county, created and effectively led by the county councils. This county council driven process resulted in remarkable success in terms of accessing external funding for county level and community level projects, however local governments did seem to lose some of their policy discretion.

Another aspect worth mentioning is the obvious link that two of the IMC bodies studied here have managed to establish between IMC and cross-border cooperation. In the case of the Oradea Metropolitan Area, there is an obvious tendency towards closer cross-border cooperation based on “hard” issues, due to the interdependency between the ZMO member local governments and some of the nearby Hungarian local governments. Based on an EU incentive, the other form of cross-border intermunicipal cooperation that seems to gain ground is the European Group for Territorial Cooperation. The case of the Banat-Ripensis Microregional Development Association and its cross-border activities focused on issues such as local economic development also brings evidence in support of the idea that sometimes the term intermunicipal cooperation also expands to include cross-border activity.

7.6 Reframing the Policy Problem

This investigation emphasized that the effectiveness of IMC in Romania should first and foremost be judged, at least at this point, through the lens of the economies of scope. All the cases studied here, and knowledge of other cases as well, suggest that IMC is extremely effective in setting up public services (especially local public utilities services) in areas where they did not exist before. By pooling their resources together, even some of the more disadvantaged local governments manage significant steps in improving their services. This leads to positive evaluations when it comes to the cost-benefit ratio of cooperation. We might even say that because of this, IMC in Romania is still in its “honeymoon period.”

Economies of scale are not yet visible in the area of local public utilities services, where they are expected, because most IMC bodies are still working on feasibility

studies, writing funding applications or are just beginning project implementation. At this point, economies of scale are visible if we look at IMC bodies as fundraising and project management offices for the member municipalities (something to be found in all cases studied here).

Data does show a tendency towards functional fragmentation in cases where local governments started directly with multi-purpose cooperation, a tendency that, apart from the technical character of some areas (which naturally fueled fragmentation), seems to be enhanced by legal provisions and the eligibility requirements of funding programs in the area of local public utilities. This fragmentation eventually undermines the extent to which the regional logic gains the upper hand (with consequences for policy coordination and collective action) and even leads to some multi-purpose IMC bodies regressing from standing organizations to mere policy networks.

When discussing the degree of functional integration, the cases of the metropolitan areas should be mentioned. The Oradea Metropolitan Area is probably the most successful example of IMC in Romania, but the complicated institutional structure that was built in order to support this success does point to the need for better regulation in this area.

Another important feature of intermunicipal cooperation in Romania is the “frenzy of cooperation” that resulted from the incentives used by the central government, as pointed out by the cases of territorial overlapping of multi-purpose IMC with identical purposes. This reduces the level of involvement on behalf of the local governments and the chances that the IMC body will be a success. This problem has been singled out before, Pop, Stănuș, and Suciu (2007) suggesting as a possible solution that the central government prohibit by law local governments from entering two IMC bodies with identical purposes simultaneously.

A look at the inner workings of IMC bodies suggests that the highly complicated decision-making procedures prescribed by the law do affect the speed of decision-making, but they also ensure that local councils exert a higher degree of control over IMC operations, which is why they are accepted as such and coped with.

Human resources and start-up costs seem to be a problematic area for IMC operations—a consequence of the size and the financial resources of the local governments involved. Future policy in this area should definitely address this topic.

While political control of IMC operations by the local councils is generally achieved, the quantity and quality of information provided to the citizens still requires improvement, along with the implementation of several legal provisions deriving from the public utility status of ICDAAs and the public institution status of the local public utility ICDAAs.

8. POLICY OPTIONS

The image depicted here of the effectiveness and accountability of intermunicipal cooperation in Romania, suggests the need for the fine-tuning of policy in this area. Any policy proposal should however take into account a key aspect. Local governments experimented with IMC in the first half of the 1990s, but a dedicated legal framework for IMC was only introduced in 2006. The legal framework was introduced without some of the promised minimal support measures. Moreover, it had to be changed in January 2008, since local governments pointed that some of the provisions regarding local public utilities ICDA were problematic and hindering their efforts to achieve something. Legal framework is usually mentioned as the main cause of problems during the establishment of the IMC body, after the reluctance to cooperate. Local governments have barely made it through the adjustment to the legal framework period. Consequently, we believe that in the short and medium term policy in this area should include no or minimal corrections to the legal provisions and be focused on the policy and institutional elements in order to stimulate IMC.

