A roadmap to reform in public administration, fiscal decentralisation and territorial cooperation
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Executive Summary

The Eastern Partnership has the potential to make a decisive difference to the quality of the European Union’s integration plans for its eastern neighbours. However, the experience of the past few years in which the policy has been in operation suggests that there remains some room for improvement.

Not all of the reforms that are required can be implemented by local and regional authorities acting alone. For effective change to take place, a multi-level framework for political action needs to be elaborated, built on the recognition that shared aims are best delivered through partnership. To this end, LRAs need to work closely with both the European institutions and their national governments. There is increasing scope for this approach to have a significant impact.

Further political actions need to be undertaken by supranational actors, national government actors and local and regional authorities if the EaP process is to offer a full, multi-level framework where actors from all areas of society in the EaP states can engage with the process and benefit from its outputs.

The key lobby points for LRAs relate to visa policy, financial assistance for the Eastern Partnership countries and the full implementation of the conditionality policy. These are vital points of focus for LRAs since in the first place, LRAs on the border between the European Union and the Eastern Partnership countries have the most to gain from closer collaboration between both sides, resulting in an increasing level of cross-border trade (which is a stimulus to economic development) as well as people-to-people contacts (which has a cultural, social and economic value).

Moreover, LRAs on both sides stand to be some of the principal beneficiaries of the higher financial allocations that we suggest should be provided for the Eastern Partnership, precisely because it is expected to provide a significant uplift to economic activity and, once again, to increase people-to-people contacts, providing a boost to cross-border cooperation.

CORLEAP has identified the strategic areas of focus for cooperation with LRAs in the Eastern Partnership countries, these are: (1) the need to enhance the capacity of LRAs; and (2) the need to enhance their responsiveness to citizens, thus improving the quality of local democracy.

Progress can be made in addressing these needs through a focus on three priority areas for action across the EaP countries, which will add an enhanced territorial
dimension to the Eastern Partnership. These are: public administration reform, fiscal decentralisation and territorial cooperation.

To-date, there has been insufficient strategic effort to provide the financial assistance that will advance these three priorities. More EU financial assistance needs to be targeted towards support for public administration reform, fiscal decentralization and territorial cooperation.

Where these priority areas have been addressed through EU financial assistance schemes, this has been tangential, sporadic and ad hoc.

There are five primary dimensions of public administration reform which have been identified by the European Commission as areas where support for reform actions can have a multiplier effect across the public administration of LRAs in the Eastern Partnership countries, these are:

• strategic planning, which responds to the need to enhance the capacity of LRAs;

• e-governance, which responds both to the need to enhance the capacity of LRAs and to the need to enhance their responsiveness to citizens, thus improving the quality of local democracy.

• the partnership principle for better regulation and local development, which responds to the need to enhance LRAs’ responsiveness to citizens, thus improving the quality of local democracy.

• business-friendly administration, which responds to the need to enhance LRAs’ responsiveness to citizens, thus improving the quality of local democracy; and,

• reform of the provision of public services at the local and regional level, which responds to the need to enhance the capacity of LRAs.

CORLEAP should work towards signing an action plan with the European Training Foundation where both parties commit to making progress on the training of local and regional public officials in all areas of competence, including, but not limited to, European integration, thus helping to meet the “good governance” objectives.

Decentralisation of political authority is a global trend in the practice of “good governance” and needs to be supported politically and financially by actors at all levels of governance in the EU: supranational, national and local;
Fiscal decentralisation plays a major role in the reform of power structures understood globally, and is also a key indicator of an effective framework being in place for multi-level governance within states.

Evidence shows that fiscal decentralisation works effectively across different institutional settings; despite the different forms of local and regional government which exist across the EaP area, fiscal decentralisation measures can and should be undertaken.

Fiscal decentralisation ultimately leads to wider global benefits in economic development;

For effective fiscal decentralisation to become a reality, national leaders must agree a longer-term agenda for the transfer of fiscal authority to lower levels of political decision-making, and ensure cross-party support for these goals;

The freedom of local governments to vary the rates of the taxes, fees, and charges accruing to their budgets is a cardinal principle of fiscal decentralisation, as emphasised by the European Charter of Local Self-government;

In global terms, decentralisation should be interpreted as meaning the transfer of powers from the state government to the local self-government, and not to the transfer of powers from the central state government to the local state government. In other words, responsibility for taxation and spending must be placed at the level of locally-elected politicians.

Successful fiscal decentralisation combines not only fiscal reforms but also governance reforms. Decentralization will only succeed when local communities become involved, participate in the local budget process, express local priorities, and hold their local officials accountable for delivering the local services desired in a cost-effective manner;

DG DEVCO should, on the basis of evidence presented by LRA actors from the EaP area, review the requirements for applying for EU financial assistance with a view to reducing red tape;

CORLEAP and the CoR, as well as LRA associations from the EaP area should work with DG DEVCO to identify ways in which the process of applying for EU financial assistance can be made easier for LRAs in the EaP countries, such as:

- introducing less stringent reporting requirements;
• revising the procedure for demonstrating legal and financial viability, given that current EU demands are not easily delivered by LRAs or local banks (see Section 1.2 of this report).

The European Commission should aggregate its various financial assistance programmes which currently target local and regional actors in the EaP area under one shared strategic umbrella. This more streamlined and vertically integrated approach will significantly advance the local and regional dimension of the EaP and will meet the political aims of CORLEAP’s current Action Plan.

Cross-border cooperation, territorial cooperation and the democratic governance of cooperation are central to the continuing integration and enlargement of the EU and for fostering a real framework for multi-level governance. It therefore needs to be supported through further financial measures within the EaP space.

At the present time, greater investment has been made in geographic or horizontal cooperation mechanisms which address issues of local and regional governance in the EaP space rather than vertical or sectoral mechanisms; greater usage could be made of the latter in future funding schemes;

At the supranational/multilateral level, there needs to be more joined up thinking across the full range of EU financial assistance programmes to address more effectively the core areas where CORLEAP has identified deficiencies, and has suggested further targeted political action.

Information regarding territorial cooperation in the EaP area is piecemeal and not collated to comparable standards across the region. A standardized data collection and statistical reporting framework would facilitate better feedback loops for the future design of financial programmes in the area.
1 Introduction

1.1 Taking Forward the CORLEAP Action Plan and Conclusions

In the conclusions of its Annual Meeting, CORLEAP identified three thematic priority areas for future political action. These take forward the recommendations presented in the CORLEAP Action Plan, adopted at the Bureau meeting in May 2012. Together, these documents outline the pressing need for further political action to advance the local and regional dimension of the EaP programme.

A multilateral focus on three priority areas for action has been identified as crucial in order to deliver a stronger, multi-level Eastern Partnership. These are:

- public administration reform;
- fiscal decentralisation; and
- territorial cooperation.

These three thematic areas inform the scope of this report, which showcases how political action in these three fields will lead to mutually supporting steps forward in the development of a sustainable local and regional dimension to the Eastern Partnership.

1.2 Global Policy Suggestions for Reform of the Eastern Partnership: Points for the EU, the Member States and Local and Regional Authorities (LRAs)

1.2.1 Global Recommendations for Improving the Eastern Partnership

The Eastern Partnership has the potential to make a decisive difference to the quality of the European Union’s integration plans for its eastern neighbours. However, the experience of the past few years in which the policy has been in operation suggests that there remains some room for improvement. Not all of the reforms that are required can be implemented by local and regional authorities

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acting alone. For effective change to take place, a multi-level framework for political action needs to be elaborated, built on the recognition that shared aims are best delivered through partnership. To this end, LRAs need to work closely with both the European institutions and their national governments. There is increasing scope for this approach to have a significant impact. In its most recent communication on the ENP, the European Commission acknowledged the difference that multi-lateral cooperation with partners such as CORLEAP and ARLEM had made in strengthening and deepening the ENP, contributing to the development of political dialogue across the ENP area and incorporating other dimensions of cooperation into the ENP policy.²

Since the Eastern Partnership is part of the European Union’s foreign policy, the inter-governmental model of policy-making prevails with the concomitant need for unanimity between Member States. Therefore, these recommendations should be viewed primarily as possible lobby points for LRAs to address jointly to the EU institutions and to the 27 Member State national governments.

Explaining why these recommendations should be important as lobby points for LRAs is relatively straightforward. In the first place, LRAs on the border between the European Union and the Eastern Partnership countries have the most to gain from closer collaboration between both sides, resulting in an increasing level of cross-border trade (which is a stimulus to economic development) as well as people-to-people contacts (which has a cultural, social and economic value). Moreover, LRAs stand to be some of the principal beneficiaries of the higher financial allocations that we suggest should be provided for the Eastern Partnership, precisely because it is expected to provide a significant uplift to economic activity and, once again, to increase people-to-people contacts, providing a boost to cross-border cooperation.

Our global suggestions for policy changes to the Eastern Partnership that could be put forward as lobby points by the COR and LRAs are therefore as follows:

### 1.2.2 Supranational and National Level

#### Overall Package of Incentives for the Eastern Partnership Countries

The overarching incentive for the Eastern Partnership countries to integrate with the EU is their eventual full participation in the European Economic Area, which could provide an estimated 2–8% lift to the annual GDP growth rate of

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EaP countries.³ This is a transformative and ideal long-term perspective, but more carrots are needed along the way since it will be possibly years or even decades before EEA membership can be achieved. Unless the EU can increase the incentives on offer, the essential problem of how to implement the policy of conditionality (also known as ‘more for more’) in the absence of an accession perspective will continue, frustrating the overall effectiveness of the policy.

A membership perspective for the EAP countries clearly goes too far for all of the EU-27 to agree on. This should not be a lobby point for LRAs, since they risk not being listened to if they push on this point. Moreover, they may not agree that this is a desirable objective, even if many in the newer Member States are of this view.

The incentives that are needed relate to: visa policy, swifter access to the Single Market and financial assistance. Greater differentiation between Eastern Partnership countries and a more rigorous application of the ‘more for more’ conditionality policy is needed.

Visa Policy

Integration between the EU and its eastern neighbours is frustrated by the low level of people-to-people contacts. Fewer than a quarter of Ukrainians, to give a concrete example,⁴ have visited the European Union (or indeed the US or Canada). Although support for EU integration remains high at the popular level, it would be even higher, were the Eastern Partnership countries’ people able to visit the European Union itself.

The time has passed for simple visa facilitation in the form of a simplification of procedures. LRAs should consider lobbying both the European Commission and their own Member States for a visa-free travel policy between the EU and the Eastern Partnership countries. Since this may be unrealistic in the short-term, given the concerns about migration that exist in many old Member States, a number of interim solutions can be proposed, which are: extending the list of individuals eligible for one-year and multi-year, multi-entry visas; lowering prices even more (ideally by subsidising the considerable administration costs of issuing visas); and, finally, lobbying Member State visa-issuing authorities to retrain their staff to view applicants as fellow Europeans desiring to travel to the EU, rather than as mere supplicants, or, at worst, as potential undesirables that need to be kept out. This last point is of great importance: it is unhelpful if the

⁴ http://ecfr.eu/content/entry/commentary_the_eus_relationship_with_ukraine_fling_or_partnership
first contact that people have with a European public administration is with an obstructive and rude official.

**Financial Assistance**

More funding is needed, particularly, for small and medium-sized projects, according to Ukrainian officials. Budget support for large-scale projects such as reform of the energy sector may be easy to implement (in other words it is easy to disburse the funds), but is not always helpful (in that it may not achieve very much in concrete terms).

Increased financial assistance for implementation of the *acquis communautaire* should be closely linked to the democratic performance of the EaP country in question. There are grounds for optimism that this approach is becoming the standard EU approach to interaction with the EAP countries. LRAs have a role to play here in underlining their support for the EU’s fundamental values. Clear evidence of a commitment to democracy should be met with additional funds to facilitate the ambitious European integration agenda, in the first instance through the training of civil servants.

**DCFTAs and Access to the Single Market**

The EU has been a little too heavy-handed in the pre-conditions that is has set for access the single market in the negotiations and pre-negotiations on DCFTAs. Too many parts of the *acquis* that go beyond strictly trade-related matters have been included, and much of the regulation is inappropriate for poorer countries that will not have immediate access to the EU market for agricultural products (i.e. sanitary and phyto-sanitary rules). The rules that the EU asks the EaP countries to implement must be based on sound economic sense, rather than what amounts to a one-size-fits-all policy (i.e. asking Georgia to implement EU rules on cable cars and lifts even though Georgia does not produce either of these products). Here again the justification for this as an LRA lobby point is that, once again, it is border regions that have perhaps the most to gain from economic integration through higher trade. It follows therefore that LRAs will want to push this agenda.

Despite the deep economic crisis that has afflicted the Union in recent years, the EU can afford to be generous with its eastern neighbours by virtue of the fact that average income levels in the EU-27 are up to ten times higher than those in the EAP countries. Indeed the EU will reap a considerable economic dividend in

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future by being generous now. The challenge is not to let short-term economic considerations undermine the bright future of the Eastern Partnership project.

Financial Considerations

Before committing to providing extra funding for the Eastern Partnership countries, the EU should consider ways of making funding easier to access. Too much money is given in budget-support to national governments (where the funding is not always used effectively) and the ‘complexity of the EU funding’ mechanisms make it desperately hard for NGOs and sometimes LRAs to access the money that the EU has made available. A little relaxation of reporting requirements would go a long way, and LRAs should consider asking the Commission to review carefully how much of a risk it would be taking by making the process of applying for, accessing and spending EU funds a little easier. To give a concrete example, submitting documents to prove that they are not bankrupt, have paid their taxes or social security contributions\(^8\) is hard for organisations that do not engage in trading activities, and where local banks may not have the culture of providing such attestations.

1.3 Summary of Global Actions for Local and Regional Authorities and CORLEAP

Overall the above-listed areas have been highlighted for two reasons. First, to provide an updated analysis to CORLEAP members about the development of the Eastern Partnership four years into its creation, in 2013. Second, the points highlighted suggest areas where LRAs and CORLEAP can lobby both the EU and Member States to take action. The next section turns to the three priority areas for action as identified by CORLEAP at its Annual Meeting 2012: public administration reform, fiscal decentralisation and territorial cooperation.

ACTION POINTS

Supranational / Multilateral Level

The EU should

• Press for a full, multi-level access to the wider benefits of the EaP; eventual full participation in the European Economic Area would deliver an estimated 2–8% boost to annual GDP growth rates in the EaP countries. These benefits should touch on all these countries’ territories and actors.

• Link future financial assistance for implementation of the *acquis communautaire* to democratic performance at all levels of governmental authority.

National Governments should

• Support the democratic and market liberalization objectives of the *acquis communautaire* through measures to foster robust multi-level frameworks for good governance.

LRAs, CORLEAP and the CoR should

• Lobby EU actors, notably DG DEVCO to review the requirements for applying for EU financial assistance.

• Work with DG DEVCO to identify ways in which the process of applying for EU financial assistance can be made easier for LRAs in the EaP countries, by for instance:

  o Introducing less stringent reporting requirements.

  o Revising the procedure for demonstrating legal and financial viability, given that current EU demands are not easily delivered by LRAs or local banks.
2 Options for Political Action

2.1 The Contribution of LRAS to the EAP

The 2012 report ‘On the Contribution of LRAs to the Eastern Partnership’ (COR, 3812) summarized what the role of local and regional governments as well as CORLEAP could be for the further embedding of the Eastern Partnership. A brief recapitulation here is helpful. The report followed on from the completion of the start-up phase of CORLEAP, once it had been furnished with a bureau structure and a strong political leadership.

The report argued that CORLEAP then needed to develop its activity profile further, in line with the global EaP framework. Our analysis was that CORLEAP clearly needed to develop both a political dimension to its activities, and to establish a clear set of objectives which can be delivered through concerted political actions undertaken by both national governments and local and regional governments. We argued that this should be based on the experience of local and regional partners in the EaP countries. We also identified that CORLEAP has a very clear operational dimension; that is, through its ongoing activities as a platform for debate, discussion and the exchange of perspectives and expertise, it facilitates and fosters stronger local and regional cooperation with partnership countries. This is a particularly important element of its remit given the limited resources at its disposal.

The report ‘On the Contribution of LRAs to the Eastern Partnership’ (COR, 3812) offered an insight into the contribution of local and regional authorities to the development of the EU’s Eastern Partnership. It set this out firstly by analysing the state of play within the EaP of the local and regional dimension, and considered the manner in which local and regional perspectives could be included in the various arenas of debate that support the EaP agenda. This section provided an inventory of needs; that is, the report offered a nuanced analysis of the EaP at the EU level and at the level of the partner countries, assessing the key areas of concern and setting out clearly the primary issues of interest for local and regional governance that CoR and CORLEAP engagement with the EaP can seek to address.

Secondly, the report then considered the engagement of the CoR and more specifically, CORLEAP in the EaP process, analysing where this interaction would be most effective, considering how this relationship can in future be reshaped to work even more constructively with the various avenues open to local and regional perspectives in the EaP. Finally, the report offered an
overview of areas of local and regional cooperation with Eastern Partners, and an assessment of how EU funding regimes have been used to underpin actions to improve, enhance and develop further local and regional governance in the EaP partner countries. This assessment offered scope to understand the real contribution of EU assistance at the local and regional level, and showcased instances of best practice that could be replicated across other partner states.

2.2 A Needs-based Approach to Political Action

Needs Identified in Report 3812

The 2012 report on the “Contribution of local and regional authorities to the development of the Eastern Partnership” (Report 3812 for the Committee of the Regions) identified that the Eastern Partnership countries participating in CORLEAP have three overarching shared challenges for the development of a strong local and regional dimension to the EaP in support of its global goals. It is important to re-iterate these needs at the outset and they can best be summarised as follows:

1. An acute lack of governmental autonomy and low levels of financial capacity on the part of local and regional government limit the expression of multi-level democracy in the EaP countries.

Without an enhanced capacity to exercise real government responsibility at the local and regional level, supported by an appropriate legal and financial framework, it will be impossible for EaP countries to develop a robust system of multi-level governance. EU financial assistance and partnership programmes can improve and enhance expertise within administrations, but further action is required by the CoR and by its partners at a political level, to ensure that the EaP can address the domestic framework within which local and regional governments operate.

This political message needs to inform the longer-term engagement of the CoR and LRAs from the Member States in all inter-institutional dialogue with partners in the EU. Recognition of this particular need is a primary factor which will determine the success of the local and regional dimension of the ENP, something which was recognised by the European Commission in its 2012 ENP Package. This document noted that “Local and regional authorities have a key role to play in narrowing the gap between the population and institutions, promoting a culture of political participation at local level and ensuring that
policy decisions take local needs into account”\textsuperscript{9}. CORLEAP needs to work in partnership with the relevant actors within the European Commission to shape an understanding of the dimensions of public administration reform at the local and regional level, which needs to be supported through EU financial assistance, in order to build a robust framework for multi-level governance in the Eastern Partnership countries.

2. Local democracy, including citizen participation, is weak and thus limits the extent to which citizens are fully engaged in the Eastern Partnership process.

If the Eastern Partnership is to deliver real and substantive improvements to the security, stability and prosperity of its Eastern partner countries, then \textit{all} citizens need to be able to access its potential fully. As a key means of achieving this aim, local and regional democracy needs to be firmly rooted, from the bottom up. Democratic infrastructure in the EaP countries is weak, and is particularly precarious at the local and regional level. Support mechanisms for local and regional democratic initiatives are therefore of vital importance, as it is only by building democratic controls from the bottom up that a stable and sustainable democratic governance model can be established.

\textbf{The CoR and its EU partners can foster democratic renewal at the local and regional through sustained participation in capacity building programmes, the exchange of expertise and best practice, as well as offering training to elected local and regional personnel from the partner countries. This is a real area of need where CoR-led EU initiatives have the potential to make a substantial difference.}

3. Even in spite of fiscal constraints, there is limited awareness of the financial assistance mechanisms available to local and regional authorities in the Eastern Partnership countries from EU programmes.

