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The Practice of Municipal Infrastructure Finance in Hungary: Modelling Municipal Investment Activity

Izabella Barati Stec¹

Abstract

This research introduces a model that enables governmental decision-makers to assess municipal investment capability based on independent data such as the amount of loans, the size of the settlement or the geographical location of the municipality. The paper also describes an institution that, by encouraging municipal credit market participation, would have a positive effect on investment activity.

The methodology used for the research involves data analysis of a database developed by the Social Research Institute, in which work the author also participated.

The results show that loans play an important role in the investments of smaller municipalities, although their acceptance by the credit market is low. We also found that local tax policy, central subsidies and loan activity have a significant effect on the investments of a municipality. As a conclusion, one can say that the municipal investment rate is predictable and if the government wanted to raise the investment level in smaller municipalities, it could do so by changing one or more of the three above mentioned variables.

Based on the conclusions of the research, municipal investment behaviour depends mostly on the size of the municipality and there is a positive relationship between the long-term loans of the municipality and its investment rate. This means that the creation of an institution enhancing municipal credit market activity would also have a positive effect on municipal investments. The establishment of this institution is in the interest of municipalities, banks with municipal clients and the state itself.

Research Background

Among the Central-European transition economies, Hungary was one of the first to reform its municipal system and to introduce rules accelerating the decentralisation process.

After 1990, the state administration was decentralized leaving a great deal of autonomy to the local self-governments.

Act LXV (1990) on local governments created a new form of public administration, the essence of which is that the population of each municipality has the right to form a local self-government and to elect representatives empowered to make decisions independently of the central authorities.

Hungary abandoned the municipal hierarchy and vertical integrity of towns, a practice of the previous political era, when bigger municipalities had greater rights and more political power, and the upper echelons of the hierarchy were responsible for the lower echelons.

In Hungary, the public and private sectors are no longer separate. Like other post-socialist states, Hungary took the first steps towards creating a democratic administrative system and moved from a centrally planned economy towards a market economy (Jenei, 2000).

The municipality financial base also changed considerably. Due to the increasing deficit caused by vanishing state subsidies and privatisation, municipalities have been forced to involve the private sector in their investments.

The biggest challenge of the coming years is whether municipalities will be able to meet the requirements set by the private sector and whether the state can speed up the reforms that are still needed to make municipalities creditworthy.

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The investments of the municipal sector

There is a big gap between the environmental and infrastructural situations of the current and future member states of the European Union. In order to reduce this gap, according to the co-operation agreement with the EU, Hungary has to improve its infrastructural and environmental situation. According to conservative calculations, in the environmental sector alone some 6.8 – 7.6 billion euros will have to be spent in order to solve the problems (Kerekes – Kiss, 1998 pp 23.).

On the other hand, it is not only the EU that urges these improvements. They are necessary in order to avoid future environmental problems, and the level of services is not sustainable with the current physical infrastructure. The decentralisation process also pushes local governments to make these developments.

The different sectors face the following challenges:

In the water and sewage sector, due to the continuous underdevelopment of the past, decaying pipes are causing most of the problems. Sewage collection and treatment are also in bad shape, such that, especially in small municipalities, we can expect big investments. Illegal sewage disposal also causes many problems.

It was typical that prices were continuously set under the costs of the service which led to over-consumption and to a decrease in the efficiency of the service. As this service was delegated to the local level, market principles did not gain much attention until now. Including the private sector in the sewage and water sector would diminish a part of the problems cited above, as rates would slowly reach market levels. The next problematic area is garbage collection and disposal where we can find problems similar to those of the water and sewage service. The underdevelopment of the past caused serious water and soil contamination and this in turn raises health problems. Industrial hazardous waste causes special problems. Garbage dumps are becoming full and opening new ones has proven to be a political decision because of the opposition of local citizens. Most of the money in

this sector will be spent on modernising and building new dumps.

The next problematic area is district heating. The current meter system is too old and does not provide an incentive to consume less. Improvements in this area will mainly be changing the meter system and modernising heat generators.

If the above investments do not take place now, they will be even more costly in the future due to the spiralling effects of deterioration.

Sources of investments

In any investment process, an important question concerns financial sources. When talking about investment financing sources, the first thing that financial officers usually think of is the “cheapest” one – the central or regional subsidy. Next is the municipality’s own revenues that are available in the budget (income from privatisation), then subsidised loans, and finally, market loans. The involvement of the public sector as partners in financing is also more frequent.

Some municipal infrastructure investments in the long term generate revenue directly through service fees (such as water and sewage investments) while others contribute to local development (such as road investments). As a consequence, infrastructure investments should be financed from loans (Bird – Tassonyi, 2001).

With EU accession, important European and other international funds will be available to Hungarian municipalities. These will be matching grants, which means that the municipalities have to be able to mobilise other sources too, which, contrary to the past, cannot be state subsidies or privatisation revenue.

The solution seems to be the involvement of the private sector in the financing of municipal projects and an increasing municipal loan raising activity which are also consequences of the decentralisation efforts of the central government.

We can easily find reasons to involve the private sector in public services. These reasons include: (i) insufficient resources at the municipal level, (ii) better efficiency of service delivery, (iii) positive attitude towards

technology innovations and (iv) stricter financial discipline.

It is generally true that the sooner a project yields a profit and the easier it is to collect fees for a service, the more probable it is that the private sector will want to be a partner in it.

The dilemma of financing from loans or a municipality's own sources

When a municipality starts an investment, it has to face the question of whether to borrow or to finance from the currently available sources in the budget².

The pro and cons of falling into debt have been on the "menu" for years, as municipalities following a conservative fiscal policy try not to fall into debt, but there are situations where raising loans proves to be a good investment.

If a municipality uses some resources for a specific purpose, it loses the opportunity to use them in other projects. This represents lost profit which the municipality would have gained if it had invested in something else.

Of course, the amount of opportunity cost depends on the development of the country, the opportunities of the municipal sector and the growth rate in the country.

Arguments for loan financing

In general, in growing economies, loan financing proves to be a better option (Petersen, 1999). The reasons are as follows:

- Current revenues are insufficient and too inflexible to fund "lumpy" cash needs on a pay-as-you-go basis. Projects need pre-financing from the beginning when it does not yield any revenue.
- Future inflation reduces the cost of borrowing. Debt can be repaid with currency that is worth less than the value of that borrowed.
- The investments financed from loans are revenue generating and, based on economic factors, it is better to divide the expenses during the life of the asset and not to put such a burden on the municipality at the

time of purchase. This is also considered to be a "fair" division of expenses among the users of the asset.³ Payment of costs for use of capital can be synchronised with the flow of benefits over the useful life of the asset being financed.

- These investments are usually needed to sustain growth. Without them, growth would slow.

Arguments against loan financing

Of course, the conservative, "pay as you go" approach to financing also has its advantages. Some of these are:

- No interest expense is incurred. Money not spent on interest costs can be used to fund additional projects. Municipalities raising loans spend the money of future generations and decrease the municipality's freedom of decision.
- Debt capacity is reserved for other, possibly more important, future projects.
- Future users/taxpayers are not responsible to pay for projects approved by today's government.
- The use of credit is too tempting and will lead to over-commitment of future resources.

Of course, one can only decide on the financial construction of an investment if all political and economic circumstances are taken into account. Calculations of rate of return, preparing feasibility studies and many discussions among stakeholders in the project must precede the decision.

As can be seen, both options have advantages and disadvantages, but in growing economies such as Hungary, loan financing seems to be more attractive (Petersen, 1999). The reasons are:

- i) These investments are usually needed for sustained growth. Without them, growth would slow. In order to operate assets, financing must be secured in advance and this is only possible through banks and other investors. If these investments are deferred, then even greater investments will be required in order to accomplish

² There are countries where it is forbidden for municipalities to raise loans on the credit market. In these countries, the central government raises the loans and transfers them to the municipal level.

³ The contrary of this theory can also be found in the literature; e.g., we do not know what the future generations will need, and by making a decision today, we will reduce their possibilities and their financial resources.

the same results (spiral effect). Investments financed from loans are revenue generating and, based on economic factors, it is better to spread the expenses over the life of the asset and not to put such a burden on the municipality at the time of purchase. This is also considered to be a “fair” division of expenses among the users of the asset.

- ii) Loan financing is the best tool for harmonising the payment of costs with the flow of benefits.
- iii) Finally, Hungarian municipalities do not have sufficient resources to finance such investments from current revenues.

Municipalities and the credit market

Even in countries where municipalities are free to participate in credit market transactions, the central government might set limits for municipal borrowing. This is needed because the market often assumes the existence of central guarantees of local debt, even where not explicit, which might seriously undermine the creditworthiness of the state. Other reasons for central intervention are: (i) local borrowing raises the cost of capital for the private sector, (ii) the state might compete for the same resources as the municipalities and (iii) it worsens the balance of the central budget.

Among the levers of control of the central level one can identify: (i) passive tools (when the limits laid down in different laws prohibit over-spending) and (ii) active tools (when the higher levels of government prescribe an approval process before borrowing) (Barati, 1999a).

The use of active tools to control municipal credit market activity is too costly in countries with a high number of local governments. Hungary is an example of such a country where, instead of active tools, the state uses passive control to limit municipal debt. The limit on municipal borrowing is 70% of the municipality’s own adjusted current income; this means that a municipality cannot have loans in an amount more than 70% of the difference between its short term income and short term obligations (in a given year).

On the other hand, to some extent the state might support municipal borrowing. The reasons are:

- Local borrowing decreases the financial burden on the central budget;
- Loans are usually more efficient than grants (the efficiency of capital increases) ;
- Municipalities realise improvements from loans that are closer to the needs of citizens as compared to grants;
- The repayment of the debt can last the whole lifetime of the realised asset; and
- Local borrowing provides a good investment opportunity for the local financial market, pension funds and insurance funds.

The Hungarian municipal credit market

Hungarian laws about municipal borrowing leave a great deal of freedom to municipalities, but they do not take advantage of this opportunity.

One reason is that other municipal revenues such as central grants and income from privatisation proved to be enough in the last ten years and the fiscal behaviour of the typical municipal financial officer could be characterised by conservatism. (Barati, 1999a). The other reason is that when there is no state guarantee on municipal debt, then there is a strong market control on borrowing. In Hungary, the state does not repay municipal debt, so municipalities can raise loans if they meet the criteria set by the lender.

Market control over municipal borrowing

Local governments are considered creditworthy when they meet the following requirements (Barati, 1999b):

- Income sources of the municipalities
The most important requirement for local creditworthiness is the existence of a stable income, the amount of which depends on the municipality, and not on the will of the central government or economic cycles.
- Management
The due diligence of local managers should result in their ability to (i) respond to changes in local market conditions, (ii) recognise problems, (iii) implement alternative solutions to solving problems, (iv) evaluate and compare solutions, and (v) make long-term forecasts. Furthermore, if a bank finances a municipal project, it must thoroughly analyse the feasibility of

the project, its liquidation value and the political stability of local management. The situation in Hungary in this respect is very good because the local government sector as a whole operates with surpluses, which means that most of them are following a rather conservative fiscal policy.

- **Local politics**
Local politicians must often make unpopular decisions (introduction of new taxes, increase of the old taxes), which they must be able to explain. The explanation of why changes are necessary and inevitable could be based on theories of public policy – e.g., where local taxes are higher, the municipality is able to spend more on public services thus increasing the net benefit to the taxpayer.
- **Creditworthiness of citizens**
In the literature published in Hungary on this subject, this is a question that has not been adequately dealt with. No matter how brilliant the local government policy may be, if the citizens or local companies are not able to pay the taxes and user fees, the municipality will not be creditworthy.
- **Trust in the municipality**
Based on experience, if the market does not trust the municipality, a bond issue becomes practically illiquid. The good news is when there is no news.

