



# Territorial reforms in Europe: Does size matter?

## *Territorial Amalgamation Toolkit*

**Tools for Local  
and Central  
Authorities**

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## Introduction

Territorial reforms have become a major feature of public administration reform in recent decades in Europe. Following a wave of changes affecting mostly Western European countries in the 1970s, further changes were initiated in Central and Eastern Europe at the turn of that same century following the demise of undemocratic regimes. In the early years of the twenty-first century, in the aftermath of the financial and economic crisis that has shaken primarily but not exclusively Western European States, another wave of restructuring has been set in motion.

The rationale for these changes varies widely: the first epoch was characterised by a quest for modernisation, rationalisation and above all 'economies of scale'. The changes introduced in the post-socialist countries aimed at bringing back a high degree of municipal autonomy at the cost of territorial fragmentation where previous regimes had sought centralisation and direct command from the centre. And the – still ongoing – response to the financial crisis seemingly appears to be aimed at reducing costs, improving service delivery and rationalising decision-making processes if at the cost of loosening the connection between the citizens (voters) and decision-making bodies – or even relieving local authorities of some of their functions to be 'returned' to a higher tier or the State.

All these changes affected the various tiers of government in most European States, from the first level (the municipal or communal level) to the intermediate (county, province) up to the meso (region) level, occasionally involving also the reorganisation of the State's own peripheral structures at local/meso level. Changes mostly tended to reduce the number of municipal/local governments through amalgamation or enhanced inter-municipal cooperation, the result often being a drastic reduction in the number of local government units (communes) and an increase in their geographical size and population. In some cases – metropolitan areas – specific attempts were made at pulling small municipalities together around bigger conurbations with a view to creating large 'metropolises' that would constitute 'hubs' for service delivery and economic development.

This document is however only concerned with reform of the first tier of government, namely municipal/communal level, whatever the name of this tier in the member States concerned ('local government unit' is also widely used in some parts of Europe). The terminology may subsequently vary – in the rest of this document – but the scope is the same throughout it.

Secondly, the document deals with territorial reform in the narrowest of senses. This broad term may cover at least the following changes:

- Amalgamations (mergers) of local government units, which leads to territorial consolidation through a reduction in the number of local governments
- Splits of local governments leading to an increase of number of units and territorial fragmentation

- Changes of geographical borders of neighbouring local governments, without any change in the number of local government units
- Changes in the number of sub-national tiers of government, for example the suppression of intermediate tiers (provinces in Italy, *départements* in France, etc.) or the introduction of additional tiers (regions).

The focus is on the municipal tier, leaving aside reforms at county or regional level, and the first type of territorial reforms – i.e. amalgamations. Looking at the practice of European countries after 1945, all reforms leading to a change in the number of local government units at first level (municipal tier) which have been intentionally implemented as national (countrywide) policies have had the character of amalgamation reforms. All fragmentation reforms have resulted from bottom-up spontaneous pressure from local communities, but not from the policies of central governments<sup>1</sup>. For this reason, in this document the terms ‘amalgamation’ and ‘territorial reform’ are used interchangeably. Also, in the past, several authors of academic and policy literature treated the terms ‘amalgamation reforms’ and ‘territorial reforms’ as synonyms (including earlier reports of the Council of Europe – e.g. Sharpe 1995).

Reforms of local government structures in metropolitan areas are not distinctly discussed here. They may take different forms, from voluntary or compulsory inter-municipal cooperation, through special two-tier structures of government, to the annexation of suburban municipalities by the central city. Some of the features discussed in this document may apply also to the making of metropolitan areas but this phenomenon is not discussed as such here.

Thirdly, the information gathered and discussed in this document has three distinct sources: first and foremost, the Council of Europe member States’ own responses to a questionnaire established by and discussed within the Council’s only body dealing with local governance – the European Committee on Democracy and Governance, CDDG – thus bringing authoritative information and experience to the fore; secondly, existing literature examining national/regional experience and finally also some recent international (OCDE, EU) research on local government.

The aim of this document and the research that supports it is to provide tools – hence the nickname ‘Toolkit’ – to those who consider amalgamation reform a possible remedy to problems stemming from territorial fragmentation, as well as those who are involved in the process of amalgamation, or municipal/communal reorganisation – be it through a merger, enhanced inter-municipal cooperation, (occasionally) splitting of existing municipalities, or redistribution of competences/functions across levels of government.

Even if empirical studies show no linear correlation between size, efficiency and savings, the trend (or pressure) is there and it deserves accurate scrutiny in order to provide all those concerned or interested – from governments to local authorities, through associations and civil society movements – with insight and practical advice, based on experience and best practice. In short, to

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<sup>1</sup> The only exception to this rule might be the debate in Georgia after 2012, in which the present government has suggested increasing the number of local governments more than twice. But so far those plans have not been implemented.

guide proponents of reform through the maze of the various steps to be taken or of the issues not to be overlooked when deciding to pursue the reform, designing it, securing political support for it, implementing and evaluating the outcomes, in order to make it a living experience which should normally result in not just better service delivery but also stronger local democracy.

The research has been supervised – and this document has been written and edited – by Mr Pawel Swianiewicz and Mr Adam Gendzwill (University of Warsaw, Faculty of Geography and Regional Studies, Department of Local Development and Policy), with the assistance of the staff of the Council of Europe Centre of Expertise for Local Government Reform.

### *How to use this document*

This document is to be used as a ‘toolkit’ from which data, examples and ‘lessons learned’ can be extracted for use by those concerned by and interested in the amalgamation processes.

The Toolkit initially provides (Chapter 1) a review of the changes in territorial organisation in European countries between 1950 and 2015, which sheds some light on the reforms that have occurred so far and the rationale behind them.

In the light of this, the first ‘tool’ is a discussion of the arguments ‘for’ and ‘against’ this particular aspect of territorial reform, namely municipal merger or amalgamation (chapter 2).

What follows (Chapter 4) is a series of various steps to be taken – or not to be lost from sight – when envisaging and implementing amalgamation. The steps are provided in a fairly logical succession that does not necessarily correspond to the ‘chronology’ of implementation of the reform. A ‘decisional tree’ (Chapter 3) helps the user to figure out how they should proceed with the reform stages, including by returning to previous steps if necessary.

Each subsection of Chapter 4 contains a presentation of the ‘step’, an excerpt of the relevant Council of Europe reference text – Committee of Ministers’ Recommendation CM(2004)12<sup>2</sup> –, a discussion of the issue(s) (behaviours) to be taken into account when dealing with it, examples and lessons from Council of Europe member States’ practice, and documents that may be used as a source of inspiration. When necessary, boxes draw the reader’s attention to ‘important’ considerations. Concrete examples or lessons drawn from experience are provided in other boxes headed ‘focus’.

A separate discussion (Chapter 5) is devoted to the need for and modalities of the ex post evaluation of the reform which is an intrinsic component, however badly exploited, of any reform process.

The last chapter is a ‘dodecalogue’ (a 12-point list) that recaps what has been detailed in Chapter 4 to be used as an aide-memoire for reformers.

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<sup>2</sup> The full text of the Recommendation is given in Appendix 5.

A reasoned bibliography with indications about what data is available on what issues (Appendix 1) is provided. Separate appendices (2 to 6) provide access to case-studies and documents that may be used as references or sources of inspiration.



## The changing map of local government in Europe from 1950 to 2015

### A terminological clarification

In this section, local government is meant to cover 'governance at the level closest to citizens' with the characteristic of being directly managed by citizens through local elections, as per the European Charter of Local Self-Government. It does not cover the central State's local branches or offices, also referred to occasionally as local government. 'Local governments' in the plural means (individual) local government *units*, or communes, or municipalities – whatever the terminology prevailing in a given State (the European Charter would refer to them also as local *authorities*). In what follows, the reader will also find references to the upper tiers (counties, departments, provinces or regions) where changes have also been introduced. Changes relating to sub-municipal tiers (parishes, districts or boroughs of cities) are not considered.

Most of the municipal level territorial reforms implemented after World War Two in Europe were consolidation reforms, reducing the number of local governments and creating larger municipalities. That is why the term 'territorial reform' is often used almost as a synonym of 'amalgamation reform'. The only changes going in the opposite direction – i.e. territorial fragmentation increasing the number of smaller local governments – resulted from spontaneous bottom-up pressures, not from reform as designed and implemented according to central government plans.

### Three waves

The first wave of such territorial consolidation reforms took place in the 1960s and 1970s and was rooted in the very popular belief at that time in economies of scale in relation to both industry and public administration. This sort of reform was very common especially in the Northern part of Western Europe (Belgium, Denmark, Finland, Norway, Sweden, the Netherlands, the Federal Republic of Germany, the United Kingdom, etc.). But it also had echoes in the changes of territorial organisation implemented in the non-democratic environment of Eastern Europe – the examples of territorial consolidation reforms at municipal level might be found, for example, in Czechoslovakia, Hungary, Poland, Romania or Yugoslavia.

The political upheaval of 1989 and the early 90s in Eastern Europe brought the opposite tendency: territorial fragmentation, often a bottom-up reaction to the forced (implemented without any democratic procedures) amalgamations in the earlier period. But these were approving reactions for bottom-up pressures rather than changes being part of central-level policies. After 1990, decentralisation and local self-government in some of the countries of that region were understood as almost synonymous with the 'right' of each (even the smallest) settlement unit to have its own, separate local government. Attempts to sustain larger units were considered almost to be 'coups' against local autonomy.

Such tendencies towards territorial fragmentation (resulting from the split of existing

municipalities) can be seen for example in Croatia and the former Yugoslav Republic of Macedonia, where the number of local governments in the early 90s increased by more than four times; in Slovenia with over a threefold increase; in Hungary, where the number of municipalities more than doubled; in the Czech Republic, where the increase was more than 50 %. To a lesser extent, the number of municipalities also increased in Slovakia, Ukraine and some other countries. As a result, in several countries of the region, local governments are often very small, with a large proportion of them having fewer than 1,000 inhabitants, and in extreme cases even just a dozen or so residents. But in some countries of the region (such as Bulgaria, Montenegro, Poland and Serbia) the fragmentation trend has been avoided.

The late 1990s and the beginning of the twenty-first century was a new period of intensifying territorial amalgamation reforms in various countries of Europe: Greece, the former Yugoslav Republic of Macedonia, Georgia and Denmark. In a few other countries (the United Kingdom, Estonia, Finland, the Netherlands, Iceland, Germany, etc.) we could observe a more gradual process or a 'silent revolution' in which there was no single, clear moment of reform but several cases of amalgamation took place almost every year. The next wave of amalgamation reform – so to speak – came after the 2008 financial and economic crisis. It included Latvia (2009), Greece (2011), Luxembourg (2011), Ireland (2014), Turkey (2014) and Albania (2015).

There are also currently reforms under way in Armenia, Estonia, Italy, Norway and Ukraine, which may lead to a reduction in the number of their municipalities in the near future. For example, in Norway the government expects that the number of municipalities may be reduced from over 400 to about 100. So far (summer 2017), the number of Norwegian municipalities has been reduced from 428 to 354 by merging 121 'old' local governments into 47 'new' ones. The vast majority of mergers have been on a voluntary basis but in about a dozen cases it was a central decision made in spite of local dissent. In Ukraine the government plan involves cutting back local governments from currently over 10,000 to about 1,150 (<http://decentralisation.gov.ua>, <https://gromada.org.ua/>). Of these, as many as 160 had been created through the voluntary merger process up until the end of April 2016. By the end of 2016, the number had grown to over 360. In Italy the main focus of the reform is on reforming the provincial level and strengthening inter-municipal cooperation institutions, but in some regions it may also result in a considerable reduction in the number of municipalities. In Armenia the three waves of amalgamation (implemented between early 2016 and June 2017) have reduced the number of local governments from 914 to 505, and the government plan assumes a further reduction to around 150 local government units by the end of 2019.

*The map after the reforms*

#### A terminological clarification

When 'size' is mentioned in this section it usually refers to the population of the local government unit. When 'size' means 'territory' this is made clear in the text.

The variation in the size of municipalities among countries and over time during the period 1990-2014 is presented in Table 1, and the change in the absolute size of local governments in Table 2. The tables cover 40 European countries. The total number of municipalities in these countries in 1990 was close to 116,000 (almost one third of this number were *communes* in France). In the first

half of the 90s, the number of local governments was on the increase (reaching 120,000 in 1994), mainly due to the above-mentioned fragmentation tendencies in Eastern Europe. Subsequently, territorial consolidation tendencies began to prevail. In 2014 the number of municipal governments dropped to 106,000. The pattern of change has been different in different parts of Europe. In Western Europe we could note the constant tendency towards a reduction in the number of local governments in several countries. But in post-communist Europe tendencies towards territorial fragmentation prevailed until 2006 and only the last decade has brought a significant wave of territorial consolidation reforms.

As a consequence of those processes, the size of municipal level governments varies hugely among European countries. The average size of the English local government is almost 100 times larger than that of a typical French *commune*. There is nothing like a typical or even dominant European 'model' of territorial organisation at the municipal level. There is huge diversity in this respect and reforms relating to the size of municipal authorities are still topics of very hot debate and conflict in several countries.

The situation summary regarding municipal consolidation reforms is presented in Table 3. In 18 European countries there was no significant change in the number of municipalities during the whole 1990-2015 period<sup>3</sup>. However, in two of them the current reform process may lead to a significant reduction in the number of local governments. In a further four countries there was a process of spontaneous fragmentation in the early 90s, but no significant changes since then. This still leaves another 16 countries with experiences of territorial amalgamation reforms, all of which concern changes that have already taken place in the twenty-first century.

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<sup>3</sup> By 'no significant change', we mean situations in which the change in the number of local governments has never exceeded 10 % of the original number. Nevertheless, there have been individual cases of municipal mergers in some of those countries. For example, the survey reports that in the Czech Republic there have been 21 mergers since 1993, including 5 over the last decade. However, taking into account the fact that there are over 6,000 Czech municipalities (*obci*), the change in their number has been less than 0.5 %.

Table 1. Ranking by mean population size of municipal governments in European countries.

1990			2005			2014		
1	United Kingdom	106.5	1	United Kingdom	129.3	1	United Kingdom	149.2
2	Lithuania	63.5	2	Lithuania	55.5	2	Ireland	148.7
3	MKD*	54.7	3	Serbia	51.7	3	Denmark	57.8
4	Serbia	53.7	4	Ireland	36.8	4	Turkey	55.1
5	Bulgaria	32.5	5	Netherlands	34.9	5	Georgia	52.5
6	Portugal	32.5	6	Portugal	34.3	6	Serbia	49.3
7	Slovenia	32.1	7	Sweden	31.3	7	Lithuania	48.5
8	Ireland	31.0	8	Bulgaria	28.8	8	Albania***	47.4
9	Sweden	30.3	9	Montenegro	27.0	9	Netherlands	42.1
10	Montenegro	27.0	10	MKD*	25.5	10	Portugal	33.9
11	Turkey	26.6	11	Turkey	22.2	11	Sweden	33.7
12	Croatia	26.2	12	Denmark	20.4	12	Greece	33.3
13	Netherlands	22.3	13	Belgium	17.8	13	Bulgaria	27.5
14	Denmark	18.7	14	Poland	15.6	14	Montenegro	27.2
15	Belgium	16.9	15	Finland	12.2	15	MKD*	25.9
16	Poland	16.0	16	Greece	10.8	16	Belgium	19.1
17	Finland	10.9	17	Norway	10.7	17	Finland	17.1
18	Norway	9.5	18	Slovenia	9.8	18	Latvia	16.6
19	Albania	8.7	19	Croatia	8.1	19	Poland	15.5
20	Romania	7.8	20	Albania	8.0	20	Norway	12.1
21	Hungary**	7.5	21	Italy	7.1	21	Slovenia	9.2
22	Italy	7.1	22	Romania	6.8	22	Croatia	7.7
23	Estonia	6.2	23	Germany	6.7	23	Italy	7.5
24	Georgia	5.4	24	Malta	6.0	24	Germany	7.3
25	Malta	5.4	25	Estonia	5.9	25	Malta	6.6
26	Germany	5.0	26	Spain	5.3	26	Romania	6.3
27	Ukraine	4.9	27	Georgia	4.3	27	Estonia	6.2
28	Spain	4.9	28	Latvia	4.2	28	Spain	5.7
29	Latvia	4.6	29	Luxembourg	4.1	29	Luxembourg	5.3
30	Moldova	4.6	30	Moldova	4.0	30	Iceland	4.4
31	Austria	3.3	31	Ukraine	4.0	31	Moldova	4.0
32	Luxembourg	3.3	32	Austria	3.5	32	Ukraine	3.7
33	Cyprus	3.0	33	Hungary	3.2	33	Austria	3.7
34	Lichtenstein	2.6	34	Lichtenstein	3.2	34	Switzerland	3.5
35	Czech Rep.	2.5	35	Iceland	3.1	35	Lichtenstein	3.4
36	Switzerland	2.5	36	Cyprus	2.7	36	Hungary	3.1
37	Slovakia	1.9	37	Switzerland	2.7	37	Cyprus	2.3
38	Greece	1.7	38	Slovakia	1.9	38	Slovakia	1.9
39	France	1.6	39	Czech Rep.	1.7	39	France	1.8
40	Iceland	1.2	40	France	1.7	40	Czech Rep.	1.7

(\*) MKD = the former Yugoslav Republic of Macedonia (\*\*) – 1989 r., (\*\*\*) - 2015

The data covers 40 European countries; among the countries that are members of the Council of Europe, the table does not include Armenia, Azerbaijan, Bosnia and Herzegovina, the Russian Federation and countries consisting of one city or which are too small to have meaningful local governments (Andorra, Monaco and San Marino).

Source: own calculations based on the Local Autonomy Index project data

(<https://pl.scribd.com/doc/293560272/Local-Autonomy-Index-for-European-Countries-1990-2014>)



Netherlands	672	636	548	496	458	431	403	100	94.6	81.5	73.8	68.2	64.1	60
Norway	448	435	435	435	433	430	428	100	97.1	97.1	97.1	96.7	96	95.5
Poland	2383	2475	2489	2491	2478	2479	2479	100	104	104	105	104	104	104
Portugal	305	305	308	308	308	308	308	100	100	101	101	101	101	101
Romania	2948	2948	2948	2966	3174	3181	3181	100	100	100	101	108	108	108
Serbia	145	145	145	145	145	145	145	100	100	100	100	100	100	100
Slovakia	2826	2858	2878	2891	2891	2890	2890	100	101	102	102	102	102	102
Slovenia	62	158	203	204	221	221	223	100	255	327	329	356	356	360
Spain	8108	8108	8108	8114	8114	8815	8118	100	100	100	100	100	109	100
Sweden	284	286	288	289	290	290	290	100	101	101	102	102	102	102
Switzerland	2761	2761	2761	2726	2726	2584	2352	100	100	100	98.7	98.7	93.6	85.2
MKD*	34	34	123	123	80	80	80	100	100	362	362	235	235	235
Turkey	2061	2754	3230	3243	3241	2966	1411	100	134	157	157	157	144	68.5
Ukraine	10572	11338	11566	11615	11623	11622	11624	100	107	109	110	110	110	110
UK	540	540	467	468	468	434	433	100	100	86.5	86.7	86.7	80.4	80.2

\*MKD = the former Yugoslav Republic of Macedonia \*\* - 1989, \*\*\* - 2015

Source: own calculations based on Local Autonomy Index project data

(<https://pl.scribd.com/doc/293560272/Local-Autonomy-Index-for-European-Countries-1990-2014>)

Table 3. Territorial reforms of municipal tier in Europe after 1990

No significant changes in territorial organisation	
Belgium, Bulgaria, Cyprus, France, Germany (8 out of 13 Länder), Liechtenstein, Lithuania, Malta, Montenegro, Poland, Portugal, Romania, Serbia, Slovakia, Spain, Sweden, Switzerland (12 of 25 cantons)	
No changes so far, but reforms currently under way which may lead to territorial consolidation	
Armenia (2), Estonia (4), Italy (1), Norway (2), Ukraine (2)	
Gradual consolidation over various years, with no clear, single moment of reform	
Estonia (5), Finland, Germany (Länder of Mecklenburg, Sachsen, Sachsen-Anhalt, Thüringen), Iceland, the Netherlands, Switzerland (Cantons of Berne, Fribourg, Graubünden, Lucerne, St. Gallen, Solothurn, Ticino, Vaud, Valais) and the United Kingdom	
Fragmentation in the early 1990s	
Croatia, Czech Republic, Hungary, Slovenia	
Amalgamation reforms in one or more part(s) of federal countries	
Austria, Germany, Switzerland	
Territorial amalgamation reform	Year
Albania	2015
Austria - Styria	2015
Denmark	2007
Georgia (3)	2006
Germany - Brandenburg	1995, 2002-2004,
Greece	1998, 2011
Ireland	2014
Latvia	2009
Luxembourg	2011
Switzerland – Glarus	2011
Switzerland – Jura, Neuchatel	2009, 2013
Switzerland – Schaffhausen	2009
Other situations	
The former Yugoslav Republic of Macedonia	Fragmentation in 1996, amalgamation in 2004
Moldova	Amalgamation in 1999, fragmentation in 2003
Turkey	Fragmentation in 1990, amalgamation in 2014
Portugal	Amalgamation of sub-municipal (parish) tier

(1) Reform in Italy concerns mainly the provincial level and inter-municipal cooperation, but it may also include consolidation of the municipal tier. (2) The process of reform started in 2014 in Norway, in 2015 in Ukraine and in 2016 in Armenia, but the process has not been completed yet. (3) After 2012, partial re-fragmentation reform under discussion. (4) Estonia, as explained in the text, is a specific case. At first, there was a gradual 'year-by-year' consolidation and in 2016-2017 the reform entered another stage.



### *A single moment for the reform or a long process*

One group of these countries is that in which there has been no clear, single moment of reform, but changes have been implemented gradually over many years. In this group we find Estonia<sup>4</sup>, Finland, Germany (where the reforms were implemented at different moments in various *Länder*, for example in Saxony-Anhalt the number of municipal governments dropped from 1030 to 215 between 2006 and 2010), Iceland, the Netherlands, Switzerland (similarly to Germany – changes at different moments in individual cantons<sup>5</sup>) and the United Kingdom (in that case the main mode of change was the replacement of the two-tier district-county structure by larger unitary authorities, the most numerous changes took place in 1996, but also in the most recent period).

The second group includes countries with clearly marked territorial amalgamation reform. In chronological order this list includes:

- Greece in 1998 (but the second, more radical, amalgamation was implemented in 2011)
- The former Yugoslav Republic of Macedonia in 2004 (which partially reversed the fragmentation of the 90s)
- Georgia in 2006
- Denmark in 2007
- Latvia in 2009
- Luxembourg in 2011
- Ireland in 2014
- Turkey in 2014 (which followed the earlier fragmentation of the 90s)
- Albania in 2015.

Perhaps in the near future one will be able to add the countries with currently ongoing territorial reforms (Armenia, Estonia, Norway and Ukraine) to this list.

In some cases the amalgamation was very radical. In Greece the cumulative change of the two waves of the reform reduced the number of local governments by a factor of almost 20. In Georgia the reduction was only marginally smaller: a factor of 15. The number of local governments in Albania was divided by more than six and in Latvia by almost five. But in Luxembourg the number was reduced by just over 10 % of the original number.