Previous research has shown that associations of local authorities in the Eastern Partner countries often suffer from a lack of awareness of the potential opportunities for project development and cross-border learning which are presented by the numerous EU financial assistance schemes for the region\textsuperscript{10}. The ENPI instrument is the most well-known EU financial assistance package. However, other opportunities for local and regional authorities to benefit from these funding schemes remain under-appreciated. \textbf{The CoR and LRAs across the EU can work to heighten awareness of the potential presented by the}

full range of EU financial assistance programmes with opportunities for local and regional authority engagement, not least through an awareness-raising campaign which focuses on some of the success stories at the local and regional level in the Eastern Partnership states.

These three most pressing needs identified in the previous report “Contribution of local and regional authorities to the development of the Eastern Partnership” (Report 3812 for the Committee of the Regions) cross-cut the three priority areas for action which CORLEAP has identified as the primary focus for enhancing the multi-level dimension of the Eastern Partnership: public administration reform, fiscal decentralisation and territorial cooperation.

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**KEY ISSUES**

- Local democracy, including citizen participation, is weak and thus limits the extent to which citizens are fully engaged in the Eastern Partnership process.

- An acute lack of governmental autonomy and low levels of financial capacity on the part of local and regional government limit the expression of multi-level democracy in the EaP countries.

- It is problematic that there is limited awareness of the financial assistance mechanisms available to local and regional authorities in the Eastern Partnership countries from EU programmes.
ACTION POINTS

• Further action is required by the CoR and by its partners at a political level, to ensure that the EaP can address the domestic framework within which local and regional governments operate;

• The CoR and its EU partners can foster democratic renewal at the local and regional through sustained participation in capacity building programmes;

• The CoR and LRAs across the EU can work to heighten awareness of the potential for strengthening the multi-level dimension of the EaP presented by the full range of EU financial assistance programmes;

• An awareness-raising campaign can be designed, which focuses on some of the success stories at the local and regional level in the Eastern Partnership states;

• CORLEAP needs to develop both a political dimension to its activities, and to establish a clear set of objectives which can be delivered through concerted multi-level political actions undertaken by supranational actors, national governments and local and regional governments.

2.3 A Multi-level Framework for Political Action

As noted by the Commission and the EEAS in their roadmap to the 2013 Vilnius summit,11 the Conference of Local and Regional Authorities (CORLEAP) has already laid the foundations for a local and regional dimension to the Partnership. The central role of CORLEAP within the Eastern Partnership is to foster better, multi-lateral linkages between LRAs in the EU and EaP countries. As the Roadmap further notes, ‘it is essential to make changes on the ground, to build sustainable democratic institutions, resolve peacefully protracted conflicts and to create a solid foundation for sustainable and inclusive economic growth and job creation.’ CORLEAP complements at the local and regional level the work of EURONEST (for the European Parliament) and the Commission-European External Action Service for the Member States and the Union itself. It is therefore one of the key EaP players.

The Roadmap to the 2013 Vilnius Summit sets out three core objectives for the EU to make concrete progress on. These are:

- Forging new, deeper contractual relations between the EU and partner countries in the form of Association Agreements, including, where appropriate, Deep and Comprehensive Free Trade Areas (DCFTAs) where regulatory approximation can serve to strengthen the positive effects of trade and investment liberalisation, leading to convergence with EU laws and standards.

- Supporting the mobility of citizens and visa liberalisation in a well-managed and secure environment. The mobility of citizens of the partner countries will be promoted through visa facilitation and readmission agreements as a first step with a visa-free regime as a final goal.

- Enhancing sectoral cooperation and facilitating the participation of partner countries in EU programmes and agencies.

CORLEAP and LRAs will help to deliver these three objectives through a policy of pro-active engagement with the EU’s multi-level system, which is both responsive to, and part of the design and delivery of, sustainable policy solutions. This will take place primarily in three ways that reflect CORLEAP’s comparative advantage:

- Through direct action by LRAs in fulfilling their responsibilities for the delivery of the European integration agenda and the implementation of the relevant parts of the acquis, as laid out in the Association Agendas and Association Agreements for each EaP countries.

- Through LRAs lobbying national governments both in the EU and the EaP countries.

- Through CORLEAP and the COR lobbying the EU institutions and the EU Member States as an aggregator of the influence of LRAs in the EU and the EaP countries.

Embedding democratic practices at the local and regional level is an essential part of building the kind of deep democracy in the EaP countries that is essential not only for European integration, but also for improving the standard and quality of life of the citizens of the EaP countries. Supporting this transformation and the necessary reforms to the structures of public administration and fiscal policy that underpin it are two of CORLEAP’s core
functions. Particular emphasis was placed by the Commission and EEAS in the Roadmap on the need for engagement with societies as a whole through civil society; here again, LRAs are well-placed to reach out to partner organisations at the crucial grassroots level, which will help to provide mutually enforcing support for this fundamental element of a well-functioning democratic system.

As acknowledged in the Roadmap, through ‘Cooperation Programmes and territorial cooperation pilot projects, the activities of the Conference of Local and Regional Authorities (CORLEAP) and the Panel on Public Administration Reform’ should help strengthen the capacities of partner countries at regional and local level. For this reason, the focus of this report is on the three priorities of fiscal decentralisation, public administration reform and territorial cooperation.

2.4 Enhancing Governmental Autonomy at the Local and Regional Level: Public Administration Reform

Integrating with the European Union will require a huge effort on the part of the public administrations of the Eastern Partnership countries. The responsibility for delivering the numerous and complex economic or social reforms that are needed to integrate with the EU falls squarely on the shoulders of public administrations within the Eastern Partnership countries. As such, this section responds to two of the needs outlined earlier in this paper, specifically, (1) enhancing the capacity of LRAs to exercise real government responsibility at the local and regional level; and (2) improving the quality of local democracy, specifically citizen participation. All five of the priority areas outline below respond to these two aims.

Cooperation, efficiency and, above all, concerted and joint action is required from all levels of public administration – local, regional, national and European – in order to implement and manage this ambitious programme of reforms. A results-oriented system of management is needed to track progress. This will achieve transparency in the analysis of reform measures and their effectiveness. Local and regional administrations may not always be tasked with policy design, but they are in charge of the vital task of implementing policy decisions at a local and regional level, and are responsible for the delivery of key public services which citizens recognise as fundamental indicators of good governance and good public management. It logically follows therefore that renewed focus must be placed on the overall administrative capacity of the public administration at the local and regional level. In the absence of strong administration and a highly capable bureaucracy at the local and regional level,
it will be impossible for the EaP countries to fully master the reform agenda that lies ahead of them.

Carrying out such administrative changes under tight budgetary conditions is tough, although a certain degree of assistance is available from the EU\textsuperscript{12}. To offset the resource shortfalls that all Eastern Partnership countries are experiencing at the present time, the European financial assistance programmes highlighted may be used to support LRAs in the drive for increased administrative capacity that will be needed to meet these goals. Increasing administrative capacity in its simplest form is about maximising the chances of successful policy implementation.

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<th>KEY POINTS</th>
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The rationale for the emphasis on public administration is as follows:

- That efficiencies in local and regional public administration will lead to increased productivity in the whole economy, for example, through speedier service provision and the reduction of red tape;

- That good local and regional institutions and public administrations are a necessary condition for successful policy implementation when promoting European integration as well as socio-economic development and higher levels of employment;

- That effective institutional and administrative capacity is a key part of good governance understood more broadly.

The logical counterpart to this analysis is that weak local and regional governments with low levels of administrative capacity experience retarded socio-economic development.

A key problem for public administration reform in the Eastern Partnership states is limited responsiveness to citizens and firms, which in part is a legacy of the politicisation of the public administration, which leads to problems of limited transparency and clientelism. Administrative capacity problems also tend to worsen over time if they are not properly addressed. The use of EU financial

assistance for decisive intervention on public administration can help build momentum for a process of change. Thus, there is a clear strategic intervention logic for using EU finance within nearly all fields related to administrative capacity building at the local and regional level, with some obvious exceptions, such as improving the pay of public servants.

High-level political support for public administration reform at the local and regional level is the first pre-condition for success. **CORLEAP must articulate that this reform agenda is essential, if it is to fulfill the objective set out for it by the European Commission in “narrowing the gap between the population and institutions, promoting a culture of political participation at local level and ensuring that policy decisions take local needs into account”**\(^\text{13}\).

Eight factors make a strong contribution to the success of public administration reforms at the local and regional level:

1. reforms should be embedded within broader cultural and organisation change process;

2. civil society and social partners should be involved;

3. there should be a firm commitment within the administration to change;

4. the methodological and technical approach of reform measures should be clear;

5. responsibilities needed to be clearly defined;

6. there should be exchanges of best practice both with other EAP countries and at the EU level;

7. there should be monitoring of progress regularly and appropriate evaluation techniques should be used; and,

8. there should be continuity and stability in the project environment.

These factors inform “good” public administration reform and should be mainstreamed across the reform actions that are undertaken.

In terms of the dimensions of public administration where CORLEAP should support reform measures, there are five primary areas\textsuperscript{14} where specific support for reform actions can have a multiplier effect across the wider public administration at the local and regional level. These factors have also been identified as priority areas by the Commission in setting the standard for the quality of public administration in Europe.\textsuperscript{15} They have also been identified as the areas in need of maximum effort for Eastern Partnership countries as they integrate with the EU through the Eastern Partnership and the Association Agreements that are foreseen\textsuperscript{16}. \textbf{Without serious coordination of different elements of the European integration challenge within the EAP countries’ public administration, at all levels, including most importantly the LRA one, delays and suboptimal outcomes will necessarily result. This has to be recognised from the start of the process. It is even more important recognizing that coordination of European integration policy in EAP countries in the past has not been as effective as it will need to be once the Association Agreement and the interim agreement are in force.}\textsuperscript{17}

Specifically, the five areas for focus are:

1. strategic planning, which responds to the need to enhance the capacity of LRAs;

2. e-governance, which responds both to the need to enhance the capacity of LRAs and to the need to enhance their responsiveness to citizens, thus improving the quality of local democracy;

3. the partnership principle for better regulation and local development, which responds to the need to enhance LRAs’ responsiveness to citizens, thus improving the quality of local democracy;

4. business-friendly administration, which responds to the need to enhance LRAs’ responsiveness to citizens, thus improving the quality of local democracy; and,

\textsuperscript{14} Fiscal decentralisation measures are dealt with in the following part of this report.


\textsuperscript{16} Ibid.

5. Reform of the provision of public services at the local and regional level, which responds to the need to enhance the capacity of LRAs.\(^\text{18}\)

### ACTION POINTS

- National governments and supranational actors need to be aware that political support for public administration reform at the local and regional level is the first pre-condition for success.

- CORLEAP must articulate that reform of local public administration is essential, if it is to fulfill the objective set out for it by the European Commission in “narrowing the gap between the population and institutions, promoting a culture of political participation at local level and ensuring that policy decisions take local needs into account”.

- CORLEAP should support reform measures across the five priority areas identified by the European Commission as benchmarks for the standard of public administration in Europe and the Eastern Partnership countries:
  - Strategic planning / strategic management
  - E-government and E-governance
  - The partnership principle for better regulation and local development
  - Business-friendly administration
  - Local government service provision

- Coordination of European integration policy in EaP countries in the past has not been as effective as it will need to be once the Association Agreement and the interim agreement are in force.

Each of these priority areas will now be examined in turn, assessing the concrete policy steps for change that each area presents.

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\(^{18}\) This categorisation has been drawn from an analysis of the European Commission report “Elements for a Common Strategic Framework 2014 to 2020” SWD(2012) 61 final, which assesses how best to align EU territorial financial assistance with the global aims of the Europe 2020 agenda.
2.4.1 Strategic Planning / Strategic Management

Strategic planning, or the more encompassing idea of strategic management, is a complex idea, which relates to the entire public policy delivery chain. In sum, the term refers to effective future planning throughout the policy-making cycle, including:

- operationalization of the policy idea (i.e. turning good ideas into something that will work and be implemented);
- effective management of the policy implementation phase;
- policy monitoring systems;
- evaluation of the overall strategy; and,
- risk management.

Strategic management is a new way of operationalizing local and regional public administration. Based on these five key components of policy lifecycle planning, the concept encompasses a general shift within organisational thinking from line-based management models, to a management approach that is focused on strategic function. As part of global new public management-inspired reforms, a shift towards strategic planning within local and regional public administrations equates to a shift towards a qualitative results-oriented approach, with a commensurate focus on activity-based problem solving models. In order to implement effective strategic management models, organisational structures need to move away from current institutional frameworks – which have traditionally been established to address existing public policy needs – towards a new, flexible approach, which is based on meeting future needs. This demands a suite of flexible, fluid, problem-oriented structures to be created within local and regional public administrations.

The introduction of a strategic management approach to the operationalization of public administration at the local and regional level should be an approach which CORLEAP, in partnership with LRA actors across the EaP region, and networks of LRA associations should advocate, as it presents effective solutions for the delivery of public services.

There are a set of key areas where the introduction of a strategic management concept can make a difference: Policy Formulation and Budget Programming, Monitoring and Policy-Budget Review, Evaluation of Policies and Budgets, Evaluation of Public Administration Performance.
**Policy Formulation and Budget Programming**

Performance-based budgeting should be emphasised at the local and regional level. Budget programming processes are a core element of this, whereby the policy targets and budget expenditure are closely linked. The following steps should be taken to achieve this change:

- Performance-based budgets should closely combine the objectives of public administration performance with the level of public financial resources, so as to avoid the creation of a so-called ‘budget façade’.
- Measures to improve spending efficiency and facilitate fiscal discipline should be developed.
- Support should be provided to facilitate the transition from annual budgetary planning to medium term programming.

A greater emphasis should be placed on improving the quality of ex-ante policy evaluation and transparency. Further and more widespread use of the Regulatory Impact Assessment (RIA) tools should be supported. These allow for a full evaluation of the potential impact of regulatory development, involves end-users in analysis of how and to what extent new policies may impact upon them, and of the estimated costs and benefits of proposed measures.

**Monitoring and Policy-Budget Review**

- Monitoring activities need to be supported during the implementation of policies and budgets. These should be considered as part of the same process and not treated separately. Reporting systems that facilitate this ongoing monitoring need to be developed.
- New information systems should be developed to help in the communication of ongoing policies. These need to be focused on accurate, real-time data.

**Evaluation of Policies and Budgets**

- Government and administration channels of communication need to be improved, so as to enhance stakeholder access to information at the local and regional level. Information provided externally needs to be optimised. Regular policy reports, interpretations of data and indicators would be options to meet this aim.
- Better information systems regarding the communication of policy and budget programming impacts need to be developed, for instance, brief reports highlighting how money was spent, compared to original spending plans.
• Performance indicators for public institutions should be developed and would help in the evaluation process.

**Evaluation of Public Administration Performance**

• The Common Assessment Framework (CAF) methodology for self-evaluation of performance in public administrations, as recommended by the European Institute of Public Administration, is under-utilised. Its potential should be explored, though it needs to be adapted for local and regional situations, and its viability tested.

**Identifying and Overcoming Potential Barriers to Change**

The potential barriers to change in the field of strategic management are as follows: (1) poor system design; (2) insufficient linkage between strategic management and other reforms; (3) lack of staff skills; and (4) barriers within the administrative culture. These can best be overcome as follows:

• Successful implementation of strategic planning systems means *a quality system design must be put forward from the outset*. System design must be optimal; without this, all other elements of the implementation process (staff training, monitoring and evaluation and such like) are largely redundant, as they will be delivered in an inappropriate context. It is therefore important that strategic planning systems are not simply ‘imported’ wholesale from another context, but are rather devised organically, with reference to individual situations and individual organisational needs.

• *Strategic management reform measures need to be effectively linked with other public administration reforms*; failure to do so affects outcomes globally, as organisational linkages are more deeply rooted than can often be assumed.

• Staff training is key: *knowledge levels amongst officials working in local and regional administrations as to how to manage and implement effective strategic management reforms is crucial to the success of the reforms themselves*. The human resources dimension of a strategic management reform thus needs to be conceptualised from the outset, and should be managed simultaneously with the overall strategic planning reform measures.

• Administrative culture can affect the net results of reform measures. *Specific cultural differences, which are reflected in administrative and organisational traditions and practices, need to be accounted for within overarching strategic reform measures*; in instances where straightforward
implementation procedures may well prove more problematic, it could well be that further, and more wide-scale administrative reforms would be necessary to accompany any strategic reform measures which are deployed.

Recommendations

For CORLEAP and LRAs:

• CORLEAP can work through the CoR’s engagement in the first thematic platform of the multilateral track of the EaP (on “democracy, good governance and stability”) as a primary means by which to showcase strategic management reform as a marker of enhanced local and regional governance capability, particularly within the framework of the EaP panel on Public Administration Reform.

As a Lobby Point to the Commission and the EEAS:

• ENPI funding should also be channelled to meet this specific objective through financial assistance to training programmes and seminars which facilitate the exchange of best practice on strategic management implementation.

• The decentralisation of TAIEX funding programmes should be advocated and could be focused on this particular objective through CORLEAP recommendations.

Further Actions

• CORLEAP can therefore act as a powerful agent for change by recommending a refocusing of EU financial assistance to cover this aspect of local administration reform.

• CORLEAP should explore joint actions on the mainstreaming of strategic management approaches in public administration with civil society actors already engaged in the promotion of good governance at the local and regional level in these countries. This could be done, for instance, through engagement with the EaP Civil Society Forum, in particular its Working Group 1 on “Democracy, Human Rights, Good Governance and Stability”, which is already actively engaged in dialogue with a range of actors in this thematic area, as well as organisations such as ALDA19, for instance.

19 ALDA is the Association of Local Democracy Agencies – www.alda-europe.eu.
2.4.2 E-Government and E-Governance

E-government and e-governance solutions offer great potential for the reform of public administration at the local and regional level. They offer tangible benefits in three primary areas, as follows: firstly, they produce economic benefits. E-governance solutions can help to streamline administrative processes, can offer better financial management solutions, improve administrative resource management and planning, and can establish a stronger marketing and investment environment. Secondly, they generate social benefits. E-governance solutions offer improved citizen services, such as improvements to law enforcement, policing controls, education and cultural provisions as well as better and more streamlined healthcare provision, and enhanced environmental protection. Thirdly, they bring benefits to the administration itself. E-government and e-governance solutions can greatly improve the efficiency and effectiveness of work processes, improve transparency and accountability of public administrations, help to strengthen anti-corruption measures, improve the quality of administrative information, and allow for enhanced citizen participation in decision-making and the legislative process.

Clearly, the development of e-government and e-governance infrastructure can offer mutual benefits both to civic actors and to local and regional public administrations. In addition, such systems may also enhance the transparency and efficiency of the public sector. Their diffusion utilisation is a fundamental element of capacity within public administrations.

EU financial assistance should aim to support the further development of e-government and e-governance projects, due to the potential benefits these solutions offer to both administrations and citizens. In the EaP countries, the need for EU financial support is particularly great given the lag in developing e-governance infrastructure. New e-governance measures also have additional benefits, such as introducing a market-oriented approach to public administrations.

Identifying and Overcoming Potential Barriers to Change

There are a number of areas that, if left unaddressed, could potentially constitute barriers to the effective roll-out and delivery of e-government and e-governance initiatives. These include:

- Insufficient financial incentives for the realisation of projects.
- Limited financial resources for the development and implementation of e-government and e-governance projects.
• Shifting political agendas: both political prioritising and changes in the elected authority can impact on the development and implementation of e-governance projects.

• External events, such as changes to the global budgetary environment, shifts in public opinion or media campaigns. Each of these are unforeseen circumstances, but enough leeway should be factored in to e-government and e-governance project budgets so as to account for potential unforeseen difficulties.