The goals that should be at the center of future policy in this area are:

- to further stimulate the set up of IMC bodies, especially of those involving only rural areas local governments;
- to stimulate the institutional development of existing IMC along with higher organizational integration of IMC bodies and diminish tendencies toward fragmentation of IMC;
- to increase compliance with transparency and citizen access to information-related legal provisions and thus accountability to the citizen;
- to improve the informational environment and, by doing so, to facilitate horizontal communication between local governments on IMC related issues.

Three possible approaches to this policy problem can be envisioned within this context.

Option 1

Status Quo. This option assumes that, given the current state of IMC in Romania, all the problems identified will be solved over time without changes to policy or to the legal and institutional environment. This assessment of current IMC practices in Romania demonstrated that very successful cases exist. Of course, certain conditions seem to have facilitated this success, such as the leadership and human resources provided by a larger, richer, usually urban local government. Small, poor, rural local governments do not, at this moment, have the resources that would facilitate the success of IMC initiatives. If the general economic conditions improve in Romania, we can expect some improvement in the finances, human resources and, consequently, the administrative capacity of these

local governments. These could reflect in the success of possible IMC initiatives. Such evolution can only be expected in the long term, with the issue of fairness to small local governments still outstanding.

Option 2

Adjustments to the Legal Framework. The second option advocates for incremental change and supports minor changes to the legal framework for intermunicipal cooperation in Romania. These changes would involve a limitation that would take into account the purposes of the associations. Local governments would be forbidden to adhere to two IMC bodies with identical purposes. Other changes should approach the issue of metropolitan areas, namely by introducing minimal requirements regarding the equitable representation of small local governments (protecting them in their relationships with cities). Other small changes would involve an adjustment of the eligibility criteria of funding programs for local governments to the natural tendency towards integrated IMC. This would allow services benefiting from those grants to be managed by multi-purpose IMC bodies.

Option 3

Fine-Tuning—Information, Support and Funding. This option involves a significant but not radical change of policy in the area of intermunicipal cooperation, without interfering with the legal framework. The main components of this option are information, support, and financing. Information involves a mix of capacity building for civil servants in charge of setting up and working with IMC bodies, drafting and distributing a toolkit for intermunicipal cooperation in Romania, and generally improving the informational environment for IMC in Romania. The support component would focus on building a national network of support for local governments involved in IMC bodies, preferably by networking experts currently working for different IMC bodies or local governments involved in such bodies. The funding component would involve the establishment of a program, limited to rural area local governments, for funding the start-up costs of multi-purpose IMC bodies, with the grants ideally covering administrative and staff-related costs (salaries and training) for the first operational year of the respective body.

Each of these policy options needs to be weighed, taking into account the policy goals formulated above. Along with these goals, we should also take into account a series of constraints, most of them discussed at different points in this paper, such as the acceptability of certain measures to both central and local governments, financial aspects, and the risks associated with an unwanted change in legal provisions that could arise out of parliamentary debates. Another element to consider in this discussion is the imbalances in size and human and financial resources between different kinds of local governments. These kinds of imbalances give (mostly rural) small local governments a handicap from the get go. The following table comparatively analyzes the three policy options, taking into account specific goals and constraints.

Table 5.6
Evaluation of the Policy Options Function of Policy Goals and Existing Constraints

	Status quo	Legal Framework	Information, Support and Funding
Goals and values			
IMC achieving economies of scale or economies of scope (effectiveness)	Yes, but there is still a significant failure due to the lack of resources and support.	Yes, to a small extent it would decrease failure if territorial overlapping of formal IMC were forbidden (local governments could become more engaged if they are not dividing efforts).	Yes, would decrease failure due to improved transfer of knowledge and support.
Limiting IMC fragmentation (effectiveness)	No, territorial overlapping of IMC with identical purposes is not discouraged by law.	Yes.	Yes. Support and information would help local governments find ways of enhancing functional integration of IMC.
Institutional development of IMC (effectiveness)	Still problematic. The degree of institutional development of IMC desired by the local governments requires certain investments in terms of money and human resources. With a lack of appropriate support, especially in the training of human resources personnel for IMC bodies, institutional development will be a long process with significant failures.	Some change, as local governments will no longer divide their efforts into different directions.	Yes, would result in higher integration of IMC bodies and increased effectiveness, due to the capacity building component.
Stimulating IMC establishment in rural areas (effectiveness)	Limited, due to the lack of financial resources local governments in rural areas have (in most cases not enough own revenues to cover start up costs for the IMC body)	Change would only appear in the long term, if the general condition of local governments in terms of human and financial resources would improve along with the general economic conditions in Romania.	Yes, would result in an increased number of functional IMC bodies, especially as a direct result of a funding program that would cover start up costs.