### *The issue of 'size'*

In some of the countries the starting point was a situation in which local governments were usually very small and the mean population size was just 5,000 or even less. The most extreme is the case of Iceland, where the mean population of municipal governments slightly exceeds 1,000, but Greece, Switzerland, Luxembourg, Latvia, Germany or Georgia also started their reform with

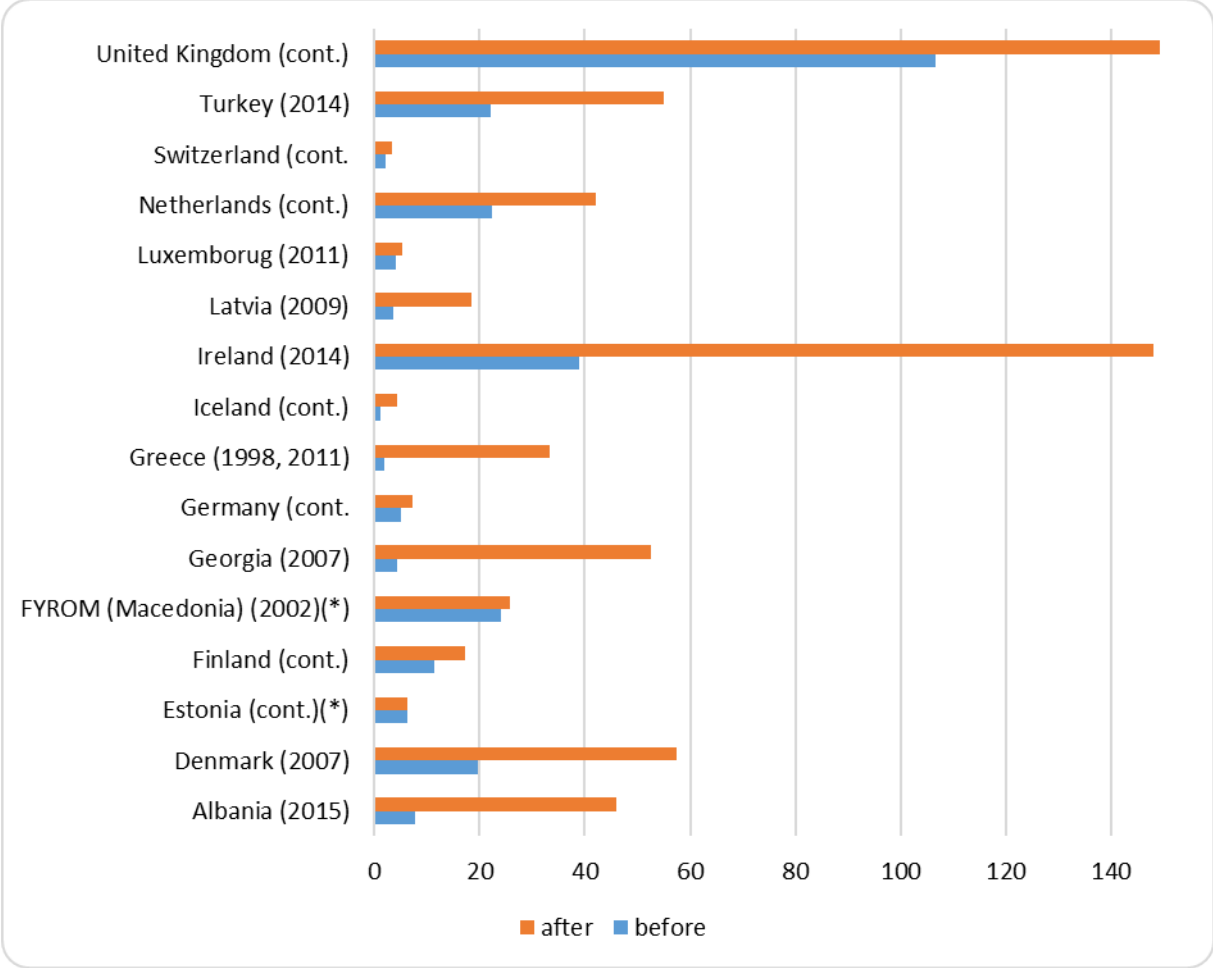
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4 Until summer 2016, when the government of Estonia decided to implement a more radical territorial reform during 2016-2017.

5 Data provided by Dafflon (2012) shows that, in 10 out of 26 Swiss cantons, the number of local governments has considerably shrunk since 1990. In 9 out of those 10 cases the reform took place after 2000. The opposite process –territorial fragmentation – took place in the 90s in one canton.

very small municipalities. However, some of the countries decided to amalgamate their municipalities even if they were relatively large already at the beginning of the process. The most extreme example of such a situation is the United Kingdom, which has had the largest local governments in Europe since the reforms of the early 70s. But also local governments in Ireland, the former Yugoslav Republic of Macedonia, the Netherlands and Denmark were relatively large (compared to the European average) even before the reforms. As a result of the reforms, some countries (Iceland, Luxembourg, Estonia, Germany and Switzerland) stayed with still relatively small municipalities, but in some other cases (Greece, Georgia, Albania) the amalgamation moved the size of their municipalities up the European ranking to a very dramatic extent. The size before and after reform illustrating the intensity of the change is presented in Figure 1.

Figure 1. Population size (x 1,000) of local governments before and after amalgamation reforms



Notes: years of the reform given in brackets; 'cont.' refers to continuous change spread over several years; '(\*)' means that the impact of the reduction in the number of municipal governments is almost overshadowed by demographic changes.

The most untypical case in Table 3 is Portugal. There has been no territorial reform at municipal level (which is the primary focus of this Toolkit) but a reduction in the number of sub-municipal units – parishes – from 4,259 to 3,091. Sub-municipal level is not dealt with in the Toolkit, but in the case of Portugal the position of those units is relatively strong, e.g. they have direct access to state funding, and – most importantly – contrary to sub-municipal units in most other countries, they are mentioned in the constitution and therefore cannot be abolished by an ordinary law. On the other hand, they are subordinate to municipalities, which were involved in the negotiation of their mergers, and the main dimension of the functional reform has been to enable more transfers of functions from municipalities by contractual means.

#### *Is territorial reform not a political issue?*

Interestingly, in spite of being usually a very sensitive political issue, territorial reforms are only exceptionally topics of public and political debate during election campaigns. Of the 14 questionnaires received, only in three countries (Greece, Finland and Norway) was the topic mentioned as important, and each time it referred only to local elections (never to national elections). At the same time, in several cases reforms were implemented after elections in which the winning party (or coalition) had not mentioned the prospect of amalgamation in its electoral manifesto. It suggests that politicians often try to avoid this sensitive topic for as long as possible. The answers to the question on the role of territorial reforms in the elections are summarised in Table 4.

Table 4. Did the issue of territorial reforms arise in the last electoral campaign to the national/sub-national representative bodies? In comparison to other issues raised, how important was that topic? Responses by CDDG experts

Territorial reform an issue during elections?	Not at all	Somewhat important	Important topic	Very important topic
Parliamentary (national) elections	Czech Republic, Belgium, Denmark, Latvia, Slovakia, Germany, Hungary, Switzerland	Finland, Serbia, Portugal, Slovenia, Greece, Norway	Estonia	
Sub-national elections	Czech Republic, Belgium, Denmark, Latvia, Slovakia, Germany, Hungary, Switzerland	Serbia, Portugal, Slovenia	Greece	Finland, Norway

*A tentative conclusion*

The review of the changes above indicate no clear trend or uniform approach to amalgamation, except perhaps in the third wave – following the 2008-2009 financial crisis – where the predominant concern seems to have been the need to reduce public expenditure *in* (not necessarily *by*) local government. This points to possible shortcomings in the reform rationale, namely that financial (or public finance) considerations seem to prevail over more expedient delivery of public services and local democracy as justifications for the reform. If this is the case, it does not detract from the overall justification of the reform in the context of a given country's efforts to reduce public expenditure and streamline its administrative structure. What other factors also need to be taken into account in relation to such reforms is the topic of the next chapter.

## Amalgamation: a good or bad idea? The discourse of territorial reforms

### How to use this chapter

This chapter presents and discusses the arguments for and against amalgamation on a theoretical basis, i.e. without reference to a specific situation. Its purpose is to list the issues that are likely to be raised (and to need to be addressed during the course of the amalgamation process) by experts, citizens and political forces that have to discuss the usefulness or inevitability of the amalgamation.

This chapter is useful reading for anyone interested in territorial reforms: opponents as well as promoters of reform.

Each reform process uses a specific set of justifications that are based on the diagnoses, the prognoses and their political interpretations. Based on the existing academic literature on territorial reforms, one can summarise that, in the case of amalgamation reforms, their proponents predominantly use economic arguments, which present municipalities primarily as local agencies of the welfare state, providing basic services to the citizenry. It could be observed that the economic arguments, already substantial, grew in significance along with the financial/economic crisis (2008). The crisis itself was frequently displayed as an external driver for launching recent amalgamation reforms in Greece, Latvia and Ireland.

The core arguments presented in favour of amalgamation are:

- economies of scale and possible synergies – the assumption that tasks could be performed better and costs reduced in larger territorial units (Dafflon, 1998; Steiner et al., 2016; see frame);
- unfavourable demographic trends that cause further population shrinkage in small municipalities and therefore create problems in service delivery – this argument also refers to the unit cost of local services; amalgamation reform in such a case is depicted as a response to the problem of depopulation;
- the need to adapt the administrative division to the developments of settlements and transportation network (mainly in urban areas); in many countries municipal boundaries may be considered 'outdated', since formerly separated settlements have become functionally integrated, new settlements have grown or new transportation routes have changed the hierarchical structure of settlement networks<sup>6</sup>;
- economies of scope – the assumption that more public services can be delivered in larger

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<sup>6</sup> However, in this case the approaches might be diversified and there has been a very long ongoing debate on the solutions for management of such growing agglomerations. The main options are: annexation of former sub-urban municipalities, bottom-up cooperation of autonomous municipalities of the functionally integrated area, two-tier structure with functions requiring coordination allocated to the upper tier of agglomeration government. This complex issue goes well beyond the scope of this report, but one may refer to plentiful literature on that issue (e.g. Heinelt, Kübler 2005).

units. Particularly when amalgamations are coupled with functional decentralisation or devolution, it is argued that, in the case of specific services already delivered by local governments (or planned to become a new area of local government responsibility), their optimal catchment areas should be larger than typical jurisdiction sizes.

**This is important!**

Amalgamation should be seen and delivered in conjunction with other reforms, namely a redistribution of tasks among tiers of government – from the local to the intermediate to the meso level, and often also with the reforms of inter-governmental finance. By enlarging the geographical scope (thereby increasing the population) of the amalgamated municipality or municipalities, the case for transferring additional competences from a higher tier and reforming the relationships between municipalities and that tier – or even the State – obviously arises. Similarly, larger local governments may have modified sources of revenue and/or increased discretion to manage their financial policies. The case for ‘bundling’ amalgamation with other territorial and institutional reforms is discussed later.

The argument of economies of scope (above) has several popular versions:

- the capacity to perform new (or existing) functions – it is claimed that the small size of municipalities is the main barrier to further decentralisation, as the smallest jurisdictions are not able to deliver the whole set of public services;
- the capacity to absorb external funding (e.g. EU structural funds) – it is claimed that smaller units are not able to absorb external funds for investments properly; sometimes – due to their small size and potential – they are not even eligible to apply for external funds;
- the ‘professionalisation’ of local administration – it is claimed that, in bigger units, personnel are better educated and more specialised in specific policy fields. The increase in expertise and therefore the assumed increase in the performance of the local administration should compensate for the growing costs of coordination along with the increased size of the administration and the additional organisational complexity;
- the quest for a relatively stable tax base in times of financial stringency – it is claimed that larger territorial units with more diverse local economies are more resilient to economic crises; this argument is particularly relevant in local government systems with wider fiscal decentralisation.

**A terminological clarification: plant-level and firm-level returns to scale**

The studies focusing on scale effects in local government frequently assume that scale effects are a function of the size – population, geographical extension – of the local authority as a whole (i.e. ‘firm-level’ effects) not the size of individual service providers – municipal institutions such as schools, kindergartens, day care centres (i.e. ‘plant-level’ effects).

Blom-Hansen et al. (2014) point out that if scale effects are possible at both levels, it is important to disentangle them, since the size of service-providing institutions can vary for authorities with identical populations.

While Danish authors investigating the primary school system observed scale effects at the level of both the municipality, 'the firm' (Houlberg, 2000: 27-33), and the individual school 'the plant' (Blom-Hansen 2004); they generalise that in most policy areas, scale effects in local government are mainly a plant-level, not a firm-level, phenomenon. They use the example of schools, where most expenditure (i.e. wages to teachers, teaching materials, buildings, etc.) is spent at the level of the individual schools. For that reason – they conclude – the most relevant 'scale question' in this area is whether small schools are more expensive than large ones.

In contrast, the costs of local administration, frequently compared between municipalities of different size, are mostly a firm-level phenomenon.

Opponents of mergers usually raise doubts about the savings prognoses and the reliability of empirical evidence concerning the economies of scale. At the same time, the anti-amalgamation discourse is based on arguments relating to political representation and the quality of local democracy.

The core arguments raised against amalgamation are:

- diseconomies of scale, i.e. situations in which a further increase in the size of the output results in an even greater increase in average cost, or requires huge investments – for example, if the volume of solid waste increases, there is a need for new recycling facilities; once the size of local administration increases, it requires further specialisation which comes at a cost;
- a decrease in the accessibility of services, mainly access to the local administration;
- a decrease in political participation – it is argued that the amalgamation reduces voter turnout, since in larger municipalities votes 'weigh' less (in terms of their potential impact on the ultimate outcome of the election);
- a weakening of the links between citizens, their representatives and local administration – it is argued that municipal mergers hinder the direct contact between citizens and their representatives, as usually the citizen-per-councillor ratio decreases after the reform. The profound changes to the existing mechanisms of political representation may reduce citizens' effectiveness. This could, in turn, undermine the electoral accountability of local authorities (Copus, 2006; Denters et al., 2014; De Ceuninck et al., 2010). The same argument applies to access to the local administration;

This is important!

The case for not cutting the link between voters and representatives is voiced with particular strength in those countries – such as France – where territorial fragmentation is high and local elected representatives are numerous. Clearly, in small municipalities accessing local elected representatives is easier and local democracy may be more effective. But also in countries with no such fragmented territorial systems (e.g. the Netherlands, or Denmark before the 2007 reforms) academic studies demonstrate that amalgamation may lead to a loss of 'democratic capacity'. It may also happen, however, that too close a link between citizens and political representation hampers regeneration of the local political elites and causes local democracy to 'stagnate'. Also, the capacity of very small municipalities to provide quality local services may be hampered by the size and paucity of available resources, thus generating



frustration and disaffection with local politics. This issue needs to be taken more into account than is usually the case in reform processes (see below).

- a serious threat for well-rooted local identities. This argument is particularly relevant when municipalities of similar size but distinct identities are merged and the new name of the municipality or the location of the municipality seat is being negotiated. Amalgamations can fuel the opinion that local interests are not well represented or even cause conflicts between sub-municipal communities.

Several opponents of amalgamation reform agree with the argument concerning the low capacity of small local governments, but claim that this issue may be solved through either inter-municipal cooperation or outsourcing services to private firms of sufficient size to benefit from economies of scale.

In response to these arguments – inter-municipal cooperation and outsourcing – proponents of territorial reform will argue that inter-municipal cooperation has significant drawbacks (relating to democratic deficit, low transparency resulting from excessive complication in the territorial organisation of services and more limited access to information, more complicated decision making, than would be the case under the operation of a single local government) and that in the case of outsourcing, very small local governments do not have sufficient capacity to prepare and monitor the relevant contracts with private companies.

This raises the issue of inter-municipal cooperation becoming either an alternative to amalgamation or a first transitional step towards amalgamation. See below for further discussion. Obviously, inter-municipal cooperation is often a valuable method of dealing with local services, regardless of its relationship with amalgamation reforms. But this issue goes beyond the scope of this toolkit, and will not be discussed here in more detail.

How frequently have the arguments mapped above occurred in public debates on recent territorial reforms in Europe? In the recent expert survey on territorial reforms in 11 European countries, summarised by Steiner et al. (2016), increasing the efficiency of service delivery has been indicated as the most important objective of amalgamations (Table 5). The country experts reported that expectations of higher efficiency in almost all countries were bundled together with anticipation of improved quality in the services delivered.

In other assessments of recent territorial reforms in Europe, based on official documents, reports and expert judgements, Swianiewicz et al. (2016) point out that the arguments relating to the costs and capacity of service delivery occurred in all of the countries studied: the former Yugoslav Republic of Macedonia, Georgia, Denmark, Latvia, Greece, the Netherlands, Finland, Ireland, Albania, Norway and Ukraine.

At the same time, the arguments relating to the functioning of local democracy were raised in Denmark, Greece, the Netherlands, Finland and Norway and not in Eastern and Central European countries: this dimension was next to absent in related debates in the former Yugoslav Republic of Macedonia, Georgia or Albania, but also in Ireland.

#### Focus 1      How important is local democracy?

Reflecting on the potential impact of territorial reform on local democracy is more common in countries with a longer, uninterrupted tradition of local democracy (Finland, Denmark, Norway, the Netherlands, etc.). However, even in the latter, the democratic discourse is rather supplementary in nature, while the basic arguments relate to the economy and service delivery capacity. The main reason to talk about democracy in these countries is to reflect upon whether reforms motivated by economic logic might not lead to harmful side-effects relating to democratic performance. Sporadically, the argument is raised that giving more functions to larger (amalgamated) local governments might support local democracy, since it would boost citizens' interest in local government performance.

Nonetheless, it is interesting to observe that at the same time, governments in many countries (also those implementing territorial reforms) have been experimenting with democratic innovations at local level. These innovations are usually aimed at increasing citizens' engagement and improving the quality of local democracy through direct elections, sub-municipal/neighbourhood councils, referenda, citizen fora, participatory budgeting, public consultations etc. (Vetter et al., 2016).

The research on territorial reforms in various European countries demonstrates that amalgamation reforms justified by economies of scale and scope are not always coupled with functional decentralisation. Certainly it did not happen in case of a radical consolidation reform introduced in 2010 in Georgia, where 995 small municipalities were replaced by 65 new, much larger ones; the lack of further decentralisation is claimed to be the main reason for dissatisfaction with the results of this territorial reform (Swianiewicz, Mielczarek 2010). Similarly, the increase in local spending did not occur in Latvia, where in 2009 the number of municipalities was reduced from 550 to 119 and one of the main justifications for the reform was the increase in local governments' capacity to deliver a wider range of public services (Vilka, Seimuskane 2012).

Steiner et al. (2016) conclude that the objectives of amalgamations are frequently not clearly pronounced. For political reasons, governments may follow a relatively inconsistent agenda with seemingly contradictory objectives. However, such an approach hampers the possibility of achieving constant and long-lasting support for the reform, as well as the possibility of evaluating whether the reform has achieved the desired results.

#### This is important!

It is important to distinguish between the justification and the objectives of the reform. A number of (good) reasons may be given for proposing and further implementing the reform (savings and better delivery of services) but this doesn't amount to an objective: what does the reform want to achieve? Where will the local communities find themselves once the reform has been implemented? Will the quality of local governance improve as a result, whether in terms of participation, transparency, efficiency or sustainability?

Lack of clarity concerning the proponents' objectives may lead to confusion regarding what needs to be achieved and result in diminishing support for the reform or even its abandonment. For a more complete discussion, see below.

Table 5. Objectives of territorial reforms – expert assessments from 11 countries

Objectives	Expert assessments		
	No importance	Medium importance	High importance
Efficiency (economies of scale, economies of scope)			BE, DK, FI, DE, GR, IS, IT, NL, NO, SE, CH
More specialised staff	DK, IT	BE, FI, IS, GR, CH	
Improving service quality		DK	BE, FI, DE, GR, IS, IT, NL, NO, SE, CH
Devolution / Delegation of powers	DK	IS, IT, CH	BE, FI, DE, GR, NL, NO, SE
Democratisation / Participation / Accountability	DK, DE, IS, NL, SE, CH		

Source: Steiner et al., 2016: 32

Table 6. The importance of arguments raised in the debates on territorial reforms

	Arguments raised in the debates on territorial reforms in the last 15 years												
	Capacity to deliver services	Further decentralisation	Cost of administrative services	Cost of other services	Capacity for strategic planning	Capacity for spatial (land use) planning	Capacity to implement local development policies	Capacity to absorb external funding	(Mis-)match between borders and catchment area	Availability and spatial proximity of services	Preservation of workplaces in LG	Preservation of local territorial identities	Functioning of local democracy
BE (Brussels)	1	0		0	1	3	1	1				0	2
BE (Flanders)	3	1	1	1	3	1	1	0	0	0	0	0	0
CH	3	2	2	0	0	2	1	0	3	3	0	3	1
CZ	3	2	1	2	0	0	1	1	3	3	2	3	2
DE (Saxony)	0	2	3	3	3	3	2	2	2	3	2	3	3
DK	3	3	2	1	2	2	2	0	1	1	1	1	2
EE	3	1	1	0	1	1	1	1	2	2	1	1	1
FI	3	0	1	3	2	3	2	0	3	3	1	2	2
GR	3	3	1	1	1	1	2	2	2	2	1	1	2
HU													
IE	2	1	2	2	1	3	2	0	2	0	1	3	3
LV	3	2	3	3	1	1	2	3	3	3	2	3	2
NO	3	2	0	0	3	3	2	0	3	2	2	3	3
PT	1	1	1		1	1	1			1	1	1	
RS	3	3	3	0	3	2	3	3	0	0	3	1	2
SI	2	3	3	3	2	2	3	3	2	1	1	2	2
SK	2	2	3	2	2	2	2	3	1	2	1	1	2
Mean score	2.4	1.8	1.8	1.4	1.6	1.9	1.8	1.3	1.9	1.7	1.3	1.8	1.9

Scale: 0 (Not at all important), 1 (Somewhat important), 2 (Important topic), 3 (Very important topic)

Source: CDDG questionnaire. Empty cells represent non-responses.

Countries which have either implemented or are currently implementing a comprehensive territorial reform are highlighted.

*A tentative conclusion*

Arguments for and against amalgamation are numerous and well known. Only public debate preceding a political decision will show in which direction the balance will tilt. There is no absolute evidence that some arguments carry more weight than others: a lot depends on the outcome of the debate and the political decision that will emerge therefrom. The responses received from Member States, both those that introduced territorial reforms and those that did not change territorial divisions, clearly indicate the prominence of the economic arguments raised in the public debate. They related mainly to the delivery of public services. Among the long list of arguments assessed by the respondents, the most important one centred on the capacity to deliver services, including the capacity for spatial planning (which seems to be slightly more important than the capacity for strategic planning). The other highly scored arguments were based on further decentralisation, remedying the mismatch between administrative borders and the catchment areas of services. In contrast to the expert judgements reported above, the responses of central administrations of member States (collected in the CDDG survey) more widely acknowledged the importance of the arguments referring to the functioning of local democracy.

## Introducing the 'decisional tree'

### How to use this chapter

In the light of the findings of the CDDG survey, country-specific evidence and literature and case studies, the following decisional tree is offered to describe the step-by-step process of formulating and designing reforms (to a certain extent, also implementing them). Chapter 3 will discuss each of the steps in much more detail, but it is helpful to begin by addressing at a glance the complexity of the process in a simplified (and somewhat simplistic) way prior to dwelling on each of its components.

Preparations for the reform should begin from the rudimentary questions which allow diagnosis to be made of the existing problem of the insufficient (population) size of municipalities.

First of all, it should be demonstrated that there is a significant difference – visible in a long-term perspective – in the development, cost efficiency and performance of smaller and larger municipalities. Without such a difference it would be very difficult to justify the reform.

The second question, frequently neglected, relates to the causal relationship between the size and performance of municipalities on various dimensions. It should be clear that size itself, rather than other features correlated with size, impacts on the performance of territorial units. Causal patterns can be demonstrated by the more sophisticated methods of empirical analysis. It happens that small local governments perform worse than their larger counterparts, but this poor performance is not related to the size itself, but rather other factors which may coincide with population size, e.g. the fact that small local governments are often sparsely populated (which generates higher costs for many services), peripherally located<sup>7</sup> or inhabited by poorer communities. In such cases, amalgamation reform does not need to contribute to solving the observed problems. In other words, after the merger, two or three sparsely populated municipalities will be still sparsely populated and cost reductions might be difficult to achieve.