• Limited actor involvement (‘groupthinking’) in project design. Effective e-government and e-governance project strategies are devised when actors from the entire process chain are involved. Failure to include participants from the full cycle of project delivery in the initial design and development phase can lead to poor strategic analysis of project need and ultimately can undermine the development of successful and effective e-government and e-governance solutions.

• Lack of capacity: both in terms of technological expertise as well as administrative capacity to be involved in system design, and at leadership level, to steer a project through to effective roll out.

• Poor management: common issues within this aspect include limited transparency measures, poorly conceived time frames for implementation and delivery, and inappropriate skill sets being applied to project conception and implementation.

• Ambiguous objectives: projects are more effectively delivered if the precise implementation targets are clearly defined well in advance, and are supported by all actors involved in the project delivery.

• Level of centralisation: project management structures must be closely tailored to the needs of the project. Too centralised a management structure can lead to a lack of understanding of the project at grass-roots level; too decentralised a structure may prove equally problematic, potentially overwhelming a local or regional administration.

• Requirement to make significant legislative changes: complex solutions which would require legislative amendments are less likely to have the necessary momentum to move forward.
Certain core principles, however, if applied, can help to ensure a more effective delivery of e-government and e-governance projects:

- Wider applicability of solutions and the opportunity to apply projects in a number of areas, across different levels of authority.

- Developing ICT solutions that are simplified, standardised and interoperable across different technological infrastructures, preferably ‘plug and play’ solutions.

- Solutions which offer robust security measures, are user friendly and win the confidence of end user groups (citizens, public officials, etc.).

- Continuous leadership, underpinned by a continuity of political support.

Recommendations

As Lobby Points for the Commission and the EEAS:

- In view of the enormous potential of e-government and e-governance solutions to the enhancement of local and regional governance capacity in the EaP region, CORLEAP should advocate the prioritisation of EU financial assistance programmes which directly advance the take-up of these new technological solutions.

- Such financial assistance schemes should be derived from best practice elsewhere, and thus be based around the exchange of knowledge, training and capacity building in the field of e-governance and e-government.

- ENPI and TAIEX financial assistance would appear to be appropriate in this regard; CORLEAP should forcefully articulate the need for decentralisation of TAIEX financial assistance to the local and regional level.

- Twinning programmes, which have been so successful as agents for change at the level of national public administrations in the EaP region, should be extended to the local and regional level of governmental authority, on the basis of the added value that such partnerships can bring. This would drive change from the bottom up.
2.4.3 The Partnership Principle for Better Regulation and Local Development

Engagement with stakeholders through partnerships and enhanced public consultation is essential for the EaP states as they pursue their ambitious European integration agenda. However, at the present time, partnership processes work sub-optimally. Four issues may be identified in this regard:

- Firstly, there is no clearly-defined model of what constitutes a strong and effective public consultation process, which is in itself an important first step towards ‘better regulation’. Practices in the convergence countries in particular are currently found to be weak. As a result, good governance initiatives need to have an enhanced focus on the roll-out of more effective public consultation mechanisms. These do, however, need to incorporate a degree of local variance, as different practices will work better in different cultural contexts. A global framework can be established, allowing the flexibility to deploy an appropriate model on the ground.

- Second, the further development of online platforms for public consultation should be encouraged as a quick, cheap, efficient and effective means of generating greater engagement with public consultations. Internet-based tools (portals, databases, systems to publish legislative proposals online and such like) are widely regarded as examples of good practice in public consultations.

- Third, as a rule, ‘good governance’ initiatives should seek to broaden participation rates both across the population as a whole, and across the policy process from start to finish, at every stage of the legislative process. Financial assistance should be provided to the public communication element of these initiatives, offering enhanced explanations on the background of new legislative proposals.

- Fourth, groups that are marginalised or disadvantaged within societies should be prioritised as a means to develop consensus-oriented actions. The net result will be both better legislation and enhanced levels of social inclusion. To give some examples: Associations of Senior Citizens and Pensioners should be consulted on responding to the challenge of an ageing society, regional partners should consulted on matters of territorial development and the views of environmental groups be sought on responding effectively to climate change. This is a very sensible approach and makes for better policy outcomes.
In addition, the partnership principle remains one of the cornerstones of delivering better regulation across the EU, and is a means of encouraging ownership of the legislative and regulatory processes. The partnership principle can be mainstreamed across local and regional public administrations in the EaP countries in the following ways:

- A greater emphasis should be placed upon partnerships as being a vehicle to help solve common challenges, rather than a burdensome process for the creation of new – and unwelcome – institutions.

- The duration of partnerships should be clearly defined in advance, so as to encourage business take-up for them. This step will also reduce the bureaucracy associated with stakeholder partnerships.

- Partnership arrangements need to strike a balance between offering project accountability and the need to develop a wide and diverse stakeholder partnership. The latter can often be seen to take precedence over project efficiency and accountability, to the detriment of project delivery.

*Identifying and Overcoming Potential Barriers to Change*

- The *obligation to respond and feed back on input* provided during public consultations can prove problematic, as tight turnaround times in which to provide responses can at times not be met by under-resourced administrations.

- Any sense that public administrations should be bound to act upon the proposals put forward by stakeholders during public consultation processes can prove to be an obstacle. Limitations should therefore be put on the weight accorded to individual contributions put forward during consultations, and they should be evaluated in context.

- Animosity between stakeholders and public authorities can prove to be a barrier to public consultations. If bureaucracies are not held in high regard, further public consultation processes can be regarded as an unnecessary burden. It is therefore imperative that public consultations form part of wider, ongoing administrative reforms that aim also to streamline the regulatory procedures and involve stakeholders in earlier stages of the legislative process.

- Weak civil society engagement in public consultation processes can provide a further barrier to reform. The lack of knowledge amongst public officials
on whom to consult and how they engage with them effectively within a legislative context is widely viewed as a problem by the EAP countries.

- The lack of a robust legal framework for the implementation of public consultations can potentially prevent their rollout or their effective delivery.

**Recommendations**

As Lobby Points to the Commission and the EEAS:

- In an acknowledgement of these opportunities and the factors which constrain the development of public consultation procedures, CORLEAP can act as a powerful advocate for change through dialogue with EU institutions offering financial assistance programmes which address public administration reforms at the local and regional level.

- Further capacity building and training is required within local public administrations in the EaP countries to support the understanding of partnership building. Without the necessary expertise at the administrative level, the risk is that European integration agendas cannot be fully and appropriately implemented.

- CORLEAP should articulate forcefully the need for an inclusion of training programmes on public consultation processes in the ENPI and TAIEX financial assistance schemes.

- The “human capital” dimension of projects which would advance the partnership principle for better regulation and local development should inform dialogue between CORLEAP, the CoR and the European Commission on the further development of the Pilot Regional Development Programmes for the EaP countries.

**2.4.4 Business-friendly Administration**

Very few of the Eastern Partnership countries have business-friendly administrations\(^{20}\). It needs to be borne in mind that it is not just the financial cost of compliance that is problematic, but also the price paid by businesses in terms of staff time lost, or resentment and annoyance caused by what appears to be ‘pointless’ regulation. Being “business friendly” is about:

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\(^{20}\) See for instance the most recent World Bank analysis of business regulations per country across the EaP region, available online at www.doingbusiness.org
• Making it easier for businesses to tender for government contracts;
• Making it easier for businesses to access the information they need about policy changes at the local and regional level;
• Trying to make regulation that is implemented at the local and regional level more light touch and easier to comply with; and, above all,
• Changing the culture and attitudes of the public administration when it comes to the regulation of business activities and their interaction with private enterprise.

This last element is the most important, but it is also the most complicated to implement in practice. No one should be under any illusions as to how difficult this will be, both in practical terms and politically.

Whilst global indicators on the user-friendliness of regulatory climates for businesses focus primarily on the national level of regulation, there are changes which can be implemented from the bottom up at the level of local and regional governance, which can help to improve the business climate and stimulate investment.

Identifying and Overcoming Potential Barriers to Change

The principal barrier to changing the attitude of local and regional public administrations towards business is likely to be one of culture. Many of those who work in the public administration do so because it is a form of vocation and because they have chosen to work in a non-commercial environment. This is of course a great asset to the public sector, but it needs be handled carefully. The best means to overcome this difficulty is through training. Trainers in place to help the public administration become more business-friendly need to focus on why the change is being carried out. They also need to communicate that being friendly to business is at the core of what the public administration’s mission is. In addition, the costs of inaction need to be explained to communicate that inertia is not an option.

A second barrier to change in the attitude of the public administration is likely to be those who feel that they have something to lose. Change on a grand scale is likely to produce short-term losers as well as winners. In carrying out significant change, the number of losers needs to be minimised. This can be done in a number of ways. First, change needs to be properly explained, so that those who fear that they may lose (in other words those who fear change in itself) can receive reassurance and a positive message about what doing things differently
will mean for them. Second, where creating losers is inevitable, their numbers must be minimised. This can be done by carefully sequencing reforms or by phasing them in slowly, where possible. Third, reformers should pick their battles and only take on powerful enemies of change through confrontation where it is absolutely necessary.

A final point linked to the preceding one, is that a predictable barrier to creating databases on bad practice is that it must be fully anonymised. The names of those involved should not be used, and where possible, their organization or even their nationality should not be listed. Putting together databases of this kind is always going to be very hard since no one will want to admit that a project has failed, for understandable human reasons. The collecting and processing of this data needs to be carried out with tact, diplomacy and a high level of political support from a senior level.

**Recommendations**

To CORLEAP and LRAs:

- CORLEAP can advance an understanding of the cultural shifts which are required in order to drive change from the bottom up. Effective public administration in the field of business regulation should stimulate investment through a supportive climate.

- Examples of good practice on changing the nature of the business regulatory climate in public administrations at the local and regional level can be facilitated through cross-border exchange assistance programmes, notably the cross-border elements of the ENPI programmes.

- Again, this dimension of public administration reform at the local and regional level illustrates how the decentralisation of the TAIEX instrument to include local and regional tiers of governance would significantly enhance exchanges of best practice and learning on public administration reform.

- CORLEAP can engage with the EaP Business Forum (EPBF), which convenes under the umbrella of the EaP Civil Society Forum. This is a key opportunity for CORLEAP to generate discussion, dialogue and debate on the future shape of business friendly regulation at the local and regional level, and identify areas where further action can be taken. CORLEAP should aim to host a future seminar with the EPBF which directly addresses these questions, and delivers an opinion paper on how to enhance the level and quality of business friendly regulation at the local and regional level in the EaP countries.
2.4.5 Local Government Service Provision

A properly functioning system of locally- and regionally-provided public services is fundamental to the full operation of a system of multi-level governance in any democratic system. It is therefore fundamentally important that EU financial assistance schemes for the EaP countries are oriented towards ‘good governance’ reforms within public administrations at the local and regional level. Strong institutions are directly linked to the level of investment inflows, over and above EU financing. Investment made in good governance infrastructure and capacity building, therefore, can yield higher returns in investment in the longer term. Reform agendas as a whole are further strengthened by robust local public administration infrastructures, meaning that future reforms can be implemented much more efficiently and effectively. Robust local administrative capacity enhances responsiveness to social needs and citizens’ demands, while it also encourages citizens’ engagement.

Identifying and Overcoming Potential Barriers to Change

Given the fundamental role of local public administration in the management, delivery, implementation and evaluation of all other areas of reform, the barriers to change within local public administrations (which are listed below) themselves constitute major blockages that threaten to fully or partially restrict the success of other reform measures. They therefore represent some of the key challenges for EAP countries.

Some of the most relevant barriers, which should be addressed as a matter of urgency include:

- Substantial differences in the legislative environment in which local public administrations operate, and crucially, are financed. Significant change can only occur when local administrations are equipped with the legal authority to undertake appropriate changes, and are able to ensure that decisions and reforms undertaken are fully implemented, with sanctions and enforcement mechanisms to support them. Currently, the legislative situation and financial support provided to local public administrations varies widely across the convergence countries. Taxation autonomy should therefore be enhanced, with the important pre-condition that local authorities obtain the necessary capacity in advance. Staffing issues: without adequate human capital, none of these reforms can be fully and effectively implemented. Putting staff training and the development of human capacity at the centre of reforms in the local public administration sector remains a core priority for future EU funding streams. Of particular note in convergence countries is the fact that in addition to limited training, knowledge and expertise, local public
administrations often suffer from the problem of a high turnover of staff and unattractive wage rates. These are fundamental problems for which innovative solutions need to be sought in context; capacity building measures need to address these ‘bigger picture’ issues.

• In addition to often being woefully under-resourced themselves, local public administrations also suffer from a lack of expertise and experience in the actual delivery of many of the key schemes which will be fundamental to reforms in other areas. For instance, if local public administrations are to stimulate innovation successfully in the social economy sector, create jobs, growth and new functional networks at the local level, then they need to be competent in the delivery and management of financial subsidies. This is not presently the case in the convergence countries. Local administrations have, rather, more developed expertise in the receipt of financial support for reform projects themselves. It is therefore critical that they achieve training and experience, through knowledge exchange from other local public administrations across Europe, in how to effectively operate as the distributors of financial support.

Recommendations

To CORLEAP and LRAs:

• This dimension of public administration reform at the local and regional level also illustrates the extent to which effective twinning mechanisms with local and regional governance actors from the EU member states would make a substantial difference to the improvement of local government service provision.

• CORLEAP and the CoR should engage with European Commission officials responsible for the future development of Pilot Regional Development Programmes to extend further the capacity building dimensions of public administrations, and argue, based on an understanding of the above key points, in favour of an enhanced mechanism to sustain the effective delivery of local government services.
As Lobby Points for the Commission and the EEAS:

- CORLEAP can advise European Commission actors that financial support schemes targeting local and regional governance in practice should be shaped by innovations in thinking and the result of dialogue which is ongoing within the framework of the EaP Civil Society Forum, and in particular its working group on “Democracy, Human Rights, Good Governance and Stability”.

**ACTION POINTS**

**Supranational / Multilateral Level**

- ENPI financial assistance can support training and seminars which facilitate the exchange of best practice regarding strategic management implementation.

- TAIEX funding programmes should be decentralised to allow the development of capacity at the local and regional government level.

- ENPI and TAIEX funding programmes could address the e-government and e-governance development needs at the local and regional level in the EaP countries as an urgent priority, given the significant return on investment that such programmes offer.

- Capacity building programmes should address the urgent need to develop skills in partnership creation and public consultation at the local and regional level; this is a serious area where core skills are lacking.

- Awareness of the critical need for reforms across these five identified areas of public administration should inform future dialogue at the EU level on the further development of the Pilot Regional Development Programmes for the EaP countries.

- The cross-border exchange programmes of the ENPI should be refocused to facilitate directly the development of capacity in the identified areas of need.
National Level

• National governments should point out the urgent need for additional training opportunities through the TAIEX programme in particular, which would support the development of capacity at the local and regional level.

• National governmental actors should as an urgent priority explore opportunities for introducing e-government and e-governance practices nationally, to facilitate their further introduction at the local and regional level.

• National governments should engage with their local and regional authorities to support capacity building in the areas of need identified in sections 2.1, 2.2 and 2.3 of this report.

LRA Level

• LRAs can work through the CoR’s engagement in the first thematic platform of the multilateral track of the EaP (on “democracy, good governance and stability”) as the primary means by which to showcase strategic management reform as a marker of enhanced local and regional governance capability, particularly within the framework of the EaP panel on Public Administration Reform.

• LRA actors can engage with the development of strategic management as an element good governance practice at the local and regional level through, in particular, the EaP Civil Society Forum.

• LRA networks and associations across the EU and EaP area should identify opportunities for the exchange of best practice in the five priority need areas outlined in this report in section 2.3.

• LRA actors should advocate that additional financial support measures targeting local and regional governance in the EaP area should be shaped by innovations in thinking and the results of dialogue which is ongoing within the framework of the EaP Civil Society Forum, and in particular its working group on “Democracy, Human Rights, Good Governance and Stability”.

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2.5 Fiscal Decentralisation

2.5.1 The Effects of Fiscal Decentralisation on Local and Regional Self Governance

Recent studies show that decentralisation of spending capacity is associated with substantially improved fiscal performance, especially when the transfer dependency of subnational governments is low (Thornton, 2009). However, subnational fiscal rules do not always seem to be associated with better performance (Rodden and Wibbels, 2009). These findings are of crucial importance because they indicate that fiscal decentralisation is desirable due to its positive effects on overall fiscal performance, even once varying institutional conditions are taken into account. In short, whether a country is a unitary or federal state, and irrespective of income levels, fiscal decentralisation works well.

This section outlines the case for fiscal decentralisation based on recent evidence from the European Union (see Dziobek, Mangas and Kufa, 2011; Escolano et al., 2012). First it provides an overview of the theoretical and historical context in which debates over the merits and defects of fiscal decentralisation take place. Second, it surveys the main arguments relating to the design of fiscal decentralisation. Third, it describes the institutional features of subnational governments in the EU with regard to fiscal capacity at the local and regional level. Fourth, it presents some stylized facts on the relationship between fiscal decentralisation and overall fiscal performance in the EU. These stylized facts are based on results from econometric analysis. Fifth, it extends the analysis beyond the EU to show global patterns of fiscal decentralisation in recent decades to show that while the spread of fiscal decentralisation has slowed overall in recent years, it has increased in areas of the EaP region, suggesting that the benefits associated with fiscal decentralisation that have been observed in the EU can be applied to the EaP region as a whole.

Background: The Theoretical and Historical Context

Many European countries have embarked on fiscal decentralisation programmes in recent decades (Marks, Hooghe and Schakel, 2008). They have reassigned spending and revenue collection responsibilities from the centre to subnational (local and regional) governments. As a result, the spending carried out at the subnational level in the European Union (EU) has increased from 23 per cent of general government spending in 1995 to 26 per cent in 2009, with the revenue share increasing to a lesser extent.
The economic case for decentralisation relies essentially on efficiency arguments. Subnational governments have more information and hence can better match policies with citizens’ preferences (Oates, 1972). Another argument is that competition among jurisdictions limits the local tax burden and encourages cost-efficient provision of local public goods (Brennan and Buchanan, 1980). Finally, decentralisation is likely to increase accountability and transparency in the delivery of public goods and services.

Yet decentralisation can also have drawbacks (Arzaghi and Henderson, 2005). In particular, subnational governments may not fully internalize the cost of local expenditure when spending decentralisation is financed through a “common pool” of transfers from the centre. In this case, they are more likely to overspend and lower their tax effort. This effect is aggravated if subnational authorities anticipate that their financing gap will be covered by the centre, with bailout expectations “softening” the budget constraint felt at the local level (Rodden et. al. 2003). However, some institutional arrangements – e.g., fiscal rules – could, in principle, help overcome coordination problems between levels of government and strengthen fiscal discipline by correcting incentives, enhancing accountability and anchoring economic agents’ expectations. In other words, where LRAs have greater responsibilities, they deliver better results in terms of balanced budgets.

**Theoretical Arguments**

Most of the existing literature on the merits of fiscal decentralisation is of a theoretical nature, or is based on small $N$ case studies. Although theoretical or normative contributions generally point to the risks of decentralisation, especially where subnational spending is financed through transfers or local borrowing, the empirical literature does not yet support. Because of data deficiencies, cross-country economic studies are rare, and tend to examine OECD countries.

The challenges of decentralisation in terms of macroeconomic stabilization have long been highlighted in the normative literature. The widespread view is that countercyclical policies are more difficult to pursue in a decentralised framework (Ter-Minassian, 1997a), because the centre is deprived of some tax and spending levers (Tanzi, 1995), and because subnational governments usually conduct pro-cyclical policies. However, from an empirical standpoint, the evidence is weak, although there are some case studies illustrating the pro-cyclicality of local budgets (Rodden and Wibbels, 2009).