Increased compliance with transparency and citizen access to information related legal provisions (accountability to the citizen)	Still problematic. The applicability of statutory provisions regarding citizen access to information is not very clear for most existing IMC bodies.	No change, except in the long term. The applicability of statutory provisions regarding citizen access to information is not very clear for most existing IMC bodies.	Yes, the support network would facilitate dissemination of information and best practices in this area.
Improve the informational environment and, by this, to facilitate horizontal communication between local governments (effectiveness and accountability)	No. The option does not address the need to respond to questions such as how much money are IMC bodies spending, how many IMC bodies are actually operational, etc. Horizontal communication between local governments, which allows for the transfer of information and knowledge, exists, but it is mostly based on hearsay.	No. Horizontal communication between local governments would remain and ensure a minimal level of information transfer and knowledge.	Yes, due to the collection of statistical data, the availability of information on all aspects related to IMC operation, and the facilitation of contacts between local governments involved in IMC if a database with all IMC bodies in Romania will be set up.
Fairness to small local governments	Problematic. IMC initiatives coming from small, poor, rural local governments begin with a human resources and financial handicap.	Minimal protection when they embark on IMC involving larger local governments (metropolitan area IMC). Not fair in terms of resources available when initiating cooperation.	Yes. Positive discrimination introduced by the financial support. The improvement of the informational environment would also provide them with the means to protect themselves.

Table 5.6 (Continued)

	Status quo	Legal Framework	Information, Support and Funding
Constraints			
Costs for the central government	None	None	Significant (funding program, establishing and maintaining the support network).
Costs for local governments	High (start-up, not everybody can afford)	High (start-up, not everybody can afford)	Lower, if they can obtain funding for start-up and institutional development.
Acceptability to local governments	Local governments are disappointed by central government failures in providing support. One of the most active actors in lobbying the government in favor of changing policy in this area is the Association of Communes (Asociația Comunalor din România).	Yes, as long as the legal framework changes remain minimal and do not force mass changes to the legal documents of existing IMC bodies.	Yes.
Feasibility (in terms of changing provisions of funding programs and ensuring the desired provisions are adopted as such by the Parliament)	The 2008 changes to the law were made by Governmental Ordinance and have not yet been discussed by Parliament; there is a high risk that the 2008 changes will not be accepted as such (different parliamentary majority).	No guarantees that Parliament would accept changes to the legal framework as such. Moreover, the 2008 changes to the law were made by a Governmental Ordinance not yet discussed by the Parliament; high risk that the 2008 changes will not be accepted as such (different parliamentary majority). Some changes to eligibility requirements of funding programs need to be approved in Brussels.	Not an issue. But the risk that the 2008 changes to the legal framework will not be accepted as such by the Parliament remains.
Time for policy to produce the desired changes	Very long, depending on long-term improvements to general economic conditions in Romania.	Long.	Medium.

The third policy option presented above addresses best the goals and values we believe should inform policy in this area. In terms of constraints it is of course the most expensive option, and this the main argument against it. The main argument in its favor is time, as it would take less time to produce the desired effects in terms of consequences for development. However, while being costless in terms of public funds, the constraints affecting the second policy option are equally important without addressing the goals and values in the same manner. The first policy option is the most simple, but its main disadvantage is addressing only some of the concerns resulting from this investigation and only over a very long time.

9. CONCLUSION AND RECOMMENDATIONS

This paper has approached intermunicipal cooperation in Romania with a focus on how to improve the accountability and effectiveness of existing IMC. We placed this study into a comparative context, with findings on IMC in Western and Eastern Europe informing the investigation and the policy options. Intermunicipal cooperation in Romania was approached with the intention of balancing the conclusions of a quantitative investigation focused on identifying patterns (reflected in section VI), an in-depth look at relevant case studies (reflected in section VII), and a critical look at the legal, policy and institutional framework existing in Romania. This analysis is highly context-based, as it takes into account the pressures local governments in Romania face.