Once it is anticipated that territorial reform is a solution to the problems associated with the insufficient size of municipalities, it should be determined whether the reform can be coupled with other reforms. Typically, a properly implemented territorial reform should also include a certain degree of coordination between various policy dimensions (at different levels of governance), the parallel reshuffling of functions among tiers of government and new inter-governmental financial arrangements. If there are any synergies (or potential conflicts) between the reform processes, they should be coordinated so that ideally all necessary changes are implemented in parallel.

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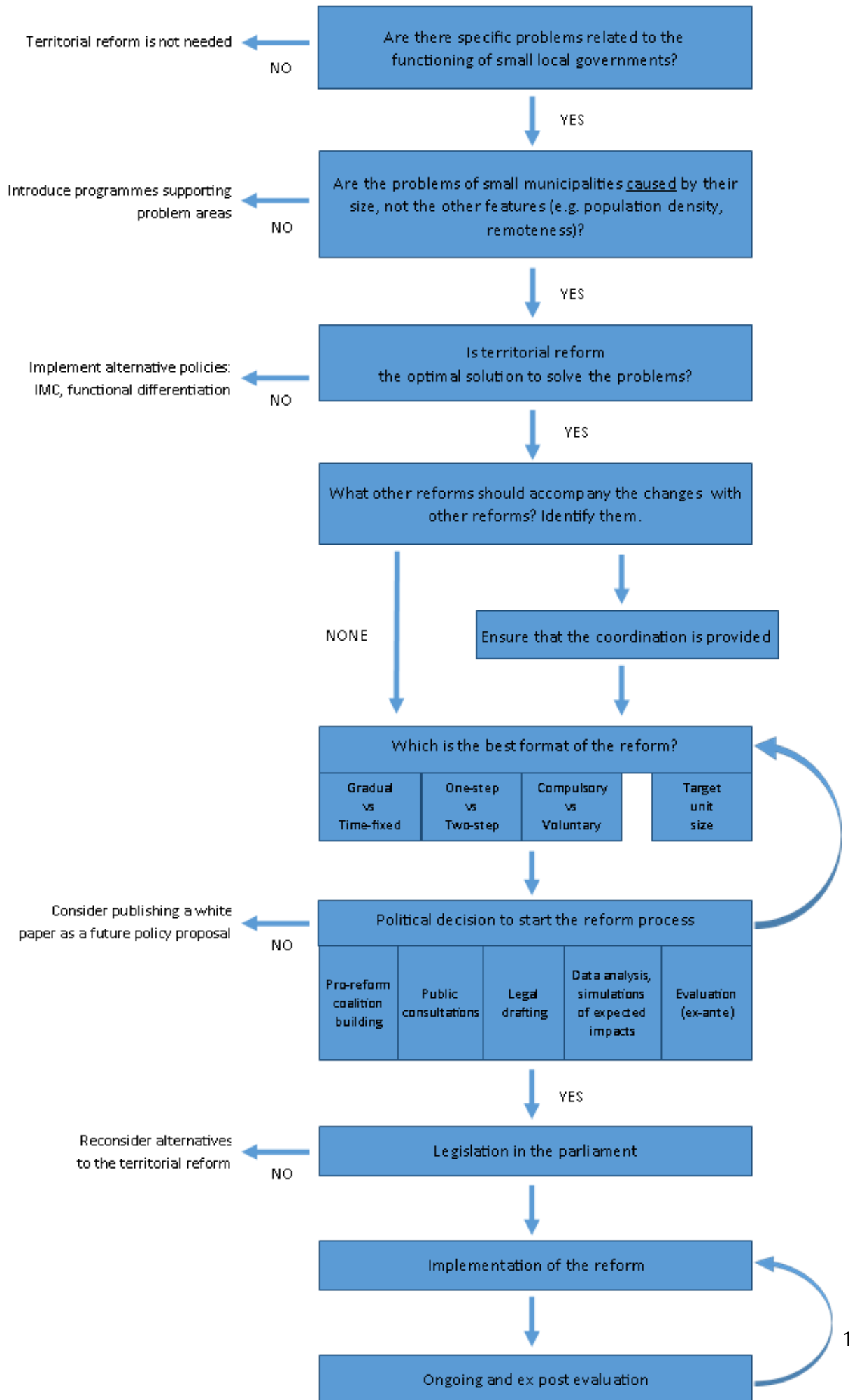
<sup>7</sup> i.e. far from the main 'growth poles' of the country; such locations are usually associated with poor transport infrastructure, a lower level of affluence and negative demographic tendencies.

Before starting work on designing the reform, reformers should make the strategic decisions concerning the format of the territorial reform: whether it will be gradual, without a fixed time frame, or be precisely located in time; whether it will be a one- or two-step process; whether it will be compulsory or voluntary. A preliminary decision concerning the target size (or other alternative guiding criteria) should be taken as well. Yet all these basic parameters of the reform can be changed during the design phase, which is the next step once the high-level political decision to work on the reform has been taken. If the political decision on the reform is negative, the authorities should consider publishing the primary studies indicating their diagnosis of the problem and re-think alternatives to the territorial reform (such as incentives for stronger inter-municipal cooperation, financial support for disadvantaged areas/local governments, etc.).

The reform design process, as described in the previous sections of this report, consists of parallel, mutually-dependent processes: building awareness of and support for the reform, public consultations, legal drafting, expert studies on the preconditions and outcomes of the reform and ex ante evaluation, helping to set the goals to be achieved after the reform.

Once the law introducing the reform has passed the legislative process in parliament, the reform is implemented. Ongoing and ex post evaluation of the reform is an important but often underestimated part of the process. The results of the evaluation can help to redesign selected aspects of the reform or to strengthen support for the new system and its durability.





## Territorial reform step by step

### How to use this chapter

Throughout this chapter the issues to be discussed and/or taken into account when planning and delivering territorial reform will be presented. After an introduction on the difficulties to be overcome prior to *deciding* whether or not to embark on such a reform, the various steps thereof will be detailed. Each step is the subject of a specific subsection. These are given in a sort of 'ideal' chronological order but reality does not always correspond to expectations. In reality, therefore, the steps may occur in a different sequence or may have to be repeated.

### Introduction

Territorial reforms are among the most difficult reforms to implement. They raise emotional reactions from citizens, but also touch the interests of local political elites. It is therefore important that those who envisage taking such a decision are aware of the wealth of difficulties to be overcome.

### The inertia vs change situation

Institutions are usually characterised by considerable inertia. The actors involved are often interested in maintaining the *status quo*. Baldersheim and Rose (2010: 10) claim that: *[institutions], once they are established, set limits for future choices that are available. Actors are captured by these institutions, develop vested interests and will tend to defend them if they are under threat.* This opposition can be explained on grounds of rational choice. Territorial reform often means a smaller number of political positions (mayors, councillors). For bureaucrats it also means reduced security of employment, and sometimes lower prestige due to a change of position. As Paddisson (2004: 34) bluntly says: *local (municipal) elites are unlikely to vote for territorial suicide, though the resistance to change has popular support.* The experience of several countries suggests that over-lengthy preparations for 'territorial reform' may lead to the 'window of political opportunity' closing. Mouritzen (2010) states that *the war has to be won before natural enemies can mobilise themselves to block the reform.* Meligrana (2004) is of similar opinion, noting that changes which do not meet with opposition are usually faked changes. These opinions go along with the more general observation of Kulesza (2002), who writes that radical changes have to be implemented within the short time that the 'window of opportunity' is open. Delay of the reform may mean that the momentum is lost and the change will not be implemented at all.

### This is important!

The paragraph above points to the role of existing 'elites' – local elected representatives such as mayors and councillors, local authorities' staff – in resisting change. Persuasion, or providing incentives to favour reform, is therefore an important dimension of the preparatory and implementing activity aimed at delivering the reform. It is also important to be aware that, once the right momentum is reached, the 'window of opportunity' may open, but not for too long: the time of politics is not the time of bureaucracy or the legislative bodies. Being resolute and bold is sometimes what it takes to achieve success.

Focus 3      The Danish experience 2007

In 2007, Denmark implemented a large-scale structural reform in which counties were replaced with regions, and municipalities were merged from 271 down to 98. Preparation for this reform started in late summer 2002. It was unexpected and municipal amalgamation was only one part of this large reform. Many of the existing county tasks were transferred to either the state or the new municipalities, and the right to levy taxes at regional level has been removed (though it remains at the local, municipal level). What characterised the Danish reform strategy was that it was emergent and unexpected rather than planned and rational. Structural reform was not an issue during the election campaign and not part of the agreement between the two parties that took office in 2001. As late as June 2002, the Minister of Interior commented that there were no plans for changing the municipal structure (Mouritzen 2010).

One can therefore say that this large-scale reform emerged on the political agenda: nothing (commentators noted) has indicated that the outcome of the process was planned beforehand. However, when reform came onto the agenda, it resulted in a large study, the work of the Commission of 12 members over 15 months, which included discussions about a new distribution of tasks in the Danish public sector administration. The background here was 'a window of opportunity' that opened during a public and national debate in the summer of 2002.

The distribution of functions between levels of government was discussed early, for example in the Reform Commission. One reason for this is, naturally, that the Danish reform is a large-scale structural reform and not just a reform about municipal size and borders. However, it should be mentioned that the commission found that the municipalities were too small and too vulnerable "given the complicated tasks that had been transferred to the municipal level over the years" (Mouritzen 2010:28). Therefore, having isolated other elements in the structural reform, the Commission suggested that municipalities should have at least 20,000 inhabitants.

This example shows that one important reform may stem unexpectedly from another, under preparation, benefiting from a window of opportunity in the political 'tempo' of the country concerned.

*Be aware of possible objections*

A second difficulty relates to the fact that the potential positive consequences of the reform are difficult to communicate. Own local government in very small settlement units is often seen as an important value for a local community. This is so even if the autonomy of very small and very weak municipalities is somewhat illusive, symbolic rather than real, since a very small local government is not capable of assuming responsibility for a number of functions. But there is also no doubt that territorial consolidation may lead to several negative side-effects, which local communities may be afraid of. These negative aspects can be stressed by opponents of the reform who may hide their own egotist motivations (as described above) behind care for the local community.

**This is important!**

We touch here on the important issue of communication. Anyone concerned with territorial

reform needs to be aware of the obstacles thereto and the arguments against it: the intrinsic inertia of the elites will drag the debate first and foremost to the negative effects of the changes and tend to silence or overlook the positive ones. It is therefore important to be prepared to respond to objections through a genuine communication strategy. At the same time several central government reports promoting the reforms tend to overestimate the positive and keep silent about the negative consequences of the reform. It is important to remember both sides of the coin.

Such negative side effects may include:

- Worse physical access to local administration. Distance to the city hall can make citizens' lives more troublesome, especially in the case of distant villages located in sparsely populated areas with poor transport infrastructure;
- Threat for identity of local communities. In small villages the town hall (similarly to the school) serves not only as the place to go for necessary permissions/certificates etc., but also as a social centre, giving a subjective feeling of identity. In that sense, suppression of the town hall may not only make access to administration more difficult, it may hamper local social life;
- The fear of local interests not being represented. Small rural communities may be afraid that their voice will not be heard, or that it will be ignored in decision making in the distant centre of the municipality. Sometimes that fear is irrational, but sometimes the dominant position of the main town is a real political problem;
- Conflicts among parts of the new, enlarged local government. A typical example of such a situation which may lead to spatial conflict is the annexation of a sub-urban municipality by the central city of the agglomeration. Residents of the suburb may be afraid that their needs will not be visible from the distant city hall which will focus on development of the central, most prestigious parts of the city.

It is possible to find at least partial remedies for these negative side effects. It may be done through various institutional solutions, which will be discussed further in this paper. But the first pre-condition is to be aware of those side-effects. Second, we may minimise the negative impacts, but it is usually impossible to eliminate them completely.

**This is important!**

Reformers should not be over-ambitious nor claim to have a response to all objections. Some negative impacts may be impossible to eliminate completely and a certain degree of 'failure' may tar the overall picture of a successful reform. This should be honestly acknowledged in order not to give the impression that decision makers overlook citizens' opinions or legitimate fears.

The reform implementation process consists of several steps that will be discussed separately in the following part of the text. The intention was to discuss them in the chronological order of implementation of the reform. However, this was not fully possible since the discussed steps are strongly interlinked or have to be often implemented in parallel while also acknowledging that it is sometimes necessary to make a few steps back and return to the previous stages.

Let us first enumerate the various stages (issues) in the process of preparing for and

implementing the reform.

- Diagnosis of the current situation
- Formulation of detailed goals that the reform should achieve
- Discussing alternative scenarios for the reform
- Preparing criteria for territorial organisation (criteria that should be met by new territorial units)
- Preparing projections/ simulations of effects of the planned changes
- Building coalitions to support the reform
- Developing solutions to mitigate negative side effects of the reform
- Consultations (with local governments, community of experts, civil society organisations, general public) and communication strategy
- Developing an implementation plan (e.g. phases and timetable of the reform)
- Developing a methodology for dealing with the transitional period
- Ensuring orchestration of territorial reform with other dimensions of local government architecture
- Formal decision
- Implementation
- Evaluation.

Focus 4 Stages of the Norwegian amalgamation reform –example of a ‘reform timetable’

Development/ initiation phase	14.5.2014	Report to the Parliament on local government reform
Regional/local phase	2014-2016	Local negotiation processes
	20.3.2015	Report to the Parliament on new tasks to larger local governments
	16.12.2015	Public hearing on revised income system for local government sector
	1.2.2016	First deadline for local decisions
Regional phase	30.6.2016	Second/final deadline for local decisions
	October 2016	Recommendation reports from county governors submitted to central government
National phase	5.4.2017	Proposal to the Parliament on new local government structure
	8.6.2017	Decision of the Parliament on new local government structure
Implementation phase	1.1.2018	First round of amalgamations
	1.1.2020	Second round of amalgamations

Source: Klausen 2017

## Step 1: Diagnosis of the current situation

Committee of Ministers Recommendation CM(2004)12 on the processes of reform of boundaries and/or structures of local and regional authorities

### I. Analysis

1. A thorough preparation entails being aware of the following:

- the way in which the problems are defined is conceptually linked to the solutions that may be found;
- there are five basic parameters which apply to any system of local and/or regional authorities: the size,<sup>[1]</sup> the competences, the degree of autonomy, the financial arrangements and the mode of operation;<sup>[2]</sup>
- these parameters are interlinked and thus changes to one of them will affect one or more of the others;
- among stakeholders and others concerned with a reform there needs to be at least a degree of consensus that permits the setting of clear goals for the reform.

[1] Size is usually expressed in terms of number of inhabitants, population, geographical area and the resources at its disposal.

[2] Manner of operation concerns whether the authority in question will only be responsible for the final delivery of services or also for producing them.

It sounds trivial that every reform should start from diagnosis of the current situation, but in practice this is often a weak point of territorial reform. Existing reforms are often simplistic and superficial. It is typically assumed that larger size helps to reduce the unit costs of local public services and that it helps to build higher administrative capacity for service delivery. It is probably true in many cases, although academic studies bring often more complicated results and are not univocal at this respect. Just for example, one very comprehensive review of academic literature comes to the conclusion that there is a *great deal of uncertainty about whether economies of scale exist in local government service provision*<sup>8</sup>.

The automatic impact of the change of size itself on cost and service-delivery capacity is often overestimated by proponents of the reforms. For the diagnosis of the role of size it is not sufficient to produce statistics demonstrating that small local governments perform worse than larger. The difference may be related not to the size itself but to other characteristics which correlate to size, but which will not change with the territorial reform. It may be, for example, that the peripheral geographical location (the fact of being a border area, or a territory very distant from the city capital or another big conurbation or settlement where public and economic functions are performed etc.) or low population density of the smallest municipalities pushes up delivery costs and makes the organisation of some services (e.g. waste collection) not only more costly but also more complicated.

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<sup>8</sup> Byrnes, J., Dollery, B. (2002): Do Economies of Scale Exist in Australian Local Government? A Review of the Research Evidence *Urban Policy and Research*, Vol. 20(4):391-414.

Focus 5      The World Bank experience

Similar scepticism is present in some World Bank Reports, which come to the conclusion that population size is not a decisive variable in determining the cost or quality of public services. They claim that where populations are geographically dispersed there are few economies of scale to be gained by incorporating them into a single large jurisdiction<sup>9</sup>.

The collected surveys offer us examples of such diagnostic preparations. In Denmark, distinguished scholars were involved in the preparation of early-phase reports and were able to bring their empirical knowledge to the discussion of possible impacts. Also in Finland there has been a study by a commission appointed by the government, with the participation of renowned scholars. In Norway the decision on the reform was preceded by studies of the outcomes of earlier, singular cases of voluntary mergers in the country, as well as of experiences of the reforms in neighbouring countries (mostly but not exclusively in Denmark). There is also an interesting project involving a consortium of Norwegian universities (with an advisory board from foreign universities as well) researching and monitoring the reform process. In Saxony-Anhalt (Germany) the preparatory study was commissioned to scholars from the IWH Halle and the University of Leipzig.

But in several other cases the preparatory diagnosis phase was much weaker. In several countries there is often the obstacle of poor access to relevant data, so sometimes the first step has to be to identify gaps in the availability of statistical information (which should be done with the support of local or international experts whenever the administration lacks the experience or expertise to assess where the main gaps are). The next step would be to assess the possibility of collecting missing data, ideally within a relatively short period, so that fresh information can be used when preparing the reform.

**This is important!**

The paragraphs above should not be read as arguments against any territorial reform, but as a call for serious, in-depth diagnosis before the changes are planned further and implemented. It is important not to address the data collection phase superficially or give up patiently gathering missing information. This is a case for possible international cooperation, i.e. requesting international advice and funding to fill the gaps in the preparatory stages, such as statistical data collection.

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<sup>9</sup> Dillinger, W. (2003) *Latvia: Beyond Territorial Reform*, Washington: World Bank Report No. 25466-LV., Fox, W.F., Gurley, T. (2005) *Will Consolidation Improve Sub-National Government?*, *Policy Research Working Paper 3913*, Washington: World Bank Report

## Step 2: Identifying the goals of the reform in detail

Committee of Ministers Recommendation CM(2004)12 on the processes of reform of boundaries and/or structures of local and regional authorities

### 1. Analysis

2. As a starting point for considering reforms, there needs to be an objective either in terms of size or in terms of competences. Not having such an objective is likely to lead to an inability to formulate a clear strategy for action.

After the diagnostic report, it is important to formulate precise goals for the reform: what exactly do we want to achieve? Typical goals of territorial reforms include increasing service delivery capacity, savings (e.g. on administrative costs), better coordination of services within a geographical area extending beyond the administrative boundaries of a single jurisdiction, or supporting better qualifications of administrative staff, but sometimes they also include aims relating to local democracy. The particular composition of priority goals may influence the shape of territorial changes.

In fact, the relationship between diagnosis and identification of the goals of the reform is a good illustration of the claim that the topics discussed in this chapter cannot be easily put into chronological order. Diagnosis gives evidence and helps to formulate goals. But at the same times, our attitude towards what we want to achieve leads to our reformulating the diagnostic questions and organising data collection and analysis. In fact, both elements are strongly interlinked and to a large extent they have to take place in parallel.

### Focus 6 The Danish approach to reform

As has been mentioned previously, territorial reform in Denmark came up rather unexpectedly in relation to another reform that was in the pipeline. It is interesting to observe the succession of steps. The Commission on administrative structure, set up by the government, concluded that the municipalities were too small and vulnerable. At the same time they did not recommend a particular model for a proper structure. Instead they described several possible models and left the decisions to the politicians. After the publication of the report, hearings were opened with a deadline set for 7 April 2004. Different interested parties were asked to submit their opinions and suggestions and the aim was to reach a political agreement before the summer holiday. The hearing period gave the government the time to make up its mind and finish its own proposal. Three weeks after the deadline, 27 April 2004, the government's own proposal (The New Denmark) was launched.

Source: Mouritzen (2010)



### Step 3: Defining alternative scenarios: would inter-municipal cooperation be an option?

Committee of Ministers Recommendation CM(2004)12 on the processes of reform of boundaries and/or structures of local and regional authorities

16. Mergers and other changes involving modifications of boundaries should only be performed in conformity with the principles underlying the European Charter of Local Self-Government (such as the consultation of the local communities concerned, possibly by means of referendum). This does not preclude the central authorities from creating positive incentives for local or regional authorities to co-operate, merge, decentralize or engage in deconcentration.

When discussing territorial reform, attention should be given to alternative scenarios. In the light of arguments for or against, it would be reasonable to see whether other solutions might help to achieve the same goals or be proposed as an alternative to amalgamation or a first step towards it.

Alternative scenarios may concern:

- Method and timing of implementation of the reform – we will return to this issue later in the text
- Depth of the territorial changes (e.g. how radical would amalgamation reform be?)
- Considering solutions which would be an alternative to territorial boundary reform.

The latter option in particular is worth more discussion.

There are plentiful forms of inter-municipal cooperation in European countries. Some of them require special legislation, but some other may be implemented under a regular local government act.

There are different dimensions which may help us to illustrate that variety<sup>10</sup>:

- Formality of the IMC arrangement
- Informal coordination networks
- Ad-hoc contract agreements between local governments
- New inter-municipal legal entities based on public law
- Inter-municipal legal entities based on a form provided for NGOs
- Inter-municipal companies (legal entities based on private law)
- Voluntary (bottom-up) versus compulsory cooperation (even compulsory forms vary in terms of local discretion concerning e.g. selecting concrete partners, defining boundaries, etc.)
- Single-purpose (focused on one service) or multi-purpose

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<sup>10</sup> For details see CoE Toolkit on IMC (2010) at

[http://www.municipal-cooperation.org/images/4/4c/IMC\\_Toolkit\\_Manual.pdf](http://www.municipal-cooperation.org/images/4/4c/IMC_Toolkit_Manual.pdf)

- Bilateral (cooperation of two local governments) versus multi-lateral (several partners)
- Focused on joint delivery of services or joint investments versus soft cooperation in joint promotion, marketing, strategic planning, or representation of joint interests.

In many countries inter-municipal cooperation (IMC) has long been seen as a viable alternative for territorial reforms. In some of those countries, territorial reform is considered almost as politically impossible, due to several historical and social factors. This group of countries includes e.g. France, but also the Czech Republic, Hungary, Slovakia and Slovenia. In another group of States, IMC is either seen as a first step towards amalgamation reform, or simply as an alternative option that local governments may choose.

The best known and the most spectacular European example of such an option is France. The local government system consists of over 36,000, often extremely tiny, local governments (*communes*) in which service delivery is organised through a plethora of inter-municipal institutions (*syndicates, communities of communes, etc.*). The legislation concerning IMC in France has been evolving and the last 20 years in particular have brought several new forms allowed by law. French IMCs employ well over 100,000 staff and in 2007 their annual budget was over 33 billion euro, which was a very substantial proportion of overall local government resources. For more on the French experience with IMC, see Appendix 3 of this document.

But the example of France should be supplemented by several other European cases in which IMC is also seen as an alternative to territorial reforms. In the Czech Republic, Hungary, Slovakia and Slovenia there are somehow similar institutions of Joint Municipal Authorities (JMA) through which very small local governments can jointly provide services that would be too difficult (or too costly) to organise under a separate local authority. The level of territorial fragmentation of Czech, Slovak and Hungarian local governments is similar to those of the French, and only marginally lower in Slovenia. In all of these cases, top-down amalgamation is politically unacceptable since it would resemble the forced, undemocratically implemented mergers imposed on small settlement units during the communist period. But the importance of IMC in these countries is much lower than in France. JMA and other forms of inter-municipal cooperation are responsible for no more than 3 % of decentralised public spending, several times less than in France.