It is also argued that decentralisation may adversely affect the capacity of countries to reduce chronic deficits. Subnational governments are often
suspected of conducting looser fiscal policies, with coordination failures creating “deficit bias” (Oates, 2006). Under such conditions, decentralisation may undermine central government performance. This is clearly the case when central governments bail out subnational authorities that become excessively indebted. It can also take more subtle forms, for instance, when high subnational borrowing or difficulties in implementing consolidation plans in a decentralised framework result in higher risk premiums for central government.

However, the cross-country econometric evidence for the effect of decentralisation on fiscal performance is mixed. Rodden (2002) finds that revenue decentralisation causes a weakening of the general government balance, whilst conversely Neyapti (2010) finds that revenue and spending decentralisations improve it. Elsewhere, Afonso and Hauptmeier (2009) report that a higher degree of spending decentralisation worsens the primary balance (for high debt levels) while revenue decentralisation does not matter. Thornton (2009) also finds no significant impact of revenue decentralisation. Baskaran (2010) adopts a different approach by assessing the impact on debt rather than on the fiscal balance, finding that expenditure decentralisation significantly reduces public indebtedness, while the effect of tax decentralisation is statistically insignificant.

One of the most salient findings from existing theoretical and empirical literature is that the design of the institutional framework is of fundamental importance in increasing the probability of deriving significant benefits from fiscal decentralisation. Three institutional features have received particular attention:

- **Transfer dependency.** Rodden (2002) argues that higher reliance on transfers reduces the general government overall balance, in particular when subnational borrowing is not constrained. In addition, subnational spending funded by transfers is found to be additional to central government spending, not a substitute (Fornasari et al., 2000). Transfer growth may become endogenous, with deficits bringing about more grants, which in turn generate higher deficits (De Mello, 2007). Thus, allowing sub-central governments to access their own revenue through local taxation is often seen as essential to promoting fiscal discipline.

- **Sub-national borrowing autonomy** can also undermine the fiscal discipline of local governments, especially when they resort to “soft” financing - for instance, when bonds are sold to the public banking system or to state-owned enterprises (Oates, 2006). Some studies find that restricting subnational authorities’ access to borrowing - either through cooperative arrangements,
market discipline, or formal rules - is associated with better fiscal performance (Rodden, 2002; Plekhanov and Singh, 2007).

- **Fiscal rules** may offset some of these negative effects by addressing coordination problems between levels of government (Sutherland et al., 2005; Ter-Minassian, 1997a, 1997b, 2007). However, the empirical literature does not find conclusive evidence that subnational rules affect the general government performance. In particular, Debrun et al. (2008) find that rules applying to subnational governments have no significant impact on the cyclically adjusted primary balance of the general government, in contrast to rules pertaining to the general and the central government. Afonso and Hauptmeier (2009) report the same result with the general government primary balance.

**Institutional Features of European Subnational Governments**

The role of subnational governments in the EU varies significantly. Subnational government spending - as a proportion of general government expenditure - ranges dramatically from less than two per cent in Malta to almost two-thirds of total managed expenditure in Denmark. The relationship between the national government and the local and regional authorities (subnational governments) differs reflecting the distribution of political power, economic functions, and institutional arrangements. It is important to understand how institutional frameworks differ in the EU so that the evidence from the cross-country analysis from within the EU can be interpreted more usefully. If, as more recent evidence suggests, the fiscal outcomes of decentralisation measures are positive irrespective of institutional framework, an important implication is that fiscal decentralisation can work across different institutional settings. This finding should be advanced by CORLEAP in its political interactions with EU institutions and different political authorities from the EaP region.

**Subnational Government Structures and Economic Functions**

Across the EU, the share of subnational expenditure as a percentage of total government spending is higher in federal countries, but some unitary countries also have a high level of spending decentralisation (Marks, Hooghe and Schakel, 2008). The great majority of EU countries are unitary; Austria, Belgium, and Germany are organized on a federal basis. While these federal states have a slightly higher level of decentralisation, the classification into unitary and federal refers only to the distribution of political power, which does not necessarily coincide with the distribution of economic resources or the level of fiscal decentralisation. Hence, there are medium-decentralisation federal
countries, such as Austria, as well as highly decentralised unitary countries, such as Denmark or Finland.

Moreover, decentralised countries tend to have a greater number of tiers of local and regional government. About one-third of the EU27 countries have one single level, while the rest have two or three tiers. In general, larger countries with a larger population or surface area tend to have more tiers and a higher number of administrative entities. The main areas of subnational government expenditure are education, health, and social welfare. While most countries have assigned to the subnational levels at least some responsibility for preschool, primary, and secondary education, universities are mainly in the realm of the national government administration. Nevertheless, in some countries university education is also assigned to the subnational level. Furthermore, some hospitals and basic healthcare are usually assigned to subnational tiers. The same is true for the execution of general social welfare services, such as social housing. Between 1995 and 2008, subnational expenditure shares for education and social welfare have risen, while the subnational expenditure share of health has decreased in the majority of countries (IMF, 2011).

**Control Mechanisms**

To control subnational government deficits, it is common to find fiscal rules - mainly borrowing or balanced budget rules - applying to subnational entities. The number of fiscal rules has increased substantially at the central and general government levels in the European Union. Nonetheless, the majority of fiscal rules are applied at the local government level. Budget balance rules are more prevalent in EU15 countries, while debt or borrowing rules are common among the new EU member states (NMS). Expenditure rules, on the other hand, are rare at the subnational level. In some countries this may reflect that, once budget balance rules are imposed, subnational governments do not have much flexibility on spending as they often depend on grants from the central government. Subnational fiscal rules are more prevalent in countries with higher decentralisation and when subnational governments are more reliant on own revenues than on transfers.

Fiscal rules for both the central and subnational governments are stronger in more decentralised economies. Not surprisingly, rules at the central government level are also strong for low levels of decentralisation where spending is mostly concentrated at the national level. But central government rules are weaker in the case of medium-decentralisation economies. In these economies, subnational governments are also more reliant on transfers from national government administrations.
Nevertheless, the strength of these rules does not necessarily reflect their effectiveness. Although most countries have fiscal rules on subnational government levels, sanctions in case of rule infringement are often weak, and the central government retains considerable discretion in addressing a breach in rules. Moreover, breaching of the rules does not preclude a bailout by the central government. In the past, lack of control over subnational governments’ fiscal performance has resulted in subnational bailouts in at least nine EU countries. Subnational bailouts have more frequently occurred in countries with a higher number of administrative tiers (Rodden and Wibbels, 2009).

Coordination between the central and subnational governments in budgetary procedures is limited. Less than one-third of countries have formal coordination arrangements. Also, in the majority of countries, the budget law only includes fiscal targets for the central government. In only a small proportion of countries are subnational level explicitly targeted by the medium-term budgetary frameworks.

To summarize, considerable institutional heterogeneity exists across the EU, both in terms of subnational government structures and economic functions, and also in control mechanisms at subnational levels. However, the most recent evidence, described below, suggests that this institutional heterogeneity is not an obstacle to improved fiscal performance.

**Stylized Facts on Decentralisation and Fiscal Performance**

It is possible to summarize the findings of the most recent IMF econometric studies on the effects of fiscal decentralisation on fiscal performance in the EU in the form of several stylized facts. In addition, it is also possible to identify which institutional factors – such as the degree of revenue autonomy, transfer dependency, and presence of fiscal rules – have an observable effect on fiscal performance. The studies themselves are based on fiscal data from Eurostat covering the years 1995–2008.

The main findings are as follows, and offer a number of immediate policy conclusions for CORLEAP and the CoR21.

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Stylized fact 1: Spending decentralisation is associated with better fiscal performance at the general government level.

Over the period 1995–2008, cyclically adjusted general government fiscal balances were higher among more decentralised countries such as Denmark, Sweden and Spain, and much lower in less decentralised countries such as Greece, Malta and Slovakia. Indeed, increases in spending decentralisation are not associated with increases in debt. Nevertheless, fiscal performance varies considerably among countries with a medium level of decentralisation, in particular, among the NMS. For example, several eastern European economies such as the Czech Republic, Hungary and Poland have higher deficits, while Estonia and Bulgaria have much lower deficits. On average, overall fiscal balances in countries with medium and low levels of decentralisation are respectively 2 and 2.5 percentage points of GDP below those of countries with high decentralisation.

The relatively favourable general government fiscal performance for more decentralised countries reflects strong fiscal positions at the national level. Local and regional government fiscal positions are generally close to balance irrespective of the degree of decentralisation. This lower deficit is a function of borrowing constraints imposed on subnational governments, either due to fiscal rules or market rationing. Local and regional governments are, in general, reliant on transfers from the national government, with spending closely related to the availability of transfers. Given this, fiscal indiscipline at the local and regional level would be reflected in higher deficit at the centre, as a result of gap-filling transfers. However, this is not supported by the empirical data that shows that, on average, central government fiscal performance seems stronger in highly decentralised countries.

The authors then turn to identifying the channels through which central government can control overall fiscal performance in the context of decentralisation. They explore two potential channels: first, through unfunded mandates whereby more spending responsibilities are assigned to subnational governments but are not matched by commensurate resources (transfers or own revenues); and second, through the use of fiscal rules.

Stylized fact 2: Expenditure decentralisation has outpaced the decentralisation of resources to subnational governments (own revenue and transfers).

Subnational spending rose by 3.75 percentage points as a share of general government spending between 1995 and 2009, whereas the average increase in subnational own revenues and transfers accounted for only 2.5 percentage points. Since rising own revenue sources did not keep up with the increase in
subnational spending, vertical imbalances - measured by the gap between spending and revenue decentralisation - increased over time. While transfers also generally increased, they fell behind the widening vertical imbalances, resulting in larger subnational deficits. This may suggest unfunded mandates and rationing of resources to subnational governments. That is, subnational governments would have been forced to implement expenditure savings, particularly if borrowing was constrained. In turn, decentralisation of spending responsibilities without commensurate transfers and reassignment of tax instruments may have improved the fiscal position of the center and thus, of the general government.

**Stylized fact 3: Subnational rules do not appear to have an effect on fiscal performance.**

The authors construct an overall fiscal rule index (the overall fiscal rules index includes all rules on the general, central, or subnational governments) to measure the extent to which different layers of government are subject to spending constraint rules. Although the overall fiscal rule index has a positive relationship with the general government balance, the subnational fiscal rule index does not show a clear relationship. The absence of a strong correlation between the strength of subnational fiscal rules and fiscal performance could also indicate that the rules are not always effective due to weak implementation and/or bailouts. This has clear implications for the introduction of measures that enhance fiscal decentralisation across the EaP area, and should inform CORLEAP and CoR political actions in this area.

**Conclusions from Recent Evidence**

The results from the most recent research show that fiscal decentralisation may improve fiscal performance (Lago-Peñas et al., 2011; Dziobek et al., 2011; Rodríguez-Pose and Krøijer, 2009). First, the results show that decentralisation of spending improves the fiscal position of the general government. This is consistent with the efficiency arguments in favour of spending autonomy. Nevertheless, high transfer dependency reduces the positive effect of spending decentralisation. Moreover, revenue autonomy appears to weaken fiscal performance at the general government level. These results could be evidence that resource rationing by the central government has been used to ensure budgetary discipline on subnational governments.

The evidence on subnational fiscal rules suggests that they have not played a significant role in shaping fiscal performance. A possible explanation is that fiscal rules in the EU might be relatively weak since the center has considerable discretion in addressing breaches to the rule. To the extent that rules are being
breached due to politically sensitive spending that is difficult to control (e.g., health care), the central government may need to compensate the subnational governments, thus rendering the rules nonbinding. Another possible explanation is that subnational fiscal rules only address the problem of fiscal indiscipline. Therefore, fiscal rules may not be sufficient to ensure good performance if the main problem faced by subnational government is one of unfunded mandates. These findings are, however, subject to caveats as the numerical fiscal institutions’ indicators used in the econometric analysis may not adequately capture the complexities of interactions between the center and the subnational levels of government.

Wider Trends in Fiscal Decentralisation Research

Recent research has been carried out based on data measuring fiscal decentralisation for about 80 countries from the IMF’s Government Finance Statistics Yearbook (GFSY) over a period up to 20 years starting in 1990 (Dziobek, Mangas and Kufa, 2011). While the number of countries included in this study is sufficient to yield some robust results, the authors emphasize that for a number of countries, the data cover a shorter time period. The authors include all of the countries in the database with data for the two main levels of government (GL2, or consolidated central government, and GL3, or general government).

Using four fiscal indicators to study decentralisation (revenue, tax effort, expenditure, and compensation of government employees), they reveal that the data show that levels of, and trends for, decentralisation differing across indicators. This suggests that decentralisation can be implemented in different categories of government activity.

Most countries tend to decentralise the execution of expenditures to lower level governments, while tax policies are centralised at the central government level. Except for countries that underwent systemic reforms (e.g., abandoning communist rule), the levels of decentralisation are relatively stable over the time period. Overall, the data support the conventional wisdom that larger, more developed countries tend to put in place more decentralised government finance systems than smaller countries or emerging and developing countries. It is, however, notable that the countries that have made the most progress in decentralisation are located in the EaP region, implying the existence of favourable conditions in which to decentralise further.
The Global Benefits of Fiscal Decentralisation

Overall, recent evidence suggests that although global trends in fiscal decentralisation are stable, the most progress has been made in countries within or near the EaP region. Furthermore, the most recent evidence available from a cross-country survey of the effects of fiscal decentralisation in the EU suggests that it is associated with improved fiscal performance, irrespective of institutional context. Both findings indicate that the EaP countries are well placed to benefit from further fiscal decentralisation.

**KEY POINTS**

The following political conclusions from this analysis and should underpin future action at all levels of government to support further fiscal decentralisation programmes across the EaP area:

- That decentralisation of political authority remains the global trend in the practice of “good governance”, and that this agenda can be supported within the EaP countries through targeted EU financial assistance programmes which reinforce the decentralisation agenda.

- Fiscal decentralisation is a major factor in the reform of political power globally, and offers a key marker of a sound framework for effective multi-level governance within states.

- Hard budget constraints are the most effective way of shaping “good” fiscal discipline at the local and regional level. Where the rules on financial authority across multiple levels of government are not clearly defined, or are not well policed, there is evidence to suggest that decentralised fiscal capacity is less effective in generating “good” local and regional governance.

- Fiscal decentralisation ultimately leads to wider global benefits in economic development; fiscal autonomy at the local and regional level generates tangible and measurable improvements fiscal performance overall.

In order to operationalise these findings, a fuller needs assessment of the state of fiscal decentralisation in the EaP states is required. It is to this that our report now turns.
Armenia

Executive Summary

Armenia possesses a fragmented primary/lower level of self-government with limited financial or administrative powers. As a result, subnational authorities are dependent on central government and their appointments in the regions.

Subnational Government Structures

• City of Yerevan and ten regions/provinces (*marz*), which are further divided into 915 communities (*hamaynkner*). Regional governors administer the regions, while self-government bodies manage the communities.

• Since 2009, the Ministry of Territorial Administration of Armenia has been making plans to merge communities in order to increase their financial and managerial potential. On November 10, 2011, the government adopted a concept for the enlargement of communities and began planning practical steps for reducing the number of communities. 22

• The protocol decree of the government issued on November 10 2011 approved the concept paper on the establishment of inter-community unions and consolidation of communities, but no practical work had been done to date.

• Armenia is a small, unitary state, and is also one of the most fiscally centralized countries in the region.

• Despite the systematic approach the Armenian government is taking to local government finance reform, a substantive criticism of Armenia’s decentralisation reform is that the degree of decentralisation Armenia is pursuing is quite limited, with a relatively narrow scope of responsibilities and revenue sources assigned to the local level.

• Insufficient authority is given to local governance bodies, which need greater resources, particularly human resources.

Decentralised Expenditure Assignments

• The law distinguishes between the purely own responsibilities of local governments and those delegated to the local level by the state. Own

expenditure responsibilities are financed from the local budget: while most own responsibilities have to be provided by all local governments as mandatory responsibilities, other functions can be provided or discontinued at the discretion of local authorities.

• By contrast, delegated responsibilities are to be financed by the central government, which holds local authorities accountable for delivery. The head of a community has mandatory and delegated powers in the following spheres: finance, protection of the rights of citizens, protection of public order, defence, planning, development, construction and land use, public utilities and provision amenities, transport, trade and services, education and culture, public health, physical culture and sport, agriculture, nature and environmental protection.

Intergovernmental Transfers / Redistribution

• As a result of the relatively limited expenditure responsibilities assigned to the local level, the share of local budget expenditures in the total government expenditures is rather small. In recent years, total local expenditures have varied roughly in the range from 5-6 per cent of the consolidated national budget.23

• Compounded by the limited scope of the public sector in Armenia’s economy (the public sector comprises less than one-fifth of the economy), this means that local governments in Armenia have an extremely small financial resource base; consequently, they are only able to play a very limited role in delivering services to their residents.

Subnational Taxation / Revenues

• The scarcity of local budgets is a key concern for the self-governance system, especially in small communities. Because community budgets are funded by local taxes with modest subsidies from the central government, local taxes are often too small to enable small communities to undertake significant projects.

• Only two tax revenue sources in Armenia can be designated as ‘own’ local revenues: the property tax and the land tax. In April 2004, the legislative framework was reformed to assign the responsibility to collect these local

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taxes to the local level, although both the tax base and the tax rate for these taxes are actually defined by the central government.24

• In addition to local duties and fees, communities set rates (or user fees) for water distribution to final consumers, sewage collection and treatment, rents for non-privatized residential buildings and non-residential premises, fares for public transportation, service fees for refuse collection (unless contracted out to a private provider), central heating, kindergarten fees. The collection rate for user fees is very low and municipal utility distributors have huge arrears to state-owned wholesale providers.

Azerbaijan

Executive Summary

Although there has been increased talk of reform, subnational self-government remains largely subordinate to the centre. The division of competences and agreed mechanisms for adequate financing is not as strong as it could be.

Subnational Government Structures

• 59 districts (rayon), 11 cities and the Nakhchivan Autonomous Republic (which itself contains 7 districts and 1 city). The districts (rayon) that are directly subordinate or accountable to the central government are further divided into elected, self-governing municipalities.

• In September 2009, the Law on the unification of municipalities reduced their number significantly (to 1,766). Authorities argued that the reform increased the efficiency of local self-government, especially in territories with a small population.

• Municipalities and representations of executive bodies exist in parallel to subnational structures, even in small administrative territorial units.

• Local self-government in Azerbaijan is controlled by the executive branch. Municipalities are underfunded and lack responsibilities or decision-making authority.

Decentralised Expenditure Assignments

- The ambiguity around the status of municipalities is reflected in the limited competences of municipalities. In practice, all of the functions (utilities, renovation of the territory, certification and registration of citizens living in municipal territories, social service provision, water supply, etc.) that are usually referred to as “natural competences” of municipalities are carried out by local state executive committees. At present, the real scope of competences of municipalities in the country is confined to maintaining the municipal roads, delivering social assistances to people not covered by the state social programs, maintaining cemeteries and organizing funerals.25

Intergovernmental Transfers / Redistribution

- The state budget transfer to municipalities (primary/lowest level of self-government, rather than regional subnational authorities) is negligible insofar as they comprised 13.3 per cent of the overall municipal revenues in 2010.26

Subnational Taxation / Revenues

- Azeri legislation seems, to a certain degree, to be supportive of fiscal decentralisation (e.g. local governments have been assigned local land and property taxes which are most popular and supported both theoretically and practically). However, the existing situation does not offer enough practical opportunities for the fiscal independence of localities and improving their fiscal capacities.27

- A significant role in the local budget of (municipalities) is played by various property and land taxes. Other sources of income – profit taxes of municipal enterprises, mining taxes from local construction materials, advertisement duties, fees from resorts and hotels, and parking fees.