As Hungarian municipalities do not meet the market criteria, they are in a very difficult situation due to the lack of traditional financial sources, but also based on economic rationality, they will have to use loans for their investments.

Municipalities need the assistance of the state to become creditworthy. The central government has two main tasks related to the creditworthiness of municipalities. First, it has to keep its own creditworthiness as high as possible in order to maintain the creditworthiness of the municipalities and secondly, it has to create the institutional and legal framework for municipal credit market participation. Based on international experience, if we decrease the risks associated with municipal lending, we can help the development of credit markets and, as a consequence, that of local investments.

Research Results

In 1995, the Social Research Institute in Hungary (TARKI) started to develop a database on municipalities. It is based on a questionnaire sent out to each municipality every year. The average response rate has been about 35%. The data were weighed based on the municipal data of the Central Statistical Office (regional, settlement type and population) so that they represent the whole country. The first three questionnaires were almost identical and did not include questions about economic expectations. In 1999 and 2000, the revised questionnaires included questions about municipal budgets and economic expectations, making it possible to analyse changes in the answers from one year to the next. Accordingly, this research uses the data of 1999 and 2000 when the author also participated in designing the questionnaire and analysing the answers.

The descriptive analysis – Municipal Investments

The most common types of municipal investments are water, sewage and road improvements. Less money is spent on healthcare and gas investments. The planners of water and sewage treatment plants are mostly municipal associations.

Municipalities were asked why they form associations and why they remain outside associations.

While 52% of municipalities agreed that assets are easier to operate through associations because the continuous financial burden is lower, more than 70 % of them agreed that associations are more successful at grant applications than single municipalities and that the starting costs of the investments are lower.

The sources of investments

The most common sources of investment are regional grants, targeted grants and other centrally allocated grants. Other sources, such as privatisation revenues, international grants, involvement of the private sector or loans do not play an important role in municipal financing. This can be explained by the following facts. Municipal co-operation with the private sector is not widespread, although it is becoming more frequent. Municipalities are

not able to raise funds on the credit market and, furthermore, they do not have experience in developing successful applications for international grants – and they are not able to provide the necessary matching part of these grants either.

Conditions of loans

Municipalities were asked about the amount, term and interest of their loans in 2000. They said that the amount of loans increased, the interest rate became lower and the term got longer.

The guarantees of municipal loans in most cases are immobile assets. This is a highly criticised practice of the Hungarian municipal credit market. On the one hand, the value of the asset often greatly surpasses the amount of the loan, and on the other hand, involving an asset in the financing of a project, to which it is not otherwise related, is not economically efficient.

Other options for backing municipal loans include the tax or service fee income of the municipality. Using taxes to guarantee loans is more frequent than the use of fees, although the latter would be ideal for that purpose. First, they are directly related to the project and second, the flow can be synchronised with the repayment structure of the loan. Moreover, when a municipality needs to increase financial resources for loan repayment, raising fees is normally easier than raising the level of municipal taxes.

Multi-variable data analysis

With the help of multivariable regression analysis, my goal was to reveal what kind of relationship exists between dependent and independent variables.

The regression equation provides an efficient tool in investment policy, as its determinants show which variable has a greater effect on the value of investments. As a consequence, investment-enhancing programs can be customised for specific regions, taking into account those areas for which the central subsidies would not produce results. In the latter areas, the state will have to develop special programs to enable those regions to use the grants effectively.

Municipal data has not been examined this way in Hungary before.

I used the TARKI data from 2000 for the analysis.

First, I grouped the municipalities in order to create the appropriate-sized units for the analysis. Choices for the grouping variable were the region (or other smaller territorial unit) or the size of the municipality.

”One specific characteristic of regional development policy – as opposed to the macro-level policy – is that it emphasises the advantages of different levels of intervention. Different needs can be articulated at the state and regional levels vs. at the county and micro-regional levels. This means that for the implementation of regional development programs or policies, we have to find the adequate regional level from the above possibilities.” (Csatári, 1996 (translated by the author))

As a basis for research, the level of settlements is not adequate due to the fragmentation of the settlement system. At the other end of the scale, research at the national level would not allow an examination of regional differences.

After examining the possibilities, I decided to create models for (i) the regions, (ii) the groups created based on the size of the municipalities, and (iii) the development groups of micro-regions. (Faluvégi, 2000.)

I wanted to analyse the effects on the investment rate of the following variables:

In 2000

- The sum of current revenues;
- The amount of normatives;
- The amount of business turnover tax and the tax on tourism;
- The amount of the communal tax and property tax;
- The investment revenues;
- The privatisation revenues;
- The revenue from financial investments;
- The amount of state investment subsidies;
- The amount of current expenditures;
- The amount of investment expenditures;
- The long term loans; and
- The total sum of loans.

These are numeric variables, which is the basic requirement of regression analysis. The other requirement of the analysis is that

the variables should not correlate (or the correlation should be as small as possible, as zero correlation is very rare in reality). After examining whether the variables correlated, I decided to leave out several of the variables from the analysis because of the level of correlation.

The variables remaining after the correlation test are as follows (the correlation matrix of the variables can be seen in Appendix I.):

In 2000

- The revenue from the tax on tourism and from the business turnover tax (the local tax revenues) ;
- Central investment subsidies (state subsidies) ; and
- The amount of long term loans (loans).

When evaluating the results, we take into account the values of the F-test that serves to check the correspondence model and the values of the T-test that is to check the parameters of the equations. Another important element of the examination of the model is checking R^2 , which is the explained deviation.

The regression equations

In the five micro-region groups and in the seven regions, the significance level of the F and T-tests are above 0.05 in several cases, and the value of R^2 is too low.

In the groups based on the population of the municipalities the significance levels are below 0.05 (even 0.01) in most cases, so the zero hypothesis of the regression analysis, according to which there is no relationship between the independent variables and the dependent variable, does not apply. Appendix I contains the regression equations in the groups based on the population of each municipality.

The results show that the three chosen parameters have a significant effect on the investment activity of the municipality. This means that if the government wants to raise the investment level in the smaller municipalities, it can do so by changing one or more of the independent variables (the local tax policy, central subsidies, and loan activity).

The effects of the change of the variables are different in the different groups. In municipalities smaller than 10000 inhabitants, the

independent variables explain 25 – 50% of the deviations of the dependent variable, while in the bigger municipalities, they explain as much as 80 – 90%.

As a consequence, when the extent and the direction of the effect of the independent variables are examined, we can see that municipalities below and above 10000 inhabitants should be distinguished. The rise in the amount of local taxes and central subsidies usually means a rise in the investment rate in both groups. The loan activity has different effects in the case of smaller municipalities and in the case of bigger municipalities. While in the smaller municipalities the rise in the amount of loans means a rise in the investment activity, in the bigger municipalities the result is just the opposite.

The reasons for this are (i) the difference among the financial resources available to the two groups, (ii) the preferences of the central subsidy policy and (iii) the expenditure structure of investments.

- Bigger municipalities usually have more income from the business turnover tax than smaller ones and they also have the opportunity to co-operate with private companies in infrastructure projects. These options are not available for small municipalities, meaning that smaller municipalities have to take out loans in order to substitute for these sources of financing.
- A minimum requirement for receiving state subsidies for investments is a population served by the asset of a minimum of 10000 people. The big municipalities easily meet this requirement, while the smaller ones have to form municipal associations, which takes time and energy. (As the population of 65% of municipalities is below 3000, many municipalities have to co-operate with at least two other partners.)
- Big investments have high fixed costs, which put a bigger burden on the budget of a smaller municipality. Thus, when smaller municipalities start investments, they are more likely to have cash-flow problems and may have to take out loans later in the project to finance other municipal tasks.

The municipal loan guarantee institution

Based on the conclusions of the research, municipal investment behaviour depends mostly on the size of the municipality, and in 95% of municipalities there is a positive relationship between the long-term loans of the municipality and its investment rate. This means that the creation of an institution enhancing municipal credit market activity would also have a positive effect on municipal investments. The setting up of this institution is in the interest of municipalities, banks with municipal clients and the state itself.

The most important characteristic of the guarantee institution is mutuality. Co-operation between municipalities creates stronger players on the market than they would comprise separately if they acted individually in the marketplace. As a consequence, they could be able to negotiate better loan conditions.

A highly criticised element of lending activity is the fact that collateral for loans may consist of immobile assets not directly related to the purpose of the loans. One advantage of creating the municipal guarantee institution is that these municipal assets could be used for other purposes or could be sold. Although in the past one trend was to create entrepreneur municipalities, this has lately been criticised because municipal enterprises are often too risky and they take away the municipality's capacity from obligatory tasks, making its operation less efficient.

Based on international experience, a two-level system would best serve the enhancement of municipal credit market participation. The first level would consist of the guarantee institutions of municipalities, while the second level would be a state counter-guarantee fund.

The task of the guarantee institutions would be to guarantee the loans of member municipalities and the state guarantee fund would stand behind the guarantee institutions, which is in accordance with international practice. This also complies with EU rules, as it is possible to get financing from the Structural Funds for the purpose of establishing and replenishing guarantee funds of the member states.

According to Hungarian legislation, funds can only be created by passing a law regulating the management and operation of the fund

and determining its relationship to the central budget.

The assets of the fund would not be divided among the guarantee institutions, but its balance would be calculated based on the accumulated need of the member institutions.

Funding, financial requirements

The state counter-guarantee fund would be owned by the state. The guarantee institutions would be owned by the municipalities and others, such as the state and representatives of the banking sector. In order to enhance municipal ownership, the guarantee service would be offered only to the member (owner) municipalities. At the beginning of its operation, municipalities would represent about 50% of the ownership shares, while the banking sector and the state would each hold 25% of the shares. Later, these proportions would change in favour of the municipalities.

The advantage for municipalities to participate in the institution is a high level guarantee on their loans. It is in the interest of the bank to enforce safe lending and guarantee rules that harmonise with their business policy, and it is in the interest of the state to manage risk and minimise the losses of the guarantee fund. In order to decide the equity needs of the system, one must assess the maximum level of loans the institutions can guarantee and for that, one must assess the planned rate of failure.

In Hungary, the latter would be 12.5% at the beginning (normally, it is lower, but when starting a new business a cautious approach is needed).

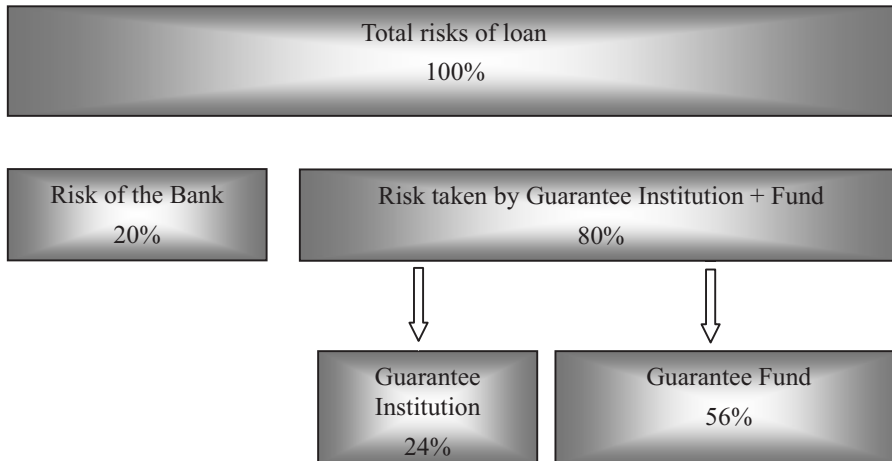
Using the multiplier known from economic literature ($1 / \text{rate of failure}$) if the planned failure rate is 12.5%, then the maximum loans guaranteed can not be higher than the equity of the institutions multiplied by eight. This means that if we suppose a 100 billion HUF loan demand on the municipality side, then the resources needed to start the system is 10 billion HUF – 7 billion in the state counter-guarantee fund and 3 billion in the guarantee institutions. (Apatini – Barati – Koncz in Barati, 2001, pp. 129-130.)