Inter-municipal cooperation has also been an important alternative to amalgamation reforms in the Nordic countries, in which territorial changes have usually been the result of complex negotiations among the various stakeholders involved. In Denmark, one of the options available for local governments was a 'binding partnership', which was based on a specific law, and which assumed the transfer of significant competences to another local government. In Finland, the IMC was an available option in the 2005-2011 phase of the reform. Choosing this option meant transferring a significant share of competences and municipal budgets (often more than half of municipal funds) to the IMC institution.

Focus 7 Case of an amalgamation – inter-municipal cooperation mix in Iceland.

In the 1990s and the first decade of the twenty-first century, the government of Iceland was

promoting mergers of very small local government units, in order to strengthen local capacity to deliver public services. Several very tiny municipalities decided to amalgamate around the town of Borgarnes (approx. 80 km north of Reykjavik). Borgarbyggð, the new enlarged municipality, has over 3,500 residents. However, the very small village of Skorradalshreppur, inhabited by just over 50 residents refused to join the process of amalgamation. It still exists as a separate local government entity (relatively wealthy due to the high property tax paid by the owners of over 500 second houses in this tourist-attractive area). Thanks to its wealth it can afford also to have one of the lowest rates of personal income tax in the country. But at the same time it is too small to arrange service provision independently. In the case of most services (e.g. schools, services for the elderly, the fire brigade, etc.) it has a contract agreement with Borgarbyggð, which provides services to Skorradalshreppur citizens. Even the office space is rented in the village of Hvanneyri in the neighbouring municipality of Borgarbyggð. Skorradalshreppur is covering the costs of service provision but its citizens do not have any direct influence on the way services are organised (which they would have if they had joined the larger municipality and voted in local elections), nevertheless, they still prefer to keep their symbolic autonomy from the larger neighbour.

Interestingly, in Norway, in the current territorial reform process, widespread inter-municipal cooperation is sometimes used as an argument in support of the necessity of the territorial change. If IMC institutions are so popular, it means that municipalities are often too small to implement their functions on their own. At the same time IMC institutions are criticised for their democratic deficit, which leads to the conclusion that they cannot be treated as viable alternatives to territorial reform. The democratic deficit relates to the fact that IMC is usually governed by representatives of individual municipalities, with no direct election in which citizens might influence the governance of service delivery. Access to information on IMC operation is usually more difficult than in the case of individual local governments and IMC operation is often less transparent for the public.

It is important to note that the lack of direct electoral legitimacy has also long been criticised in France. Several critics also pointed to the complicated structures of multiple IMC institutions, which lead to transparency issues and often to excessively bureaucratic structures. In some IMC institutions there is also a problem of slow decision making if decisions require the agreement of all stakeholders involved.

**This is important!**

The experience of several European countries suggests that inter-municipal cooperation seems to be perceived as an important alternative to territorial reform, although that alternative is not immune from several drawbacks relating to the political legitimacy and functioning of inter-municipal cooperation bodies.

#### Step 4: Defining criteria for new territorial organisation

Committee of Ministers Recommendation CM(2004)12 on the processes of reform of boundaries and/or structures of local and regional authorities

##### III. Design

23. The time schedule for implementing a reform should be given careful consideration. On the one hand, enough time should be devoted to the necessary discussions and practical arrangements at central as well as at local level, and on the other hand a time perspective that is too long could result in the loss of momentum.

Any proposed reform should usually be expected to take several years.

24. Any plan for reform should be designed in clearly distinguished steps.

25. Any reform requires assigning clear responsibilities, including for identifiable leadership, in order to ensure both continuity and consistency. Special importance should be given to the possibility of anchoring the process of reform in a body or administrative arrangement between the institutions involved.

26. It is important to learn from previous experience both at home and abroad. However, concrete solutions are rarely transplantable without adaptation, so that comparative efforts may most usefully be focused on the identification of the type of (broad) objectives that were involved in other reforms, the procedures that were in place and the issues that had to be dealt with in the course of their execution.

27. The reform strategy should include an adjustment procedure to address specific concerns of specific local or regional authorities which arise during the reform process. The necessary consensus about the goals of the reform should ensure that this procedure is not used to try to alter the strategic objectives of the reform.

28. Where the population is not uniformly distributed across the territory and economic conditions vary, the possibility of applying differentiated solutions should be considered:

- the same levels of local and regional administration need not exist everywhere in the state;
- competences of local and regional authorities of the same level may differ;
- institutional relations of local and regional authorities of the same level may differ.

However, it is not excluded that a uniform approach is followed after such consideration.

29. Designing a process on a “bottom-up” experimental approach may generate useful results both as regards fine-tuning the objectives and the process of reform, as well as for creating a momentum in support of the reforms.

What would be the criteria for the development of new local government units?

Perhaps the criterion most often met is a minimum size (measured by population) which is required in order to achieve the capacity to provide basic statutory functions at a sufficient level and at acceptable costs. What this minimum population size is depends on the list of functions that local governments are expected to provide, which is why various thresholds are sometimes applied in the reforms implemented in various countries.

There are several reports suggesting that municipalities below 1,000 are often unable to perform certain functions and that service provision is difficult and cost ineffective in units below 5,000 (e.g. Sharpe 1995 report for the Council of Europe). The same 5,000 threshold is mentioned in the recent report by the Polish Ministry for Administration and Digitisation (MAiC, 2012) on the Polish local government system and by current reform in Estonia<sup>11</sup>. A similar threshold (of 4,000 inhabitants/residents) was used in the 2009 Latvian reform, although it was accompanied by additional criteria (minimum 2,000 population of the main settlement centre in the municipality, maximum distance from the municipal centre 50 km, and suitable transport infrastructure to ensure access to the town hall).

Both the Greek (2011) and German Land of Saxony-Anhalt reforms had higher thresholds: 10,000 population. But in Saxony 8,000 could be sufficient in some exceptional cases.

#### Focus 8            Size and population in the Greek reform

In Greece the population criterion (10,000 inhabitants) was mixed with functional and geographical criteria, which provided exceptions for some categories of municipalities:

- The additional criterion was a 'one island – one municipality' rule (with an exception made for a few of the largest islands);
- For metropolitan (densely populated) areas the minimum population size was even higher – 25,000;
- The strict population criterion was not applied to sparsely populated, mountain areas.

But in the recent Finnish reform a much higher minimum size of 20,000 was mentioned. The main reason was the observation that this size would be sufficient for proper delivery of healthcare services. But the most sparsely populated regions have been exempted from that strict demographic criterion. In the 2007 Danish reform it even reached 30,000, although in some cases the threshold was lowered to 20,000 as well (an alternative would be the 'binding partnership' of local governments of over 30,000 inhabitants, as discussed above).

#### This is important!

The size issue is dealt with at some length in the Committee of Ministers recommendation on the reform of boundaries. The gist of the recommendation is that there is no such thing as an 'ideal' size to be adopted by all municipalities across Europe. However, when deciding what minimum or approximate (population) size municipalities should have, governments should pay attention, *inter alia*, to:

- the impact of this decision on the capacity of local and regional authorities to function and perform their tasks;
- factors such as the distribution of competences between levels of government, the

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<sup>11</sup> However, the Estonian reform allows – in specified circumstances – for a lower population threshold (3,500) (e.g. in the case of island municipalities).

degree of financial autonomy and the existence of a financial equalisation system;

- its capacity to influence the effectiveness and efficiency of service delivery or the quality of local and regional democracy;
- the fact that there is no unequivocal relationship between size and effectiveness in the delivery of services (large municipalities may benefit from economies of scale but they may also create heavy bureaucracies, which may influence the effectiveness and efficiency of their actions) but there is one clear relationship between size and financial/budgetary autonomy (very small local authorities often have very little (if any) financial freedom because of their low income and high overheads);
- ex post assessment of levels of satisfaction in respect of both service delivery and the credibility and sensitivity of local/regional government;
- recourse to E-government in respect of both the relationships between size, service delivery and quality of local democracy, and the possibilities for citizen participation;
- internal decentralisation and deconcentration for very (over-) large amalgamated local authorities;
- the appropriateness of preserving the population's sense of identification with the previously existing entities.

These recommendations, which are discussed in more detail in the following chapters, echo the primary concern of the Council of Europe that reform processes be conducted in full conformity with the European Charter of Local Self-Government, namely that the local governments resulting from the amalgamation process meet the requirements of the charter as regards their competences and capacity to administer a substantial share of local affairs on behalf of their population.

But sometimes it is not just population which is the leading criterion. In the old Swedish reform of the 1970s, but also in the very recent (2015) Albanian reform the main focus was on settlement system structures and the existence of 'central places'. The reformers were looking for settlements (towns) which were 'natural' centres of economic, trade, culture and other functions. To a large extent, this logic was similar to that of the Finnish 2011-2015 reform in which an important criterion was the shape of the commuter zones of metropolitan areas. According to the authors of the reform, applying that criterion should support the prevention of urban sprawl and promote strategic planning.

#### Focus 9 'Functional areas' in Albania

In 2013, as part of a Swiss-funded project on decentralisation, a team of researchers examined the notion of 'functional areas' in relation to five regions of Albania. The term 'functional areas' refers to the notion that the understanding of a space, at whatever level (municipalities, regions and so forth), is not to be defined along administrative or historic lines, but rather on the basis of how various interactions happen within that space, be they between the inhabitants or between government entities. The purpose of the study was to assess to what extent the catchment areas of various public services and facilities coincided or crossed administrative boundaries with a view to making them coincide if appropriate.

Although the methodology used is not immune from criticism, the exercise helped to check the assumptions of the reform, based on desk work, against the situation in the field.

The full report may be found at <https://shtetiweb.org/wp-content/uploads/2014/04/document.pdf>. For a full case study of the reform process, see Appendix 2.

Other criteria may apply, of a somewhat supplementary nature.

One of them, directly related to functional capacity, is the existence of the necessary facilities (infrastructure) to deliver certain services. The list of such facilities depends, of course, on the list of municipal functions. It may include, for example, the building(s) of a local dispensary or hospital (if local governments are involved in healthcare delivery), or the primary or secondary school building(s) (if they are responsible for primary or secondary education) etc.

The other criteria relating to system capacity are of lower importance, but they might be used to support the choice or (slightly) modify the map. They might relate to:

- the budget capacity of local governments. Merging two poor local governments would not make the resulting one a rich municipality (and in some parts of the country there will be no other choice than to merge two or three poor areas), so *per capita* indicators of fiscal wealth would not be of great help. What is often quoted as an argument against small scale local governments sometimes relates not to the size itself, but rather to the social nature of small communities in rural areas. (The same applies to the potential usefulness of socio-economic criteria such as the number of local businesses, the extent of depopulation criteria, etc.). The size of the local budget or the size of certain budget categories (e.g. total revenues, investment spending, etc.) might be used as criteria to determine whether the expected *critical mass* of the budget might be achieved. Additionally, heavy budget expenditure on administrative spending is a good indicator of a lack of economies of scale and indirect evidence of a non-viable local community.
- Human resources in local government administration. The creation of larger local government units and/or the merging of a rural commune with the neighbouring urban community may help to improve the qualification levels of the administrative staff.
- Catchment area of services. Depending on which functions are provided by local governments, it is worth to check what natural areas (territories) are served by various service functions. It is economical to have the whole catchment area of a service under the jurisdiction of one public authority that is responsible for the service. This criterion relates closely to the 'natural centres' methodology described above.



### Step 5: Preparing impact scenarios for the reform

Committee of Ministers Recommendation CM(2004)12 on the processes of reform of boundaries and/or structures of local and regional authorities

2. As a starting point for considering reforms, there needs to be an objective either in terms of size or in terms of competences. Not having such an objective is likely to lead to an inability to formulate a clear strategy for action.

3. Any plan for reform should be guided by a comprehensive view on or theory of the different levels of government within the state<sup>[3]</sup> and their interaction (blueprint), both as it is and as it will be upon completion of the reform.

4. The wider socio-economic context in which the reform is to take place needs to be clearly analysed, particularly having regard to the economic conditions and to how population is distributed across the entire territory.

...

7. The issues of ownership of public capital, transfer of personnel and institutions as well as the sharing of the burden of debt and the possible shift in the fiscal burden should not be overlooked at the preparatory stage.

[3] Or, as the case may be, within the subnational territorial entity leading the reform

Preparing scenarios requires intense work on simulations of the predicted impact on budget execution, the local tax base and socio-economic indicators for each of the municipalities.

As a result of the exercise one should be able to estimate for example how much the new local government unit might really save on administrative spending compared to the situation before the reform, to what extent a more even distribution of financial resources among local jurisdictions can be achieved, etc.

The suggested simulations may contribute to two goals:

- internal – they will be a very good ‘check list’ for authors working on the concept of new territorial organisation. By having such two pictures (‘before’ and ‘after’) they will be able to verify whether their logic is sound and whether their proposed new map would really improve the situation;
- external – such an illustration will provide a convincing argument for the politicians who are to make the final decision on implementation as well as for the general public. It will also provide ammunition for discussions with sceptics (opponents). Simply, a clear comparison of the situation ‘before’ and ‘after’ will provide concrete, measurable evidence of the positive impact of the reform.

This is important!

Simulations can very positively influence the actual design of the reform in as much as they require that all potential implications and consequences of the planned changes be listed,



assessed and to a certain extent weighed against each other. Simulations can provide sufficient evidence that a given path is not appropriate or unlikely to deliver the expected results. Changes to the design may therefore be necessary before the plan becomes official policy.

Simulations also lend themselves to public debate better than formal reform plans because they convey the image of what the situation will look like once the reform has been implemented. They could become an effective communication tool.

Focus 10 Difficulties in assessing the potential gains of territorial reforms according to the Organisation for Economic Cooperation and Development (OECD)

Many factors have an impact on the efficiency gains of scaling up:

1. whether the reform takes place in rural vs urban areas;
2. whether it concerns the merger of very homogenous vs heterogeneous municipalities (in terms of services, wages, financial strengths, level of debt, large and small municipalities, etc.);
3. whether it concerns capital-intensive services requiring infrastructural investment and maintenance (such as water management or public transport) vs labour-intensive services (such as policing, social services, education or healthcare);
4. reaching savings may require several years after the actual reform. Such reforms may induce transition costs and may prevent costs from rising only in the long run. A rise in expenditure is to be expected, at least in the medium term;
5. municipal mergers are not always democratically effective and may hinder accountability and democracy;
6. mergers are often seen as a threat to local identity and historical legacies.

Source: Chatry, Hulbert 2017, pp. 64-65.

### Step 6: Building reform coalition (including: relationship with the political opposition)

Committee of Ministers Recommendation CM(2004)12 on the processes of reform of boundaries and/or structures of local and regional authorities

13. Preparatory studies of a general type involving stakeholders and others concerned can be a useful means of developing this consensus.

14. Reform based on the willing participation by the level of local or regional authorities to be reformed is to be preferred to the exercise of its legal power by the higher authority against the will of the level involved. A “bottom-up” initiative [5] may, in order to lead to a successful reform, need to be complemented by decision of the higher level, even against the will of some of the authorities involved in the reform. A “top-down” initiative [6] should, in order to lead to a successful reform, seek to obtain the willing participation by the level of territorial administration that is to be reformed.

15. Stakeholders and others concerned should be involved from the preparatory stage.

16. Mergers and other changes involving modifications of boundaries should only be performed in conformity with the principles underlying the European Charter of Local Self-Government (such as the consultation of the local communities concerned, possibly by means of referendum). This does not preclude the central authorities from creating positive incentives for local or regional authorities to co-operate, merge, decentralize or engage in deconcentration.

17. Any process of reform should in its preparation, decision-making, implementation and evaluation be based on institutional dialogue that meets the parameters of effectiveness, transparency, accountability, representativeness and efficiency.

...

3. Support for reforms may be obtained both by engaging in consultations with those concerned and by empowerment of the local or regional authorities within a national, centrally established framework.

[5] A ‘bottom-up’ approach to reform is an approach in which action for reform by the higher level of territorial authority is dependent on initiative at the level of the local or regional authorities to be reformed (‘bottom-up’ initiative).

[6] A ‘top-down’ approach to reform is an approach in which the initiative for reform is taken by a higher level of territorial authority (‘top-down’ initiative).

Building a wide reform coalition is important, not only to the chances of implementing the reform, but also to make it sustainable, e.g. after possible political change at central level in the future.

In Denmark, setting up a commission including members connected to opposition parties in the very early stage of reform design has helped to build a wide support (even if not a full consensus) for the goals and methods of the reform. Similarly in Saxony-Anhalt, the reform has gained consensual support from the main political parties. In Finland the reform was prepared by two different government coalitions, so effectively it was supported by several parties. However consensus was not absolute and the reform was opposed by some sparsely populated

municipalities as well as (in the 2011-2015 stage) by some suburban municipalities in metropolitan areas.

Focus 11      Reform coalition in Denmark

The central negotiations resulted in a reform coalition, both an interest alliance between the central government and Local Government Denmark (KL) and a political alliance between the central government and its support party, the right-wing Danish People's Party. The latter alliance resulted, in June 2004, in an Agreement that framed how the reform was to be further carried out (Danish government 2004). Before that, negotiations with the Social Democrats and the Liberals had collapsed on 17 June 2004. "The agreement did not specify new municipal boundaries, but contained the provision that amalgamations were to take place and that the goal was new municipalities with at least 30,000 inhabitants". The initial pattern of conflict has been described as the following: The Association of Danish Counties versus the rest; small municipalities versus large; and government versus opposition. However, in addition to the necessary support in parliament, the government managed to make a deal with the powerful Local Government Denmark (KL).

But sometimes building a broad consensus is very difficult or even impossible. In Latvia the association of local governments supported only voluntary mergers of local governments and eventually 32 old municipalities appealed to the Constitutional Court in a bid to stop the reform. Very recently (Autumn 2016) similar protests, including cases before the Constitutional Court, occurred in Estonia. In Albania, too, the government was unable to reach an agreement with the main opposition party. As a result, the opposition boycotted the work of the special parliamentary committee and the final vote in the Parliament.

A lack of broader coalitions does not block reforms, but it is not a good prognosis for the stability of territorial arrangements in the case of possible future political changes at central level.

**This is important!**

Building coalitions that include current opposition parties can genuinely enhance the chances that reform, once approved and implemented, will not be rolled back should the opposition govern in the future. It really depends on the extent that the government is ready to go to in order to accommodate (some) opposition requirements, but a lack of broad agreement is not a legal impediment, just a political inconvenience to be managed through political means – see below.

### Step7: Preparing solutions to reduce negative effects and possible stakeholder fears

Committee of Ministers Recommendation CM(2004)12 on the processes of reform of boundaries and/or structures of local and regional authorities

6.

m. In cases where merger of small local or regional authorities is found to be appropriate, consideration should be given, in the light of history and tradition, to designing the institutional structure of the new entity in such a way that the sense of identification of the population with the previously existing entities may, as far as possible, be preserved.

...

26. It is important to learn from previous experiences both at home and abroad. However, concrete solutions are rarely transplantable without adaptation, so that comparative efforts may most usefully be focused on the identification of the type of (broad) objectives that were involved in other reforms, the procedures that were in place and the issues that had to be dealt with in the course of their execution.

27. The reform strategy should include an adjustment procedure to address specific concerns of specific local or regional authorities which arise during the reform process. The necessary consensus about the goals of the reform should ensure that this procedure is not used to try to alter the strategic objectives of the reform.

28. Where the population is not uniformly distributed across the territory and economic conditions vary, the possibility of applying differentiated solutions should be considered:

- the same levels of local and regional administration need not exist everywhere in the state;
- competences of local and regional authorities of the same level may differ;
- institutional relations of local and regional authorities of the same level may differ.

However, it is not excluded that a uniform approach is followed after such consideration.

There are several reasons why territorial reforms are very difficult, but one very simple one is that 'turkeys never vote for Christmas': there is usually very strong opposition from politicians in the local governments that stand to be abolished as separate units. An interesting solution that might reduce the 'fear' (and opposition) of those local elected representatives who would not be re-appointed was proposed in the Danish 2007 reform. Here, special pension schemes were introduced for mayors who were not to remain in their posts in the new enlarged local governments. Similarly, for a limited period, rules were suggested concerning retention of the enlarged municipal councils. On the one hand this would reduce councillors' fears of losing their position and on the other it might strengthen citizens' belief that the interests of their share of local government will be represented in the new government structures.

But as discussed above, local communities frequently fear that their villages will lose their identity and that administrative and other services will become more distant. These dangers cannot be totally eliminated but they might be reduced by various organisational and political solutions. If there is political will for territorial consolidation through the amalgamation of small local governments, there are also some practical recommendations which are worth considering:

- *protecting the identity of amalgamated villages.* Amalgamation reforms are being

introduced to strengthen local governments and enable them to deliver a wide range of functions efficiently. But citizens' identification with smaller territorial communities is also a value worth protecting. In most of the countries that have undergone amalgamation reform, smaller villages have not disappeared completely as the subjects of territorial governments. There is usually symbolic political representation at village level (*parishes* in Portugal or England, *sołectwo* in Poland, *kmetstvo* in Bulgaria, *mestna zaednica* in Serbia, etc.). Legal provisions allowing the retention of popularly-elected traditional village leaders may help by recognising important symbols of local communities;

- *decentralising down to villages the responsibility for some functions in amalgamated municipalities.* In some countries (e.g. in Poland) there is a special system of state-supported funds for village development, which may be used to strengthen the position of villages within larger local governments. The Portuguese experience of parish reform (including more tasks passed to parishes on a contractual basis) is another example of a similar approach;
- *introducing or amending the electoral system in order to prevent the domination of one town and to secure a balanced representation of various geographical interests.* The typical fear of amalgamation relates to potential domination by the largest settlement unit and consequent disregard for the needs of small villages. One may reduce such a danger through the design of the electoral system, in which the municipality is divided into single- or multi-member districts in which councillors are elected (according to the majoritarian, proportional or mixed formula). Such a system ensures that no part of a municipality will be unrepresented and that no one settlement unit can dominate in the council and in local decision making;

This is important!

The political implications of territorial reforms should not be overlooked. It would be possible to create – even if only for a transitional period – a situation in which all previous municipalities are represented in the new body before the standard rules for electoral representation are fully applied, thus leading to some areas and some citizens 'losing' a share in the new municipal council (or equivalent body). But it is also important not to use territorial reform with a view to (artificially) diluting or enhancing one side's political representation. This is explicitly recommended by the Committee of Ministers as follows:

5. Failure to deliver the kind and level of services citizens require as well as poor quality of democratic life may undermine the legitimacy of local and regional authorities. For this reason, an analysis of the existing preconditions for reform should examine:

- questions of efficiency and capacity to act;
- questions of democratic legitimacy, including electoral effects;
- questions of capacity to generate consensus and of maintaining or generating a sense of community.

Care should be taken to avoid gerrymandering or even the perception of gerrymandering.

- *ensuring the accessibility of the local administration.* As mentioned above, the frequent argument against amalgamation stresses that it might be troublesome for people to travel relatively far in order to visit the local town hall. There are several solutions to reducing this problem. The municipal administration may have local branches in individual

villages. They do not need to be open on an everyday basis, but should be working frequently enough to serve local citizens. This solution is nowadays technically easy due to the availability of the internet and other computer technologies and may be part of a broader approach to e-government promoted by central government.

There is also a more general fear that larger local government units may have a negative impact on local democracy. There is no universal recipe for it. Most academic research agrees that larger local governments mean a lower level of citizen interest in local public affairs, less involvement in local politics and less trust in local governments. But at the same time, a larger size increases the level of political competition, which is essential for local democracy. But the issue should at least be discussed in the context of a given country. Unfortunately, experience suggests that, in most European countries, reformers concentrate on technical issues relating to service delivery capacity and costs of services, while leaving aside issues relating to democratic performance.