Belarus

Executive Summary

Belarus appears to be a regional leader in fiscal decentralisation, but political and administrative decentralisation is less developed. Subnational expenditure

26 Ibid., p.17.
and revenue assignments are comparatively high, but the allocation of funds is primarily decided by the centre or by regional executives appointed by the centre. As such, while significant potential exists in de jure terms, in practice there is limited autonomy, capacity and authority for subnational authorities to, for example, define and collect taxes, or to decide how they are spent.

**Subnational Government Structures**

- City of Minsk and six regions (*voblast*) that are further divided into districts (*raion*) and towns/cities/municipalities of regional (middle tier) and district (lower/primary tier) subordination

- Belarus is a relatively small and homogeneous country, and has, at least on paper, a high level of fiscal decentralisation. Indeed, Belarus is among the forerunners in fiscal decentralisation. However, the executive power structure there is organized in a top-down manner and reports directly to the president, which reduces the level of effective subnational accountability.

- Local authorities are a constituent part of the ‘presidential vertical’, with the executive branch exerting the most influence over policy.

- Local representative bodies continue to act in a largely symbolic manner, and depend on local administrations/executive committees that are actually public authorities of a local level.

**Decentralised Expenditure Assignments**

- Local officials have extensive responsibilities in carrying out central government programmes, especially in the areas of health, administration, and infrastructure; only a few services, such as institutions of higher education and medical clinics, are directly administered by central government bodies. Almost all public services are provided at the middle level of local government, in districts and cities. Regional governments control or manage some health, educational, and cultural facilities, but their role in service delivery is generally confined to funding, supervising, and controlling the activity of lower-level governments. Bottom-tier local governments (village councils, for example), provide a very limited range of services, including preschool education and primary education.
Intergovernmental Transfers / Redistribution

- In 2010, local budgets totalled BYR 18.7 trillion, with transfers from the national to regional and Minsk budgets reaching BYR 7.3 trillion, or 39% of all local budgets expenditures.²⁸

Local Finance: Centralization and Initiative Stimulation

- In 2011 a new method of distribution of profit tax was introduced. All profit tax from enterprises located on municipal property and also the profit tax of the enterprises of non-state form of property remained at the disposal of local budgets (the level was previously only 50 per cent).

- Income tax (100 per cent); property tax (100 per cent); VAT (29.4 per cent) and a number of other taxes (about 32.4 per cent) were added to local budgets in 2011.²⁹

Subnational Taxation / Revenues

- Despite the apparent high level of funding available to local governments, they are often underfunded due to the lack of local revenue sources. Many local communities still lack independent status, elected bodies, or local budgets.

Liberalization Causing Centralization

- Local budgets have recently lost the retail sales tax and local duty on parking users.

- Local budgetary receipts decreased because of the new methods to calculate land tax by cadastral value of land lots.

- Local and regional authorities have been losing their financial independence due to the reduction of local taxes and duties to their minimum.

- The tax burden on business is being reduced at the cost of abolishing local taxes and duties, although this is improving the business climate by abolishing licenses that used to be issued by local administrations and executive councils.

Georgia

Executive Summary

The decentralisation process in Georgia is largely driven by the interests of the centre, which often uses decentralisation to transfer costs to local budgets for services previously covered by the central budget. Local authorities still depend on fund transfers from the republican level. Fiscal and administrative decentralisation is held back by the limited scale of political decentralisation.

Subnational Government Structures

- Two autonomous republics (Adjara and Abkhazia – the latter claiming independence), nine regions (including separatist South Ossetia, which claims independence), and the capital city Tbilisi. These are further divided into a total of 72 districts (including those in the secessionist regions).

- New amendments to the constitution adopted in 2010 entered into force in January 2011, establishing a separate chapter on local self-governance. The new chapter sets and defines some institutional guarantees for the independence of local governance. From 2013, governors will be appointed by the central government, and not by presidential decree, as it is the case now.

Decentralised Expenditure Assignments

- Local governments (district-level authorities) are assigned issues and activities of state importance based on delegations from state bodies. This means that district governments are responsible for the delivery of key social services, such as education (including pre-school as well as primary and secondary education), basic health care, culture, leisure, sports, and public utilities. On the other hand, municipalities (local self-governments) deal with issues of local importance administered independently through local elected bodies.

- Local matters are considered to be all those activities that affect the quality of life of a local community and that meet local needs and priorities. They include, among others, community housing, basic infrastructure services (such as water), waste removal, local transportation and roads, cemeteries and local amenities, such as parks. As noted earlier, republican cities take on

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the function of both district ‘local governments’ as well as ‘local self-governments’.

- An important source of ambiguity in Georgian intergovernmental relations continues to be the degree of control by higher-level governments over these functions. In particular, it is unclear to what degree – and through what mechanisms – the central government has responsibility to regulate and supply these services.

**Intergovernmental Transfers / Redistribution**

- The dependence of local self-government bodies on transfers received from the national budget is still very high. A high proportion of funds spent from the local budgets are disbursed as grants from the national budget. This restricts the fiscal independence of local authorities.  

- Only a small part of taxes collected nationwide is transferred into the local budgets. This reduces their motivation to support development of economic activities on their own territory.

- In spite of the recent changes applied to equalization transfer formula, there still remain such problems as transparency of formula calculation, adequacy of components applied and justification of their relative values.

**Subnational Taxation / Revenues**

- The idea to make income tax a local tax, which was periodically discussed by experts in 2005-2007 and realization of which would be an unambiguously positive step toward fiscal independence of local governments, became even more unviable in 2008 as the global economic crisis hit Georgia hard.

- Nevertheless, the reassignment of income tax to the national budget put an end to the practice of filling municipal budgets with national taxes.

- Property tax is the only local tax and the only kind of tax receipt for the municipal budgets. In 2005-2010, the properties of different categories were gradually exempted from this tax. Changes also affected tax rates. A differentiated approach to calculation of industrial property (except land) was

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also introduced, while the rate of property tax payable by physical persons also increased. Due to these changes, accumulated value of property tax flowing into the municipal budgets increased steadily.

- However, it should be noted that property tax does not furnish any significant fiscal resources to municipalities, largely due to the fact that a large proportion of the most valuable property is agglomerated in self-governing cities.

- The fact that local self-government units have limited discretion in relation to local taxes and fees deprives them of any capacity to forecast their own revenues and plan financial-budgetary policy.

**Moldova**

**Executive Summary**

Moldova is extremely vocal in supporting the rhetoric of fiscal decentralisation as part of its Rethink Moldova programme and proposed national strategy for decentralisation.  

**Subnational Government Structures**

- Moldova has two levels of sub-sovereign government: raioane/regions and communes/ municipalities. The heads of raioane are appointed by the centre, and exercise significant control over the budgets of (elected) municipalities and communes. The power of the raioane heads blurs the distinction of between first and second-tier governments in Moldova, as well as the distinction between local self-governments and territorial arms of the national government.

- A new national strategy for decentralisation was unveiled during the year 2011. If implemented as envisioned, it should significantly increase the autonomy of local governments by giving local elected officials greater decision-making autonomy and independent access to resources. Overly centralized administration has been an on-going challenge in Moldova.

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Decentralised Expenditure Assignments

- Local governments in Moldova are fully responsible for all the costs of pre-tertiary education, including the cost of teachers’ wages.

- Proposed decentralisation strategy will seek a clear separation and classification of powers at national and local level in: (a) public utility services; (b) services of national importance that can be provided efficiently and effectively in decentralised conditions, such as: preschool, primary and secondary education, social assistance services, possible primary health care services; (c) urban and regional planning; (d) local economic development; (e) public utilities, such as the central heating system; (f) other public services that are provided to decentralisation in the conditions specific to Moldova.

Intergovernmental Transfers / Redistribution

- Local governments in Moldova all receive just under 30 per cent of total public revenue (close to EU average). This suggests that the central government in Moldova is trying harder to provide municipalities with the revenues they need to support the functions they have been assigned.

- However, the financial autonomy of local governments is limited because they receive more than 50 per cent of their revenues from conditional grants and receive no income from unconditional grants.

- The existing system of local public finances (2003) is a relatively rigid system that does not allow local and sub-national (rayonal) authorities to administrate autonomously their resources. Under the conditions of this system, all local budgets are elaborated and adopted as a result of direct negotiations between the mayor and the rayonal financial departments.

Subnational Taxation / Revenues

- The system of local taxes and fees includes: real estate tax; natural resource taxes; territory development tax; tax for organising auctions and lotteries in the administrative-territorial unit; tax for the use of local symbols; tax for trading and/or social services units; market tax; tax for temporary living; resort tax; tax for rendering of the municipal, urban and rural (communal) passenger transportation services; car parking tax; dog owners’ tax; and taxes

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35 Network of Associations of Local Authorities of South East Europe (2012), Fiscal Decentralization Indicators for South-East Europe: 2006-2011, Skopje: Network of Associations of Local Authorities of South-East, p.32
36 Ibid., p.47.
for the development of localities from the border zone having customs control crossings.

**Ukraine**

**Executive Summary**

While the number of decentralised expenditure assignments is wide and expanding, it is not backed up by full fiscal decentralisation. Local authorities have insufficient control over their own finances. Appointments and allocations of funds by the centre to the regions are somewhat politicized.

**Subnational Government Structures**

- Ukraine has four tiers of subnational administrative divisions: the Autonomous Republic of Crimea and oblasts (including two cities with oblast status, Kyiv and Sevastopol); **raions** and cities with **raion** status; cities; and villages and townships. Each **raion** is divided into a number of village councils. Ukraine has 24 oblasts (plus Crimea), 490 **raions**, 118 city **raions**, 459 cities, 886 urban settlements, 1,321 townships, and 28,480 rural populated localities.

- In 2012, the Constitutional Assembly under the President of Ukraine appointed a team of experts who drafted a document detailing the reform of local government and the territorial organisation of power. The document envisages the implementation of what effectively are two major reforms: (1) an administrative-territorial reform, which would help consolidate the fragmented administrative structure, creating larger and more economically self-sufficient administrative units, and (2) local government reform, focusing on creating clearly defined powers for local authorities with a view to securing government funding for specific tasks delegated from central government.

- The dominant feature of the relationship between the centre and the regions is the weakness of local elected authorities when compared to state administration agencies at the county and district level.\(^{37}\)

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Decentralised Expenditure Assignments

- Local governments have been given functions and powers from the state to provide public services to their populations, without having adequate funding to support the quality of this provision. Local budget spending on each of the delegated functions (public administration, education, healthcare, culture & arts, physical education & sport) outpace Ministry of Finance estimates.\(^{38}\)

- Ukrainian laws outline no regular procedures and mechanisms for controlling delegated responsibilities. Conversely, there is strict control of how financial resources are spent by local self-governments.

- The new State Budget Code (which sets out the rules of the Ukrainian budget system, including its structure, its legal basis, and the relationship between local and state budgets) has not provided local authorities with additional sources of income, but has increased the number of services they need to provide. The central authorities have increased their control over financial flows in the country, have delegated new duties to the local level without offering extra funding to enable councils to deal with their new responsibilities.

- Some kinds of spending, such as for educational, healthcare and other facilities, are funded by both local budgets and the State Budget, depending on whom they belong to. The division of spending commitments is not based on functions, but on an object-by-object approach, depending on subordination. This is one of the main inconsistencies in relations among the various budgets.

Intergovernmental Transfers / Redistribution

- The key problems hindering the development of local self-government include: the absence of an adequate financial basis for local government budgets; and inefficient accumulation of funds by the central government.

- State subsidies account for over 70 per cent of the budgets in almost half of the country’s local government units at present, and the state administration representatives in the regions have the decisive influence on their spending.\(^{39}\) The distribution of funding from the state budget to local authorities is often ineffective, especially in times of economic downturn.


\(^{39}\) Ibid., p.22.
• The list of assigned revenues (from state taxes to fulfil delegated tasks) include personal income tax (PIT), land tax, vehicle owner tax, state duty, permission to conduct certain types of economic activity, state registry of enterprise activity that is conducted by radas, trade patents, administrative fees imposed by executive bodies of their respective Radas, and a unified tax imposed on small enterprises.

Subnational Taxation / Revenues

• Local departments of the State Tax Administration are primarily concerned with handling taxes that are transferred to the State Budget. Local budgets are formed mainly out of national fees and taxes, such as personal income tax. These are largely regulated by the state. Local governments have few opportunities to influence the total volume of revenues from taxes and fees that form the base for local budgets, except for land taxes.

• The local government in Ukraine is insufficiently financially self-sufficient. Revenues from local taxes and fees are low, and local authority budgets (except for those of major cities) are heavily dependent on state subsidies.

Another factor weakening the position of local authorities in their dealings with state administration was the decision to strip councils of their powers to manage land outside residential areas. These powers have been transferred to local representatives of the state administration.

Table 1: Fiscal Decentralisation Index (FDI), 1993-2010

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40 Note that comparable data on Azerbaijan and Georgia are not available.
Table 2: Structure of Expenditures for Each Level of Government, 2007 (per cent of total within each level of government)

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<tr>
<th>Tier of government</th>
<th>General public services</th>
<th>Defence and public order</th>
<th>Social insurance and health services</th>
<th>Education</th>
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Table 3: Structure of Tax Revenues at Each Level of Government

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<th>Tier of government</th>
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<th>Subnational tax revenue (per cent of total SNG revenues)</th>
<th>Income taxes</th>
<th>Payroll taxes and social security contributions</th>
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<th>Property taxes</th>
<th>Other tax revenue</th>
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Findings and Recommendations

The preceding analysis of individual countries within the Eastern Partnership demonstrates the very wide variety of systems for allowing local and regional competence in the areas of revenue generation and expenditure. As such, this diversity is not easily managed under a systematic approach to “fiscal decentralisation”. The key finding from this analysis is therefore that this diversity needs to be recognised and regarded as a strength in all interactions between EU actors and EaP states. There is scope from learning between states from different approaches to fiscal decentralisation and for learning about best practice. Most significantly, CORLEAP, the CoR and LRAs from the EU and EaP states can recognise that it is important to articulate the advantages of fiscal decentralisation as a normative benchmark, primarily, rather than to press for exacting measures of change.

In addition, a one-size fits all approach to the introduction of fiscal decentralisation measures will also likely not yield significant results, given that the starting points are so very different across countries.

ACTION POINTS

As the countries of the EaP region demonstrate varying levels of fiscal competence and indeed, different frameworks for local and regional governance, a “one-size fits all approach” to the promotion of fiscal decentralisation measures by external agencies will not work.

Rather, the focus of all interaction between CORLEAP, the CoR and LRAs on the one hand and EU and supranational agencies on the other should be on the promotion of fiscal decentralisation as a normative element of the practice of “good governance.

2.5.2 Political Options – Supranational / Multilateral Level

On the basis of the preceding analysis of fiscal decentralisation as an organizational concept and its applicability across the EaP region, the following opportunities for political action at the supranational or multilateral level arise.

Contemporary analysis of multi-level systems of supranational governance recognises the existence of constant changes in vertical distribution of authority
as well as of fiscal capacity. As such, it is impossible to design an equilibrium model for intergovernmental relations; any multi-tier open system will always continue to evolve. Therefore, institutional design needs to be flexible.

Supranational and multilateral actors in the EaP region do not actively promote fiscal decentralisation as a condition of funding, given that the decision to promote fiscal decentralisation is itself a political one (World Bank, 2006). However, there is a broader, normative understanding amongst this set of actors in the region that fiscal decentralisation is an essential element of constructing a robust and sustainable model of multilevel governance within states (Manor, 1999; Smoke, 2003; Smoke, 2006; UNDP, 2006, Lago-Peñas et al., 2011).

Therefore, supranational actors need to recognise that when undertaking reform actions that touch on local and regional governance in the EaP area, fiscal decentralisation and public administration reform are mutually supporting agendas in the overall design of good governance (World Bank, 1998). A well-designed fiscal decentralisation reform will fail (and the anticipated benefits and increased efficiency will fail to materialize) if the appropriate governance mechanisms are not in place for local accountability. Likewise, local officials need the appropriate administrative tools and processes (such as participatory and transparent local budget processes, sound tax administration, and control over local staff) in order to be responsive to the needs of local constituents.

A successful decentralisation programme will also require that subnational governments have autonomy over the hiring, firing and compensation of their employees.

Agendas at the supranational or multilateral level to promote fiscal decentralisation within states should not be based a one-size-fits-all approach; there is no single prescription for ‘correctly’ arranging inter-governmental fiscal relations. Decentralised political mechanisms should enable local communities to express their preferences and priorities to their local elected officials, encourage local officials to be responsive to such priorities, and enable local communities to hold their officials accountable. It is this drive for better governance that informs supranational actors’ engagement with fiscal decentralisation mechanisms within states.

Any successful decentralisation agenda needs to answer five questions (World Bank, 2006):

1. Which type or level of local administration does what (assignment of the expenditure function)?
2. Which level levies which revenues (finance or revenue assignment)?

3. How can fiscal imbalances and disparities among places be resolved when the case for decentralizing spending is almost always greater than the case for decentralizing revenues (a role for intergovernmental transfers)?

4. How is the timing of revenues to be managed and monitored (debt and the hard budget constraint)?

5. And, while the first four questions are addressed, what capacity-building arrangements are required to make it all work?

These questions should inform the manner in which programmes at the supranational / multilateral level aimed at strengthening good governance are designed.

Recognising that the decentralisation of political authority remains the global trend in the practice of “good governance”, supranational and multilateral actors should undertake measures which advance this agenda. Fiscal decentralisation as an element of “good governance reform” can be supported within the EaP countries through targeted EU financial assistance programmes which reinforce the decentralisation agenda.

Whilst a move towards a direct emphasis on fiscal decentralisation as a condition of funding or an end goal of programmatic involvement within states would demand a paradigm shift, supranational and multilateral actors can work to enhance the visibility of fiscal decentralisation as a fundamental component of successful “good governance” schemes in the EaP region. For instance, new reporting measures which highlight fiscal responsibility at multiple levels of authority could be showcased by multilateral actors. Equally, political rhetoric in the region which emphasizes good governance should also increase the focus on programmes which have successfully instituted a decentralisation of fiscal responsibility.

Supranational and multilateral engagement in fiscal decentralisation programmes as a fundamental element of good governance, should be informed by a number of key facts. Firstly, the design of a decentralised system requires the coherent allocation of public sector responsibilities among different types of governments. This process of allocation entails the transfer of some decision-making powers from central to subnational governments. The challenge is to design an intergovernmental system that links decentralisation reforms to the economic, social, and institutional development of the society. According to Bird (2000), such a design is based on four pillars: expenditure assignment,
Secondly, supranational and multilateral actors in the EaP region can collect and present data on fiscal decentralisation within their overarching remit to promote good governance in the countries of the EaP. The degree of fiscal decentralisation can be measured both quantitatively and qualitatively. The quantitative dimension relates to the functional scope of local government responsibility for managing and funding public services and the volume of public expenditure passing through local budgets.

The qualitative dimensions are concerned with those aspects of the intergovernmental financial framework that affect its equity, the amount of autonomy which local governments actually enjoy in managing their budgets, and their accountability to their citizenry. Both sets of data can be managed and coordinated by supranational and multilateral actors in the region with a view to enhancing domestic political moves to imbue local and regional levels of political authority with an attendant element of fiscal autonomy to support the practice of good governance from the bottom up.

### 2.5.3 Policy Options for National Governments

There is fairly widespread agreement that capacity-building at all government levels is an essential component of decentralisation (Smoke, 2006; Lago-Peñas et al., 2011). In the absence of a unified, co-ordinated, agreed strategy, decentralisation can be incoherent and piecemeal, and there can be a lack of ownership or sufficient leadership which results in lack of support and engagement from the centre, local officials in subnational government, or citizens and voters.