The services offered by the guarantee institutions

The basic service offered by the institutions would be guarantees on municipal loans, but

****Figure 1****

Risk sharing in the guarantee system



Source: Apatini – Barati – Koncz, 2001. *The Municipal Guarantee Program*. In: Barati, pp. 121.

with time other services could be added. The state guarantee fund would only offer guarantee services.

When sharing risk, it is important to decide how much risk one player should bear. Of course, every player has to bear some part of the total risk. Since in Hungary guarantee institutions offer 80% guarantees and the state counter-guarantee fund offers a 70% counter-guarantee, and this model works well, it is worth considering continuing this tradition.

Risk sharing among the players is as follows: see Figure 1.

The institutions would invest municipal payments and would create a reserve fund (similar to the Holland Municipal Bank) which would only be used if a municipality were not able to meet its obligations. Of course, this municipality would have to pay the “loan” back into the reserve fund based on an emergency scenario developed for the municipality. This is the guarantee that the interests of other member municipalities will not be hurt.

The possible services offered by the institutions are as follows:

Consulting

In this aspect, Hungarian guarantee institutions would not be different from the international examples, as their services include a wide range of banking and consulting services. Municipalities have to hire costly experts in different areas in order to plan and realise a

project for which it might not have the necessary capacities.

The employees of the institutions could take part in elaborating contracts for the municipalities, ensuring that the “vis major” (when it is not possible to determine who is responsible for the failure of the project) cases in the contracts are minimised.⁴

The employees of the fund could also help the municipality when applying for international funding, ensuring that the applications meet the formal requirements of the international funds.

The guarantee fund could also take part in finding investors for the project, as through its other partners it would have a broad knowledge of the market.

Credit rating

Credit rating agencies are important institutions for developing municipal credit markets. The availability of municipal budget data, strategic plans, and economic and social data is essential for rating municipalities. The services of international rating agencies are very expensive, and municipalities do not understand their importance yet. The guarantee institution would have to make a credit assessment of the risks it is taking when providing the guarantee. This could be an initial step for the general rating of the municipalities.

International loans

International organisations would probably prefer to allocate their money to a municipality that was rated by the guarantee institution and that was secured by it. They would also have more confidence if the staff of the guarantee institution has given their opinion on

⁴ It would be easier for municipalities to make better contracts if they had information about the possible causes for being unable to meet obligations.

the project previously, and would monitor the realisation of the development project to its completion.

The guarantee institution could also be a channel for international (and national) subsidies and would make it possible to rationalise the cash flow of the project.

Offering loans and issuing bonds

If the institution would work as a bank, it would also be possible for it to issue bonds, and its function would be similar to that of a bond bank. It would buy bonds issued by municipalities, and would issue its own bonds

Appendix I.

The correlation table of independent variables. (p=0.05)

	Local taxes	State subsidies	Loans
Local taxes	1 N=2280	0.06 N=1602	0.059 N=1494
State subsidies	0.007 N=1602	1 N=1875	0.008 N=1303
Loans	0.09 N=1494	0.006 N=1303	1 N=1690

Appendix II.

The regression equations in the groups based on the number of population of municipalities are as follows:

<p>X_1 = business turnover tax and tax on tourism X_2 = central investment subsidy X_3 = loans</p>
<p><i>I. Municipalities with a population below 1000 (N= 513)</i></p> $Y = 0.17 - 0.0021 * X_1 + 1.89837E-04 * X_2 + 0.007 * X_3$
<p><i>II. Municipalities with a population between 1000 and 2000 (N= 248)</i></p> $Y = 0.156 - 9.16E-06 * X_1 - 4.995E-05 * X_2 + 0.003 * X_3$
<p><i>III. Municipalities with a population between 2000 and 5000 (N=173)</i></p> $Y = 0.15 + 8.3E-04 * X_1 + 0.001 * X_2 - 0.002 * X_3$
<p><i>IV. Municipalities with a population between 5000 and 10000 (N=93)</i></p> $Y = 0.22 - 9.94E-04 * X_1 + 4.06E-04 * X_2 + 0.001 * X_3$
<p><i>V. Municipalities with a population between 10000 and 20000 (N=32)</i></p> $Y = 0.13 - 8.71E-05 * X_1 + 7.12E-04 * X_2 - 1.77E-06 * X_3$
<p><i>VI. Municipalities with a population between 20000 and 50000 (N=19)</i></p> $Y = 2.29 - 4.83 E-05 * X_1 - 3.17 E-04 * X_2 + 2.29 * X_3$
<p><i>VII. Municipalities with a population between 50000 and 100000 (N=11)</i></p> $Y = 0.23 + 5.7 E-05 * X_1 - 0.001 * X_2 - 4.24E -04 * X_3$
<p><i>VIII. Municipalities with a population above 100000 (N=10)</i></p> $Y = - 0.13 + 8.35 E-05 * X_1 + 6.18 E-05 * X_2 - 1.74 E-05 * X_3$

covered by the income flow from the repayment of the municipal bonds.

Fees for services

If the institutions would offer such services, the income from fees could cover a substantial part of its financing needs. The fees would be differentiated for member municipalities and for non-members.

No matter what form this institution will take, it will only be a tool for mobilising the Hungarian municipal credit market. It will not be able solve the investment financing problems of small municipalities by itself.

In order to solve the infrastructure development problems of small municipalities, the state needs to make complex projects that involve the improvement of the revenue raising capacity of municipalities that help in pre-financing municipal infrastructure projects and that provide an incentive for enhanced municipal co-operation. The municipal guarantee institution can only be a step, an important tool, in the realisation of this state program.

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Public Administration, Regional Policy, and the Committee of the Regions - Interaction of Regional, National and European Influences in the Pre-accession Czech Republic

Tomáš Kostelecký²

Introduction

The process of European integration profoundly influences the societies that take part in it. Most attention is usually paid to the processes connected with the creation of supra-national structures, especially in the economic sphere – fostering the European Common Market, the introduction of a single European currency, or building pan-European economic institutions (like the European Central Bank). The other consequences of European integration, like the influence of the EU on institutions in the Czech Republic, are usually less attractive both for the media and research, particularly when they relate to sub-national institutions. The aim of this research paper is to search for the interaction of regional, national and European influences in pre-accession Czech Republic. The basic research questions read as follows: To what extent can regions and the relations between the heterogeneous mass of regional groups and entities provide favourable conditions for a democratised public sphere? How has the role of regions in the Czech Republic changed during the accession period? What is the role of the EU institutions, particularly the Committee of the Regions (CoR), in this process?

The design of the research was adjusted to the specific situation of the Czech Republic as a candidate country. Not only the Committee of the Regions, as the “institutional agent” of regionalism on the EU level, was studied, but attention was also paid to the general role

of regionalism in the Czech Republic, regional policy, and the role of the CoR and other actors in the process of the decentralisation and the reform of territorial government in the Czech Republic. In-depth interviews with representatives of actors involved in the process were used as the main methodological tool for gathering information. Quite a broad set of potential respondents for the in-depth interviews was put together. It included politicians, representatives of the Joint Consultative Committee³ (JCC), and experts and high state officials that were active in the fields of regional policy and the relations between regions and the European Union. The questionnaire used in the interviews included questions concerning the Committee of the Regions, the role of regions and regionalism in Czech politics, actors and institutions involved in regional development and their mutual interactions. Detailed information on the questionnaire that was used can be found in Annex 1. In addition to the in-depth interviews, several other sources of information were used, specifically academic literature on regionalism and on the reforms in territorial government, official government documents used for regional planning purposes, media analysis, and the outcome of public opinion polls relevant to the topic of this study.

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³ The full Czech name of this institution in Czech is “Společný konzultativní výbor mezi Výborem Regionů a Společným výborem pro spolupráci s Výborem regionů”. It could be translated as “The Joint Consultative Committee between the Committee of the Regions and the Joint Committee for Cooperation with the Committee of the Regions.”

1. Background information

Background information is necessary in order for readers to understand the relations between actors on the regionalism scene, including the relations between the Committee of the Regions and the representatives of the Czech regions. Background information necessary for the study of the practices of and the opportunities for participation and their effectiveness in terms of policy output and democratic input will be provided. A brief historical overview of the major developments in the area of regional government and regional policy in the Czech Republic after the collapse of communist rule in 1989 and following the development of the relations between the Committee of the Regions and the Czech Republic will also be included. The second part of the text will be devoted to the description of the major structural characteristics of the policy area, which are: important actors, their interests and interactions, and decision-making procedures.

1.1. Historical overview

The transformation of local and regional government was an inevitable part of the political reforms after the collapse of communist rule in 1989. As this topic has been described elsewhere in great detail (see e.g., Illner, 2001 and 2003), we will only mention the main turning points in this process. The new, democratic, local (municipal) governments were established soon after the Velvet Revolution following the municipal elections in 1990. Municipalities were given a wide range of competences, including the right to operate their own budgets and property. In addition to their own self-governing competences, municipalities also executed some functions of state administration. Although there were many discussions between the central government and the municipalities over financing, legal rules, and other attributes of the division of power between the central authorities and the municipalities, the basic idea of independent local government was a stable principle of the system of public administration. Municipal elections were held regularly every four years, and municipal councils became one of the political institutions most respected and trusted by the general public.

The reform of public administration on the intermediary (regional) level was much more complicated in many aspects. The first step of the new post-communist governments was to abolish the old, soviet-type Regional National Councils in 1990. A problem, however, was found in reaching a political agreement over the new form of regional authorities. Although it was assumed by the authors of public administration reforms that the newly elected representations of the regions would be created by the early 1990s, it took seven years before 14 new regions were established by law in 1997 and three more years structure before regional governments were set up and the first regional representatives were elected by popular vote in the autumn of 2000. In the meantime, the Czech Republic featured a clearly asymmetric model of public administration. While state administration had three tiers (the national government, 77 district offices, over 6000 municipality offices), self-government on the intermediate level was lacking, and thus was manifest only in the national parliament and in the over 6000 municipal councils. As 14 newly created regions were too small to be comparable with the NUTS 2 regions used in the EU as a basic territorial unit for regional policy purposes, eight NUTS 2 regions were designated in order to avoid any potential problems with the future compliance of Czech regional rules with those of the EU on financing projects from the Structural Funds. Three of them consist each of one single administrative region, four consist of two such regions, and the last one consists of three regions. Consequently, the average population size of the NUTS 2 regions exceeded one million inhabitants.

What was the role of the Committee of the Regions (CoR) in that process? The history of contacts between the Committee of the Regions and the Czech Republic is quite short. This is partly because the Committee of the Regions is the youngest institution in the European Union. However, another reason is the long-term neglect of regional problems and regional policy by the Czech national governments in the first half of the 1990s. After the creation of the Committee in 1993, the only contact between the Committee of the Regions and the Czech Republic was the

distant observation of the CoR by the respective officials at the Czech Ministry of Foreign Affairs. The first official contacts between the elected representatives of municipalities from the Czech Republic and the Committee of the Regions was made in 1997 (at that time there were no elected representatives at the regional level in the Czech Republic). The representatives of Czech local politics considered this meeting quite important. The outcome of the first meeting was the idea of creating an institutional framework for such events and this framework would enable these meetings to become regular. An active role on the Czech side was played by several active mayors of large cities that were institutionally supported by the Union of Towns and Communities of the Czech Republic. Since 1997, the representatives of Czech municipalities have had the possibility to take part in the plenary session of the CoR as observers. Subsequently, the CoR created a Liaison Group in 1998, whose main activity has been to meet with the local and regional elected representatives of the applicant countries in order to establish regular relations between them and the CoR. Several conferences were organised in cooperation with national associations of local and regional authorities. One such conference was also organised in the regional town of Jihlava in the Czech Republic, the main aim of which was to enable the local political representatives to obtain information and to have their say on enlargement. It also served as a stimulus for the debate between the national government and local elected representatives on the subject of accession.