In some countries however, the issue has attracted some attention in the preparations for reforms. In Denmark, the reform concept quoted an academic study predicting that in the Danish context the impact of size increase on local democracy would be negligible. The issue has also been discussed in Norway: the debate also referred to Danish experience, and the pro-reformers' conclusion was similar to the one reached in Denmark. However, we should mention that the results of ex post academic research do not always support that optimistic expectation. We will get back to that issue in the sections discussing monitoring and evaluation issues.

## Step 8: Consultations with stakeholders and communication strategy

Committee of Ministers Recommendation CM(2004)12 on the processes of reform of boundaries and/or structures of local and regional authorities

17. Any process of reform should in its preparation, decision-making, implementation and evaluation be based on institutional dialogue that meets the parameters of effectiveness, transparency, accountability, representativeness and efficiency.

18. In order for the institutional dialogue to be effective it is to be ensured that:

- it takes place in a timely manner;
- it takes place on the basis of clearly established procedures;
- all relevant information is available to all participants, in particular relevant dates, agendas and events are to be made available in advance;
- the outcome, if not binding, is given at least due consideration in the final decision-making process;
- the institutional dialogue is meaningful and not rendered ineffective through parallel processes;
- whilst respecting the rules of public access to information, the basis on which information about the process is to be made available to the public is to be agreed by all participants in order to ensure the necessary trust between participants.

19. In order for the institutional dialogue to be transparent, the rules of access to public information must be respected and the results of the dialogue must be made public as soon as possible.

20. Those participating in the institutional dialogue are accountable to democratically elected bodies (assemblies).

21. In order for the institutional dialogue to be representative all levels of local or regional authorities with a legitimate interest in the matters at hand should be involved, regardless of the party political make up of these local or regional authorities. Participation in the dialogue should generally not be limited exclusively to those who belong to the political majority. In as far as participants represent local or regional authorities, they must be representative of these local or regional authorities.

22. In order for the institutional dialogue to be efficient it is essential that:

- the best possible use is made of existing resources and procedures;
- care is taken to avoid unnecessary duplication;
- the dialogues between different levels (state-region; state-local level; regional-local level, federated state - local level) are well co-ordinated.

The formal process of public consultations is required by the European Charter of Local Governments. Article 5 of the Charter stipulates that:

*Changes in local authority boundaries shall not be made without prior consultation of the local communities concerned, possibly by means of a referendum where this is permitted by*

statute.

However, the methods used for these consultations are not prescribed in detail and can be tailored to local conditions and traditions. Consultations and a communication strategy are not only important in order to comply with obligations stemming from Council of Europe conventions and national legislation: Jerzy Regulski, one of the *founding fathers* of Polish local government reforms, claims that *support or at least passive approval of the community* is one of the main conditions of any successful reform.

Four paths of consultation are necessary:

- consultations with various experts, political parties and academic institutions. This process should start immediately (before finalisation of the reform programme), so that the groups consulted believe that their comments may influence the shape of the final programme;
- consultations with civil society institutions both locally (in municipalities affected by the reform) and nationally (NGOs specialised in local development, local services etc.). It is important to know the opinions of various NGOs on the impact that territorial reform might have on their activity, however it may be expected that some local NGOs will focus on defending particular territorial interests;
- consultations with local governments about the specific way in which they (their units) may be affected by the reforms and the options available for the boundary changes etc.;
- consultations with local communities (citizens, residents) that are going to be directly affected by territorial changes. It is important to ensure that citizens with different socio-economic statuses are present and involved during such consultations. A professional consultation moderation or facilitation service may be required to ensure a high-quality consultation process.

Focus 12      Implementing public consultation in the framework of spatial planning, an example:

Public consultations are an important part of decision-making processes in many fields of public policy but especially as regards territorial governance. A recent (2014) pronouncement by the European Ministers responsible for Spatial Planning (CEMAT) meeting in Nafplion, Greece for the fourteenth session of their conference provides concrete guidelines for public participation in spatial planning that are easily adaptable to the field of territorial reform<sup>12</sup>. The ministers insist in particular on the need for information to be clear, thorough, easy to access and understandable by all, and for authorities to provide appropriate explanations and, when the time comes, justify their decision as to whether or not to follow their citizens' advice.

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12 [https://search.coe.int/cm/Pages/result\\_details.aspx?Reference=CM\(2014\)91](https://search.coe.int/cm/Pages/result_details.aspx?Reference=CM(2014)91)  
A Handbook on Territorial Democracy and Public Participation in Spatial Planning,  
<http://www.ectp-ceu.eu/images/stories/PDF-docs/Greek%20presidency%20CEMAT%20Handbook%20on%20territorial%20democracy%20.pdf>



Conflicts to be expected (and opposition to the reform) may concern three major elements:

- conflicts over political power (this includes resistance from some mayors and councillors against losing their posts);
- conflicts over financial resources (some richer municipalities may be unwilling to share their wealth with poorer neighbours with whom they might be merged in the process of territorial reform);
- conflicts over access to public funding (for example who will gain and who may lose as a result of the reform in terms of central government grants).

The consultation process cannot be limited to a simple question (or set of questions) asked on the proposed changes (are you 'for' or 'against?'). It is necessary to start with providing information to local communities. Before being asked for their opinion, stakeholders should receive basic information on:

- the reasons for the reform;
- the expected impact on the whole country;
- the expected positive impact on their own community;
- the potential risks (negative consequences) and the measures taken to minimise these risks.

This information needs to be provided in simple, plain language that is easily comprehensible by people who are not specialists in the issues under consideration.

#### Focus 13 Consultation in Estonia, Denmark and Finland

In Estonia the government consulted local government associations about the reform. Additionally, meetings were held with local leaders and 'reform seminars' conducted, in which the criteria, possible changes in financing and new task distributions were discussed.

In Denmark and Finland, where local governments were to negotiate their own boundary changes with neighbours, the focus of consultations organised at central level was on consultation with local governments and local government organisations. Consultations with citizens were considered a task for the municipalities themselves.

An interesting instrument in Denmark was the appointment of an Arbitrator to help in the process of negotiations. Their role was to investigate the circumstances under which feedback from the municipalities was obtained and whether the chosen solution had local support. The Arbitrator's investigations resulted in a call for local referenda in 12 of the old municipalities.

Local referenda on amalgamations are a relatively frequent form of civic involvement in the reform process. Sometimes, if the reform affects the whole country, a national referendum is called on the reform. The results of the referendum, depending on its nature: consultative or decision-making, may modify or even block the reform if they are definitive and rejection of the amalgamation by the local constituency, even if the referendum is of a consultative nature, is a political fact that is difficult to ignore without consequences. The authors of the recent OECD

report on multi-level territorial reforms argue that 'referendums are a two-edged tool, often with a definitive effect, from which it is very difficult to back away'. They mention the examples of Norway, Iceland, Luxembourg and Finland, where mergers were decided by referenda. According to the authors, the requirement to hold a referendum on municipal amalgamation has for a long time blocked subsequent territorial reforms in France and it was eventually abolished in the 2015 reform (Chatry, Hulbert, 2017: 66).

This is important!

Referenda may be of a consultative (non-binding) or decisional (binding) nature. However, in given circumstances, consultative referenda may carry such political weight that it becomes difficult or even impossible for those who have resorted to it (government, local authorities) to take a decision that is at odds with its the result. Decision makers should carefully weigh the pros and cons of such an option before resorting to it.

### Step 9: Building implementation plan: one-step or two-step reform?

Committee of Ministers Recommendation CM(2004)12 on the processes of reform of boundaries and/or structures of local and regional authorities

27. The reform strategy should include an adjustment procedure to address specific concerns of specific local or regional authorities which arise during the reform process. The necessary consensus about the goals of the reform should ensure that this procedure is not used to try to alter the strategic objectives of the reform.

Analysing the reforms which have actually been implemented, one may notice that there were two basic modes of implementation:

- a single-shot exercise in which the reform, once agreed and – following public debates and consultations – approved (by parliament) and implemented (by government) through a single act (decree) from the first to the last stage;
- a two-step method, in which the first step would be semi-voluntary: local governments would be given time to amalgamate freely (having regard to the *criteria* set by the law), while the second step (after a period of time calculated either in months or in years) would leave it to the government to decide for the remaining or reluctant local governments.

There are usually several incentives aimed at stimulating voluntary mergers.

In Belgium, the Flemish Government Governance Agreement encourages voluntary amalgamation between 2014 and 2019. In June 2016, the decree on rules of voluntary amalgamation was adopted. The Flemish Government takes over the debts of the municipalities, which decided to amalgamate on 1 January 2019 and submitted their amalgamation proposals to the Flemish government before 31 December 2017. The maximum amount of debt relief is € 500 per inhabitant, with a maximum amount of € 20,000,000 per amalgamation and to the extent that the maximum amount of € 200,000,000 on the Flemish budget is not exceeded. Municipalities can still amalgamate after this date, but without these incentives.

In Estonia, voluntary mergers of local governments were encouraged for a long time by the financial incentives provided under the 2004 Law (with further amendments in 2008 and 2013). This led to a modest reduction in the number of local jurisdictions, as documented in Chapter 1 of this report. In June 2016 the government announced criteria for more radical territorial reform and gave a short period, until 1 January 2017, for negotiating voluntary mergers. Were the local response not satisfactory, a compulsory merger would be introduced by central government before the October 2017 local elections. (At the time of completion of this report, information has not been received concerning the results of the voluntary phase, so it is difficult to say how successful this strategy and the reform process in general have been).

In addition to Belgium (Flanders) and Estonia, incentivised voluntary (or semi-voluntary) mergers

could be found in Finland, the Netherlands, Norway, Denmark and the German Land of Saxony-Anhalt. In some cases, if the voluntary stage fails, the next step is a compulsory merger (e.g. Saxony-Anhalt) and in several other countries the voluntary phase did not work (local governments did not respond positively).

#### Focus 14 Financial incentives in voluntary mergers of Norwegian local governments

In the currently ongoing Norwegian amalgamation reform, most mergers so far have been based on voluntarily negotiated agreements among municipalities (which followed general criteria set on a central level). Those agreements have been successfully stimulated by following financial incentives:

1. the so-called 'reform grant' – between 5 million and 30 million NOK (€ 0.5 - 3.3 million), according to the population of the new municipality;
2. a grant that is meant to cover costs in the amalgamation process and which varies between 20 and 65 million NOK (€ 2.2 – 7.1 million);
3. the most important is the long-term incentive, which the government offers for a period of 20 years. During the first 15 years the new municipality receives an annual block grant from the state equal to what the amalgamated municipalities would have received without an amalgamation. Since small municipalities have higher costs *per capita*, they currently receive a higher *per capita* block grant. If the new, bigger municipality succeeds in reducing *per capita* administrative costs, it will be able to spend over the average on service production during the transition period. After 15 years, the plan is gradually to reduce these incentives.

Source: Bukve 2017

#### Focus 15 Potential traps of voluntary amalgamations

In the first phase of Ukrainian territorial reform, local governments were encouraged to build larger municipal units (*hromadas*) on a bottom-up voluntary basis. If the new units were sufficiently strong they could take over functions hitherto provided by the upper tier (*rayon*). In a few cases, lack of sufficient steering procedures led to situations that were difficult to manage. In some *rayons* the vast majority of small local governments agreed to merge into one big *hromada* and take over former *rayon* functions. But this left out unitary rural governments in the same area, which did not agree to merge with the rest of the territory. The result is a big *hromada* and a few small rural governments on the territory of a former *rayon*, which makes it extremely difficult to rationalize organisation of the provision of former *rayon* functions. One option is to sustain the *rayon* council, which would be responsible for services to (in) a few geographically isolated villages. Another possibility is that services to neighbouring villages be provided by a *hromada*, which would however be against the principle of democratic control over the service provision (since citizens of those villages would have no democratic mechanism with which to exercise control over the way in which services are provided by the *hromada*).

This issue is discussed more in detail in the case study of Ukrainian reform, in Appendix 4 to this document.

Each of these cases tells its own different story, but can we try to summarise conditions that make amalgamation more palatable ('turkey voting for Christmas')? The following important factors play a role in promoting successful voluntary amalgamation processes (while their absence increases the probability of failure of that method):

- Trust in stable government policy and determination in the implementation. If local governments are convinced that there is 'no other choice' and that the change will affect them sooner or later anyhow, they are more inclined to look for voluntary solutions. But if those who are afraid of change hope that the political determination may evaporate before the second stage is completed (or that the government in office may be replaced by another one less keen on or opposed to reform) they will probably delay the change and wait for downscaling or abandonment of the ambitious plan.
- Consensual (bipartisan) political culture makes semi-voluntary changes more likely than majoritarian ones. Early consultation on the reform plans (on the very early stage of their design) with various political forces is also part of that condition. Danish reform perhaps provides the best example of such an approach, although Dutch and Finnish cases are not very far from such situations either.
- High level of social capital among political elites and local communities (openness, interpersonal trust, involvement in heterogeneous social networks), which allows for a higher level of trust in the communities to be merged, among local politicians, between central and local governments, etc.
- High level of local autonomy and wide scope of functional responsibilities, which helps local governments to realise that performance will not improve without change.
- Clear incentives for the change provided by the central level (these might be of a financial or functional nature, e.g. offering wider autonomy or additional powers to those undertaking the change).

#### This is important!

Some of the factors listed above are pre-existing conditions (e.g. level of social capital, trust in stable policy), while others can be provided by the reform itself (e.g. incentives for change). Unfavourable conditions, which are difficult to change in a short-term perspective, do not make the reform impossible. However, in order to be challenged, they require more effort, clear vision, a smart political strategy and stronger more appealing incentives.

#### Focus 16 Voluntary amalgamations in Swiss cantons

Of the 10 cantons that introduced territorial consolidation reforms after 1990, nine opted for voluntary amalgamation. As a result of a lengthy process of negotiations and against the reluctance of several small local governments, in most cases consolidation was less radical than planned by the initiators of the reform. For example, in the canton of Fribourg the number of municipalities was reduced from 245 to 167, instead of to 89 which was the initial target; in the canton of Ticino the reduction was from 245 to 157, instead of to 86 as initially planned; in Jura the change was from 83 to 64, instead of to 29.

An interesting exception is the canton of Glarus, in which the cantonal executive suggested reducing the number of local governments from 27 to 10. The decision had to be approved directly by the assembly of citizens, which unexpectedly and by a very small margin of votes decided for more radical amalgamation to just 3 municipalities. The Glarus reform was exceptional also in that sense that it was not based on a voluntary process but it was decided by the Cantonal government and the municipalities could only implement it.

## Step 10: Preparing transitional provisions

Committee of Ministers Recommendation CM(2004)12 on the processes of reform of boundaries and/or structures of local and regional authorities

7. There must be in place a robust framework to preserve normal budgetary discipline during the transitional phase, to safeguard the assets and to ensure any transfer of staff of local or regional authorities being reformed is efficiently handled.

Each territorial reform needs a transitional phase or regulations helping to transfer the old system into a new framework. The reform itself, in spite of its possible long-term positive effects, is a difficult process for local communities. Examples of such transitional provisions should include:

- Employment in local government administration. Territorial change may lead in some cases to a reduction in the number of employees or at least relocations of workplaces. How will this process be handled?
- Inherited debt of local governments. Who would be responsible for paying the debt after the reform and how should situations be avoided in which small local governments that expect to disappear from the map incur new debt in the last period of their 'independence', knowing that they will not be responsible for paying it back?
- Changes in executives and local government councils. In most cases, territorial reform would probably mean a reduction in the total number of councillors, and certainly a reduction in the number of executive positions. Transitional provisions may be required in the process of change itself (e.g. who may sign administrative decisions) as well as in issues such as pension schemes.

The transitional phase of the reform usually requires the provision of additional funding. In the case of municipal mergers in Ireland, additional transitional costs were incurred. These were mainly one-off transitional items, e.g. integration of IT systems. Nonetheless, the government calculates that they will be significantly outweighed by the ongoing annual savings and benefits to be achieved through reorganisation.

### Focus 17 Measures to prevent pre-reform 'hoarding': the Danish experience

- Any capital investments in the two years preceding amalgamation that would exceed investments in the previous year had to be approved by the State and/or by the Amalgamation Committee
- Capital projects in the last year preceding amalgamation could be stopped by the Amalgamation Committee
- Increased capital spending had to be approved by the Amalgamation Committee
- In the last year preceding the reform, local tax rates were frozen at the level of the previous year
- National sanctions on budget overruns in the last year preceding the reform (general purpose grant would be reduced).

### *Step 11: Orchestrating with other elements of local government architecture: powers, functions and resources*

Territorial reform cannot be limited to the territorial dimension only. What is essential is the integration of functional, financial and territorial reforms, so that all of the elements fit together. A lack of such integration may be seen as one of the main factors contributing to the eventual failure of the reform (the 'map' has changed but the reform does not bring the desired outcomes). To put it differently: the same territorial organisation may be functional or dysfunctional depending on which services we expect local governments to provide: the same service may be easily decentralised or should be 'kept' on a higher tier, depending on how big municipal governments are. Therefore, a properly designed territorial reform should be implemented together with functional changes and modifications to the local financial system.

Several reforms described in the questionnaire follow this model. Denmark is perhaps the clearest example. The new, enlarged municipalities took over new functions relating to services for the physically and mentally impaired, housing and the treatment of alcohol and drug addicts. Both the previous county Land Tax and the previous county Personal Income Tax were transferred to municipal level. The level of municipal spending measured as a proportion of GDP increased from 26 % in 2005 (the highest in Europe, even before the reform) to 30 % in 2010. In Latvia the merger reform of municipalities was accompanied by the transfer of public transport functions from districts to municipalities. The share of municipal spending in GDP increased from 9 % in 2005 to 12 % in 2010 (but later dropped back to 9.2 % in 2015). In Flanders the municipal territorial consolidation reform is to be 'married' with a takeover of some new municipal competences relating to culture and education from the upper tier.

In Norway, the municipal reshuffle is intimately related to the reform of the counties, and the regional reform process is planned to catch up with the municipal merger process. Municipality and county structures should be mutually calibrated (NordRegio, the Nordic Centre for Spatial Development). In Finland, the new government strategy for reorganization of the municipal sector is based on the creation of a new self-governing level. The municipalities would transfer some responsibilities to these new regions (healthcare and social care) but would also receive new responsibilities from central government.

In Estonia some transfer of functions is planned, as well as changes to the financial system, but the changes will not be concurrent with territorial reforms. The precise changes to the financial system are still being discussed and are scheduled for implementation after 2018. Changes to the allocation of functions has also not been determined in a very clear way yet; they are currently being formulated on a conditional basis.

Estonia may be considered as an 'in-between' case, with the option of a full transition to a new system combining size, function and finance still remaining open. But there are cases where there has been no clear orchestration of territorial, functional and financial reforms, which has often led to disappointment (the anticipated goals of the reform were not achieved).



#### Focus 18 2006 territorial reform in Georgia

The inefficiency of a system with over 1,000 very small local governments was discussed in Georgia for several years, and there were several alternative scenarios for territorial reform. Eventually, the government decided for a radical variant, abolishing the lowest level and transforming the former upper level (*rayon*) in the basic, municipal governments. The number of local authorities was reduced in a very radical way from over 1,000 to 69, creating very large units whose centres were difficult to reach from remote villages in some mountain areas. The main arguments for the reform referred to the very low financial and organisational capacity of the smallest local governments, which blocked the possibility of wider functional decentralisation.

However, in the practical implementation of the reform, the territorial change was accompanied neither by any significant reallocation of functions nor by financial decentralisation. As a result, local governments still played a very marginal role in service delivery and were not seen as important policy actors in the public opinion. The reform was not considered successful either by experts or by the general public. Consequently, a few years later, following political upheaval at central level, the new government produced a new decentralisation strategy that did not build upon the 2006 territorial reform and which suggested that the territorial changes went too far. Some government-inspired working documents suggested increasing the number of local governments to around 200. This change, if introduced, would partially reverse the 2006 reform and would be the first case in many years of top-down territorial reform, which would lead to territorial fragmentation rather than consolidation.

The case of the Georgian 2006 reform illustrates the sustainability problems associated with reforms that are excessively focused on territorial change, with insufficient attention being paid to coordination with other dimensions of the decentralisation strategy.

Connecting municipal reforms with institutional changes may also make the process smoother. Opposition to a given reform may be reduced by packaging it with another more popular reform. In many cases, stakeholders who stood to lose from one of these reforms can gain from other elements (OECD, 2010a). An important example of this approach relies on the combination of a territorial reform with a decentralisation reform, i.e. the transfer of new responsibilities and financial resources to merged municipalities. The two components are then closely related and appear to be two sides of the same coin, the territorial reform being partly driven by the decentralisation reform (whether intentionally or not).

This was the case in the Danish 2007 local government reforms where the abolition of counties and the reallocation of a share of their responsibilities to the municipalities provided incentives for municipal mergers. In the Netherlands, the decentralisation programme, starting in 2007 and continuing within the framework of the 2012 new Coalition Agreement, 'Building Bridges', has encouraged municipalities to cooperate and merge. In January 2015, large responsibilities were transferred to municipalities in the areas of social care, with the requirement that they

consolidate (or collaborate) to perform their new mandatory social functions adequately. The first decentralisation process in 2007 showed that small municipalities did not have the managerial, administrative and financial capacities to deal with these new responsibilities, and several small municipalities needed to reorganise themselves on a more suitable scale. In Ireland, local authorities were given an expanded role in economic development under the 2014 local government reform. In Norway, in the context of the 2014-17 municipal reform, transfers of additional responsibilities from the counties (e.g. secondary education and public transport) and central government to municipalities will occur only if they merge into larger units. These units should be based on functional areas with sufficient capacity and competence to manage these new tasks.

These reforms (territorial and institutional) may not amount however to an increase in the degree of autonomy enjoyed by the (new) municipalities. The Local Autonomy Index (LAI) established by a group of European researchers at the request of the European Commission confirms that coordination of different elements of local government architecture may be found only in a fraction of cases, while in some countries territorial reforms are not accompanied by either functional or financial reforms<sup>13</sup>.

**This is important!**

Enhanced local autonomy should be among the objectives of territorial reform in order that the newly established units are able to deliver public services effectively, in a way that is still compliant with the subsidiarity principle. The capacity to measure to what extent this goal is achieved matters when it comes to assessing the success (or failure) of the reform process. The index could become also a sort of 'self-assessment' tool for local authorities.

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13 [http://ec.europa.eu/regional\\_policy/sources/docgener/studies/pdf/self\\_rule\\_index\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/self_rule_index_en.pdf)

## Evaluation of the reform

### How to use this chapter

This chapter briefly discusses the merits of and the need for a comprehensive evaluation of each reform process. The experience of some countries will be examined and discussed and some lessons drawn. Interested actors may draw inspiration from the modalities followed by individual reforming States when setting up review committees. It is important that the results of these evaluations are not only public but also shared.

### Introduction

A good practice for each reform programme is to establish a comprehensive system of evaluation, particularly ex post evaluation of the main reform outcomes. Unfortunately this stage is often missing. A recent overview of OECD countries' experience in multi-level governance reports includes five specific detailed case studies and concludes that proper evaluations has been performed in only one in five of these cases (Chatry, Hulbert 2017).

The main task of the evaluation reports is to determine whether the goals of the reform have been achieved and what kind of positive or negative side effects occurred following implementation of the reform. Evaluation of the reform can contribute to consolidation of the reform and set the policy agenda for the post-reform period.