1. **Thus, for effective fiscal decentralisation to be made a reality, national leaderships must agree a longer-term agenda for the transfer of fiscal authority to lower levels of political aggregation, and ensure cross-party support for these goals.**

2. As noted above, fiscal decentralisation and public administration reform are mutually supporting reform objectives. Therefore, national agendas to reorganize levels of fiscal competence amongst tiers of political authority should ensure economic efficiency, fiscal equity, political accountability and administrative effectiveness. Governments rely on a wide variety of tax instruments available for their revenue needs, such as direct, indirect, general, specific, business and individual taxes. The economic principles that
come into play in deciding which taxes to assign to lower levels of government are as follows: Efficiency of the Internal Common Market, National Equity, Administrative Costs & Fiscal Needs. Expenditure assignments should be made to governmental units that can:

- supply a service at the lowest possible cost;
- finance a function with the greatest possible fiscal equalization;
- provide a service with adequate popular political control; and
- administer a function in an authoritative, technically proficient, and cooperative fashion (Hankla, 2009).

The most common categories of sub-national government expenditure are education, health, social security and welfare, housing and community amenities, recreation, cultural and religious affairs, and transport and communication. But the relative importance of these items varies widely between countries (see Tables 2 and 3 for an overview of the EaP region).

It is important to clarify where local governments can determine the allocation of expenditures themselves versus those where the central government mandates expenditures and local levels simply execute those expenditures. This is a first key decision to be taken by national leaderships ahead of any implementation of a fiscal decentralisation programme.

Previous experience from Latin America and the transition states of Central Europe shows that many countries have focused only on the revenue side of decentralisation and neglected a clear assignment of expenditure responsibilities. This led to weak decentralised systems and fiscally overburdened central governments.

3. National governments must therefore focus both on the revenue dimension of fiscal decentralisation programmes, as well as the assignment of expenditure responsibilities.

4. System design must be optimal: there must be a clear framework for implementation of fiscal responsibilities across the levels of political authority.

The lack of clarity in the definition of subnational responsibilities has a negative impact in three important respects. First, if the responsibilities are imprecise, the necessary corresponding revenues will remain poorly defined. Second, without clear responsibilities, subnational government officials might prefer to invest in populist projects which benefit them in the short run rather than in projects with long term impact on the region's economy (such as infrastructure, education,
etc.). Third, there will be confusion whether subnational expenditures represent local priorities or centrally determined programs.

Unsound practice in the form of inappropriate assignment of expenditure responsibilities - e.g., devolving major responsibilities to unaccountable local authorities - can result in inefficient production of local public services; suboptimal delivery of local services; major potential for local corruption – a major risk, given the relatively large size of resources involved and difficulties of ensuring sound, accountable financial management across all local jurisdictions.

One potential model for fiscal decentralisation programmes in the EaP states is provided by the countries of South East Europe. Here, we see a division between (1) “own” or “autonomous” functions at local government level, e.g. “communal services” including street maintenance, cleaning and lighting, refuse collection, parks, public transport, cemeteries, and sports facilities, together with local regulatory tasks such as urban planning and civil registration. They manage what remains of the public housing stock. They also generally control the major utility services, water supply and sewerage, heating and energy supply; and (2) delegated competencies for personal social services: education, health care, and social security and welfare.

5. **Careful consideration should be given by national authorities to the pace of decentralisation.** An initial rush to devolve fiscal powers is probably not wise. Well-designed decentralisation requires conducting a series of studies then writing an omnibus law. It also requires a systematic approach to building capacity for central and subnational authorities alike. One option, common worldwide, is to decentralise asymmetrically - that is, to recognise that places and sectors can be treated differently. Thus, some subnational governments may have more capacity than others to carry out the responsibilities of decentralised governance. Similarly, some functions (such as primary education and health) might be better entry points than others (for instance, large infrastructure projects). Such an asymmetric structure should be formalized in a manner that makes transparent both the criteria for differential treatment and the process for systematically bringing the initially unqualified places and sectors into the fiscal decentralisation scheme.

6. National governments should note that international best practice demands effective fiscal decentralisation systems be operationalized. **The freedom of local governments to vary the rates of the taxes, fees, and charges accruing to their budgets is a cardinal principle of fiscal decentralisation, emphasised by the European Charter of Local Self-government** as well as the classic fiscal federalism literature. It may be
restricted by ceilings but should be sufficient to provide scope for varying levels of local expenditure and enhance the sense of accountability of local officials. Intergovernmental transfers should not be so dominant as to discourage the use of such discretion. Therefore, national governments have to manage a fine balance between the demands of good governance at the local and regional level, as well as the need for sound administration of public finances.

In OECD countries, on average half of subnational government public expenditures are financed by locally administered taxes over which they have the autonomy to decide both the tax rate and the tax base independently from the centre (Bloechliger and Petzold 2009). The other half is covered through revenue-sharing arrangements, inter-governmental transfers, and subnational government borrowing. Substantial variation exists, however, between OECD countries. Recent evidence indicates that greater fiscal autonomy is indeed associated with higher subnational government budget discipline. This suggests that the availability of own revenue sources may be a component allowing local and regional governments to maintain a healthy fiscal balance (Enikolopov and Zhuravskaya, 2007).

The most common sub-national taxes are taxes on incomes – which are used by 15 of the 18 countries covered - and taxes on property – which are used in 17 countries. However, the average yield of taxes on income is much higher.

In some western European states (notably Switzerland and the Scandinavian countries) local governments add their own rates as surcharges on the national rates of personal income tax; the national rates are kept low enough to allow room for the local levies. It is no coincidence that these are the countries where local government has the highest measure of fiscal independence.

The only efficient, desirable broad-based subnational tax that seems feasible is likely to be a flat-rate surtax (often called "piggybacking") on a national personal income tax. Retail sales taxes are seldom feasible in the circumstances of developing or transitional countries.

For efficiency, it may be desirable to assess the base of a tax centrally and even to have it collected by the central government; but for accountability it is critical that the local authorities are responsible (perhaps within limits) for setting the tax rate.

International practice offers four more or less standard options for intergovernmental fiscal coordination (Boex and Martinez-Vazquez, 2004):
• exclusive reliance on the Ministry of Finance or the Ministry of Local Government (or its equivalent);
• introducing one of several types of Local Government Finance Commissions;
• reliance on parliament to monitor and coordinate intergovernmental affairs; and
• formal reliance on a local government association for intergovernmental coordination.

During the 1990s, the introduction of a Local Government Fiscal Commission was the ‘standard’ institutional solution for intergovernmental coordination. This term is applied to three different types of coordinating mechanisms, which have distinctly different objectives (vertical coordination, horizontal coordination, and autonomous review). The best fiscal coordination option is very much dependent on the institutional setting of a country and the policy objective to be achieved.

7. When designing effective fiscal decentralisation programmes, national governments should learn the lessons that have been learnt globally as a means to inform their own practice. Unsound practice in the form of excessive revenue decentralisation or too much revenue autonomy can result in vertical fiscal imbalances (in favour of local governments), macroeconomic tensions and excessively high tax burdens – a major risk which could threaten macroeconomic stability.

The main problem with tax assignment is that it generally does not provide sufficient revenues for lower-tier governments. In part for this reason, local and especially intermediate-level governments in many countries levy a variety of specific (excise) taxes on gambling, motor vehicles, and so on. Again, however, such levies seldom produce anything like the revenue needed. In a country with conflict among levels of government, subnational administration of national taxes is not advisable since the subnational entity can refuse to submit national taxes if it becomes disgruntled (e.g., Tatarstan in Russia). Second, problems are also caused by overlapping, uncoordinated administration, especially for sales and excise taxes.

Many transition economies are introducing ambitious tax reforms that reduce (‘flatten’) tax rates, broaden the tax base (by closing loopholes), and improve the quality of tax administration. These reforms can mean changes in tax incidence and thereby redistribute tax revenues across various levels of government. These de facto changes in the distribution of tax revenues can introduce misalignments with expenditure assignments, leading to new vertical and horizontal fiscal imbalances that had not previously existed.
Finally, local government discretion to award exemptions from property and other local taxes is subject to much criticism. It is questionable whether local authorities should be free to define local tax bases as opposed to the rates.

8. The option of intergovernmental transfers/block grants should be avoided as this does not lead to the development of true local self-governance and autonomy.

Although there are important differences between countries, the most common way of transferring resources from central to local and regional government is through earmarked grants (World Bank, 2006). Grants are used for the purposes of financing and subsidisation of services and for equalisation of tax or service capacity. Non-earmarked grants are usually more efficient instruments for financing purposes than earmarked grants. Nevertheless, there are some cases where earmarked grants can be used in an efficient way for financing sub-national services. Such cases are particularly likely to occur with temporary risk-sharing and co-operation projects or programmes.

Every intergovernmental transfer system has two dimensions: (i) the vertical dimension, concerned with the distribution of revenues between central and local governments; and (ii) the horizontal dimension, concerned with the allocation of financial resources among the recipient units.

There are different forms of transfer mechanisms: sharing revenues and tax bases, establishing conditional or unconditional grant systems. Central government and subnational governments can share revenues based on a formula or share a tax base by one of them applying a surcharge on other’s tax. In the case of establishing grant systems, conditional grants require matching elements by the recipient government but unconditional grants are given to the recipient government with full discretion to spend. The choice of transfer mechanism depends on the objectives of the intergovernmental policies.

There are both advantages and disadvantages to the use of fiscal transfers as a means to allow a limited degree of financial spending autonomy at the local and regional level. Whilst this mechanism does not allow for revenue generation and the management of local systems for public taxation, it does offer scope for a limited degree of spending autonomy. However, such systems are not regarded as optimal in terms of encouraging good governance and the ownership of public finance programmes from the bottom up.

There are three key factors in the design of intergovernmental fiscal transfers: the size of distributable pool, the basis for distributing transfers, and conditionality (Bird, 2000). Determining the distributable pool has an important
impact on the stability of the intergovernmental fiscal relations system. Sharing a fixed percentage of all central taxes is a better way of establishing transfer system rather than sharing on an ad hoc basis. Sharing must be based on the basis of a formula. Discretionary or negotiated transfers are unstable and unpredictable in nature. The formula for revenue sharing should take needs and capacity into consideration. Once the first two factors have been sorted out, the last question is whether the transfer should be made conditional on a measure. Expenditure conditionality ensures that the transfer amount is spent on a specified service. On the other hand, performance conditionality links transfers to a performance criteria.

Local government would be better protected from such arbitrary decisions [in annual State Budgets] if the level and distribution of transfers were determined by legislation other than the annual State Budget Law. This would mean that changes could only be made after full parliamentary debate and opportunity for consultation with local government associations. There are examples of such protection in Dutch and French legislation, and the Polish law on intergovernmental finance stipulates that the education elements of the grants should not fall below 12 per cent of State Budget revenues.

There are, however, a number of problems which may be arise in the use of intergovernmental transfers or grants and thereby limit their effectiveness as tools by which to foster fiscal autonomy. Firstly, unsound practice in the form of perverse incentives in intergovernmental transfer mechanisms (e.g., gap-filling transfers) can facilitate irresponsible local spending and reduce local fiscal effort.

Furthermore, in many OECD countries, grants systems are beset by numerous inefficiencies. The most common are:

- Earmarked matching grants that are (partly) used for equalising purposes and thus encourage sub-national jurisdictions to provide higher than optimal service levels.

- Earmarked non-matching grants (including cost-covering grants) that are used for financing purposes; these grants lack incentives for technical and allocative efficiency and could, in many cases, be replaced by general purpose or block grants.

9. National governments in EaP countries would be well advised to learn from the practice of intergovernmental transfer schemes elsewhere and consider firstly alternative means of fiscal decentralisation as a means to
promote local governmental autonomy through the transfer of real financial capacity, that is, both revenue and expenditure.

The most recent academic evidence suggests that intergovernmental transfer schemes are negatively correlated with economic growth; on the other hand, taxes collected at the local and regional level have a significantly positive correlation with the national growth rate. This overall finding supports the view that subnational governments with their own revenue source respond better to local demands and promote greater economic efficiency (Rodríguez-Pose and Krøijer, 2009).

Ultimately, the transfer of block grants is not viewed as a positive step towards the creation of a sustainable model of self-government at the local or regional level. In global terms, decentralisation should be interpreted to mean the transfer of powers from the state government to the local self-government, and not to the transfer of powers from the central state government to the local state government (World Bank, 2006).

10. National governments in EaP countries should be encouraged to support measures which enable local and regional actors to access the financial markets independently. There are three primary reasons why access to financial markets is considered important for subnational governments:

- financing capital expenditure;
- matching expenditure and tax flows; and
- fostering political accountability. (Debrun et al., 2008; Arzaghi and Henderson, 2005)

A well-designed regulatory framework for subnational borrowing is necessary to ensure that subnational borrowing does not provide perverse incentives to lending institutions and subnational governments for excessive lending and borrowing. Such a framework includes standardized accounting procedures for subnational governments, disclosure of subnational governments’ liabilities and repayment capacity. However, these measures by themselves will not be sufficient to curb moral hazard problem. The macro concern of moral hazard occurs when local and regional governments are backed by the central government by providing guarantees to their borrowing.

The debt crisis of subnational governments in Brazil, the inflationary impact of subnational financing in Argentina, and city-level bankruptcies in the United States have often been used to illustrate the possible macroeconomic implications of decentralizing borrowing powers. The moral hazard problem - the proposition that access to financial markets by subnational governments may
create unplanned fiscal liabilities for central government - is the core of the argument.

However, there are measures which national governments can take in order to prevent such risks. For instance, countries such as Russia, Kazakhstan, and Estonia have enacted legislation limits on overall debt as well as limits of the budget deficits of regions and require control and supervision of all subnational bond issues. However, the lack of effective monitoring and enforcement and the general absence of adequate municipal bankruptcy procedures and financial emergency controls for defaulting governments pose important risks.

**2.5.4 Policy Options - LRA Level**

**Local Authorities and Subnational Government**

Fiscal decentralisation cannot occur in a vacuum, and has to be considered within the context of wider local government reform and other forms of decentralisation. Moreover, government structures in any given country tend to be unique and reflect historical developments. As a result, there are different possible configurations of institutional arrangements that can result in positive outcomes.

There are two central features of local government. First, it is a provider of services to a local community. Second, it acts as an instrument of democratic self-government. These two characteristics can also be viewed as administrative and political decentralisation respectively, which coupled with fiscal decentralisation, are conceptually and practically impossible to separate. Factors which can influence the quality of local government include:

- territorial organization (there is no ideal type for territorial administrative units; no requirement for such units to be of equal size; no prerequisite for how large a country has to be in the first place);
- a capable, professional, trained and adequately remunerated local public service;
- transparency – accessible for and accountable to citizens; and
- support from the central government. (Smoke, 2006)

Thus, measures to support effective fiscal decentralisation are likely to be unsuccessful, if they are not put forward as part of a raft of accompanying reform measures which touch on the dimensions of public administration reform outlined above. Local and regional governments should be aware of this fact when negotiating reform programmes or implementing change agendas.
Optimal System Design

Budgetary Responsibility and Reporting

The legal/regulatory system needs to provide for, at minimum, full, timely and easily accessible public disclosure of resource allocation decisions - in budgets, in procurements, and in expenditure programs. Local and regional authorities should design and publish readily accessible budgets as part of an expenditure management reform programme that emphasizes output/outcome orientation.

Subnational governments in Russia, Ukraine, and other EaP countries have also been slow to rid their budgets of private market interventions, with subsidies for housing and communal services, including public utilities, accounting for a large proportion of their expenditures. For instance, subnational governments in Russia spend close to one-third of their total resources on subsidies to consumers.

Terms of Office

The duration of terms of office at the local and regional level is a key question which needs to be addressed by authorities implementing a programme of decentralisation, in partnership with local and regional societal actors. Lessons globally would indicate that there is an optimum period of time during which office holders are able to implement change and introduce governance strategies which commit to best practice (World Bank, 1998). Renewable terms of office also offer a degree of stability which can have positive impacts when guiding the implementation of a programme of fiscal decentralisation (Smoke, 2006).

By way of example from global experiences, Mexico’s experience with three-year, non-renewable mayoral terms, has been associated with a very short-term focus in local officials’ governance strategies. In practice, where multiple terms are allowed, three to four year terms are desirable. Where only single terms are permitted, then 5-6 years would be appropriate.

Size of Unit of Governance

In cases where sub-national governments are small or fragmented (Armenia, for example), the coordination and cooperation of the provision of public services should be considered, and this measure can extend also to the management of public finances at the local and regional level. Using this option, local government can retain its quality as an instrument of democratic and self-government. If territorial administrative units are too small, fragmented or heterogeneous they can have low revenue capacity, weak administrative abilities
and be incapable of fulfilling their functions in terms of delivering accountable governance. This is a widespread problem for various historical and political reasons in the Balkans and the former Soviet Union.

To illustrate some of the problems associated with the fragmented structure of subnational authorities, Croatia provides some useful examples. In Croatia, a substantial number of local governments and cities are quite small. As a result, many Croatian local governments do not have the financial, administrative, and personnel resources to carry out the basic functions of local governments. In a few instances, neighbouring local governments developed some forms of cooperation. In the smallest localities, the local government has a few employees with the mayor serving on a voluntary basis. More than 30 per cent of towns and municipalities are not in a position to meet their current expenditure commitments from current revenues (Bloechliger and Petzold, 2009).

**Stakeholder Participation in the Process**

Although fiscal decentralisation efforts are typically led by economists and accountants, it is critical to remember that *successful fiscal decentralisation combines not only fiscal reforms but also governance reforms*. Decentralization will only succeed when local communities become involved, participate in the local budget process, express local priorities, and hold their local officials accountable for delivering desired local services in a cost-effective manner. For this to happen, local stakeholders will need to know in basic terms what to expect from their local governments, how their local governments operate, and how local governments are financed.

Both the CoR and CORLEAP can work with the EaP Civil Society Forum working groups to host a workshop on fiscal decentralisation, to be held either in Brussels or in the region. This workshop could lead to the publication of a set of policy recommendations. Such a document can then be presented to EU Heads of State and Government in the context of the further development of the EaP roadmap under the Lithuanian Presidency.
2.6 Territorial Cooperation

Territorial cooperation represents the third political priority identified by the Annual CORLEAP meeting in the Conclusions presented on 17 September 2012. Territorial cooperation remains a cornerstone of cross-border territorial actions both within the EU and within the EaP area, as it ensures firstly that diversity between states is maintained, whilst at the same time allowing countries to join forces to tackle urgent problems of spatial and social development (Dühr et al, 2010: 6). Indeed, it is this territorial cooperation across borders that facilitates the interaction between horizontal and vertical membership of supra-state territorial structures, thereby underpinning a functional system of multi-level governance (Bartolini, 2004). However, the scope of territorial cooperation within the EaP countries needs to be developed much further.

European territorial cooperation has sought to move beyond the traditional concept of frontiers between the European states as “barriers” which delimit distinct socio-political realities, while at the same time helping to build Europe “from below” as a manifestation of the European general principle of subsidiarity (EIPA, 2011). It is the practice of cross-border cooperation, and the creation of transboundary spaces for political action that can advance territorial cooperation as an organizational principle. For the CoR, cross-border cooperation is conceptualized as follows.

“Cross-border cooperation implies bi-, tri- or multilateral cooperation between local and regional authorities […] operating in geographically contiguous areas. This applies also in the case of areas separated by sea”\textsuperscript{41}.

Indeed, the study undertaken by the CoR on the European Grouping of Territorial Cohesion (EGTC) as a framework for territorial cooperation underlines the suggestion that CBC makes it possible to counteract the disadvantages a region may face geographically, due to its position on a national border\textsuperscript{42}. Territorial cooperation is therefore a fundamental component of the strategic approach taken by the CoR to develop European integration from the bottom up, and to foster a real framework for multi-level governance in the European Union.