The second important step towards more institutionalised relations between the CoR and Czech self-governing local and regional authorities was made by the Union of Towns and Communities of the Czech Republic, which invited Mr. Chabert, at that time the Chairman of the CoR, to visit the Czech Republic in June 2001. National representatives of the Czech Republic treated Mr. Chabert as an important political figure. He had a meeting with Prime Minister Miloš Zeman, discussed regional issues with representatives from the Senate, and organised a press conference in cooperation with the representatives of the European Commission. The tangible out-

come of his visit was the creation of the JCC. The JCC was established as an institutional platform for dialogue between the local and regional representations in the Czech Republic and the Committee of the Regions in the accession period. The JCC consists of sixteen members: eight representatives from the Committee of the Regions and eight representatives from regional and local elected representations.

The first official meeting of the JCC was held in Prague in January 2002. Alongside the introductory political speeches by participating politicians, discussions were also organised on topics relevant to the regions and cities in the accession period, and specifically on the information and communication campaign of the regions and cities concerning the accession process, which was aimed at the public. Another important topic was the preparation of regional policy and the role of the newly constituted regions (*kraje*) in the Czech Republic. It was decided that regular meetings would be held twice a year. The JCC also decided to prepare two recommendations to the authorities involved in the preparation of the EU accession. The first was to be concerned with “Information for Citizens about EU Enlargement,” and the second was to tackle the problem of the “Institutional Capacity of Regions in Relation to the Financial Aspects of Regional Policy in the Czech Republic.” It was also decided that, in accordance with the agreement between the Association of Regions and the Union of Towns and Communities, the Secretariat of the Joint Consultative Committee would be seated in Prague and the City of Prague would provide the staff.

The second official JCC meeting was organised in Brussels in January 2003. This meeting had several different topics on its agenda. The first topic was information on the current state of the accession process, and the second was information about the process of the decentralisation and the rationalisation of public administration in the Czech Republic. Next, the proposals for the JCC recommendation on “Informing Citizens about Enlargement – A Communication Strategy Involving the Local and Regional Authorities” and on “Strengthening the Regional and Local Administrative Capacity in Managing Finan-

cial Aspects of Regional Policy in the Czech Republic” were presented and discussed, and then the final versions of both recommendations were adopted.

1.2. Policy structure – the actors, their interests and their interaction

Regional policy is intrinsically an extremely complex matter, even in countries where the structure of territorial government is relatively stable. In the case of a post-communist country, the matter is even more complicated by the fact that whole system of territorial government itself came under transformation after 1989. Consequently, there are a large number of different actors involved in the field of regional policy. Some actors, like the national government, tend to be a stable element in the system, but other actors may either cease to exist during the process of reforms (e.g., the district offices) or only come into existence during this same period (e.g., regional governments). The actors represent various interests and different sectors of society, and vary greatly in terms of the level of their institutionalisation and organisation.

We could classify the actors in many possible ways, but here it would seem useful to use two different axes and to create four basic types of actors on the field of regional policy. The first dividing axis represents the differences between those who believe that all relevant decision-making power should remain at the central level and those who believe in the necessity of devolving power to sub-national territorial units. For the sake of simplicity we can label the attitudes of actors standing at the opposite poles of this axis as “centralist” and “regionalist.” The other axis, dividing the actors in the field of regional policy, represents the differences between those who believe that any decision-making process in the public sphere should in principle be open to participation and contestation (legitimisation through democratic input), and those who believe that what is most important is the effectiveness of the decision-making, which is possibly best achieved through expert decision-making and without interference from other social actors (legitimisation through effective output).

A typical feature of extreme centralists is their opinion that the administration of the complex issues of the contemporary world warrants the involvement of decision-makers who are experts at the highest possible level, but these people are of course also scarce and can only be found in the top positions of the central bureaucracy. A typical argument of the extreme regionalist is that any regional decision-maker is closer to the real problems than any decision-maker at the central level, as he has in principle better access to unbiased information, and consequently always makes better decisions. Very often the dilemma between centralist and regionalist views on decision-making is connected with the dilemma between closed “expert policies” that seek legitimisation through effective policy output and open “democratic policies” that are legitimised through democratic input. In reality, however, any combination of the above-mentioned features is possible. Support for decentralised decision-making need not necessarily mean support for policies open to public scrutiny. Similarly, support for centralised decision-making is not always connected with closed-door types of policies. In the following section we will describe the main actors in the field of regional policy in the Czech Republic, their interests, and their main interactions.

1.2.1. Political parties

Political parties represent one of the most influential actors in the field of public policy. Shortly after 1989 it was not quite clear which types of institutions would play a dominant role in the public sphere. The general public expressed a deep disgust towards classic party politics as a reaction to the forty years of experience with the ubiquitous and inescapable presence of the Communist Party in the daily life of society. Quite soon, however, within several years of the collapse of communist rule, political parties had proved to be the most viable institutions in the political arena (Kostelecký, 2002). Despite the fact that even the most successful newly established or re-established parties (e.g., the conservative Civic Democratic Party, the Social Democratic Party) were unable to attract that many members and though the parties with uninterrupted organisational existence (e.g., the Communist Party, and the Christian Democratic

People's Party) lost part of their membership base (Kostelecký, Kroupa, 1996), they still dominated the public sphere. At first, several political parties "conquered" national parliament, then they gradually changed the rules of the game, including the electoral laws and the laws assuring long-term financial subsidies for them from the state, and effectively displacing any other type of organisation from the key decision-making positions. The ongoing process of mass privatisation also gave the parties that held power an extra opportunity to project their influence into the business sector. Moreover, in the absence of any law regulating the relations between politicians and civil servants, the power of political parties was capable of reaching any influential managerial post in the state administration. Some authors (Ágh, 1998) even speak of the privatisation of the state by political parties.

There were several political parties on the Czech political scene after 1989 that were able to substantially influence public policy and which differ substantially in their positions on the role of regionalism in the state. Specifically, these included the right-wing conservative Civic Democratic Party (ODS), a new party established in 1991 by the supporters of a free market economy, the winner in the 1992 and 1996 general elections, and a senior coalition partner in all governments between 1992 and 1997. From 1991 to 2002, the party was chaired by a charismatic political leader, the neo-liberal economist Václav Klaus, who was the single most influential opinion-maker within the party. Given Klaus' centralist attitudes and "expert-type-thinking" approach to many social problems, this party pushed the idea of a unitary national state with a strong government. ODS always opposed both the idea of a federal Europe and of greater influence for the regions within the Czech Republic. The party was also known for its somewhat suspicious attitudes towards public involvement in practical politics, clearly manifested in its aversion to non-governmental organisations, which were accused by party leaders of being unelected lobbies of elitists who wanted to influence public affairs without having obtained any mandate from voters to do so. Interestingly, the party proved to have quite strong and successful regional politicians – it

would regularly win the municipal elections in the big cities, and was a clear winner in the regional elections that were held in both in 2000 and 2004. Consequently, ODS holds most of the influential posts in both municipal and regional politics, including the majors in the largest cities and the presidents of the regions. The tension between the centralist leadership and the rising influence of the regional politicians was for most of the observed period overshadowed by the personality of the party chairman, Václav Klaus. The party's unity in regionalist issues was challenged several times, but the scenario was usually the same: Chairman Klaus raised his voice against "dissenters" deviating from the main party line, and the most vocal of these usually lost their positions within the party and eventually left it altogether. For many years the party claimed that no regional policy was necessary. The situation may change following the party Congress that was held in November 2002, where Václav Klaus, who was starting to prepare for his presidential candidacy, did not run for office. The delegates of the Congress, mostly representatives of local and regional party organisations, somewhat surprisingly elected Senator Mirek Topolánek as the new chairman. Topolánek was not only a typical example of a politician who had started his political career in regional politics and was then elected senator in a single-mandate constituency in the old industrial city Ostrava, but he was also publicly designated by Václav Klaus as the least suitable of the candidates for the post.

The second most important party after 1989 was the Social Democratic Party (CSSD). This is the oldest Czech political party, which was abolished during the communist period and later re-established in 1990. CSSD was the winner of the parliamentary elections in 1998 and 2002, held power between 1998 and 2002 in a single-party minority government, and became the senior coalition partner in the post-2002 coalition government. The Social Democrats are in some respects the opposite of ODS. While the party is traditionally doing quite poorly in local electoral contests, and was badly defeated by ODS in the regional elections in both 2000 and 2004, its national leadership has always pushed for greater

decentralisation. Although there are many examples of suspicious decisions having been made by the Social Democratic minority government (from 1998 to 2002) behind closed doors and out of the view of public scrutiny (e.g., the decision of the government over a more than one billion USD contract on the construction of a new highway, without public tender), it is possible to observe a generally positive and ideologically based view among the Social Democrats in favour of greater participation of the public in decision-making. The delayed reform of public administration was only seriously initiated once the Social Democrats had replaced ODS in government. During the period of the CSSD minority government, the Czech Republic adopted much legislation that was necessary for decentralisation and for the transfer of competences from the national government to the regions, as well as many basic laws regarding regional policy.

Another influential party was the Christian Democratic Union (KDU-CSL), an historical party which survived the period of communism as a satellite party and was a junior coalition partner in all the post-communist governments except that of the 1998 – 2002 period. Mainly the Catholic population supports this party, especially in the rural areas of Southern Moravia. The party used its bargaining power as a junior coalition party after the 1996 elections and pressed ODS into the decision to establish a special ministry in charge of housing and regional policy, called the Ministry for Regional Development. KDU-CSL also often occupied the post of Minister of Agriculture, which has had a significant impact on the development of agrarian regions. It was the Christian Democratic minister, Tomáš Kvapil, who prepared the first concept for a regional policy.

The Civic Democratic Alliance (ODA) was practically the only political party whose political programme was centred on the problem of the reform of public administration. A liberal party, and a junior coalition partner in all the governments between 1992 and 1998, ODA held the post of the minister responsible for the preparation of the reform of public administration during the period of the Klaus governments. But all reform plans prepared

by ODA politicians failed to get through the government, mostly as a result of the opposition of Klaus' ODS. Many prominent ODA members nevertheless represented an intellectual think-tank that pushed for the implementation of the reform of public administration long after the party had lost its positions in the government, and even after the party collapsed following a series of financial scandals at the end of the 1990s.

After the collapse of ODA, its role was taken up by the Freedom Union (US), a liberal party that was established by a group of dissenters from ODS in the spring of 1998. Although a party without almost any grassroots activists and with very few members, it has nevertheless represented the part of society that is liberal in terms of economic policy and tends to support more decentralised and more open policies than ODS. The Freedom Union also differs from ODS in that it maintains quite a positive attitude towards the role of non-governmental organisations in the public sphere, and towards the greater role of regional and municipal governments in society.