A terminological clarification – from Committee of Ministers Recommendation CM/Rec(2004)12 on the processes of reforming boundaries and/or structure of local and regional authorities

#### D. Evaluation

1. Upon completion of the reform, independent evaluation studies with a broad focus and not limited to the reform of administrative structures as such, should be carried out in order to verify whether and to what degree the objectives of reform have been achieved.
2. Evaluation should also be carried out by those directly involved in the process of reform.
3. The results of evaluation should be made public.
4. Measures should be taken to ensure that reforms may be adjusted or even reversed where they are shown to have significantly fallen short of their objectives. These measures should include, where it does not already exist, the creation of a legal framework to regulate the rights and obligations affected by the adjustment or reversal of the reform.
5. Measures should be taken to ensure that the results of evaluation are taken into account in the shaping of general policies on reform and in any subsequent process of reform.
6. Evaluation results should also be made available to other member states of the Council of Europe and be forwarded to the Congress of Local and Regional Authorities of the Council of Europe for information.

### *Independent experts*

It seems that the common practice is to outsource the evaluation to various research agencies and independent experts. Generally, outsourcing is considered good practice in the evaluation of public sector projects. However, the external evaluation (carried out by someone who was not directly involved in implementation of the reform) is not always institutionally coupled with the internal evaluation (carried out by the review committees established within the administration responsible for implementation of the reform). The lack (or weakness) of internal evaluation committees within governmental structures (responsible for the design and implementation of the reform) usually impedes institutional learning. In such situations the knowledge brought by the external evaluators is not properly transmitted to and used by the public administration.

### *An overview of recent practice*

In several countries, comprehensive research programmes have been established, focused on the territorial reforms; within such an institutional framework various research groups were financed to prepare reports on different aspects of municipal consolidation. In this setting, the typical evaluation reports have been supplemented by theoretically rich and methodologically advanced research papers published in academic journals (in this respect the Danish reform probably serves as the best example). The Norwegian reform currently unfolding is being carefully monitored by the research project implemented by the team created by the consortium of Norwegian universities, supported by an international advisory board (see focus 19).

The countries which implemented territorial reforms designed various evaluation systems. Some of them were described in a more detailed manner in the responses from the Member States (see focuses 19 - 22). The overall conclusions presented in the reports are positive.

For example, the reports on Danish consolidation reform conclude that “the local and regional governments were redesigned by creating larger and more sustainable units with a clear responsibility to provide high-quality welfare services”. The Latvian report concludes that during the financial and economic crisis “amalgamated local municipalities were able to provide service delivery to inhabitants”. It also notices increased electoral competition in amalgamated municipalities and interprets it as a further development of local democracy. The review of three municipal mergers in Ireland identified ongoing savings from amalgamation, representing approximately 4 % to 7 % of total expenditure.

In Estonia the 2008 study of former municipal mergers was used as support for ongoing comprehensive amalgamation reform. The studies revealed that instead of significant savings, improvements in service capacity and the quality of municipal services occurred.

The Finnish report concludes that the benefits of amalgamation start to appear gradually after a few years, if the new municipality can take advantage of the productive potential associated with the merger. The report stresses that the benefits are naturally uncertain: “it is not the size of municipality that is essential to efficient service production, but the method of organising local government operations and providing services for which the municipality is responsible”.

Focus 19 Norway: research project to monitor and evaluate the reform implementation

Title: *Reshaping the Map of Local and Regional Self-Government: A study of the Norwegian Local Government Reform Process.*

Funded by the Norwegian Research Council, with a budget exceeding 1.5 million euros

Implemented by the consortium of research institutions in Norway and neighbouring countries, consisting of:

the Stein Rokkan Centre (Bergen);

the University of Bergen;

the University of Oslo;

the Institute for Social Research (Oslo);

the Norwegian Institute of Urban and Regional Research (NIBR);

Aarhus University (Denmark);

KORA (Denmark);

The Abo Academy (Finland).

International advisory board (from Germany, Greece, the Netherlands, Poland and Sweden)

Data and Methods:

quantitative data from existing statistical data sources on all 428/18 local/regional units, including historical data for time-series analysis;

central-level elite interviews; document studies; media studies;

comparative studies: Denmark and Finland (intensive); European context (extensive);

qualitative case studies in selected counties and municipalities by means of interviews, document analysis and field observation;

a survey of all county councillors and a sample of municipal councillors;

regional-level elite interviews.

Focus 20 Evaluation of voluntary mergers in Norway

In Norway, voluntary mergers from the period 2002 to 2008 have been studied by two different research teams on assignment from the Ministry of Local Government and Regional Development. Agenda Utredning og Utvikling (now Agenda Kaupang) studied the municipality of Re in 2006, while Telemark Research Institute (TRI) studied the mergers of Bodø, Aure, Vindafjord and Kristiansund in 2009. Research companies Asplan Viak and TRI also studied the mergers between 2005 and 2008 on assignment from the Norwegian Association of Local and Regional Authorities (KS). These reports were taken into account in the preparation of the current more comprehensive territorial reform.

TRI found that the mergers had generally resulted in better services. The number of complaints appeared to have decreased. It was also reported that administrative services, such as finances and human resources, had grown stronger and more robust, and that the smallest municipalities in particular were no longer as dependent on individual employees to carry out critical tasks. Nonetheless, harmonising service levels between municipalities has been challenging. In respect of local democracy, the mergers have resulted in less political representation. It was found that

citizens have become somewhat less motivated to seek elected political office. Former independent candidate lists have disappeared in connection with the municipal mergers. Rarely, if ever, did the outcomes of local elections follow the old municipal boundaries. TRI has found that the most positive feedback from inhabitants related to the community development role. Clear majorities in all of the merged municipalities believed that the municipal mergers had helped develop municipalities that were better equipped to face future challenges linked to community and commercial development.

The report prepared by TRI concludes that the benefits of the four municipal mergers outweighed the disadvantages in all of the areas studied. The authors stressed that the way a merger was carried out significantly affected results achieved due to the merger, particularly in the short term.

This is important!

When evaluating a reform, it is important to resort to a number of techniques: from data collection to interviews with planners, decision-makers, implementers and beneficiaries. User satisfaction level is an important criterion for assessing whether or not governance at local level has improved and also whether the reform has taken root in the institutional landscape and in the minds and hearts of citizens.

#### Focus 21 Reform evaluation in Finland

In Finland, an extensive, independent evaluation research programme (ARTTU) was launched during the PARAS consolidation reform<sup>14</sup>. It was coordinated by the Association of Finnish Local and Regional Authorities. The study was jointly funded by the Association, as well as 7 ministries, 7 universities and 40 municipalities. Several universities and research institutions took part in the programme which examined the impact of the reforms on various dimensions:

- municipal finances and local economy;
- democracy and leadership;
- local government services, personnel and structural functionality of urban regions;
- civil servants and citizen satisfaction;
- gender-equality;
- Swedish speaking minority.

The results of various studies – presented as reports and working papers – are described in the report

[http://shop.kunnat.net/download.php?filename=uploads/acta\\_artunmitallaensisalto\\_ebook.pdf](http://shop.kunnat.net/download.php?filename=uploads/acta_artunmitallaensisalto_ebook.pdf).

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14 In Finland, the PARAS reform allowed municipalities to choose between cooperation and mergers. 'Co-management areas', based on population thresholds, were established for healthcare and education services

## Focus 22 Committee for the Evaluation of the Local Government Reform in Denmark

The Danish Government appointed an internal evaluation committee with one representative from each of the following: the Ministry for Economic Affairs and the Interior (Chair); the Ministry of Finance; the Ministry of Taxation; Local Government Denmark (KL); the Danish Regions.

Four sub-committees were created in order to deal with four selected task areas:

- healthcare;
- social services and specialised education programmes;
- The nature and environmental area;
- Regional development.

The Committee for Evaluation of the Local Government Reform has held 15 meetings in 2012 and 2013. The sub-committees have had analyses prepared, to varying extents, which are included in their reporting to the committee.

In addition, the committee's work was built on a number of analyses prepared by KORA (The Danish Institute for Local and Regional Government).

The analyses covered:

- the former counties' administration buildings
- the municipalities' administration buildings
- the municipalities' administrative resource consumption 2007-2011
- the municipalities' school structure 2004-2011
- an overview of research and analyses in relation to exposure to competition in municipalities and regions after the Local Government Reform
- the regions' administrative resource consumption 2007-2011
- the development of exposure to competition in municipalities and regions in connection with the Local Government Reform
- the structural development of public day-care facilities 2004-2011.

The committee has also held a number of hearings with selected stakeholders – organisations, mayors and chief executives of local authorities as well as all regional council chairpersons and regional directors. Five hearings were held with the participation of representatives from various organisations focused on local and regional development.

### *The interest of academia: how to use the bibliography*

Assessment of the actual outcomes of implemented territorial reforms is increasingly often also a topic of academic research, whose conclusions might be interesting for practitioners. In the Appendix 1 we provide a short review of such studies. The list of research included in the annex is limited in several respects:

- it discusses only studies concerning reforms in Europe (not, for example in Australia, which has developed extensive literature on reform evaluation, although bound to a very different geographical and socio-political context than we may meet in Europe);
- it focuses almost entirely on studies written in English (not in national/local languages);
- it focuses on studies explicitly focused on evaluation of the outcomes of reforms, such that the review leaves aside very rich literature relating to the wider topic of the relationship between the size of local jurisdictions and their operation;
- last but not least, we do not claim that the list of reviewed studies is complete.



## The 'dodecalogue' of territorial reform

### How to use this chapter

The purpose of this last chapter is to recap and present in a concise form the various issues raised and recommendations made in the previous pages of this Toolkit. After each section a short enumeration of the tools that could help meeting the goal is also given.

### 1. Justify the need for amalgamation

Amalgamation is a process that deeply affects populations and institutions. It should not be implemented at a stroke of a pen, whatever its 'technical' merits, without a solid and honest attempt at winning the hearts of those most directly affected, whose support will be necessary if the reform is to be successful (in other terms, honestly implemented and not reverted when political fortunes change).

- *Look at the experience of other regions/countries of similar size and/or population or similar system of local self-government, put your country/region in the appropriate geographical or spatial perspective*
- *Discuss the lessons of previous attempts at similar reforms, look at deeply rooted causes of failure and find arguments and tools to avoid a similar trap*
- *Examine carefully the outcomes of any previous territorial reforms and/or bottom-up voluntary mergers and amalgamations that have occurred in the country/region, use counter-factual evaluation methods for various outcomes*
- *State as clearly as possible the vision of the reform, enumerate the expected positive outcomes of the amalgamation, draw up a 'before amalgamation' and 'after amalgamation' scenario*
- *Project the expected concrete outcomes towards a political horizon, referring to values, interests and future prospects and addressing the concerns of various stakeholders.*

TOOLS: research reports (based on: desk research, secondary-data analysis, surveys of municipal authorities and administration, qualitative data, study visits), in-depth political analysis (is there a 'window of opportunity' to implement the reform?) and a strategic vision of the reform.

### 2. Anchor amalgamation in a wider reform process

Municipal amalgamation is a tool for increasing efficiency, service delivery and accountability. It is

a process in both institutional architecture and democracy-building. It is not a goal per se. Since it will necessarily entail changes at the level closest to citizens, its repercussions on other tiers of government should be considered and explained as well.

- *Consider the wider redesign of municipal competences, their scope (functional decentralisation) and finance (fiscal decentralisation): what new tasks need to be implemented? What resources? What additional taxation power, what is their relationship with both lower (sub-municipal) and higher (province/county/region) levels of governance*
- *Project amalgamation against the backdrop of inter-municipal and trans-frontier cooperation: will it continue? Will it be enhanced? Will trans-border cooperation be enhanced and bring more results?*
- *Pay attention to regional development policies of which (larger) municipalities may become active beneficiaries or managers, including in relation to the management of EU structural funds.*

TOOLS: the review of the legal financial system, evaluation studies of the inter-municipal cooperation, reform programme proposals, cabinet consultations and establishment of the coordination groups

### *3. Explain and build support*

Amalgamation is meant for citizens: its aims are to improve the delivery of services, reduce red tape and simplify access to administration, clarify roles and enhance accountability, including through new participatory modalities. Therefore, it needs to become a shared goal for citizens themselves, through their political (parties) and civil (NGOs) representation, as well as through direct civic support. It will not only bring advantages, it may well also have shortcomings and costs. Clarity of purpose, open debate and as much public support as possible are therefore essential ingredients for a reform to be successful in the long run.

- *Bring on board local authority associations and pressure groups, engage in discussions on the design, scope and outcomes*
- *Think of the 'losers' of the reform: local staff who would become superfluous or forced to move to other workplaces, citizens whose villages will 'disappear' as autonomous entities, strong local identities that will be diluted in larger communities, and propose compensation*
- *Introduce democratic innovations: local referenda, a 'guaranteed' minimum representation in the new municipal council for amalgamated units, local aldermen, enhanced participation in local public life, etc.*
- *Develop a communication campaign to build consensus*

- *Try to involve the political opposition and other important stakeholders from the very beginning of the reform design process*

TOOLS: cooperation with local government associations, think tanks and other NGOs, establishing a forum for discussions involving a wide range of stakeholders, organised at an early stage of the reform design, communication strategy

#### *4. Craft the reform in a technically solid way*

The arguments for and against amalgamation are of a technical and political nature, as well as an emotional nature. They should not be disregarded lightly. Solid technical documentation should be gathered and made available for discussion in advance of the process.

- *Draw up technical reports discussing the amalgamation criteria: population threshold, functional areas, distances, availability, concentration or lack of facilities (social, educational, health, etc.).*
- *Organise public debates within a clear-cut legal, technical and chronological framework*
- *Put a qualified team of experts at the helm of the technical debate*
- *Discuss alternatives and give a rationale for not following them*
- *Conduct a public debate within a clearly defined time span*
- *Pay attention to objections and alternative views, give reasons for following them or not*

TOOLS: expert reports, popular publications, media campaign, public debates, meetings with local communities.

#### *5. Have a clearly identified leader for the reform*

The reform process is a politically sensitive issue. Even if it is not the subject of debate during the course of the electoral campaign (this is rarely the case) territorial reform will arouse a lot of political tensions. It should have a clear political leader, be it the prime minister, a deputy prime minister, senior minister or secretary of state, who should identify themselves with the reform on behalf of the government.

- *Make territorial reform a publicly stated political objective*
- *Define goals, outcomes and timing*

- *Assume political responsibility for the outcomes*
- *Set up a team and a visible leader thereof with full responsibility for debating, putting forward alternative scenarios and, defending the reform before public opinion and parliament*

TOOLS: appointment of the reform leader, assuring their proper legitimacy, prerogatives, administrative and expert support

#### *6. Ensure that political support is as wide as possible*

Territorial reforms are meant to last and their implementation will in any case take years. It would be extremely detrimental to the country – in political, financial and human terms – if a reform were stopped halfway through or revoked altogether by a successor government/parliament. Although unanimity in parliament cannot be an absolute pre-condition, try to persuade as many political actors as possible to support the reform.

- *Buy arguments from the opposition*
- *Involve possibly marginalised political or minority parties/movements*
- *Identify a 'window of opportunity' and don't let it pass unused*
- *Give the reform time to produce results before the next elections*

#### *7. Examine viable options and potentially leave the choice open*

Amalgamation need not happen as a one-off experiment. Depending on technical evidence and public support, a two- or even three-step approach may be necessary or wise in order to capitalise on the results, stage after stage, before moving to the next step.

- *Decide on whether to offer the option to amalgamate freely or mandatorily, for an initial period of time*
- *Clearly offer incentives or compensation as regards, for instance, existing debt, further investment, geographical disadvantages, etc.*
- *Specify the 'transitional rules' determining the transfer of communal properties, financial obligations, infrastructure and the new leadership selection procedure*
- *Be vigilant against the risks of last-minute overspending or indebtedness*

- Offer security of employment, attractive pay or negotiable leaving conditions to staff
- Communicate extensively and effectively on progress in the implementation of the various steps, give reminders of deadlines, move to the next step as planned

TOOLS: the package of incentives to local governments; transparent provisional regulations preventing problems from the 'common-pool' and ensuring the stability of local administration services, human resources and local finances; meetings with local authorities, administrations and local communities

#### 8. Consult existing municipalities on the future amalgamation

Consultation of municipalities is normally an obligation by virtue of domestic statute or in the light of Article 5 of the European Charter of Local Self-Government. In any case, giving local authorities the opportunity to express themselves on the issue – prior to the final drawing up of the reform and, once it is decided, the choice of partners – is a sound measure of effective democracy which should not be overlooked.

- Promote consultation of local authorities in the design phase, through their associations and/or directly, if practically feasible
- Give each individual municipality affected the opportunity to express itself for or against the amalgamation and regarding the choice of municipalities with which to amalgamate, etc.
- Provide a response in all cases where the decision to be taken will not follow the wishes of the municipality/ies

TOOLS: public consultation programme (specifying the tools, entry rules, responsibilities of the administration and facilitators); media campaign; consultative meetings organised in local communities, preceded by properly disseminated information (reform rationale, expected benefits, potential risks); local referenda, deliberative events (citizens' panels, juries, etc.).

#### 9. Provide effective support to amalgamating municipalities in order to make the reform successful

The changes following amalgamation will be numerous and will affect staff, their physical location and their new tasks. It is important that the reform be guided and supported by those responsible for it, through legal and administrative advice and the provision of professional training or additional staff for a limited duration of time. These measures should be catered for in the reform plans and their costs should be budgeted.

- Set up a task force in the competent central ministry or agency overseeing the reform
- Develop and propose (draft/model) organigrams, job descriptions and new professional

*profiles in advance*

- *Be capable of providing qualified legal advice on what measures municipalities should take when confronted with new situations*
- *Take measures to requalify local staff whose tasks will evolve*
- *Take regular stock of the state of implementation of the reform and identify bottlenecks or delays requiring top-down action*
- *Report publicly on the implementation in order not to let the reform and its advantages be removed from public attention*

TOOLS: precise legal regulations concerning transitional and implementing procedures; support programme for municipalities affected by the reform ('reform helpdesk': legal and financial advice, HR support)

#### *10. Include the elections factor in your reform plans*

Newly amalgamated municipalities will constitute new territorial entities and will need new municipal councils, mayors, etc. Political parties will also need time to adjust to and campaign in the new territorial setting. The outcome of new elections may decide the fate of the reform if new municipal councillors and mayors are inadequate for the new job.

- *Take transitional measures to ensure that all forces present in the previous municipal councils have adequate political representation in the new municipal assemblies*
- *Give local populations and local political forces sufficient time to become comfortable with the new boundaries and neighbourhoods*
- *Plan new elections at a reasonable interval after the entry into force of the reform*

#### *11. Evaluate the outcomes and learn from the lessons of the reform*

Not everything will go exactly as planned. Delays, bottlenecks and unexpected circumstances may slow down or impede the reform, to a greater or lesser extent. While it is important to pursue it until its (reasonable) conclusion, experience may suggest a change of track or additional measures.

- *Set up an in-house evaluation team to assess progress and the difficulties encountered from an internal administrative point of view*
- *Set up an independent scientific evaluation team to analyse the outcomes of the reform according to the stages of its implementation or once it has been officially completed*

- *Publish the results of the evaluation and propose new measures, if appropriate, to the parliament within a reasonable time after the completion of the reform.*
- *Following implementation of the reform, offer your expertise and experiences to other countries and commission the publication of concise reports in languages officially used in international fora/organisations (English, French).*

TOOLS: ongoing internal evaluation; ex post evaluation report prepared by the independent team of experts.

## 12. *Elicit international support and/or financing*

Amalgamation is a complex, difficult and lengthy process. But it is not an unusual occurrence. Many European and non-European countries have gone through it or are going through it. Accessing their experience and requesting external advice, including financial support in some cases, should be considered an option. International organisations and agencies can provide technical assistance and also a positive environment, to help make the reform acceptable.

- *Consider what work bodies like the OECD, the Council of Europe, the World Bank or UNDP, for instance, have already done in terms of research, reports and recommendations and use them in the case of your country.*
- *Request technical assistance where appropriate or invite peer reviews to enrich your own qualifications to conduct the reform.*
- *Give the reform a 'European flavour', if this will make it more acceptable to public opinion, by using international experts or involving neighbouring countries.*

TOOLS: peer review missions and technical assistance programmes

Focus 22 OECD recommendations: Key issues and challenges in the design, the implementation and the sustainability of multi-level governance reforms

The main challenge of multi-level governance reform is to understand and manage efficiently the relationships and the mutual dependence across levels of governance

An 'open-system' perspective should be adopted when designing, implementing and assessing multi-level governance reforms and decentralisation processes

Reforms should be approached in a multi-dimensional and comprehensive way in order to avoid negative and counterproductive outcomes

Bundling territorial, institutional and financial reforms can facilitate reform processes

Reformers can benefit from having a clear electoral mandate for reform

Reforms often build on previous steps but also pilot programmes, experiments and place-based approaches

Overcoming opposition from local governments through co-operation and consultations, incentives and good relationships with associations of SNGs

Mobilising and generating acceptance from central and local civil servants through incentives, compensations and training

Gaining support from civil society through information, public debates and consultations.

Gaining political adhesion across party boundaries through experts committees

The importance of guideline documents, expertise and technical support

Promoting municipal mergers and inter-municipal co-operation through diverse tools

The evaluation of reform outcomes should be promoted.

Source: OECD (2017), *Multi-level Governance Reforms: Overview of OECD Country Experiences*, OECD Multi-level Governance Studies, OECD Publishing, Paris.



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Swianiewicz, P., Mielczarek, A. (2010) *Georgian local government reform: state leviathan redraws borders?*, *Local Government Studies* 36(2): 291-311.

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## Appendix 1. Academic studies of impacts of territorial reforms in various European countries – literature review

Document	Method	Main conclusions
Austria		
Heinish, R., Lehner, T., Muhlbock, A., Schimpf, C. (2016): Subtraction by addition? The effect of municipality amalgamations on voter turnout in local elections, paper presented at MPSA Conference, Chicago, 7 - 10 April 2016	Difference-in-differences	The impact of mergers on electoral turnout is close to zero
Denmark		
Blom-Hansen, J. (2009): Municipal amalgamations and common pool problems: the Danish local government reform in 2007, <i>Scandinavian Political Studies</i> , 33: 51-73	Series of regression analyses; matching (amalgamated/non-amalgamated)	The amalgamation process creates common pool problems. Compared with municipalities not touched by the territorial reform, municipalities about to be amalgamated engaged in last-minute spending, especially in the areas of capital expenditure and the maintenance of local roads, pavements, bicycle paths and town squares The size of the old municipality relative to the new amalgamated one, does not have a statistically significant effect on local spending, i.e. it is the availability of a common pool that matters, not its size
Blom-Hansen, J., Houlberg, K., Serritzlew, S. (2014): Size, democracy and the economic costs of running the political system, <i>American Journal of Political Science</i> , 58(4): 790-803	Difference in differences	Municipal mergers lead to savings in administrative costs two to three years after the reform
Kjær, U., Hjelmar, U., Leth Olsen, A. (2010): Municipal amalgamations and the democratic functioning of local councils: the case of Danish	Survey of councilors; difference in	The amalgamations have led to an increase in the perceived influence of leading councillors vis-a-vis other councillors and a decrease in the perceived influence of the council vis-a-vis its top administrative officers.