At a practical level, territorial cooperation refers to concrete measures which facilitate cooperation across geographical boundaries that focus on the following:

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• an improvement of the joint management of national resources
• supporting links between rural and urban areas
• improving transport and communication networks
• coordinating policies on environment issues (EIPA, 2011)

However, territorial cooperation in the EaP process has been more limited. Despite the raft of financial assistance schemes offered by the EU, and detailed in the 2012 report “the EU Funds Available for Local and Regional Authorities from the EaP countries”43, there is still a lack of awareness and capacity on the part of local and regional authorities in the EaP region to fully take up these programmes and actions. In particular, local and regional authorities in the EaP region are hamstrung by overly complex EU funding rules, which demand supporting documentation which is unfamiliar to local bureaucracies and financial institutions. This places a particularly large burden on local and regional administrations and stakeholders.

Territorial cooperation and the closer partnership between actors across geographical and political boundaries across the EaP space offers enormous potential for meeting the wider objectives of the partnership, notably helping the partner countries to move closer to the EU and to work collaboratively in support of EU goals – international law, fundamental values including democracy, the rule of law and respect for human rights, sustainable development and good governance44. It is for this reason that the CoR continues to consider cross-border cooperation as a tool for encouraging the implementation of effective territorial cohesion as well as one of the conditions for good multilevel governance (EIPA, 2011).

To date, there has been no systematic study of the impact of territorial cooperation within the EaP space, nor on the impact of financial assistance measures which have sought to develop a substantive multi-level perspective to the wider objectives of the Eastern Partnership. Whilst this present report can offer an initial and necessarily broad overview of initiatives and actions in this area, it is recommended that a more in-depth study of territorial cooperation across the Eastern Partnership be undertaken so as to offer to policy-makers a comprehensive repository of schemes, inputs and outputs as well as evaluations, so as to inform better future governance financial mechanisms in the area of territorial cooperation. It is noted that at the present time, information regarding territorial cooperation in the EaP area is

44 Joint Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions (2012) Eastern Partnership: A Roadmap to the autumn 2013 Summit, JOIN(2012) 13 final
sporadic, piecemeal and available only on an ad hoc basis, to different reporting practices. As such, there is little directly comparable data on inputs and outputs available. A more comprehensive system for data collection would be advisable, based on standard reporting procedures.

The analysis presented below offers an initial insight into the nature of territorial cooperation in the EaP region, as supported by external, multilateral financial assistance mechanisms.

**Geographic Versus Thematic Instruments**

To date, local and regional authorities in the EaP countries have benefitted from EU financial assistance schemes which have been structured along the two principal dimensions of territorial cooperation; the “horizontal” level of territorial cooperation has been facilitated through the so-called *geographic* instruments in the EU and EaP area, whereas “vertical” cooperation has facilitated interaction between a number of local and regional actors in the EaP region on the basis of the EU’s *thematic* instruments.

**Geographic Instruments Available to LRAs in EaP Countries**

This is the largest area of CBC activity in the EaP region which supports and facilitates LRA actions and governance initiatives.

- The Cross-Border Co-operation (CBC) programme for the EaP region (Budget 2007-2013: €1,118,434)
  - Baltic Sea Region programme (BSR)
  - Black Sea programme
  - Latvia-Lithuania-Belarus programme
  - Poland-Belarus-Ukraine programme
  - Hungary-Slovakia-Romania-Ukraine programme
  - Romania-Ukraine-Republic of Moldova programme

- The Cooperation in Urban Development and Dialogue programme (CIUDAD) – EaP region (Budget: €14 million for the 2010-2013 period)

- The Covenant of Mayors initiative (EaP region: CoM East) (Budget: €5 million for the 2011-2013 period)

- Pilot Regional Development Programmes (€62 million from the ENPI budget for 2012-2013)
• European Neighbourhood Programme for Agriculture and Rural Development (ENPARD) – with its focus on institutional capacity building of national and local administrations

• The EuroEast Culture Programme

• The Europe for Citizens Programme

• The European Investment Bank: EaP Technical Assistance Trust

• Eastern Partnership Integration and Cooperation programme (EaPIC)\textsuperscript{45}

\textit{Thematic Instruments Available to LRAs in EaP Countries}

The use of vertically integrated instruments to develop LRA action in the EaP area has been limited to date.

• The Non-State Actors and Local Authorities in Development (NSA-LA) programme (Budget: €702 million for the 2011-2013 period)

\textit{Analysis and Recommendations}

The above overview of the funding available to local and regional actors from the EaP countries in the area of territorial cooperation illustrates how the predominant paradigm for EU financial assistance has thus far been founded on the geographic rather than the thematic approach, that is to say, support mechanisms which promote horizontal rather than vertical integration. This indicates that the priority areas for financing schemes have encouraged partnership approaches across borders in pursuit of clearly defined aims, as set down in the regulations for the schemes listed above.

However, overlooking the potential which vertical integration measures offer to the development of a robust multi-level dimension to the EaP is problematic. There remains, therefore, a shortfall in the development of a full and comprehensive approach to the thematic dimension of territorial cooperation. Whilst the “Non-State Actors and Local Authorities in Development (NSA-LA)” programme has offered some initial scope for the support of key schemes

\textsuperscript{45} This funding stream was not covered in the 2012 report “The EU Funds available for local and regional authorities from the EaP countries”, as it was not yet operational. The “Eastern Partnership Integration and Cooperation” programme (EaPIC), launched in June 2012, offers financial assistance for reform on deep democracy and the respect of human rights, based on the novel principle of “more for more”. The first round of EaPIC country allocations awarded €65 million in financial assistance to three of the EaP countries: Moldova (€28 million); Georgia (€22 million) and Armenia (€15 million). A further round of allocations is scheduled to be made after the public release of the 2013 ENP Progress Reports for countries in the region.
which can advance inter-territorial cooperation around shared policy objectives, such as the strengthening of participatory development and processes as well as the inclusion of vulnerable and marginalised groups in society.

Thus, as support for the vertical dimension of integration within the EaP space has thus far been limited in scope, further investment in thematically-structured financial instruments for the EaP countries should be encouraged. Vertical integration measures would encourage a wider exchange of good practice and strategies for development within local and regional authorities, across the full three priority areas for political action which have been identified by the CORLEAP Annual Meeting’s conclusions: public administration reform, fiscal decentralisation and territorial cooperation. There is scope, within the existing framework for the delivery of financial instruments, to extend their practice more broadly, so as to facilitate a much wider take-up across the full set of areas where political action has been identified as lacking by the CORLEAP body, themselves local and regional representatives from the EU and EaP countries.

Cross-border cooperation, territorial cooperation and the democratic governance of cooperation are central to the continuing integration and enlargement of the EU (Anderson et al., 2003). However, the potential which this form of multi-national cooperation offers to the development of the EaP and the implementation of its goals remains underexploited at the present times. Whilst enhanced financial support measures would drive significantly an increased uptake of financial assistance mechanisms across the region, there are, at a practical level, a number of barriers to the full implementation of territorial cooperation in the EaP space. Recommendations for action to address these issues are detailed in the following three sections.

2.6.1 Supranational / Multilateral Level

The following measures are proposed as effective means by which the local and regional dimension of the EaP can be advanced.

1. At the supranational / multilateral level, there needs to be more joined up thinking across the full range of EU financial assistance programmes to address more effectively the core areas where CORLEAP has identified deficiencies, and has targeted further political action. Thus, the priorities are:

- effective public administration reform at the local and regional level;
• support measures for fiscal decentralisation and an enhanced sub-national budgetary autonomy in EaP states; and

• enhanced territorial cooperation across borders both within the EaP area and with EU member state partners need to be mainstreamed across the EU’s financial assistance schemes, and articulated more clearly in an overarching set of objectives for the EaP countries.

As the EU’s only vehicle for the aggregation of local and regional viewpoints from EU and EaP representatives, CORLEAP, has already stressed the need for concerted action in these three areas at its Annual Meeting in Chisinau in 2012; DG DEVCO therefore needs to prepare a strategy paper which recognises this political priority, and seeks to integrate its various financial assistance programmes which target local and regional actors in the EaP area under one shared strategic umbrella. This more streamlined and vertically integrated approach will significantly advance the local and regional dimension of the EaP and will meet the political aims of CORLEAP’s current Action Plan.

2. Existing financial assistance programmes to the EaP region need to be more explicitly targeted at the dimensions of local and regional authority engagement which are in most need of developmental support. These have been highlighted in this report, and whilst many of the existing financial assistance mechanisms do touch on these issues tangentially, their further development can be advanced through more direct targeting of the needs identified here. In sum:

• Support for public administration reforms at the local and regional level can introduce the foundational and structural changes required which can lead to wider developmental benefits across the region. Public administration reform at the local and regional level in the EaP countries will therefore facilitate wider societal benefits from the bottom up. Investment in this aspect of development assistance will therefore act as a developmental multiplier, allowing for changes at other levels and in other dimensions of governance.

• Support measures to develop financial capacity at the local and regional level in the EaP partner countries through training programmes and knowledge-sharing activities can encourage the transfer of real fiscal competence to the sub-national level. It is evident that block grant funding is inappropriate as a means to sustain real self-government at the local and regional level. **The freedom of local governments to vary the rates of the taxes, fees, and charges accruing to their budgets is a cardinal principle of fiscal decentralisation, emphasised by the European**
Charter of Local Self-government. External financial support, such as EU funding programmes, can help support the necessary skills training which can lead to the implementation of fiscal tasks once authority is transferred.

- Together with DG DEVCO, CORLEAP should work to establish programmes for financial assistance in the EaP region which will enhance the financial capacity of local administrations. A clear finding of the analysis presented in this report is that effective fiscal decentralisation is not a “one size fits all” strategy, but rather a concept which needs to be tailored according to local circumstances.

- Financial assistance measures which target the LRA audience in the EaP countries can include a pre-application support phase. This would operate on the basis of enhanced marketing of funding opportunities, as well as advice on bid planning and advice on the delivery of the requisite paperwork. An early intervention to support pre-bit preparation processes can enhance the throughput of applications to financial assistance programmes from local and regional actors in the EaP area.

3. In view of the merits presented here of decentralising competences further to local and regional levels of governance, it is important to explore means by which twinning and technical assistance programmes (principally TAIEX, SIGMA and the Comprehensive Institution Building programme (CIB) of the ENPI) that allow for capacity building and the development of expertise in public administration can be decentralised themselves to include actors from local and regional levels of government.

4. The focus of the new EaPIC on promoting democratic transformation and institution building for sustainable and inclusive growth, alongside increased confidence building measures, has clear scope for local and regional input. It is in this aspect of the future EaP and the “roadmap” that LRA members can make a substantial impact to the future shape and scope of this particular funding instrument. The CoR should lobby for an LRA dimension to be involved in the design of the future EaPIC framework.

5. EU actors should be made aware of the burden placed on LRA actors in the EaP region by the application process for financial assistance programmes. The demands are at times well beyond the capacity of both LRA actors and relevant financial institutions. A relaxation of the strict requirements of the funding programmes should be introduced following an urgent review of procedures.
6. Information regarding territorial cooperation in the EaP area is piecemeal and not collated to comparable standards across the region. A standardized data collection and statistical reporting framework would facilitate better feedback loops for the future design of financial programmes in the area.

7. The EU should look to invest further in thematically-structured financial instruments for the EaP countries. This is an underused resource. Vertical integration measures would encourage a wider exchange of good practice and strategies for development within local and regional authorities, across the full three priority areas for political action which have been identified by the CORLEAP Annual Meeting’s conclusions: public administration reform, fiscal decentralisation and territorial cooperation.

2.6.2 National Level

National governmental actors can implement a range of measures which can help to establish a meaningful local and regional dimension to the Eastern Partnership.

• National government actors should collect systematically information on local and regional territorial cooperation initiatives and integrate these initiatives into other ongoing programmes, supported by external, multilateral actors, to develop sustainable frameworks for good governance in their countries.

• National governments should look to undertake national reform programmes which deliver on the commitments of the European Charter of Local Self-Government. It is only by having the freedom at the local level to vary the rates of taxes, fees, and charges accruing to their budget, a fundamental principle of fiscal decentralisation, that sustainable self-government at the local level can be achieved.

• National Governments in the EaP area can encourage the further take-up of financial assistance schemes which support cross-border cooperation and territorial cooperation at the local and regional level by undertaking wider communications programmes and the applications processes.
2.6.3 Local and Regional Government Level

There are a number of core actions which LRAs themselves can undertake as a means of strengthening territorial cooperation within the EaP space and thus enhancing the local and regional dimension of the initiative.

- Given the continued low level of take-up of financial assistance in the EaP region, it is important that LRAs showcase their own engagement – however limited - in any such programmes and demonstrate the impact that this financial support has had on their governance agendas. Through showcasing, the take-up of opportunities for financial assistance can be encouraged amongst broader sets of actors and non-governmental stakeholders.

- Information on the application process for engaging with EU financial support programmes in the EaP region should be shared amongst all stakeholders within the region; LRAs should endeavor to operate information exchange events as a means of profiling the opportunities on offer in their region.

- LRAs should continue to feed back to national and supranational actors on the need for investment in training and other measures to support the practical development of good governance at the local and regional level across the region. Dialogue with partners across the EaP area is a fundamental element of the ENP’s wider objectives to establishing a stronger partnership between actors at all levels.

2.7 Future Development of the EaP Roadmap in 2013

ACTION POINTS

- The future EaP roadmap needs to reiterate that the local and regional dimension to the EaP and the actions required across the three priority areas will, in combination, lead to the development of a true, multi-level framework for political cooperation across the region.

- At the present juncture, ahead of the redefinition of the “roadmap” for

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meeting the global objectives of the Eastern Partnership agenda, timely and strategic intervention by CORLEAP is fundamental.

- The recommendations for political actions in the three core areas of public administration reform, fiscal decentralisation and territorial cooperation which are set out in this report offer a suite of measures which CORLEAP can advance as further political actions. In combination, these actions undertaken across the three priority areas would strengthen and enhance the local and regional dimension of the EaP roadmap when this is developed further under the Lithuanian EU Presidency in the second half of 2013.

- Both the CoR and CORLEAP can work with the EaP Civil Society Forum working groups to host a workshop on fiscal decentralisation, to be held either in Brussels or in the region. This workshop could lead to the publication of a set of policy recommendations. Such a document can then be presented to EU Heads of State and Government in the context of the further development of the EaP roadmap under the Lithuanian Presidency.

- The focus of the new EaPIC on promoting democratic transformation and institution building for sustainable and inclusive growth, alongside increased confidence building measures, has clear scope for local and regional input. It is in this aspect of the future EaP and the “roadmap” that CoR and CORLEAP members can make a substantial impact to the future shape and scope of this particular funding instrument.

- The European Training Foundation (ETF) should be a key partner for CORLEAP and LRAs in delivering across the three priority areas identified for action.

- All of these above objectives can be achieved through a recognition of the effectiveness of early and well-positioned intervention in the key debates that will determine the future shape of the roadmap. This is the historical moment when CORLEAP’s political capacity will come into its own; after 2 years of operation, CORLEAP now has the accumulated political resources to make a significant difference to the future design of the EaP roadmap, and this next step will be a real marker of CORLEAP’s ability to deliver on its founding mission. The time for persuasive advocacy and timely political intervention is now.
3 Options for CORLEAP Political Action

3.1 An Agenda for Future Action

As debate on the future shape and scope of the Roadmap to the Eastern Partnership moves forward in 2013 under the leadership of the Lithuanian EU Presidency (July–December 2013), CORLEAP should undertake to deliver concrete policy solutions across the four dimensions of its potential for leadership on the enhanced local and regional dimension of the EaP, as follows:

CORLEAP has a vital role to play in the future development of a robust, multi-level dimension to the Eastern Partnership as a whole. Sections 2, 3 and 4 of this report have outlined areas for political action which, in combination, will drive forward significantly the delivery of a real, multi-level Eastern Partnership that will fully involve LRAs. Since LRAs cannot act alone, the necessary political actions will be undertaken at three levels of political authority: at the supranational or multilateral level, at the national governmental level and at the local and regional level. Recommendations for actions at all these levels are contained throughout this report.

CORLEAP itself can follow up in ensuring that these political steps are undertaken by all the relevant actors. CORLEAP should use its engagement with all levels of political authority both across the EU itself and across the EaP area to press for the implementation of these action points. This is its lead role for the immediate future.

By doing so, CORLEAP can operationalize a significant “multiplier effect” for the local and regional dimension of the EaP. CORLEAP is regarded as the leading authority on the local and regional dimension of the EaP, and its work has been recognised in the most recent communication on the ENP. In all of its future negotiations, CORLEAP can exploit its own position as a “network of networks” to showcase understandings of good practice in public administration reform, fiscal decentralisation and territorial cooperation. Through cooperation with strategically positioned actors, notably the CoR and the associations of local and regional governments across the EaP area, CORLEAP can help to raise awareness of the importance of strengthening the local and regional dimension of the EaP as it enters the next phase of its operation.

Next Steps

Taking forward the analysis of the potential role of CORLEAP as set out in the 2012 report, the “Contribution of local and regional authorities to the development of the Eastern Partnership” (Report 3812 for the Committee of the Regions), CORLEAP’s future action plan on the areas of public administration reform, fiscal decentralisation and territorial cooperation can be summarized as follows:

1. **CORLEAP as a strategic thinker**: drawing up long-term plans about where local and regional government should be heading, with a road-map for implementation.

   - Working in close cooperation with partners from the region, DG DEVCO, the EaP Civil Society Forum and the European Training Foundation, CORLEAP can articulate the need to focus on the three priority areas where it has identified scope for enhanced developmental support: effective public administration reform at the local and regional level; further support measures for fiscal decentralisation and an enhanced sub-national budgetary autonomy in EaP states; and enhanced territorial cooperation across borders both within the EaP area and with EU member state partners.

   - Working in partnership with the European Commission, CORLEAP should develop a strategy paper which offers a broader recognition of the needs in these areas, and the potential which a more integrated and targeted approach to developmental assistance in the EaP region can bring.

2. **CORLEAP as a timely intervener**: both at the EU and MS level to ensure that development assistance goes towards local and regional democracy promotion projects.

   - The elaboration and further development of the Roadmap to the Eastern Partnership in 2013 represents a crucial opportunity for CORLEAP to establish its reputation for delivering timely insights and policy recommendations which can help to shape and structure the future local and regional dimension of the EaP.

   - Building on its reputation as the aggregator of local and regional viewpoints from around the EaP and the EU member states, as well as its mission to deliver an enhanced local and regional dimension to the EaP, CORLEAP should deliver early political messages to the working groups
which will prepare the future scope of the EaP Roadmap under the direction of the Lithuanian Presidency in 2013.

3. **CORLEAP as a persuasive advocate.**

   - Making a convincing case for a role for local and regional government in drafting territorial reforms.
   
   - Developing an inside track both to the European institutions (particularly the Commission and EEAS) and the national governments of the Eastern Partnership.
   
   - Making the case for decentralisation of competences; both policy-making and fiscal competences.

All of these above objectives can be achieved through a recognition of the effectiveness of early and well-positioned intervention in the key debates that will determine the future shape of the roadmap. This is the historical moment when CORLEAP’s political capacity will come into its own; after two years of operation, CORLEAP now has the accumulated political resources to make a significant difference to the future design of the EaP roadmap, and this next step will be a real marker of CORLEAP’s ability to deliver on its founding mission. The time for persuasive, and timely, political intervention is now.

4. **CORLEAP as a high performance cheerleader:** showing how to build a high performance culture at the local and regional level with a focus on improving the training and skills set of local and regional government officials. The new agreement with the European Training Foundation must be seen as a core next step in the realization of new training programmes leading to the practical skills development which will underpin reform agendas across the three priority areas.