Last but not least, the final political party with national relevance to be mentioned here is the Communist Party of Bohemia and Moravia (KSCM), the direct successor to the totalitarian Communist Party. Owing to its history, this party was mostly ignored by the other political parties, despite the fact that the Communists regularly received between 10 and 20 percent of the vote in any type of elections. Given its relatively large membership base, the party scored especially well in the local elections, specifically in regions with a traditionally pro-communist orientation. The position of the party on regionalisation is somewhat unclear. On the one hand, the Communists, aware of their relative strength in the regions, are in favour of transferring more competences into the hands of municipal governments. On the other hand, the party leadership is suspicious of the EU as being an agent of international capitalism and is a vocal critic of the policies of the European Union.

Alongside the national political parties, several regional political parties also played a role during the 1990s. At the beginning of the 1990s, the most visible advocate of re-

gionalism in the Czech Republic was a political party called the Society for Moravia and Silesia – the Movement for Self-Governing Democracy. This party, a typical single-issue party, asserting the idea of the restoration of historical regions, surprisingly secured seats in parliament in both the 1990 and the 1992 parliamentary elections. After the split of Czechoslovakia in 1993, however, the ideas promoted by the party were considered to be too dangerous. Voters were afraid of another potential split of the Czech Republic and refrained from supporting the party. Consequently, the party lost support, even in its electoral stronghold in Southern Moravia, failed to get into parliament, and subsequently disintegrated and lost any significance. Even the elections to the regional councils did not provide too much space for the regional parties. The electoral law was quite restrictive towards the participation of independent candidates. Only 8 of 41 entities that ran for election in 13 regions⁴ in 2000 were regional parties. Most were the remnants of the Society for Moravia and Silesia, which ran mostly in the Moravian regions, but without gaining a single seat (Vajdová, 2001b). Apart from this, several regional parties formed ad hoc also ran, mostly comprised of groups of independent mayors of medium-size and small towns. All the regional parties in total gained only 3 seats out of the 675 seats that were up for grabs.

1.2.2. National government and state bureaucracy

The key institution in the field of regional policy and regional development has always been the national government. Regardless of the political orientation of the government, the central decision-making authority was always a key player in regional policy. There have been many different reasons for this, but the single most important one is the fact that between 1990 and 2000 no elected representations on the regional level existed in the Czech Republic. In order to be able to administer problems that were too large in scope to be solved by single municipalities, but too de-

tailed to be solved by the central government directly, the individual ministries started to establish their own regional branches. The process of the “penetration” of the central government into the regions was quite chaotic; the individual ministries did not coordinate either the establishment of their regional branches or their policies with a regional impact (Blažek, 1999). On the one hand, the conservative governments that the Czech Republic had till 1997 had denied the necessity of any regional policy, claiming that regional policy is only a useless attempt by “social engineers” to fight against market forces. On the other hand, the governments implemented many policies that had a profound impact on regional development. Owing to the absence of regional governments, the central governments exercised almost a monopoly on financing any larger projects in the public sphere. The Social Democratic governments that ruled the country after 1998 started to implement some regional policy, but many experts point out that the sectoral ministries, in particular the Ministry of Industry and Trade and the Ministry of Agriculture, still operate with substantially larger budgets than the Ministry for Regional Development, which is in charge of implementing the regional policy of the state.

In this institutional context, the role of state bureaucracy cannot be overestimated. High officials seated in ministries not only prepare most of the regulations concerning regional matters but also make many practical decisions with a long-term impact on regional development. In addition to the bureaucrats working for the central government, the officials in district offices have occupied particularly influential positions. The heads of district offices have not only served as “agents” of the central government on the regional level, but have always represented a very influential “political” post in the regions. This was clearly visible following each parliamentary election, when one of the first steps of the newly formed coalition government was to negotiate among the coalition partners over who should occupy these posts.

1.2.3. Elected local representations

The elected representations of municipalities were always a relatively weak partner of the

⁴ In Prague, which is the fourteenth region but at the same time a municipality, the elections were held in 1998 and 2002.

state with respect to decision-making relating to regional development and regional policy. This is simply owing to the fact that there are over 6000 municipalities, and consequently the average municipality is very small. The limited budget resources of small municipalities make them dependent on state subsidies relating to any larger investment. The probability of gaining a subsidy has to a great extent been influenced by non-economic factors – specifically by the ability of local representatives to establish close relationships with district and ministerial officers. Very often, political affiliation and party membership on both sides have played an important role. Thus, with the rare exceptions of the biggest cities, like Prague, Brno or Ostrava, the municipalities have mostly found themselves in the undesirable position of being a “client” of state administration. Most of the representatives of municipalities complain that the freedom of municipalities to make rational decisions is severely limited by frequent changes in the financial rules introduced by the Ministry of Finance and parliament. In the final years of the 1990s, some municipalities reached the understanding that they must adopt more active policies in order to be able to improve their economic base. Most such active policies were aimed at attracting foreign investors. Some cities started building simple industrial zones. There were rare attempts to prepare technological parks or “incubators” for small and medium-size companies. One of the main problems that the cities faced in this respect was the practical non-existence of functional networks of regional actors. The experts who were interviewed stated unanimously that such networking is extremely rare.

While the individual municipalities were generally rather weak actors in the regional development, their organisation – Union of Towns and Communities – which was established in order to improve the bargaining power of municipalities is quite influential, particularly as far as the legislation concerning the common interests of municipalities is concerned. The Union is a regular member of the Legislative Council of the national government, an advisory body that regularly submits opinions and makes comments on bills prepared by the national government.

Relatively new actors on the regional scene are the elected representatives of regions. Each of the 14 regions has an elected Regional Council with either 45, 55, or 65 councillors, elected through the system of proportional representation from the party lists since the first election in 2000 (Vajdová, 2001b). Each Regional Council forms its own Regional Board, which serves as a sort of regional government, and elects the Regional President who chairs both the Regional Board and the Regional Office. Members of the Regional Board, along with the Regional President, are elected from among the Regional Council members. Regions are one of the youngest public institutions in the Czech Republic, which are still in the process of adjusting to their role. Most observers consider the position of the Regions as very weak in comparison to the state and even compared to the large municipalities. The lack of financial resources and the inexperience of the regional authorities are usually considered the main reasons for this. However, the ongoing transformation of the system of public administration gradually transferred more responsibilities from the state to the regions. Regions gained the key portion of power from the former district offices that were abolished at the end of 2002. With increasing responsibilities, of course, more money will also be coming in, despite the vocal complaints from regional representatives that state ministries tend to transfer more responsibilities than financial resources.

The Association of Regions, an organisation formed by the regions to coordinate their policies towards the state, is going to be quite important both domestically and internationally. On the domestic political scene, the Association of Regions can strengthen the power of individual regions to submit bills to the national parliament. On the international political scene, the Association of Regions is clearly the single most important institution in relation to the Committee of the Regions. In the pre-accession period the Association of Regions decides on the majority of the Czech representatives appointed to the Joint Consultative Committee. After the accession of the Czech Republic to the European Union the Association of Regions remain important in the

nomination of the Czech representatives to the Committee of the Regions. Although they are very young institutions, the regions also intensively seek foreign partners for potential direct collaboration on the regional level. In this respect, the regions that are part of some of the Euro-regions have an advantage. Regional politicians and officials who have been involved in the activities of the Euro-regions have had a chance to learn many skills that could be useful in the future. The foundation of self-government on the regional level led to the diffusion of this kind of international partnership from the border regions alone to throughout the whole country. Regions usually maintain closer relationships with several similar regions from the countries of the European Union. At the beginning, the character of cooperation was mainly symbolic, limited to the coordination of political activity and the transfer of know-how. Over time and as the Czech Republic has moved closer to EU membership, more direct collaboration in the form of joint projects has been evolving. The pre-accession programmes, like CBC Phare, which served as direct preparation for the Interreg programme, have played an important role. The relations between the regional political representations and the political representations of the municipalities are reported to be very good. The main reason for this is that 34 % of the elected members of the Regional Councils are former municipal politicians (Vajdová, 2001a). Among the regional presidents, those who were not experienced as mayors, deputy mayors, or other municipal politicians are rare. Some municipal politicians complain that the officials of newly established regions – specifically those who served as officials in district offices – tend to behave as the “bosses” of municipalities. This is probably the role to which they became accustomed during the long period of the centralist arrangement of public administration. On the other hand, some respondents expressed fears over the total dependency of regional officials on elected politicians. Formally, this problem is addressed by the Act No. 312/2002 (On Territorial Self-government Officials) effective since 1 January 2003. But insiders say that many regional officials obtained their posts owing to good relations with regional politicians,

and therefore, they are quite vulnerable to pressure from politicians. It seems that many politicians used the time before the aforementioned law came into effect to reward political friends and clients, which could give some officials extra power that is not derived from their position within the organisational structure.

Elected representatives at the national level are very important actors on the regional scene. The Czech parliament consists of two chambers: the Chamber of Deputies (200 MPs elected in a system of proportional representation from the party lists in the electoral regions) and the Senate (81 Senators elected in a two-round majority system in the single-member electoral districts). The Chamber of Deputies is the stronger of the two chambers, mainly because it decides on the composition of the government and the state budget. Although MPs are primarily considered to be representatives of the political parties, both MPs themselves and the general public consider members of the Chamber of Deputies as also being representatives of the region in which they were elected (CVVM, 2002). The practical consequence of such a consensus is manifested in the attempts of MPs to propose amendments to the state budget bill which would transfer some investment money into the regions in which they were elected or into the municipalities with which they have good relations. In this respect, membership in the Budgetary Committee of the Chamber of Deputies is considered a key position. The representatives of regions complain frequently that the tendency of MPs to decide on as many public investments as possible is a more significant obstacle to decentralisation than the “natural” reluctance of the state bureaucracy to decentralise decision-making. Although Senators have had no chance to directly influence the financial flows between the state and the regions and municipalities, their role is far from negligible. Having a direct mandate from voters from relatively small electoral districts, they feel even more connected to their constituency. Individual Senators often serve as mediators between the state and the regions and municipalities. The Senate tends to express attitudes that are generally more in

favour of decentralisation than the Chamber of Deputies.

1.2.3. Other actors

One of the most important actors in the field of regional policy in the Czech Republic in the 1990s was the European Union. Since the Czech Republic officially expressed interest in joining the European Union, the European Commission has annually issued a review in which development in the candidate countries was assessed. From the very outset, one of the most criticised issues has been the poor level of preparedness in the Czech Republic for the regional policy of the European Union, and specifically the lack of regional self-government on the intermediate level and the lack of programming documents and institutions necessary for access to money from the Structural Funds. Many observers of the process of public administration reform say that pressure from the European Union was the most important factor in finally persuading politicians on the central level that reforms were necessary. In sharp contrast to the important role of the European Commission, however, both the experts and politicians that were interviewed stated unanimously that the impact of the Committee of the Regions on the reform of public administration and the regional policy in the Czech Republic during the pre-accession period was entirely negligible. The experts that were interviewed were particularly sceptical of the functions of the Committee of the Regions in general. The most common opinion was that the Committee of the Regions just happened to exist for some political or ideological reason, without any real plans for its practical role within the EU structures. Then, once established, the Committee of the Regions started to defend its right to existence within the EU by overemphasising its own importance, attempting to give opinions on practically all legislation, including that of no direct relevance to the regions.⁵ Interestingly,

regional politicians that were interviewed and who as a rule had some practical experience with the Committee of the Regions were less sceptical of the general importance of the Committee of the Regions. Regional politicians for the most part do not believe that the Committee of the Regions is too strong an institution within the European Union, and note that the centralism of the Western European national governments seems to be similar to the centralism of the Czech national government. On the other hand, they largely appreciate the direct and independent flow of timely information on the EU policies they can have access to owing to contacts with the Committee of the Regions. The politicians also see a high relevance of the Committee of the Regions as an arena where know-how can be directly transferred from some regional politicians to others, which they see as an extremely important process.