As previously mentioned, it is not our intention to advocate for radical changes to policy regarding intermunicipal cooperation in Romania. We do propose some measures that will help rationalize IMC in Romania, increase effectiveness and fairness to small local governments, and increase the accountability of IMC bodies to citizens. The main recommendations resulting from this study are:

- **Capacity building for local governments and IMC bodies.** This would be most easily done by including training modules on IMC related topics (facilitation skills, contract management, project development and management skills, cooperation and negotiation skills) in the curriculum of the governmental structure in charge of civil servants' training (as local governments are compelled periodically to send civil servants to receive training from this agency).
- **Development and dissemination of an *IMC Toolkit*.** The respective toolkit should address possible types of IMC, emphasize the degree of interdependency and policy externalities as a key factor in any decision made to cooperate, address all legal status and technical issues, provide specific information to discourage territorial overlapping IMC, detail transparency and citizen information aspects, and showcase best practices in each of these respects.

- **Creation of a special register of IMC bodies as a subsection of the Ministry of Justice's National Register of Associations and Foundations.** This would facilitate impact assessments as well as horizontal communication between local governments (transmission of expertise, information, problem solving). Such communication already exists and was essential to increasing the effectiveness of IMC in Romania, but was hindered by the fact that the only way local governments were able to identify an IMC body with a similar situation and more experience, was word of mouth. This would not require legal changes but simply a decision by the Ministry of Justice.
- **Set up a national network linking practitioners from existing IMC bodies and use it to disseminate good practices.** This will work as a consultation resource for all policy regarding IMC and public services; and as an informational resource for local governments and IMC bodies. Such a network can be set up and facilitated by the federation of the IMC bodies (if plans to create it materialize) or by one of the three associations of municipalities. Alternatively, the Central Unit for Local Public Administration Reform could establish and maintain this network.
- **Establish a national funding program for IMC.** This will be limited to IMC bodies covering strictly rural areas and will provide start-up grants that will pay for the administrative and staff costs for one year and for the drafting of a development strategy.
- **Collect statistical data regarding IMC.** Currently the National Institute for Statistics does not collect any information on existing IMC bodies, while the information provided by the Ministry of Finance is incomplete and almost impossible to use. As IMC bodies are taking over critical public services such as water supply or waste management, they will account for an increasing share of local government spending. This would again involve decisions by the respective components of the central government, without changes to the legal framework.
- **Establish a review mechanism for policy regarding IMC.** This and other investigations can only account for the suitability of policy in a context in which the emphasis in IMC is on achieving economies of scope and attracting external funding for joint projects. We do not know at this point how this policy will affect the functioning of IMC bodies when they pass this stage and become simply service providers. We suggest that in approximately five years the central government (through the Ministry of the Interior) conduct an in-depth impact assessment and see whether a revision of policy is necessary.

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APPENDIX: SYNTHESIZED INFORMATION ON THE CASES STUDIED

Name	Local governments involved	Year of establishment	Population January 1, 2009	Legal form	Areas of cooperation
Arieș Urban Community and Arieș Valley Water Association	Turda and Câmpia Turzii (urban) and Airton, Călărași, Frata, Luna, Mihai Viteazul, Petreștii de Jos, Tritenii de Jos, Vișoara (rural)	2005	122,988	NGO and local public utilities ICDA	<ul style="list-style-type: none"> ▪ planning, coordination, fundraising and project management; ▪ joint water supply and purification and sewage services; ▪ urban planning and cadastral mapping (incipient)
Oradea Metropolitan Area and associated organizations	Oradea (city, urban) and Biharia, Borș, Cetariu, Girișu de Criș, Nojorid, Oșorhei, Paleu, Sânmartin, Sântandrei (rural)	2005	257,744	ICDA and local public utility ICDA	<ul style="list-style-type: none"> ▪ planning, coordination, fundraising and project management; ▪ joint water supply and purification and sewage services; ▪ waste management in the rural areas; ▪ metropolitan voice-and-data network.
Horezu Depression Association	Horezu (urban) and Costești, Măldărești, Vaideeni, Slătioara (rural)	2005	22,150	ICDA	<ul style="list-style-type: none"> ▪ tourism infrastructure development and tourism promotion; ▪ planning, coordination, fundraising and project management (incipient); ▪ joint management of emergency services (incipient).