**3.2 Revising the CORLEAP Action Plan in 2013**

The analysis presented in this report has shown that public administration reforms, fiscal decentralisation agenda and territorial cooperation programmes can have a significant multiplier effect in the construction of a robust, multi-level framework for the operationalisation of the Eastern Partnership. Building on this analysis, CORLEAP should work with partners at all level to foster the future development of actions in these three priority areas.
Recognising that current financial assistance mechanisms touch only on issues of local and regional governance tangentially (Section 4.1 of this report) and address the areas for priority action within the EaP space which have been identified by CORLEAP only on the margins (Sections 4.1 and 4.2 of this report) then the future action plan for CORLEAP should seek to correct this imbalance in two ways:

• Firstly, CORLEAP should work with the European Commission, and in particular, DG DEVCO to highlight the shortcomings of existing financial support mechanisms for local and regional government actors across the EaP area;

• On this basis, and in cooperation with DG DEVCO, new financial support schemes can be scoped out, which address directly the three priority areas for action across the EaP space which were identified in the CORLEAP annual meeting conclusions in 2012;

• Further, CORLEAP should work towards signing an action plan with the European Training Foundation whereby both parties commit to further training of local and regional public officials in all areas of competence, meeting the “good governance” objectives;

• The project “Fostering local public administration towards the EU standards and best practices” (see Section 4.1.2), financed under the “Quality of Life” strand of the 2007-2013 Romania-Ukraine-Moldova ENPI CBC programme should be held up as a flagship initiative in this regard, offering further potential for using cross-border mechanisms to enhance local and regional governance capacity.

Acting as a champion of the territorial dimension of the EaP policy, CORLEAP, together with the CoR, can showcase projects across the EaP space which have advanced developments in the three priority action areas of public administration, fiscal decentralisation and territorial cooperation.

CORLEAP can continue to work with the Civil Society Forum to support measures which foster the further development of local and regional democracy across the EaP space.
4 Mainstreaming Good Practice

4.1 Learning from LRA-level Projects Across the EaP Region

This section of the report assesses the impact that territorial cooperation has already played within the EaP process. Financial assistance programmes have not directly addressed local and regional issues across the region; rather, local and regional government actors have benefited tangentially from either the geographically or thematically structured schemes in operation. That said, the limited financial assistance mechanisms which have already been launched, have yielded a number of identifiable benefits to local and regional actors across multiple sectors.

The lessons from these projects on the ground are thus extrapolated from the full detail on the projects themselves, which is showcased in the 2012 report “The EU Funds Available for Local and Regional Authorities from the EaP countries”48. These findings should inform the future shape of financial assistance mechanisms which the EU should support at the local and regional level in the EaP countries.

4.1.1 Showcase of Projects Delivering Public Administration Reforms

Project: Energy Efficient and Integrated Urban Development Action (Urb)

The Urb.Energy project offers scope for the exchange of knowledge, experience and expertise between EU member states and local and regional authority partners in the EaP areas. This particular project focuses on the area of housing stock, and how renovations can engender steps towards a reduction in carbon emissions, helping therefore to meet global targets in the area of sustainability. The ‘Energy Efficient and Integrated Urban Development Action’ (Urb.Energy) project was funded under Priority 4 of the cross-border element of the Baltic Sea ENPI initiative, and ran for three years from October 2008 to January 2012. The project had a total budget of €3 714 260, with ENPI co-financing of €180 000 and ERDF co-financing of €2 805 030.

The project involved 14 partners from five EU Member States (Germany, Poland, Lithuania, Latvia and Estonia) as well as from the EaP country of Belarus. The Belarussian partner was the Housing Department of the Oblast of Grodno’s Executive Committee. Grodno managed a total partner budget of €200 000 over the life cycle of the project.

The Urb.Energy project integrated perspectives from a range of actors in the private and public sector, national governments and local governments, allowing for dialogue and exchange of ideas on the sustainable management and refurbishment of housing stock across the EU and EaP states involved.

The Urb.Energy project stemmed from a recognised need to reduce the CO₂ and energy waste emissions from European housing stock. It was found that new EU member states in particular still had relatively limited strategies for addressing sustainable urban development concepts, either in local, regional or national strategies. The Urb.Energy project allowed for the transfer of concepts and strategies across national boundaries and supported the development of sustainable, holistic approaches to the rehabilitation of residential areas in the Baltic Sea Region. The 15 partners came together to examine their current approaches with regard to the sustainable development of urban living areas and to prepare integrated urban development strategies for selected target areas. Further, innovative funding schemes to finance activities in this area were developed. The project partnership was supported by a strong network of 20 associated organisations, consisting of the responsible national government ministries, city administrations and relevant stakeholders from the fields of housing administration, energy and financing.

**Project Achievements**

- A full needs assessment was carried out in selected target areas of the participating municipalities with regard to:
  - Urban development
  - Energy efficiency of the building stock
  - Heating supply infrastructure

- Based on this comprehensive analysis, new concepts were developed to support global sustainability objectives:
  - Integrated urban development concepts (IUDCs)
  - Concepts for energy efficient refurbishment (EER) of buildings
  - Concepts for improving heating supply infrastructure
• Focal points for investment were identified and defined

• Pilot implementation programmes were instituted

• Key results were compiled and project outputs, including manuals for the improvement of strategic planning in these areas, were published.

• Workshops and seminars were held in all countries, along with special information days, such as the “Energy Saving Day” held in Siauliai, Lithuania.

• In Estonia, a large national awareness campaign to inform the Estonian public on the possibilities for funding EER measures was supported by Urb.Energy.

• Project achievements were showcased at a final project conference which was held in Riga in December 2011.

**KEY POINTS**

• Project established thematic forum for collaboration on key area (energy efficiency in housing stock): a sectoral-driven approach within a nominal CBC programme

• Project provided opportunities for effective learning across borders EU-EaP

• Project showcased best practice in strategic management reforms within local and regional authorities through a sectorally-driven issue

• Project provided pilot funding to explore the practical dimensions of implementing identified best practice strategies
PROJECT CONTACT POINTS

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Project: Creation of favourable investment climate in border regions of the Ukraine and Romania

This project, funded under the Romania-Ukraine-Moldova Programme’s ENPI CBC strand, focused on general measures to stimulate economic development and investment in a geographically remote territory. Building on an analysis of shortages and economic disadvantages, the project focused on stimulating economic development through an expert focus on SME development and entrepreneurship, both regarded as key economic drivers for sustainable developmental success. Working with a global budget of €490 540, the project was driven by the Regional Development Agency of Odessa, Ukraine, and involved collaboration with a local governmental project partner on the Romanian side of the state border, Iasi County Council.

The chief objective of this project was to develop a robust infrastructure to deliver support to economic growth in these key target sectors. From a needs analysis undertaken in the early phase of the project, a Regional Consulting Centre was established which aimed to provide foreign investment organisations with access to information on investment strategies in the region of Odessa, on both sides of the border. In addition, financial assistance from the EU ENPI scheme supported expert peer review of the investment potential of enterprises in the region, giving the region a wider profile in global business circles and imbuing investment strategies for the region with a greater sense of legitimacy.

KEY POINTS

- Project addressed low levels of economic investment and investment support

- Low levels of economic development infrastructure across the region were addressed with financial support for agency creation at the local / regional level

- The project focused on a joint need to stimulate economic investment in the wider region through enhanced recognition of the area’s potential, validated through external peer review

- Effective economic development strategies can be managed at a cross-border level, with significant multiplier effects
Project: Fostering local public administration towards the EU standards and best practices

This project was delivered under the thematic strand focused on the “Quality of Life” which formed part of the 2007-2013 Romania-Ukraine-Moldova ENPI CBC programme. The project promoted cooperation amongst the Institutes for Training in Public Administration in Moldova, Romania and Ukraine in order to allow them to improve their ability to train and provide capacity building to public officials working in local and regional authorities. At a global level, this project therefore had the wider aim of improving the quality of public services delivered by an efficient and skilled public administration, which itself would meet European standards.

This project operated for one year from April 2011 to April 2012, with a relatively modest budget of €175 192. It was led by the Academy of Public Administration affiliated to the President’s Office of the Republic of Moldova, in partnership with the Center for Assistance to Public Authorities of the Republic of Moldova, the Regional Training Centre for Local Public Administration (Romania) and the Agency of Regional Development Odessa (Ukraine).

Despite its modest resources, this project demonstrated that effective results can be achieved through cross-border partnerships. Effective coordination and information dissemination mechanisms were established through the partners and from them, with the local authorities who were engaged in the project. The project as a whole made a significant contribution to the empowering of the group of 36 National Trainers (12 participants from each country participating in the project), equipping them with the requisite knowledge and skills for them to transfer the know-how to local public administration representatives from each country in training sessions. As such, this project has had a lasting, multiplier effect on local administration capacity building objectives.
KEY POINTS

• Effective capacity building projects across local and regional governments can be instituted even with relatively modest financial investment

• Projects which specifically address public administration reforms at the local and regional levels in the EaP countries to date have tended to focus on capacity issues, rather than the wider structural concerns of public administration reform highlighted in this report

• Cooperation and cross-border partnerships are an effective means by which to spread best practice in local administration reforms

PROJECT CONTACT POINTS

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4.1.2 Showcase of Projects Delivering Fiscal Decentralisation Reforms

None of the projects currently operationalized in the EaP states either through horizontal (geographical) or vertical (sectoral) funding schemes directly addresses fiscal responsibility, given that the decision to decentralise responsibility for fiscal matters remains a nationally controlled issue.

Where there are overlaps, however, these are minor, and consist primarily in financial support schemes which address the capacity to manage fiscal responsibility, in the eventuality that such powers are transferred to a sub-state level of authority.
Of particular note in this regard is the project “Project: Fostering local public administration towards the EU standards and best practices”, which is discussed in Section 4.1.2 of this report. As noted, this particular project offers training infrastructure for local and regional government officials, and thereby develops capacity at the local and regional level which can sustain the implementation of fiscal responsibility tasks, as and when these are decentralised from national authorities.

4.1.3 Showcase of Projects Fostering Territorial Cooperation

Project: Development of the transport infrastructure in the area of the Augustow Channel

This project, financed under the Priority 1 strand of the Poland-Belarus-Ukraine cross-border cooperation programme 2007-2013 focused on the competitiveness of the border area, by tackling shared approaches to the management of transport infrastructure.

This project partnership brought together the local community of Plaska (Polnad) together with two EaP partners from Belarus, firstly the United Municipal Enterprise “Projecting-Repairing-Building” Grodnoobldorstroj from Belarus, and the regional authority from the Hrodna Raion, namely its Executive Committee.

This project ran for 18 months with a global budget of €1 652 575, focusing specifically on measures to improve access to the cross border region, with an emphasis on the improvement of competitiveness for this region. The project area, as a geographic territory, was regarded in need of sustainable support, due to its relative distance from the socio-economic hubs of the wider region. This geographical remoteness was compounded by low levels of economic activity, and the dominance of the agricultural and forestry sectors in the economic profile of the cross-border region. All of this combined to make the area relatively uncompetitiveness. This project set out to develop the transport infrastructure of the Augustow Channel area, as a means to driving forward accessibility and therefore stimulating inward investment into the region.

Overall, this project focused on transport infrastructure investments. However, the wider project also addressed moves towards a harmonization of investment policies in the transport sector around the Augustow Channel, as a means of creating instruments of cross-border flows of information, as well as ideas development and the ability to devise common solutions to transport issues.
At its heart, the project centred on two main objectives, firstly investment to support the reconstruction of a main highway linking the region with economic centres elsewhere (the H-6049 Racicy-Hinavicy-Polnyja Bahatyry route in Belarus) and the rebuilding of the transportation system of 12 local roads within the Plaska Commune (Poland).

**KEY POINTS**

- Project addressed key infrastructure development needs of a cross-border region
- The project understood that physical connectedness can lead to an inflow of ideas and investment as well as raw transportation
- Cross-border support mechanisms facilitate the design of cross-border solutions and the management of shared challenges jointly

**PROJECT CONTACT POINTS**

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**Project: Medieval Jewelleries: Khotyn, Soroca, Suceava, Mejekss**

The objective of this project was to improve the viability of tourism potential in this cross-border region by developing a more joined up approach to the presentation of shared common and historical heritage. A cross-border partnership was established as a means to generate a comprehensive strategy for cultural heritage preservation and the development of a global tourism strategy showcasing medieval fortresses in the region.

Overall, the objective of this project was to develop a strategy for the development of tourism potential in the region, and in so doing, to generate economic investment in the region. The medieval fortresses of Soroca, Suceava, Khotyn offered potential as an international visitor attraction but were presented
to differing standards, and as standalone entities, offered limited viability as tourist attractions. In combination, these fortresses offered a deeper insight into the region’s history and cultural heritage and could deliver more of an external draw to global tourism. Building on the cultural dimension of this cluster of buildings, project innovations also supported the development of creative and artistic industry across the region that offered a complementary draw into the region from interested tourists.

With a total budget of €3 003 220 over 24 months, the project is being led by a local authority in the EaP region, the District Council of Soroca, Moldova, working in cooperation with other local authority actors, namely the town council of Soroca in Moldova, Suceava Municipality in Romania and the National Historic Architecture Reserve of Khotyn Fortress, Ukraine.

**KEY POINTS**

- Regional potential can be enhanced through effective collaboration across borders
- Local and regional authorities are in a strong position to lead on projects to stimulate cross-border economies, through their broader remit to develop local infrastructure, skills and expertise
- Cross-border cooperation schemes can tap into unexploited reserves for economic growth, which have previously been limited due to the structural constraints of territorial borders

**PROJECT CONTACT POINTS**

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4.2 Lessons Learned: How Enhanced Financial Instruments Can Support a Strong LRA Dimension to the EaP

The brief showcase of projects which thus far have addressed the local and regional dimension of the EaP’s global objectives illustrate how much can be achieved with even relatively modest sums of funding. Investment in public authorities at the sub-state level offers to sustain a multiplier effect across both time and space, that is to say, sustainable, long-term solutions across territorial boundaries.

With regard to the needs assessment highlighted in the 2012 report on the “Contribution of local and regional authorities to the development of the Eastern Partnership” (Report 3812 for the Committee of the Regions), and the subsequent identification by CORLEAP of three priority action areas: Public Administration, Fiscal Decentralisation and Territorial Cooperation, it is clear that existing financial assistance schemes touch only tangentially upon these needs and address them neither fully nor directly. What is needed is a more effective framework for pursuing these reform objectives. CORLEAP should engage with DG DEVCO to devise a funding programme which offers to meet these objectives through an overarching strategy for assistance.

- DG DEVCO should, on the basis of evidence presented by LRA actors from the EaP area, review the requirements for applying for EU financial assistance.

- CORLEAP and the CoR, as well as LRA associations from the EaP area should work with DG DEVCO to identify ways in which the process of applying for EU financial assistance can be made easier for LRAs in the EaP countries, by for instance:
  - introducing less stringent reporting requirements;
  - revising the procedure for demonstrating legal and financial viability, given that current EU demands are not easily delivered by LRAs or local banks (see Section 1.2 of this report)

- DG DEVCO should prepare a strategy paper which recognises the need to address, through financial assistance programmes, three political priorities for action which have been articulated by CORLEAP, the EU’s only vehicle
for the aggregation of local and regional viewpoints from EU and EaP representatives, at its Annual Meeting in Chisinau in 2012.

• The European Commission should aggregate its various financial assistance programmes which currently target local and regional actors in the EaP area under one shared strategic umbrella. This more streamlined and vertically integrated approach will significantly advance the local and regional dimension of the EaP and will meet the political aims of CORLEAP’s current Action Plan.

• Working in close cooperation with partners from the region, DG DEVCO and the EaP Civil Society Forum, CORLEAP can articulate even more clearly the need to focus on the three priority areas where it has identified scope for enhanced developmental support: Effective public administration reform at the local and regional level; further support measures for fiscal decentralisation and an enhanced sub-national budgetary autonomy in EaP states; and enhanced territorial cooperation across borders both within the EaP area and with EU member state partners.

• As a key actor within a network of networks, CORLEAP holds an important set of informational reserves on the nature of public administration reform at the local and regional level which should be appropriately channelled into the development of future financial assistance schemes. CORLEAP can present this information in its relations with the European Commission, principally DG DEVCO, to highlight the multiple future benefits which will be obtained from supporting investment in both public administration reform and fiscal decentralisation in the EaP countries as an urgent, immediate priority.

• In its relations with the European Commission, principally DG DEVCO, CORLEAP can highlight the multiple future benefits which will be obtained from supporting investment in fiscal decentralisation in the EaP countries as an urgent, immediate priority.

• This present report sets out empirical data on the “multiplier effect” that strategic reforms at the local and regional level will generate. It is for this reason that engagement with DG DEVCO is of crucial importance at this juncture, as is the suggestion that CORLEAP can exploit its own position as a “network of networks” to showcase understandings of good practice in public administration reform, fiscal decentralisation and territorial cooperation through public events, to raise awareness of the importance of strengthening the local and regional dimension of the EaP as it enters the next phase of its operation.
A clear finding of the analysis presented in this report is that effective fiscal decentralisation is not a “one size fits all” strategy, but rather a concept which needs to be tailored according to local circumstances. There therefore needs to be capacity at local and regional levels of government to enact decentralised financial capacity. Together with DG DEVCO, CORLEAP should work to establish programmes for financial assistance in the EaP region which will enhance the financial capacity of local administrations.

The project “Fostering local public administration towards the EU standards and best practices” delivered under the “Quality of Life” thematic strand of the 2007-2013 Romania-Ukraine-Moldova ENPI CBC programme is a beacon in this regard (see section 4.1.2), offering enormous potential to build capacity within local public administrations and to provide the training which would allow local and regional governments to enact fiscal responsibility at this level.
5 Summary

The Eastern Partnership has the potential to make a decisive difference to the quality of the European Union’s integration plans for its eastern neighbours. However, the experience of the past few years in which the policy has been in operation suggests that there remains some room for improvement. The full participation of LRAs and CORLEAP will aid the EaP’s process of maturation. However, not all of the reforms that are required can be implemented by local and regional authorities acting alone.

For effective change to take place, a multi-level framework for political action needs to be elaborated, built on the recognition that shared aims are best delivered through partnership. To this end, LRAs need to work closely with both the European institutions and their national governments. There is increasing scope for this approach to have a significant impact. Further political actions need to be undertaken by supranational actors, national government actors and local and regional authorities if the EaP process is to offer a full, multi-level framework where actors from all areas of society in the EaP states can engage with the process and benefit from its outputs.

The key lobby points for LRAs relate to visa policy, financial assistance for the Eastern Partnership countries and the full implementation of the conditionality policy. These are vital points of focus for LRAs since in the first place, **LRAs on the border between the European Union and the Eastern Partnership countries have the most to gain from closer collaboration between both sides**, resulting in an increasing level of cross-border trade (which is a stimulus to economic development) as well as people-to-people contacts (which has a cultural, social and economic value). Moreover, LRAs on both sides stand to be some of the principal beneficiaries of the higher financial allocations that we suggest should be provided for the Eastern Partnership, precisely because it is expected to provide a significant uplift to economic activity and, once again, to increase people-to-people contacts, providing a boost to cross-border cooperation.

CORLEAP has identified the strategic areas of focus for cooperation with LRAs in the Eastern Partnership countries, these are: (1) the need to enhance the capacity of LRAs; and (2) the need to enhance their responsiveness to citizens, thus improving the quality of local democracy. Progress can be made in addressing these needs through a focus on three priority areas for action across the EaP countries, which will add an enhanced territorial dimension to the Eastern Partnership. These are: public administration reform, fiscal decentralisation and territorial cooperation. The report elaborates in detail on
how these three areas can best be developed through coordinated action at the supranational, national and local levels. It provides concrete suggestions on the roadmap for the further development of CORLEAP and the local and regional dimension of the EaP that is complemented by a showcase of projects relating to the reform priorities identified.

The report argues that the Lithuanian Presidency marks an opportunity for CORLEAP’s political capacity will come into its own; after two years of operation, CORLEAP now has the accumulated political resources to make a significant difference to the future design of the EaP roadmap, and this next step will be a real marker of CORLEAP’s ability to deliver on its founding mission. The time for persuasive advocacy and timely political intervention is now.
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