However, the introduction of the 14 new regions in the Czech Republic and the institutional preparation of the country for future EU membership were to a great extent uncoordinated and chaotic (Vajdová, 2001b). The outcome was the creation of regions that were too small to serve as NUTS 2 units and the subsequent creation of NUTS 2 units by merging several smaller regions. The new NUTS 2 regions, which were created for a single purpose – to be eligible for payments from the Structural Funds – had to create NUTS 2 Regional Boards and a NUTS 2 Regional Development Committee. A NUTS 2 Regional Board is composed of elected members of Regional Councils from regions which comprise a NUTS 2 region. Each Regional Council elects ten representatives to the NUTS 2 Regional Board from among its members. In the case where a NUTS 2 region is equal to a single region, the NUTS 2 Regional Board is equal to the regional council. The NUTS 2 Regional Development Committee is appointed by the NUTS 2 Regional Board. It includes representatives from the regions, the municipalities, administrative bodies, the business community, trade unions, and NGOs. The opinions of both experts and regional politicians suggest that the institutions of NUTS 2 regions could easily turn into battlefields, where the political representations of the regions involved will

⁵ One of the experts used the expression that the Committee of the Regions is a “claiming institution.” This kind of institution, he said, feels insecure and unsure about its real usefulness. To prove its own importance, the institution lays claims to participate in any decision-making that is accessible to it. Consequently, such an institution tends to be involved in many things and does not concentrate on its proper functions.

fight with each other over possible financial resources from the Structural Funds.

The media have played quite an important role in informing the public about the process of reform of public administration. Television stations are key institutions in forming public opinion. The Czech Republic has a dual model of TV broadcasting: there are two public television channels, and two private channels, Nova and Prima. Nova is especially influential – its main evening news broadcasts are regularly observed by over 40% of the adult population and its market share in the news sector is over 70% (Taylor Nelson Sofres and Media research data at <http://www.nova.cz/sledovanost/pulrocn.html>). The market share of public television is about 20%. Nova's tabloid-type of news coverage usually concentrates on scandals and news with negative information. Thus, it is not surprising that the news on Nova about the reform of public administration concentrated on its real or alleged deficiencies and problems. The media of course substantially influence the opinion of the general public. Vajdová (2000) analysed the reflection of the public administration reforms in public opinion during the period between 1990 and 2000. The secondary analysis of public opinion poll releases showed that there were generally two periods when the public was more sensitive to the topic of the reform of public administration. The first was just at the beginning of the 1990s, when the possible reform of public administration was quite a hot topic, especially owing to the unresolved disputes between the Czech and the Slovak political representations over the position of the respective republics within the federal Czechoslovakia. Vajdová reported that, in 1991, 56% of respondents considered the issue of the reform of public administration important. After the split of Czechoslovakia at the end of 1992, the interest of the general public in the issues relating to territorial administration and self-government decreased dramatically. Responses to repeated questions in the opinion polls conducted by the Institute for Public Opinion Research on the extent to which people consider the problems of the reform of public administration to be "a pressing matter" prove this rather clearly. While the share of those considering public

administration reform "a pressing matter" or even "a very pressing matter" was about 45% in January 1992, it was only 27% in February 1995, and only 20% in February 1997 (Vajdová, 2000). The interest in the topic has never been as high as it was at the beginning of the 1990s.

The issue of regional policy is generally not of great interest to the media. A content analysis of the major national newspapers revealed that the key words "regional policy" were used in only two contexts. One context was the information about the Programme Statement of the Czech governments in the late 1990s, where a chapter bearing such a name was always present. The other context was the information about the conclusion of the chapter on regional policy during the accession negotiations between the Czech Republic and the European Union. In any case, information on regional policy has been extremely rare in the press. If the information on regional policy is extremely rare in the Czech media, the information on the Committee of the Regions, its roles and its activities, is virtually non-existent in the media. We asked a Czech company, Novatec Marketing, which monitors the media, to conduct an overview of articles and transcriptions of radio and TV news about the Committee of the Regions over the past year. Their database of monitored media is quite comprehensive – it includes all four national TV channels, four national radio stations, seven national newspapers, twenty-six national journals (weekly and monthly), four internet newspapers, and about eighty regional newspapers. Despite the huge amount of monitored media outcome, the expression "the Committee of the Regions" (of course, in Czech – "Výbor regionů") did not occur at all. Thus, it is not surprising that the Committee of the Regions is practically unknown in the Czech general population. The results of the Accession Countries Euro-barometer from October 2001 show that the Committee of the Regions is the least known institution of the European Union. In the Czech Republic, 75% of the adult population say that they have never heard of the institution and only 21% of them are at least aware of its existence (see Summary and Graphs from CCEB 2001 as published at http://europa.eu.int/comm/public_opinion/cceb_en.htm).

Different actors from the business sector play different roles in the regional policy of the Czech Republic. Consulting companies are quite influential. For most of the 1990s, there was practically no regional policy and therefore there was not much space for private consultants in this field. After 1998, when the Social Democratic governments started to take regional policy seriously, space for consultants opened up. Some consulting companies were involved in the preparation of programming documents and also served as consultants for the regional and local governments. The large multinational companies played a quite different and indirect role in the regional policy. Following the Social Democratic government's decision to launch a generous programme of investment incentives, the Czech Republic witnessed a huge inflow of investment capital, mostly in the form of foreign direct investment. An important part of the effort of the government to attract investors was in building industrial zones through cooperation between the central government and the municipalities. Greenfield investments into regions with large structural problems and high unemployment were especially welcomed by the government, and investors willing to invest in such regions have received extra incentives for this.

The last but by no means the least important of the actors on the regional scene were non-governmental organisations. Vajdová (2001b) has thoroughly described the role of the NGOs in regional decision-making and regional development. The non-profit sector came to realise the importance of regional development as early as 1998, when a non-profit sector conference of local, regional and community groups was founded. The local NGOs were supported by some international NGOs, like the East-West Institute. Although some NGOs managed to participate in the development of planning documents, their overall experience was rather negative. In most regions NGOs were not able to become a part of the most relevant decision-making bodies. Many NGO representatives also complained that decision-making is still based on "personal contacts from the past" executed in closed groups whose members do not trust newcomers.

1.3. Regional development plans

Regional development plans represent the basic framework that is required for the practical implementation of regional policy. As was mentioned already, the Czech Republic did not have any regional policy in the proper sense of the word before the Social Democrats came to power in 1998. Even under the conservative governments of the first half of the 1990s there were some activities aimed at improving the position of districts facing problems, but these were mostly ad hoc programmes of individual ministries without much relation to other state policies. A typical example of such a programme was the extra state subsidy for constructing infrastructure in the districts with the highest unemployment, or easier access to cheap loans for small companies that decided to start a business in areas that were designated as problematic. A typical feature of such programmes was their sectoral character. Each ministry had its own system of territorial administration (different ministries even had a different number of regional branches), and the rare "regional programmes" of the individual ministries were not coordinated with one another. Moreover, the ministries tended to implement many programmes that were not aimed at being a part of regional policy, but had a profound regional impact. A typical example of such policies were the changes to the rules on municipal finance, decisions on large investment into infrastructure, decisions on the continuation or suspension of subsidies to huge state-owned companies that were not yet privatised, or politically motivated decisions of state-owned banks to provide further loans to heavily indebted large companies with a high share of employment in some particular regions.

On the other hand, the period between 1998 and 2002 represented the "golden age of regional policy." The Social Democratic government started to build the institutional infrastructure necessary for implementing regional policy. Each of the 14 regions had to prepare its own Regional Development Programme and this had to be coordinated with the Strategy of Regional Development prepared by the central government. In addition, programming documents for EU regional policy were prepared, in particular the Nation-

al Development Plan and the specific Regional Operational Plans for eight NUTS 2 regions. The experts that were interviewed expressed the opinion that the situation moved from one extreme to the other. While in the first half of the 1990s there was no coordination of regional policy and virtually no regional plans existed, the end of the 1990s witnessed the era of “over-programming.” Two complete sets of programming documents were prepared – for the Czech Republic’s own regional policy (14 regions) and for EU regional policy (8 NUTS 2 regions). Most programming documents were made under time pressure and were considered mostly as an “administrative” task that had to be fulfilled in order to have a chance to obtain money from either national or EU funds. The incentive for making a programming document was clearly top-down in character (“they want us to make programming documents in order to get money, so we have no other option than to do so”). The big problem is that there are several negative consequences of this kind of formal approach to regional planning – under time pressure there is no time to involve the public in the preparation of regional plans, and plans tend to be formal “wish lists” rather than a tool for the coordination of real actors and policies. Also considered a weak point of this kind of regional planning is the fact that the actors involved in the preparation of programming documents do not see the implementation of the plans, and there is no ex-post evaluation of the plans. Practitioners that were interviewed have said that the practical importance of the regional plans for regional development is minimal – the absolute majority of what is happening in the regions would happen without the existence of regional plans. The work on programming documents is thus seen as more of a bureaucratic exercise than a useful tool for the coordination of activities in the regions.

Some experts warn that the formal and bureaucratic approach to the preparation of regional development plans may be dangerous for the Czech Republic within the European Union. If the programming documents are bad, even good projects that do not fit into them cannot be financed from the Structural Funds. The main positive role of the whole

process of preparing the programming document is seen as the education of the actors involved. The absolute majority of regional planning relates to infrastructure. Experts that were interviewed estimated the share of infrastructure in regional planning as between seventy and one hundred percent. The main reasons for this are both historical and political. For a long time, the building of infrastructure was considered as “proper development” while the other potential tasks for regional planning, like support for local business or investment into human resources, was not on the agenda and generally not considered a very effective tool. The political reasons for giving clear preference to infrastructure projects are quite simple: the outcome of such projects is immediately visible, and consequently it is easier to sell it to the voters. The negative consequence of the “building infrastructure” mentality is that the development of infrastructure is considered an automatic part of the regional development plans at all levels, in many cases without proper justification for the specific plans.

2. Democratic assessment information

This part of the paper will concentrate on the assessment of the practices and opportunities that regionalism offers for the participation of the public in decision-making and its effectiveness in terms of policy output and democratic input. We will observe public participation in decision-making, communication between decision-makers and the public, the accountability of decision-makers, and the openness of the whole process of decision-making in the regional sphere.

2.1. Participation

The extent to which the broadly defined “public” can participate in decision-making procedures on the regional level depends to a great extent on what type of decision-making procedures we are speaking about. The most general way in which the public can influence decision-making is through participation in the elections to the regional councils. For most of the decade, citizens had no such opportunity at all, as only state administrative

units (districts) existed in between the state and the municipalities. The first elections to the regional councils were held eleven years after the collapse of the communist regime in the autumn of 2000. In practice, however, the electoral law adopted by the national parliament for the regional elections was very restrictive and allowed only limited space for political activity apart from that of the existing, large political parties. The system of proportional representation was employed with party candidate lists in multi-member electoral districts. The law allowed only political parties to participate in the elections and no individual candidates were allowed to run. A five-percent legal threshold was used and this was a measure that proved to be an effective barrier to any political party that was not able to become a presence in the most influential media. Moreover, doubts about the usefulness of the new regions, expressed by many influential politicians during the long-term debates over the reform of public administration, increased the scepticism of the general public. Regions were portrayed as the depository of unsuccessful national politicians by much of the influential national media, which, as well, constantly warned the public that the new regions meant nothing other than more jobs for bureaucrats. Under such conditions it is not surprising that more people expected negative consequences (26% of respondents) than positive (12% of respondents) from the creation of the regions (the results of an IVVM opinion poll from 1997, cited in Vajdová, 2000). Consequently, the participation rate in the first regional election in 2000 was very low – 33.4%. However, it is necessary here to point out that the participation rate was very low in most of the elections that have been held in recent years in the Czech Republic. In the first round of the Senate elections in 2000 the level of participation was 33.7%, and two years later it was even as low as 24.1%. In the municipal elections in 2002, the level of participation was 43.4%. In the elections to the Chamber of Deputies, which are usually considered the key electoral contest decisive for the composition of the national government, the participation rate was only 58.0% in 2002 (the source of information on electoral results is from the website of the Czech Statistical Office

– <http://www.volby.cz>). In this respect, public participation in the regional elections was not untypical. After the regional councils were elected and the regional offices established, the opportunities for the public to influence the decision-making of the regional governments were relatively scarce. The main reason for this, however, was not the intentional policy of regional governments, but rather both the structure of the competences that the regional governments were bestowed with and the unfinished process of reforms. Strictly speaking, “ordinary” citizens have had almost no reason to contact the regional office⁶ because its responsibilities do not include agendas that deal with citizens’ most frequent interests. Regional politicians mentioned that it is the mayors of cities and villages that they are most frequently in contact with.