2007 structural reforms, <i>Local Government Studies</i> , 36(4): 569-585	differences	While there was an increase in the number of councillors who find that local political decisions are determined by laws and rules from central government, the analysis has shown that this increase cannot be ascribed to the amalgamations
Hansen, S.W., Houlberg, K., Pedersen, L.H. (2014): Do municipal mergers improve fiscal outcomes? <i>Scandinavian Political Studies</i> 37(2): 196-214	Difference in differences	Mergers help to improve the operating surplus of the budget (indirect proof of cost savings) Mergers help to improve liquid assets In the long run, mergers help to reduce long-term debt, although there is an issue of increased debt in the period directly before the merger
Larsen, Serritzlew (2011): Jurisdiction size and local democracy: evidence on internal political efficacy from large scale municipal reform, <i>American Political Science Review</i> , 105(2): 238-258	Citizens' survey; difference in differences	Increased size has a detrimental effect on citizens' internal political efficacy (feeling of impact on local public issues and feeling of understanding local politics)
Hansen (2015): The democratic costs of size: how increasing size affects citizen satisfaction with local government, <i>Political Studies</i> 63(2); 373-389	Quasi-experimental based on series of surveys of citizens	Mergers reduce citizen satisfaction with municipal services and local democracy (albeit moderately) Mergers have no effect on electoral turnout
Hansen (2012): Polity size and local political trust: a quasi-experiment using municipal mergers in Denmark, <i>Scandinavian Political Studies</i> 36(3): 43-66	Difference-in-difference; citizen survey conducted in 2001 and 2009	Mergers reduce political trust, which is mostly related to the drop in responsiveness of politicians, although this effect is modest The effect is more visible in 'daughter municipalities' (smaller of the two or more merged)
Blom-Hansen, Houlberg, Serritzlew, Treisman (2016): Jurisdiction size and local government policy expenditure: assessing the effect of municipal amalgamation, <i>American Political Science Review</i> , 100(4): 812-831	Difference-in-difference; financial and socio-economic data	Amalgamation has no systematic effect on the scale of local government spending. Most spending is unaffected due to the 'plant effect' (most expensive services are produced in units within local governments, such as schools and nursing homes; increasing the scale of jurisdiction does not change the scale of service providers). Saved funding (e.g. in administrative

		<p>spending) seems to be reallocated to services for children with special needs, social security, and unemployment programmes</p> <p>The expected impact of amalgamation reform will depend on the scope of services delivered by local governments in a given country</p>
<p>Foged (2016): The relationship between population size and contracting out public services: evidence from a quasi-experiment in Danish municipalities, <i>Urban Affairs Review</i> 52(3)</p>	<p>Difference in differences</p>	<p>Mergers reduced the contracting out of technical services (since smaller local governments suffered more from a lack of economies of scale in respect of services with high fixed costs)</p> <p>Mergers increased contracting out in services that are difficult to measure (social services), since amalgamation increased their administrative and technical capability</p>
<p>Jakobsen, M., Kjær, U. (2016): Political representation and geographical bias in amalgamated local governments, <i>Local Government Studies</i>, 42(2)</p>	<p>Survey of councillors; Regression analysis</p>	<p>When a large city is merged with less populous jurisdictions, a strong centre-periphery dimension is created, and this leads to numerical over-representation of the periphery in the legislature (council) of the amalgamated jurisdiction. Over-representation benefits peripheral areas by placing more of their representatives in the council to lobby, incorporating local interests to party standpoints and negotiations and bringing local interests to the council's attention. However, the periphery is under-represented with regard to the mayoral office. The periphery mobilisation mechanism is amplified in amalgamated jurisdictions, especially in the years immediately following amalgamation, and some of the representation bias can be expected to decrease over time</p>
Finland		
<p>Moisio, Uusitalo (2013): The impact of municipal mergers on local public expenditure in Finland, <i>Public Finance and Management</i>, 13(3): 148-166</p>	<p>Quasi-experimental – nearest neighbour matching; financial data</p>	<p>Mergers increased per capita operating expenditure that originated mainly from increased spending on education and healthcare</p> <p>Expenditure on welfare was not affected by the mergers</p> <p>Mergers reduced spending only in the case of administration, however this decrease was far smaller than the increase in expenditure in other categories. These effects on spending patterns were still visible 10 years</p>



		<p>after the mergers</p> <p>On the revenue side, mergers have no effect on either per capita taxable income or tax rates (no support for the claim that larger municipalities would provide a more attractive environment for firms)</p> <p>The distance between administrative centres is a strong predictor of municipal mergers; the size of merging municipalities is also important - the larger the larger (by population) and the smaller the smaller of the two potential merger partners is, the more likely the merger. Economic variables like tax base or indebtedness are not significant indicators of the probability of a merger</p>
Saarimaa, Tukiainen (2015): Common pool problems in voluntary mergers, <i>European Journal of Political Economy</i> 28: 140-152	Difference in differences Financial data	<p>Free-riding is a concern in voluntary as well as in forced mergers.</p> <p>The merger process creates a temporary common pool problem – the stronger the incentive to free-riding faced by a municipality, the more it increases its debt and spends its cash reserves (mostly on investment and current expenditure)</p> <p>Municipalities with strong incentives to free-riding are on average smaller and have been involved in larger mergers, both in terms of the merged population and the number of municipalities in the merger, compared to the weak incentives group</p>
Georgia		
Swianiewicz, Mielczarek (2010): Georgian local government reform: state leviathan redraws borders? <i>Local Government Studies</i> 36(2): 291-311	Survey of citizens, focus group; in depth interviews of experts and politicians; document analysis	<p>The goal of reducing disparities among local governments was not achieved. Territorial reform not connected to significant functional or financial decentralisation (in spite of official discourse of the reform)</p> <p>'Invisible reform' – not acknowledged as significant by citizens, many of them have not noticed the change</p> <p>Reduced feeling of being represented in local government noted in villages that lost the status of municipal capitals</p> <p>In citizens' perception: increased capacity of local government</p>

		administration
Germany		
<p>Blesse, Baskaran (2016): Do municipal mergers reduce costs? Evidence from a German Federal State, <i>Regional Science and Urban Economics</i>, 59: 54-74</p> <p>Blesse, Baskaran (2013): Do municipal mergers reduce costs? Evidence from a German Federal State, CEGE, <i>Discussion Papers N. 176</i></p>	Financial data; difference-in-differences	<p>The study of territorial reform in Brandenburg (2001-2003)</p> <p>Administrative expenditure declines after mergers. The total reductions and current expenditure are visible but typically statistically insignificant. The reductions occur mainly in the case of compulsory mergers; voluntary mergers do not lead to expenditure cuts. Mergers with a larger number of participants and those achieved through annexation seem to be more effective in reducing costs</p>
Blume, Blume (2007) The economic effects of local authority mergers: empirical evidence for German city regions, <i>Annals of Regional Science</i> 41: 689-713.	Linear OLS regression analysis; financial and economic data	In monocentric city regions, mergers either at district level or at municipal level (between a core city and its suburbs) have, all things being equal, significant positive economic effects that exceed the effects of solely functional cooperation. This positive economic effect manifested itself in the form of lower debts at district level and in higher growth rates at municipal level, during the period 1980-1998
Feld, L.P.; Fritz, B. (2015): The political economy of municipal amalgamation: Evidence of common pool effects and local public debt, <i>Freiburger Diskussionspapiere zur Ordnungsökonomik</i> , No. 15/10	Difference-in-differences; design	Debt dynamics are higher in amalgamated municipalities. Debt is higher if: (i) there are more municipalities taking part in amalgamation, (ii) amalgamation is forced (not voluntary), (iii) when it has a form of annexation with one dominant municipality. Also, voter activeness is lower in amalgamated local governments
Poland		
Swianiewicz, Gendźwiłł, Łukomska, Kurniewicz (2016): Wielkość gmin i powiatów a sprawność ich funkcjonowania: hipotezy wielkoludów i liliputów, Warszawa, Scholar.	Synthetic control and difference-in-differences	<p>Analysis of cases of territorial fragmentation (splits of municipalities) which leads to:</p> <ul style="list-style-type: none"> <li>increased spending on administration</li> </ul>

<p>In English see: Swianiewicz, P., Łukomska, J. (2017, in print): Is Small Beautiful? The Quasi-Experimental Analysis of the Impact of Territorial Fragmentation on Costs in Polish Local Governments, <i>Urban Affairs Review</i>. Gendźwił, A., Łukomska, J., Swianiewicz, P. (2017) The impact of territorial fragmentation on local elections: the quasi-experimental evidence from municipal splits in Poland, paper presented at the ECPR Annual Conference, Oslo, 6-9 September.</p>	<p>methods</p>	<ul style="list-style-type: none"> <li>• a short-term reduction in the operating surplus of the municipal budget (which may be interpreted as deriving from higher costs) but in the longer run has a neutral or sometimes even a positive impact on the operating surplus</li> <li>• higher turnout in local elections</li> <li>• lower electoral competition in local elections</li> </ul>
<p>Sweden</p>		
<p>Hinnerich (2009): Do merging local governments free ride on their counterparts when facing boundary reforms? <i>Journal of Public Economics</i> 93: 721-728.</p>	<p>Financial data; difference-in-differences</p>	<p>The study on extensive amalgamation reform of 1969 provides evidence on the existence of 'free riding' strategies before the merger. The reform gives local government the incentive to accumulate debt before a merger takes place, since the taxpayers in the new locality will share the cost. The strength of the incentive to free ride is determined by the population size of the initial locality relative to that of the new locality. If larger local governments are more efficient and can enjoy economies of scale, the pre-merger incentives to free riding can offset some of the potential gains. The fact, revealed by many studies, that there is little evidence of efficiency after mergers may be due to the fact that the new localities suffer from suboptimal investments made before the reform</p>
<p>Jordahl, H. Liang, C.Y. (2010): Merged municipalities, higher debt: on free-riding and the common pool problem in politics, <i>Public Choice</i> 143: 151-172.</p>	<p>Financial data; OLS with matching and geographical instrumental variables</p>	<p>Amalgamated municipalities increase their debt considerably more than untreated municipalities before amalgamation. While there is evidence of free-riding when a common pool is present, there is no support for the assumption that the common pool effect increases with common pool size</p>

<p>Hanes, N. (2015): Amalgamation impacts on local public expenditures in Sweden, <i>Local Government Studies</i>, 1: 63-77</p>	<p>Linear OLS regression analysis; Herfindahl index for population</p>	<p>Amalgamations had a negative impact on per capita expenditures as long as the amalgamated municipalities did not exceed some critical size (12,800 inhabitants) Amalgamated municipalities with fragmented structures (consisting of a number of small, equally sized municipalities) are more likely to achieve economies of scale after the reform than newly formed municipalities with a more concentrated structure (large municipality amalgamated with a small municipality) Attitudes towards amalgamation (whether or not municipalities objected to the amalgamation plan) did not affect expenditure patterns</p>
<p>Switzerland</p>		
<p>Steiner, R., Kaiser, C. (2017): Effects of amalgamations: evidence from Swiss municipalities, <i>Public Management Review</i> 19(2)</p>	<p>Survey of local secretaries; matching; difference-in-differences</p>	<p>Mergers increased the quality of services delivered to a certain extent. Whereas in some task areas, there was an improvement of service delivery after the merger, no significant change could be observed for many task areas compared to the non-amalgamated municipalities. There is no significant evidence for a clear improvement or for a deteriorating financial situation. It seems that the administration in merged municipalities underwent professionalisation. Interestingly, the headcount in the municipal administration decreased after mergers and increased in non-amalgamated municipalities. The reorganisation seems to have enabled staff cuts to be made. The municipalities perceive an increase in their own weight and position vis-à-vis other institutions. The civil servants of merged municipalities do not confirm any decrease in levels of proximity to citizens or identification with the municipality</p>
<p>Koch, P., Rochat, P.E. (2017): The effects of local government consolidation on turnout: evidence from a quasi-experiment in Switzerland, <i>Swiss Political Science Review</i>, DOI: 10.1111/spsr.12269</p>	<p>Difference-in-differences</p>	<p>Amalgamation leads to a decrease in electoral turnout that is especially visible in small localities. This drop is especially pronounced in the first election after the reform</p>

Luchinger, S., Stutzer, A. (2002): <i>Skalenerträge in der öffentlichen Kernverwaltung Eine empirische Analyse anhand von Gemeindefusionen</i> , <i>Swiss Political Science Review</i> 8(1):27-50	Difference- in – differences	Mergers result in an increase in spending on administration
Netherlands		
Allers, Geertsema (2015): The effects of local government amalgamation on public spending and service levels. Evidence from 15 years of municipal boundary reform, University of Groningen, Faculty of Economics and Business (published also in 2016 <i>Journal of Regional Science</i> )	Difference- in – differences; financial data; political data; demographic data; Herfindahl index for the political concentration of the municipal council	Amalgamations had no significant effect on total per capita municipal spending Amalgamations did not lead to better public services instead of lower spending: amalgamations reduced spending on administration, but there was no corresponding spending increase on any public services; amalgamations did not raise house prices The amalgamation effect for small municipalities did not differ significantly from that for large ones and the effect for municipalities with homogeneous preferences did not differ from that for jurisdictions with heterogeneous preferences
Terlouw, P. (2016): Territorial changes and changing identities. How spatial identities are used in the up-scaling of local government in the Netherlands, <i>Local Government Studies</i> , 6: 938-957.	Case study	An in-depth study of two amalgamated Dutch municipalities focused on the transformations of territorial identities. In one case the development of a new identity strengthened the position of the municipality, located on peripheral island, towards central government and the province. In the second case, the amalgamation resulted in a local political system which focused more on confrontation than on consensus and limited the municipal administration's capacity to develop new policies
Shaap, L., Karsten, E. (2015): Evaluating municipal mergers' effects: a review of amalgamation studies in the Netherlands, PSA Conference 30.03 -	Review of existing literature	Review of studies assessing the outcome of amalgamations in the Netherlands. Amalgamations have consistently failed to produce the increase in the

01.04.	(mostly in Dutch)	<p>system capacity of local government anticipated by policymakers, i.e. economies of scale should not be taken for granted. The negative effects of amalgamation on citizens' effectiveness are more evident</p> <p>Existing studies have focused more on system capacity than on citizen effectiveness and overestimated the importance of municipal size. Evaluation methods can and should be improved substantially</p>
Kraaykamp, G. Van Dam, M. Toonen, T. (2001): Institutional change and political participation: the effects of municipal amalgamation on local electoral turnout in the Netherlands, <i>Acta Politica</i> 36(4): 402-418	Multivariate regression analysis	The initially expected negative effects of amalgamations on electoral turnout, if any, were small compared to the steady, independent decline in turnout at local elections. Moreover, it seems that the effects of amalgamation faded as time passed

## Appendix 2 . Case study – territorial reform in Albania (2014/2015)

### General considerations

The territorial organisation of Albania has long been considered ineffective (excessively fragmented). Territorial organisation consisted of two sub-national levels: 12 *quarks* (regions) and 374 basic level local government units (reduced to 373 at the beginning of the twenty-first century with the merger of two communes). The average population size for basic level local government was close to 8,000, but due to the depopulation process it was gradually shrinking. As in any other country, however, the average number is misleading, since it is artificially pushed up by the size of the capital city and a few other major urban centres. According to the 2001 census data, the median value was about 5,000 citizens and in 2011 it dropped to approx. 3,700. More precise details of the size distribution of local governments are presented in Table A1. In addition to typical arguments that may also be found in other countries, the specific Albanian challenge has been attributed to the intensity of demographic change. Table A1 clearly illustrates that the issue of territorial fragmentation has gradually been becoming more and more salient. This is also confirmed by Figure A1, which illustrates population change between the 2001 and 2011 national censuses. Strong emigration to other countries (mostly Italy and Greece), together with internal migrations from distant rural regions to big cities (mostly to the agglomeration of Tirana and coastal areas) has led to the rapid depopulation of some peripheral regions.

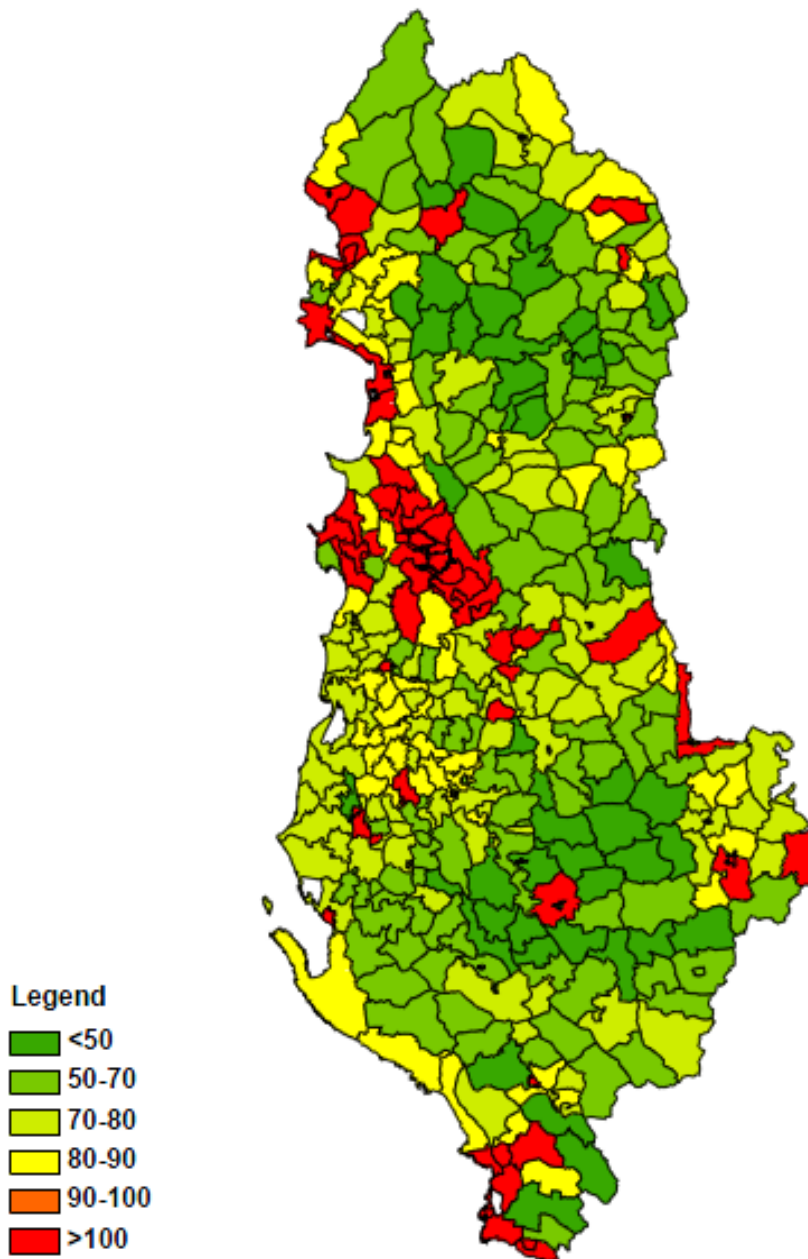
Comparison of the 2001 and 2011 national censuses indicates that 193 local governments lost more than 25 % of their population within the decade between the two censuses and 48 local governments lost over half of their population in only one decade<sup>15</sup>. In one extreme case the decrease was as large as 90 % (from 3,000 inhabitants in 2001 to just 300 in 2011). Such rapid demographic change has indeed challenged the rationale of the old administrative organisation.

Table A.1. Albanian local governments by population size – situation before the reform

	2001	2011
Below 1,000 population	12	37
1,000 - 5,000	169	195
5,000 - 10,000	131	98
10,000 - 20,000	47	25
20,000 - 30,000	5	7
30,000 - 50,000	3	3
Over 50,000	7	8

<sup>15</sup> It should be noted that some Albanian experts have criticised the methodology of the 2011 census and challenged its results. Nevertheless, even if demographic change has been over-estimated by the census, the general trends have been very clear.

Fig. A1. The 2011 population as a percentage of the 2001 population (census data)



Map courtesy of A. Dakoll Wilson, FLAG, P. Swianiewicz and N. Szajewska

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### *Stages in the reform process*

The first attempt at reform was made back in 2003 and it was supported by the international community, including the Council of Europe and the UNDP. But the government majority was insufficient to push the reform through in the face of disagreement from the opposition. Political change after the subsequent parliamentary elections froze reform plans for nearly a decade. The idea resurfaced after the Socialist Party's victory in the general elections of spring 2013. The new Prime Minister was a former mayor of Tirana and the new Minister for Local Governments was



one of the people who had worked on the concept of the 2003 reform.

Plans for the reform were announced in late summer 2013 (with the launch of the national conference on 17 October 2013). Preparatory work, with the support of several foreign donor programmes, started in autumn 2013.

The key dates of the reform process include:

November-December 2013 – analytical work by the working groups

22 January 2014 – creation of the Ad-Hoc Parliamentary Commission on Territorial Reform

13 February 2014 – creation of the central and 12 regional working groups;

March-April 2014 – first round of public consultation;

28 April 2014 – approval of the criteria

16 May 2014 – approval of draft map proposal

May-June 2014 – second round of public consultation and organisation of the national survey on territorial reform

23 July 2014 – the Ad-Hoc Parliamentary commission approves the final proposal;

31 July 2014 – the Albanian Parliament approves the law on the new administrative and territorial divisions

15 September 2014 – the new law on administrative and territorial division 115/2014 enters into force

2015 – the new territorial units become operational following local elections.

Eventually, the number of local government units was reduced from 373 to 61. (The discussed options varied from 30 to over 100). The mean population size of local government increased from 7,000 to approx. 45,000 and none of the new local governments has fewer than 5,000 inhabitants. Initially, parallel reform of the upper tier was also considered as one of the available options, but eventually the number of regions (*quarks*) remained unchanged, as did their status, whereby regional councils are made up of representatives of basic level local governments. The decision to delay the regional reform was mostly due to the constitutional provisions on regions, which would need to be changed.

The decision on the number of new local governments was criticised by some experts as being too radical. They raised doubts as to whether such far-reaching change might not result in social problems, especially in remote villages in sparsely populated mountain regions that might have very poor transport and access to the new local centres.

#### *Some general observations*

The Albanian reform brings with it several interesting observations that might be useful for other countries considering territorial reforms:

- the reform was heavily supported by an international community of donors at all stages of preparation, public consultation and implementation. This made it possible not only to make use of foreign experts but also to finance the necessary background studies and public meetings. The organisations involved included the Council of Europe, the UNDP, USAID, the Swedish Agency for International Development (SIDA), the Swiss Agency for

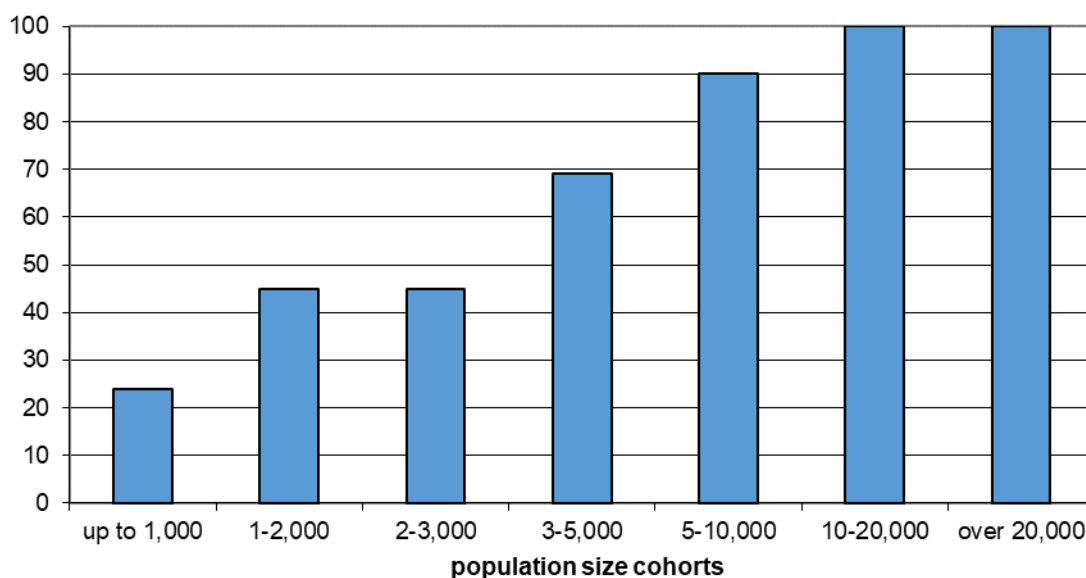
Cooperation and Development and the European Union.