Name	Local governments involved	Year of establishment	Population January 1, 2009	Legal form	Areas of cooperation
Banat-Ripensis Microregional Development Association and contracts	Jimbolia (urban) and Cărpiniș, Cenei, Comloșu Mare, Lenauheim, Săcălaz, Uivar, Gottlob, Checea, Iecea Mare (rural)	2001	44,293	NGO	<ul style="list-style-type: none"> ■ cultural, sports and youth projects; ■ cross border local economic development; ■ joint waste collection (incipient); ■ joint water supply and purification and sewage services (incipient).
Inter-Community Development Association of the Vlădeasa—Huedin Region and associated organizations	Huedin (urban) and Belș, Călățele, Ciucea, Izvoru Crișului, Măguri Răcățau, Mărgău, Mănăstireni, Mărișel, Negreni, Poieni, Râșca, Săcutiu, Sâncraiu (rural)	2001	42,415	NGO, ICDA, contracts	<ul style="list-style-type: none"> ■ planning, coordination, fundraising and project management; ■ small scale tourism promotion; ■ waste management in the rural areas.

Sources: National Institute of Social Statistics and representatives of the respective organization.

NOTES

- ¹ Currently, due to website reorganization by the UCRAP, these presentations are no longer available.
- ² Interestingly enough, this report mentions as “novel” the approach of the Bulgarian government that, similar to Romania, chose to create a legal framework and leave the decision regarding IMC entirely at the discretion of the local governments.
- ³ The primary legal framework for intermunicipal cooperation in Romania is made up of the following pieces of legislation: Law No. 246 from 2005 regarding associations and foundations; Law No. 351 from 2001 regarding the approval of the National Territorial Plan—Section IV on the network of municipalities; Law No. 195 from 2006—framework-law on decentralization; Law No. 213 from 1998—law of public property; Law No. 215 from 2001—law of local public administration including ulterior modifications made in 2006; Law No. 315 from 2004 regarding regional development in Romania; Law No. 51 from 2006 regarding community public utilities services including ulterior modifications made in 2008; Law No. 554 from 2004 regarding the contestation of administrative acts; Law No. 554 from 2004 including ulterior modification made in 2007; Law No. 96 from 2003 regarding the outline-statute of administrative-territorial units. I was asked to clean it up a bit, hopefully it is more manageable like this.
- ⁴ Following these guidelines: (a) out of the National Register of Associations and Foundations (September 30, 2008 data) we selected all associations with two or more ATUs as founding members. We included associations in which two or more ATUs cooperate with non-LG actors such as NGOs, private companies, individuals; (b) out of this list we selected only associations with a listed purpose connected to municipal activities (198 associations); (c) for each of these associations we collected the following information: reference number, name, county, year of establishment, number of members, types of members (counties, large urban ATUs—Bucharest and county capitals, small urban ATUs, communes), purpose of the associations; (d) based on this information we tried to distinguish between NGOs, ICDA, and metropolitan area ICDA. However, we were unable to distinguish between ICDA established based on the provisions of the Law on Local Public Administration and local public utilities ICDA established on the basis of the provisions of Law No. 51/2006 on Local Public Utility Services.
- ⁵ Although, according to law the administrative-territorial units (ATUs) are the founding members of the organization, the register records the names of the mayors as founding members. Even though ICDA receive public utility status by default at their establishment, the National Register of Associations and Foundations does not account for this status, which would actually facilitate the distinction between NGOs and ICDA. For some cases, the type of IMC was established based on prior knowledge of the respective cases. Separating associations set up by ATUs into NGOs and ICDA was possible based on the following criteria: name (whether it contained the term “inter-community”) and type of members (if an NGO, a private company or another non-local government actor is listed as founding member then the organization can only be an NGO).

- ⁶ Since the legal framework and eligibility criteria for funding sometimes force the same municipalities to create different IMC bodies for different services, more than one category might describe the same case.
- ⁷ No resemblance to the French model of *communautés urbaines* should be inferred from this name, since the legal framework in Romania does not allow for such a similarity. This name was chosen because the initiators hoped that in the future their cooperation would result in something similar to the ComAGA (*communauté urbaine* from the Angoulême region in France) with whom contacts were established.
- ⁸ The Horezu Depression Association had, at the moment when data was collected, five members, but was in the process of formally expanding membership to 10 members.



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