As far as regional policy in the narrower sense of the phrase is concerned, public participation was assured by the partnership principle that is built into the formal procedure of regional planning. Most of the experts interviewed said that there is no tradition of public participation in policy formulation in the Czech Republic. Thus, partnership is something that is mostly determined by external rules, and considered as a bureaucratic requirement without much practical importance by most decision-makers. The “expert mentality,” which consists of the conviction among the majority of Czech decision-makers, regardless of their field of interest, that the right decisions can only be made by experts in a particular field, is still a part of the culture that dominates society. Some of the experts interviewed also said that practical experience with the participation of the public in regional policy formulation was frustrating for both sides. When the first Regional Operational Plans were prepared, many people were involved in the working groups that had been established as consultative bodies. After many meetings and discussions, and some years spent in official approval procedures, most of the formerly active participants lost interest

⁶ The author of this text can serve here as a “participating observer” in this situation. I had to visit several regional capitals to conduct interviews with regional politicians. It was difficult to find people who could direct me to the regional office. Most of the people I had asked did not know where the regional office building was located in the city.

in this kind of activity, claiming that they did not see any practical results emerging out of it. Important actors (like businessmen), who had really wanted to have an influence on the outcome of the regional planning, found a more effective way of pushing their interests forward, particularly through contacts with politicians, involved officials, or experts working on the programming documents.

The representatives of the regional and municipal governments are important actors in the regional planning and preparation of regional policies. Alongside the influence they are assigned as formal participants in the procedures, the territorial self-governments are able to participate in decision-making by using informal methods. Although there was no consensus among the experts and politicians who were interviewed as to whether something like a “regionalist lobby” exists, there are signs that something like this is being formed. The high-level officials involved in the preparation of the programming document on the national level pointed out that the ministries could not easily overlook the claims, opinions and protests coming from the Association of Regions or the Union of Towns and Communities. Elected political representatives of the regions and municipalities thus exercise much greater influence in decision-making procedures than any other representatives of territorial communities. Regardless of the relatively small role of the general public in the decision-making processes on the regional level, the establishment of the regions is considered to be an important fact adding to the self-perception of citizens in the long run.

2.2. Communication

Effective communication between the actors who participate in decision-making procedures concerning regional matters and the general public is generally considered to be a problem. Part of the problem consists in the fact that Czech regional self-governments are new institutions that must learn how to communicate their policies to the public. During the two years following the elections to the Regional Councils in 2000, most of the time was spent in building the regional institutions themselves and transferring competences from various ministries and abolished dis-

tricts to the regions. This involved a great deal of administrative and organisational effort, which is usually of no interest to the public. The regional governments established their websites, which include an information page on the activities of the regional offices, and attempted to obtain some access to the local and regional media. Privately owned national media mostly avoided providing information on the work of regional governments, claiming that there is nothing interesting in it that can be sold to the public. The rare exceptions to this rule are found in the information provided by the private TV channels on the problems connected with the transfer of competences between the districts and the regions.⁷ More systematic attention of the media was devoted to the transfer of decision-making power over the organisation of the Emergency Health Care system into the hands of the regions. The media usually warned that the under-financed regional governments would have to eliminate some of the Emergency Health Care Units, which would worsen the level of health care provided to the public. The more power was transferred to the regional governments the more media attention it attracted. It concerns namely the education and health care. Before the regional elections in 2004 the issue of privatisation of hospitals attracted quite a lot of media attention. The plans for the privatisation of hospitals prepared by many right-leaning regional governments were fiercely opposed by the Social Democrats who held the post of Health Care Minister in the national government. The disagreement between the Ministry and the regional governments over the privatisation of hospitals became one of the key issues of pre-election political discourse pressing regional government to defend their position in front of the general public.

In the field of regional policy, there are practically no effective channels of information running between decision-makers and

⁷ An illustrative example of this type of information was the reportage on TV Nova's evening news about a suicide attempt of a young female official from the Regional Office in early January 2003 which began with the words: “The transfer of competences from the districts to the regions has been in effect for only several days and here is its first victim”. The reportage then described the suicide attempt in direct relation to the overworking and stress of officials connected with the reform of territorial administration.

the general public. The procedures used in regional policy are quite complicated and it is very difficult for the uninformed public to understand the subject. The situation is even more complicated by the fact that there are two different regional policies prepared for two different purposes (the regional policy of the Czech Republic for the regions, and the regional policy of the EU for the NUTS 2 regions). While it is true that national programming documents are posted on the websites of the respective ministries, information about this is known to only a relatively small group of involved experts. Although the programming documents are generally accessible to the public, there is practically no interest among the general public in such documents.

There is an absolute consensus among the respondents that the general public does not know anything about either the Committee of the Regions or its cooperation with the representation of the Czech territorial governments. No information about the activities of the Joint Consultative Committee could be found in the general media, although the JCC has attempted to attract their attention. It is not only that the agenda of the JCC was unclear to the public, but also the unfortunate and extremely complicated name of the JCC – “The Joint Consultative Committee between the Committee of the Regions and the Joint Committee for Cooperation with the Committee of the Regions”⁸ – certainly does not help in rendering it more appealing to the media. The only press in which some information about the JCC meeting has been publicised is the specialised weekly “Veřejná správa” (Public Administration), which is published by the Czech government for readers from among the bodies of self-government and the officials of state administration.

2.3. Accountability

One of the questions in the interview directly asked respondents about their view on the accountability of regional institutions as compared with the accountability of national institutions. In the Czech Republic there is no longer a tradition of decision-makers being rendered accountable to the public. For most of their modern history, decision-makers have not been held accountable for their decisions.⁹ After the communist regime collapsed, a great deal of new legislation was adopted which was necessary to implement economic reforms. At this stage of the transformation, it was almost a rule that no sanctions existed for any misconduct on the part of the decision-makers. Of course, there were general laws that could not be broken by decision-makers;¹⁰ however, decisions that were not evident legal infractions were almost impossible to revert. A pioneering job was accomplished in this respect by activists from environmental NGOs, who started, with the help of lawyers, to appeal to the general courts against the decisions of both the state administration and the municipalities which they considered to be contributing to the deterioration of the quality of the environment. Many such appeals were successful. The courts often found the procedures employed by decision-makers to be unlawful. The decision-makers were not used to such public scrutiny of their work and consequently they did not pay too much attention to its legal accuracy. Gradually, the situation evolved to the stage where quite a number of decisions by the public administration were appealed in court. A typical example of this situation is the court appeal made by an unsuccessful participant in a public tender. The general public, however, does not appeal the decisions made by the public administration too often. It took no less than 13

⁸ I tried to make an appointment with the secretary of the JCC, which is located in the Prague municipal offices. I phoned the municipal office and asked the receptionist to direct me to the “Secretary of the Joint Consultative Committee between the Committee of the Regions and the Joint Committee for Cooperation with the Committee of the Regions.” At first the receptionist thought I was joking, and then insisted that nothing like this exists in the Prague municipal offices. Later, when I personally came to the main city office building to conduct an interview, it took several minutes for the guard to figure out which office I should go to.

⁹ Perverse examples of a departure from this general rule can be found during the time of the communist regime. Under communist rule, some decision-makers were held “accountable” for problems and were sanctioned ex-post for their decisions in the office. But such procedures were often used as a tool for intra-party struggle and usually had nothing to do with the actual decisions made by the sanctioned individuals.

¹⁰ There were some cases in which high officials were indicted and then sentenced for corruption or other crimes, but these cases were very rare.

years before the Highest Administrative Court was established where citizens could lodge an appeal against decisions of both the state and the municipal administrations.

There was an overall consensus among the respondents that there is no direct relationship between the territorial level on which the government is conducted and the general level of accountability of the government. It seems that in the post-communist contexts the generally accepted “common wisdom” about regional and municipal politics being more accountable because “they are closer to the public” is not universally present. It is very important here to point out that there has generally been a negative relationship between the extent of practical experience with regional and local politics and the conviction that regionalism provides better social and political institutions than the institutions at the national level. Simply put, the most vocal advocates of regionalism were respondents who had less practical experience with the functioning of regional institutions. The people who were much more experienced in this respect tended to give quite cautious answers. The heart of this type of message was that the regional level can provide better institutions but may not necessarily provide them in reality. It is true that regional and municipal institutions are closer to the public, but closeness alone did not ensure accountability. There was a common agreement that there are two key factors supporting the accountability of the local and regional institutions. The first is a good legal framework, ensuring clear and open procedures, non-partisan decision-making, and the openness of decisions for public scrutiny. The second important factor is clearly cultural: governments are more accountable where the public expects their accountability and insists on it, and where all actors are accustomed to this type of politics. Many respondents also mentioned that it is impossible to say generally that regional institutions are better than national ones or vice versa. Regional institutions can provide better service in some areas while national institutions in other areas. Culture and education were most often mentioned as the areas where regional governments have a chance to outperform the central institutions. On the other hand, health

care was mentioned most often as the service that can better be provided by the national institutions. Some respondents declared that it is not possible to speak about whole sectors and then determine which particular sector can be better managed from the national and which from the municipal or regional level. In each sector the competences should be divided between the national and regional levels. In education, for example, the municipalities should look after elementary schools, regional governments secondary schools, and the state should be responsible for universities. An alternative opinion was provided by one respondent who said that all services that can potentially be privatised and that are linked to individual service customers are better provided by regional institutions, while services that are not directly related to individual customers (like environmental protection) are better provided centrally.

The institutions of the European Union are generally considered as not being too accountable to the general public, despite the rules and procedures that are used to ensure accountability. The Committee of the Regions is not counted as among the strong institutions with real power within the European Union, and therefore respondents did not see what the Committee of the Regions should be accountable for.

2.4. Openness

Traditionally, decision-making in the Czech Lands was conducted mostly out of the view of the public eye. The period of communist rule in the country eminently deepened this long-time custom. Obviously, the overthrow of the communists did not mean a complete change in the behaviour of decision-makers. Even the new rulers who were elected to their posts by voters in free elections tended to make many decisions behind closed doors. One good example of this practice was the unprecedented decision by the Czech and Slovak political representations in 1992 on the division of Czechoslovakia, which was made without any referendum. But the situation gradually changed. Awareness arose among the general public that decision-makers should be accountable and their public policy decisions should be done more openly.

The openness of policy making gradually became a political issue of its own accord. A pioneering job was again done by the environmentalist NGOs that constantly insisted on the right of the public to obtain accurate and timely information on the state of the environment and to more open decision-making in this field. In their efforts they were constantly faced with the problem that the respective officials were unwilling to provide information on large projects with a potential impact on the quality of the environment, stating that they were unable to provide any information that could be considered to be a trade secret without the consent of the investor. Environmentalists found an ally in a group of deputies that prepared a special bill on Free Access to Information about the Quality of the Environment. There was a sharp dispute over the bill in parliament. The most vocal argument of the opponents was expressed as the danger that hundreds and thousands of citizens' claims would paralyse the normal functions of the respective offices. Finally, the bill was passed in both chambers of the parliament in 1998, giving citizens the right to submit questions about the quality of the environment, after paying some small processing fee, which must be answered by the respective office within the time limit set by the law. Despite the warnings, the consequences of the new law were not dramatic and officials had no problem answering the moderate number of questions received. The adoption of the law was very important, not only because it became a practical tool through which to obtain information but also because of its symbolic value. Citizens were treated not as subjects of the bureaucracy but as partners of the administration.

The success of the above-mentioned law definitely helped another group of members of parliament to prepare a more universal bill on general public access to information.¹¹ The more general Law on Free Access to Information was adopted in 1999 after a long political fight between its proponents and opponents over the precise conditions under which the

information had to be provided by officials. Officials must answer citizens' questions within the specified time limit, and citizens must cover the expenditures of the office, specifically the costs of photocopies and the cost of labour of the official who collects the necessary information. Since 1999 all societal actors are formally guaranteed access to information about the decisions of either elected or administrative bodies on the regional level, as well as to information about regional policy. In practice, however, policy making is only slightly more open than before. There are still many different ways in which a decision-maker can avoid practising more open policies. The most easy and effective strategy is to limit the number of people who know about a certain decision to as low a figure as possible. If only a small group of involved people is informed about the matter, there is no great chance that any "outsiders" will notice that a certain decision has been made. If the law requires that such information about a decision must be proclaimed publicly, the information is formally posted on some office board that is not usually observed by the public for a few days. A very popular strategy among the bureaucracy is to overestimate the time needed for collecting the necessary information, and thus also the cost that must be covered by the citizen requesting information under the provisions of the law. As it is very difficult for office outsiders to have an idea of how easy or difficult it is to collect certain information, it is difficult to protest against such overestimated costs. Another possible strategy is to "hide" information about some important issue to be decided on by including it in a common session amidst a large number of "technical decisions" concerning some relatively unimportant matters. Finally, some officials still tend to argue that they cannot provide information in a specific case because a certain trade secret is involved, or they simply do not answer the citizens' questions at all. There is a relatively good chance for some such officials that at least some of the inquirers will not protest against this behaviour and will simply give up.

Conclusion

The aim of this paper was to study the interaction of regional, national and European influ-

¹¹ It is interesting to note that both bills on public access to information were prepared by groups of individual members of parliament and not by the government itself, as is usual in the absolute majority of other cases.

ences in the pre-accession Czech Republic in the sphere of public administration and regional policy. Special attention was paid to the role of the Committee of the Regions, which represents the EU institution most closely connected with the topic of the research. More specifically, a study was made of the role of the regions in the Czech Republic during the pre-accession period, with particular attention given to their role in the democratisation of the public sphere. The research shows that the importance of regions in the Czech Republic has generally increased over the observed period and, moreover, will increase in the future. The creation of the regional governments and the regional parliaments that were directly elected by the voters in the year 2000 proved to provide key momentum to the process of the gradual “devolution of power” from the national state to regional political and administrative units. While the decentralisation of the over-centralised Czech state had been quite a slow process before the year 2000, the decentralisation of power became more apparent and rather quick after the regional governments came into the existence. Once in existence, the regional governments were gradually endowed with an increasing number of responsibilities and their budgets also grew accordingly (although not necessarily proportionally, as the regional representatives complained).

It is not clear, however, what the relationship is between the increasing power of regional institutions and the level of democratisation of the public sphere. Although, decentralisation is often considered the way towards more democracy in the public sphere, empirical observation of the situation in the Czech Republic does not seem to fully support this idea. Somewhat surprisingly, practitioners involved in institutions and policies on the regional level were more cautious than the interviewed experts from the sphere of academia or from the central state institutions. The latter said that greater decentralisation means more open policy procedures, more public participation, and more government accountability, while the former tended to say that decentralisation as such only creates the potential for a more democratic form of governance, but may not necessarily lead to it automatically.

It is not easy to evaluate the role of the external institutions of the EU in the processes of decentralisation and the reform of public administration in the Czech Republic, as it varies profoundly depending on which EU institutions and which parts of the process are considered. On the one hand, the Committee of the Regions was simply not that important in either the administrative reform or the formulation of regional policy in the Czech Republic. On the other hand, the role of the Committee of the Regions as an “extra-governmental” channel for the transmission of valuable information from the EU directly to the Czech regions was highly appreciated. Similarly, its role as a “meeting place,” providing a space for the representatives of the Czech regions to meet with the representatives of regions from all over Europe after the accession of the Czech Republic to the European Union, has been viewed with great and positive expectations. Generally, however, the Committee of the Regions was seen as a much less important institution than others in the EU. The European Commission was considered extremely important in this respect, although its influence on the process of regional administration reform and regional policy was exerted indirectly, through legal and financial pressure, rather than directly, by indicating how the specific national policies should be conducted. The rules surrounding the withdrawal of money from the Structural Funds set up by the Commission was often quoted as the key impetus for initiating a genuine start to administrative reform, the process of decentralisation, and regional policy itself. Without the existence and functioning of the proper institutions, the accession countries would not have been able to make use of money from the Structural Funds. Once the regional institutions were created, their responsibilities, and consequently their importance, far exceeded that of the Structural Funds or regional policy. The situation, after only few years since the regions and regional governments came into existence, shows that regional institutions have an impact on the central government, political parties, and individual policies. Moreover, it is clear that this impact is going to be long-term.

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Annex 1: List of questions asked

a) Questions concerning the Committee of the Regions

1. To what extent is the Committee of the Regions, its functions and its activities known in the Czech Republic?
2. Is anybody in the Czech Republic systematically interested in the work of the Committee of the Regions?
3. Do any contacts, either formal or informal, between the Committee of the Regions and the Czech Republic exist? What are they, on what level, under which conditions, when...
4. What is your personal, or the general Czech, attitude towards the Committee of the Regions, its role within the European Union, and its functioning?
5. How will decisions be made about who will be the Czech Republic representatives in the Committee of the Regions? What political programme will they have?
6. What is the influence of the Committee of the Regions on processes in the Czech Republic in the pre-accession period, the reform of public administration, and regional politics?

b) "Expert" questions

1. What indicators should be applied in measuring the advancement of democratic processes on the regional level compared to the national one?
2. Does regionalism limit or widen a competitive market system?
3. What are the fields, if any, where regionalism stands a chance to outper-

form the national level (market, ecology, culture, education, health care)?

4. Does regionalism add to the self-perception of citizens?
5. Can regionalism provide better social and policy-making institutions than the national level?
6. Does there exist a network of institutions (regions, large cities, media, regional committees of the parliament, etc.) that would push for a greater role for regional institutions in the Czech Republic? Does a “regionalist lobby” exist in the Czech Republic?
7. Does there exist any public debate on regionalism, the role of the regions in politics and public administration?

c) **Specific questions**

1. What is the fate of the regional development plan?
2. How is the decision-making process in the region constituted?
3. Which are the decisive political institutions?
4. How have the growth agreements fared?
5. What is the share of the infrastructure in regional planning and politics?
6. What is the character of the partnership and the partnership collaboration?
7. What forms of collaboration with other regions – national and trans-national – exist and do you foresee?
8. What is the character of this collaboration – mostly informative and learning or direct cooperation schemes?
9. How does networking function between, for instance, research institutes, technology parks, industry, public sector interests, retailers and consumer interests?
10. What is the relationship between the representatives of the new regions, both politicians and civil servants, and their counterparts on the municipal level and the old level of provincial administration?

Information for Contributors

The *Occasional Papers* are devoted to public administration and public policy issues based on empirical research carried out in Central and Eastern Europe.

Papers

Decisions about the publication of a manuscript are based on the recommendation of the main editor and an additional review process conducted by two appropriate specialists from a relevant field. The main editor and/or deputy editor selects these specialists.

Submissions should not have been published previously and should not be under consideration for publication elsewhere. Papers presented at a professional conference qualify for consideration. The submission of manuscripts that have undergone substantial revision after having been presented at a professional meeting is encouraged.

Components of a Policy Paper

Presentation of the Issue

What is the problem that requires action?

Scope of the Problem

What is the history and current context of the issue? How did it become an issue? Who is affected and how severely?

Consultations

What are the views or positions of groups who will be significantly affected? What are the concerns of other ministries/agencies who will be affected?

Options for Consideration

What three or four distinct options should be considered? What are their implications? What are their advantages and disadvantages?

Additional Issues:

Consistency with the government's priorities; the effectiveness of available options in addressing the issue; the economic cost-benefit; the effects on taxpayers; the impact on the private sector; environmental impacts; the fiscal impact on the government; the disproportionate impact on various groups or regions; the complexity and timing of implementation; public perception; and constraints raised by legal, trade, or jurisdictional issues.

Recommendation (s)

What is the proposed course of action? Why was it chosen over other possibilities?

Implementation Issues

What are the financial impacts of the proposed course of action? What are the implications for government operations? Will the proposal require regulatory or legislative changes? What is the proposed means of evaluation?

Communications Analysis

What is the current public environment? What are the key issues of contention, and how can they be addressed? What is the position of key stakeholders, both inside and outside the government, on the proposal, and what communication vehicles should be used for each? How does the proposal relate to government reform priorities? What is the objective of communication on this issue? What is the key message?

Structure of a Paper

Title

The title should be a brief phrase adequately describing the content of the paper.

Abstract

An abstract is a summary of the information in a document. The abstract should not exceed 250 words. It should be designed to clearly define the contents of the paper. The abstract should: (i) state the principal objectives and scope of the research; (ii) describe the methodology employed; (iii) summarise results and findings; and (iv) state the principal conclusions. References to literature, bibliographic information, figures or tables should not be included in the abstract.

Introduction

The introduction should supply sufficient background information on the topic and also provide the rationale for the present study. Suggested guidelines are as follows: (i) the introduction should first clearly present the nature and scope of the problem that was researched; (ii) it should provide an overview of the pertinent literature used; (iii) it should state the research methodology employed and, if necessary, the reasons for using a particular method; and (iv) the principal results of the investigation should be stated.

Results

This section should contain an overall description of the topic and present data gathered during the research project. The manuscript should utilise representative data rather than repetitive information. Data that will be referenced several times in the text should be provided in tables or graphs. All data, repetitive or otherwise, should be meaningful. Results must be clearly and simply stated as the section comprises innovative research findings for an international community of academics and practitioners.

Discussion

This section presents principles, relationships, and generalisations indicated by the researcher's findings. This should not restate information present in the results section, but should: (i) point out any exceptions or lack of correlation; (ii) define unresolved issues; (iii) show how the results and interpretations agree (or contrast) with previously published work; (iv) discuss the theoretical implications of the work, and any possible practical applications; and (v) summarise the evidence for each conclusion. The primary purpose of the discussion section is to show the relationships among facts that have been observed during the course of research. The discussion section should end with a short summary or conclusion regarding the significance of the work.

Acknowledgements

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References

Only significant, published references should be cited. References to unpublished data, papers in press, abstracts, theses, and other secondary materials should not be listed in the references section. If such a reference is essential, it may be added parenthetically or as a footnote in the text. Secondly, authors should verify all references against the original publication prior to submitting the manuscript. Stylistically, authors should utilise the in-text parenthetical reference system with complete references alphabetised at the end of the text.

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