- one significant difficulty encountered in the reform preparations was rather poor access to the more sophisticated data needed in order to simulate the potential impacts of various options. This is typical in countries with less developed statistical services or which lack a tradition of analytical skills.

As a result, several analyses (including reports prepared by the government) were made using simplistic methodologies, resulting in less certain conclusions. For example, the diagnosis reports identified that most of the smallest local governments had a very low capacity to generate revenues (a huge proportion of their budgets was spent on administration) and also a low capacity to deliver services. For example, revenues from waste collection fees were minimal in the smallest size cohorts (see fig. A2), which led to the conclusion that the service was usually not provided in those local government units.

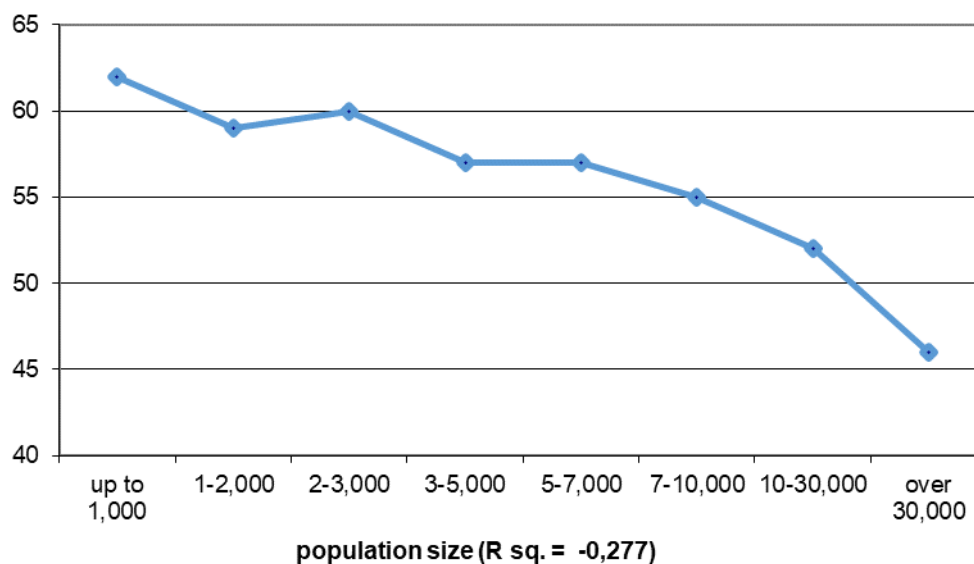
- But the available information was insufficient to determine to what extent this incapacity to deliver services was due to small size and to what extent it was due to other circumstances such as peripheral location, poor transport infrastructure, low population density or level of affluence of local communities. The answer to this question might have important consequences when predicting to what extent territorial reform might contribute to improving the situation.

Fig. A2. Proportion of local government units collecting a fee for waste management (2011)



The diagnostic work and the discourse of the reform focused on the economic and administrative performance of local governments, with rare and rather vague comments concerning the impact on local democracy. For example, the data on the variation of turnout in local elections according to size cohorts of local governments, which demonstrated that local elections were more widely attended in the smallest local governments (see Fig. A3), have never been discussed in this respect.

Fig. A3. Turnout in 2011 local elections in Albania (%) – median for size cohorts of local governments



- It is important to stress that proponents of the reform tried to consider potential negative side effects of the reform (e.g. more difficult access from remote villages to town halls and related administrative services) and to introduce measures to minimise unwanted impacts (such as regulations concerning the location of village branches of administrative services).
- In the early stage of preparation, an important part of the discussion focused on the criteria for the delimitation of new local government units. Eventually, instead of concentrating on inflexible measures such as minimum population size, maximum distance to the centre etc. the reform chose a functional approach. The main concept was the 'functional zone' operating around natural functional urban centres. In this sense, the 'functional zone' is a territorial space with strong interactions between institutions and citizens for economic, social, development and cultural purposes. It is created around an urban centre that has the capacity to provide the full range of public services that LGU is obliged to provide by law. Therefore, further work has concentrated on studies allowing for the identification of such 'functional zones'.
- There is no doubt that the reformers made a great effort to conduct public consultations. These included the survey of a sample of citizens and, more importantly, several dozen public meetings and debates held in each of the 12 Albanian regions. There were several thousand participants at these meetings, ranging from local government politicians to ordinary citizens through interested non-governmental organisations and local businesses.
- But in spite of that effort the reformers failed to reach political consensus over the reform. The Albanian political stage is highly polarised and the government was unable to

reach an agreement with the main opposition party (the Democratic Party). As a result, the opposition boycotted the work of the special Parliamentary committee and the final vote in the Parliament. This generated a danger of instability in the territorial arrangements in the event of any future political changes at central level.

- In spite of the declared 'comprehensive' approach, at least in the first phases of the reform, there no satisfactory connection has been made between territorial and other local government reforms (in particular functional and financial reforms).

#### *An assessment of the reform*

According to our knowledge so far there has been no ex post monitoring report assessing the actual impacts of the reform, whether promoted by the government or driven by external players such as donor organisations. However, some sectoral studies indicate positive impacts. For example – contrary to some negative expectations – territorial consolidation in Albania has had a positive impact on inter-municipal cooperation in waste management. The analysis of the Korça region<sup>16</sup> is very telling in this respect. The small scale of local governments was an important argument for initiating an inter-municipal company serving more than 20 communities.

However, the 2015 territorial reform has radically changed the territorial divisions, reducing the number of local governments by more than six times. Interestingly, not only are these arrangements still found useful in spite of the reform, but the perception is that cooperation is easier and smoother nowadays. The first reason relates to the lower number of partners who need to agree on crucial decisions, but the second relates to the increased capacity of cooperating municipalities. This example shows that territorial reforms and inter-municipal cooperation do not need to be mutually exclusive strategies.

In general it is still too early to draw definite conclusions on how successful the reform has been, but the Albanian case is definitely worth studying and analysing.

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<sup>16</sup> See A. Dakoli-Wilson (2017) Korça Waste Management and the territorial reform in Albania, in: F. Teles, P. Swianiewicz (eds.) *Inter-Municipal Cooperation in Europe: Institutions and Governance*, London: Palgrave.

## Appendix 3. Inter-Municipal Cooperation as a French way to deal with a territorial fragmentation issue

### *General considerations*

France, which has approx. 36,000 communes, most of which are very small units of fewer than 1,000 residents, has long faced challenges relating to the provision of decentralised functions in such an extremely territorially fragmented environment. The only realistic answer has been voluntary inter-municipal cooperation, which has been developing for more than 100 years. Initially it took the form of inter-municipal syndicates and later *communautés*. Gradually, some of these IMC institutions started to resemble a new tier of local government, with their own (defined by the law) functions, power of taxation and separate administration and executive organs. They gradually took over many functions from the communes, sometimes 'grabbing' former municipal taxes, as was the case with the *taxe professionnelle* some time ago. They currently have power of taxation in relation to property tax, business taxes and several other specific taxes, e.g. for waste collection or to pay the salaries of workers on the urban transportation system. The main difference from the regular tier of local government is the lack of direct elections to IMC organs in which citizens have a voice, although in recent years – in reaction to vibrant discussions about introducing such direct electoral legitimacy in some cases – a solution was found whereby communal representatives in inter-municipal assemblies are elected at the same time as municipal councillors.

The other difference is the lack of 'general competence power', meaning that IMC institutions have powers only in matters that are explicitly listed in their statutes.

### *Types of IMC on the French administrative landscape*

Within the large variety of French IMC institutions, it is possible to distinguish two basic forms:

*Syndicat* – first stipulated by the Law adopted at the end of the nineteenth century. They provide for functions delegated to them by local governments and are financed either by apportionments from the communes or by fees and levies paid by users of the service. Since 1959 they can be multi-purpose (not only single-purpose) organisations and in some cases they may be established without the consent of all local governments (it is enough for the decision to be supported by a majority of communes inhabited by at least the majority of the population of a given territory, the so-called double majority);

*Communautés* (communities) – the first *communautés* were created directly by law in four large and fragmented agglomerations and then slowly extended on a voluntary basis; in 1999, a new law expressed the aim of covering the whole country with such great integrated entities, still on a voluntary basis, but effectively encouraged by important financial incentives paid from the State budget. The 1999 reform maintained or created three types of *communautés*: *Communautés urbaines* (15 in 2017) in urban areas, each inhabited by more than 250,000 residents; *Communautés*

*d'agglomération* – for agglomerations whose core city has more than 15,000 residents (218 in 2017), and *communautés de communes* for small towns and rural areas (2,400 in 2007, reduced to 1018 in 2017). The core of their functions is defined by the Law, although member local governments also have the discretion to decide upon the remaining competences of the community. They are financed by their own tax revenues and direct transfers from the central budget. Their establishment requires a double majority of communes and population, as is the case with *syndicats*.

Once established, decisions in *communautés* are taken by simple majority rule, by a council consisting of delegates of the communes. The distribution of seats is agreed among the member communes; however, each commune has at least one representative and none of them may have more than half of the seats in the council.

One good illustration of the growing importance of *communautés* is provided by their budget data. It grew from 13 billion euro in 2000 to 41 billion in 2015 and reached almost one third of total spending in the communal sector in France.

#### *A complex system that is constantly evolving*

The complex French system, although seen as the most successful European example of widespread inter-municipal cooperation, has also been heavily criticised. One element of criticism concerns the indirect appointment of *communauté* council members, who lack the legitimacy derived from direct elections (Boraz, Le Galès 2005) and, for the same reason, the tendency to elect the mayor of the core city with the highest population as president of the *communauté*, although this is no longer as common as it once was. The second stream of criticism concerns institutional overcrowding, functional overlaps and institutional labyrinths (Wollmann 2011: 694).

The most recent changes were introduced by the Law of 16 December 2010 whose content was mildly influenced by the recommendations of the Balladur Committee. It created the new category of *métropoles*, but only one was established, in fact, due to opposition from the Socialist Party, which governed most of the biggest cities. A new law 'on affirmation of metropolises' of January 2014, modified in 2015, changed the rules slightly and stimulated the creation of *métropoles* (15 in 2017). There are several forms of *métropole* status. *Lyon-Métropole* is a full local government with the addition of all the competences of the *département* (county). The *Métropole* of *Grand Paris* has a very special status, as has *Aix-Marseille*. Under the general regime, the transfer of functions from the *département* is compulsory in a small number of areas and is possible on the basis of a mutual agreement between both parties and also with the region. In practice, no significant transfer of competences has occurred.

The 2010 reform also made it possible for *communautés* to become members of a *syndicat* (in the same way that a single local government unit can) for the purpose of providing specific services such as waste collection and disposal, spatial planning and economic development.

The problem with *métropoles* is that, under the pressure of local political leaders, the law lowered the threshold for creation of a *métropole* to 250,000 inhabitants. As a result, some regions will have three to five metropolises when the original concept was to have one or maximum two per

region.

French *communautés*, in spite of their relatively soft and formally voluntary character, include elements of coercion, and are becoming increasingly similar to the upper tier of hard government structure with their own power of taxation and direct elections. Consequently, they have long been considered a viable alternative to territorial amalgamation reform.

Recent laws have also facilitated the process of amalgamation with financial incentives and the possibility of keeping some structures of the former communes in the amalgamated one, known as a *commune nouvelle* (new commune). Surprisingly, this was an immediate success. Since 2015, nearly 2,000 communes have undergone such a process, resulting in about 600 new ones. This trend is continuing but the total number of communes is still over 35,000.

More on IMC in France: see Hertzog 2017.

## Appendix 4. Case study – territorial reform in Ukraine

### *General considerations*

The territorial organisation of Ukraine is very complex; with a certain degree of simplification, we may summarise it with the following main points:

There are three sub-national tiers: 27 regions (*oblast*), close to 500 *rayons* and over 12,000 basic tier local government units (towns and villages).

In addition to this, approx. 180 main cities have the status of cities of *oblast* significance (*mista oblasnoho znachenia*), which means that they provide the functions of both the basic and the *rayon* tier.

The full self-government status has been assigned only to towns, villages as well as to cities of *oblast* significance. At regional and *rayon* level there are elected councils, but their position is weak, while the heads of the executive administration are appointed by and vertically subordinated to central-level authorities. Plans to change their position to full self-government status have been discussed since at least 2005, but not much has happened in this respect so far.

At the same time, the powers of self-governing towns and villages are very narrow and in financial terms they are dependent on transfers from the *rayon* and regional levels, which are not included in the nationwide formula for resource allocation. As a result, only cities of *oblast* significance can be considered real local self-governments with independent budgets.

### *Appraising the situation*

In our case study we focus first of all on the basic tier of local government. Town- and village-level governments are not only very small, but there has also been a slow, crawling process of territorial fragmentation since 1990. Between 1991 and 2014, the number of village councils increased from 10,126 to 11,164, the number of towns remained relatively stable (about 280) and the number of cities with *rayon* status increased from 149 to 182. As a result of this process (combined with demographic changes), the mean population size of the basic tier of local government decreased from 4,900 in 1991 to 3,700 in 2014, with several thousand very small local governments, each with a population of under 1,000. This territorial fragmentation has long been seen as one of the factors hampering decentralisation reforms. A radical territorial consolidation reform programme was announced in 2005-2006, but it failed to gain sufficient political support.

### *The 2014 reform*

On April 1, 2014 the Ukrainian government adopted the territorial consolidation programme, assuming the creation of ca. 1,150 basic tier local government units. The relevant Bill was introduced in the Parliament (*Verkhovna Rada*) but failed to be adopted in the second hearing on 14 August 2014, due to lack of support. Eventually the Bill was approved in February 2015. It



assumes bottom-up voluntary process of amalgamation. The process may be initiated by mayors, 1/3 of local councillors or under specific circumstances by a group of citizens. Normally it is assumed that amalgamated units (called *hromada*) would be created from within the same *rayon* but there is also a procedure allowing for the merging of towns/villages from two neighbouring *rayons*.

There are several, strong incentives (of both financial and functional character) which make local communities interested in amalgamation:

- Increased revenues – the new *hromada* may take over revenues which were earlier assigned to *rayon* level government (in particular, the share in revenues from Personal Income Tax assigned earlier to *rayon*)
- Specific grants from central government which may be used for development projects in the new *hromada*. This incentive makes the reform relatively costly for the state budget and it is not clear how sustainable may be those grants in the future.
- Inclusion of transfers from the state budget in a more transparent<sup>17</sup> formula-based scheme, instead of the poorly regulated and highly subjective mechanisms at the regional and *rayon* level.
- Possibility of take over several important functions related to education, health care and social assistance, which had been earlier assigned to the *rayon* level.

It is worth to mention that in parallel with the law on voluntary amalgamation, Ukraine has implemented the law which aims at strengthening inter-municipal cooperation. These two ways of dealing with territorial fragmentation issue are seen as complementary rather than alternative.

Following the new Law, in 2015 as many as 794 local governments amalgamated into 159 new *hromada*. In 2016 another 946 towns and villages merged into new 208 *hromada*. And until April 2017 another 201 towns and villages created new 40 local government units. Their allocation among Ukrainian regions is presented on the figure A below.

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<sup>17</sup> The Budget Code reform implemented at the beginning of the twentieth century created a formula-based allocation of state transfers to *oblasts*, *rayons* and cities of *oblast* significance. But in spite of frequently discussed plans in this respect, the formula allocation has never been extended to the level of town and village councils. According to several experts, the formula itself is very far from being perfect. However, discussion of the details of the equalisation mechanisms of local governments in Ukraine goes beyond the scope of this study.



tiers of sub-national governments: municipalisation of regional powers and 'hromadisation' of rayon powers.

#### *Challenges still to be addressed*

The voluntary, and weakly coordinated, process of territorial consolidation creates several challenges and raises questions which need to be answered. The first relates to the 'self-selection' of partners by merging local authorities. As Levitas and Djikic (2017) note, this leads to a situation where rural and very poor villages are consolidating into units without any town centres, because they are afraid that their voices and interests will be ignored if they amalgamate with the more populous units. At the same time, many urban centres try to avoid amalgamation with poorer rural villages, because they do not want to share their resources with poorer neighbours. This dysfunctional self-sorting into richer and poorer *hromada* is encouraged by the fact that, unlike most European countries, Ukraine shares revenues from Personal Income Tax with local governments not on the basis of where taxpayers live, but on the basis of where they are employed. If the mayor of a small town is lucky enough to have a few significant firms located in their town, they have at least a short-term interest in not amalgamating with the rural villages around them, in which many of the employees concerned may live.

The second challenge relates to the logic of the new geographical pattern itself. The new units (*hromadas*) perform not only the former tasks of towns and villages but also assume several of the competences (and financial resources) of *rayons*. Does this mean that the *rayon* level would disappear after the reform is completed and Ukraine's sub-national territorial system would become two-tier (regions plus enlarged municipalities)? There are cases in which all towns and villages within the *rayon* have decided to merge into one *hromada*, so that the *rayon* is effectively being transformed into a self-governing *hromada*. But it can also happen that all but one or two small villages in the *rayon* decide to merge into one or two new *hromadas*. In such a case the process leads to an ineffective situation in which the powers (and finance) of the *rayon* are taken by *hromadas* on the vast majority of the *rayon*'s territory, but *rayonal* structures are still necessary to manage and provide services for the remaining few villages (sometimes scattered around the former *rayon* territory, with no spatial continuity) that have not decided to join the merger process. The alternative possibility would be for services to be provided by a *hromada* to neighbouring villages, something which would however go against the principle of democratic control over service provision (since the citizens of those villages would have no democratic mechanism with which to exercise control over the way services were provided by the *hromada*). Such situations of course call for careful scrutiny and corrective measures in the near future. This case shows the traps of purely voluntary amalgamation, without central coordination or steering, which can leave such 'orphan' village councils without any good options for service provision.

At the same time, any structural change involving the abolition of a *rayon* level would be politically tricky, since it would be necessary to amend the Ukrainian constitution, in which *rayons* are mentioned. And changing the constitution would require some very difficult coalition building in order to gather a sufficient majority in the Parliament. As a result there are some 'empty shell' *rayons*, whose territories have been 100 % 'hromadised' but which continue to exist and to generate costs relating to their own administrations.

Nevertheless, the Ukrainian case refutes the claim that it is not possible to implement amalgamation reform in Central or Eastern Europe based on the principles of bottom-up voluntary agreements. It is too early to judge to what extent the reform will be a success in terms of achieving the goals identified by the reformers, but the experience so far demonstrates at least that many local governments react positively to incentives for voluntary amalgamation.

**Appendix 5: Recommendation Rec(2004)12 of the Committee of Ministers to member states on the processes of reform of boundaries and/or structure of local and regional authorities (Adopted by the Committee of Ministers on 20 October 2004 at the 900th meeting of the Ministers' Deputies)**

The Committee of Ministers, under the terms of Article 15.b of the Statute of the Council of Europe,

Recalling that Article 4, paragraph 6 of the European Charter of Local Self-Government stipulates that “ Local authorities shall be consulted, insofar as possible, in due time and in an appropriate way in the planning and decision-making processes for all matters which concern them directly” ;

Recalling that Article 5 of the said charter provides that “ Changes in local authority boundaries shall not be made without prior consultation of the local communities concerned, possibly by means of a referendum where this is permitted by statute” ;

Recalling that it is important to take account of the fact that the above-mentioned articles may, in accordance with Article 13 of the charter, also apply to regional authorities;

Recalling that the explanatory report of the said charter provides:

- a. with regard to Article 4.6, inter alia, that “ the manner and timing of consultation should be such that the local authorities have a real possibility to exercise influence, whilst conceding that exceptional circumstances may override the consultation requirement particularly in cases of urgency. Such consultation should take place directly with the authority or authorities concerned, or indirectly through the medium of their associations where several authorities are concerned” ;
- b. with regard to Article 5, “ Proposals for changes to its boundaries, of which amalgamations with other authorities are extreme cases, are obviously of fundamental importance to a local authority and the citizens whom it serves. Whilst in most countries it is regarded as unrealistic to expect the local community to have power to veto such changes, prior consultation of it, either directly or indirectly, is essential. Referendums will possibly provide an appropriate procedure for such consultations but there is no statutory provision for them in a number of countries. Where statutory provisions do not make recourse to a referendum mandatory, other forms of consultation may be exercised” ;

Considering that the aggregated practical experience of member states with processes of reform

of boundaries and/or structure of local and regional authorities provides the basis for a recommendation to member states for dealing with such issues in future,

Recommends that the governments of member states, where they engage in reforms of the boundaries and/or the structure of local and/or regional authorities:

1. undertake thorough preparation, in order to identify and take account of the applicable legal and practical preconditions;
2. ensure the existence of well-designed decision-making procedures based on good institutional dialogue;
3. elaborate a step-by-step plan and clearly assign responsibilities including leadership for the implementation of the reform, as well as arrange for the consistent monitoring of it;
4. undertake broad and unbiased evaluation of the results and keep the relevant local and/or regional authorities informed;

in accordance with the good practice drawn up under A, B, C and D below, and ensuring that the objectives, methods and results of a process of reform are fully compatible with the provisions of the European Charter of Local Self-Government.

Furthermore, where appropriate, states must further ensure that the objectives, methods and results of the process of reform comply with their obligations under Article 7.1.b of the European Charter for Regional or Minority Languages and Article 16 of the Framework Convention for the Protection of National Minorities.

These recommendations may also be applied where reform is undertaken by a higher tier of local and regional government in respect of a lower tier or where, within a pre-established framework, local or regional authorities engage in reforming themselves, for example by amalgamating two existing local or regional authorities of the same level into one or by changing the territorial boundaries between them.

## A. Preparation

### I. Analysis

1. A thorough preparation entails being aware of the following:
  - the way in which the problems are defined is conceptually linked to the solutions that may be found;
  - there are five basic parameters which apply to any system of local and/or regional authorities: the size,<sup>[1]</sup> the competences, the degree of autonomy, the financial arrangements and the mode of operation;<sup>[2]</sup>
  - these parameters are interlinked and thus changes to one of them will affect one or more of the others;
  - among stakeholders and others concerned with a reform there needs to be at least a

degree of consensus that permits the setting of clear goals for the reform.

2. As a starting point for considering reforms, there needs to be an objective either in terms of size or in terms of competences. Not having such an objective is likely to lead to an inability to formulate a clear strategy for action.
3. Any plan for reform should be guided by a comprehensive view on or theory of the different levels of government within the state<sup>[3]</sup> and their interaction (blueprint), both as it is and as it will be upon completion of the reform.
4. The wider socio-economic context in which the reform is to take place needs to be clearly analysed, particularly having regard to the economic conditions and to how population is distributed across the entire territory.
5. Failure to deliver the kind and level of services citizens require as well as poor quality of democratic life may undermine the legitimacy of local and regional authorities. For this reason, an analysis of the existing preconditions for reform should examine:
  - questions of efficiency and capacity to act;
  - questions of democratic legitimacy, including electoral effects;
  - questions of capacity to generate consensus and of maintaining or generating a sense of community.

Care should be taken to avoid gerrymandering or even the perception of gerrymandering.

6. As regards size,<sup>[4]</sup> the following points are to be borne in mind:
  - a. Size has an important and complex impact on the capacity of local and regional authorities to function and perform their tasks as well as on the effectiveness of local and regional democracy.
  - b. Efforts are rightly focused on achieving the optimal size, however there is no standard optimal size applicable to all situations. The optimal size is dependent on factors such as the distribution of competences between levels of government, the degree of financial autonomy and the existence of financial equalisation systems.
  - c. Deviations from the optimal size can to some extent be compensated through different measures (see paragraphs 6.k. and 6.l.: internal decentralisation and deconcentration in bigger units, and external association and cooperation between smaller units).
  - d. The impact of size may be variable, or even the reverse, if measured in terms of effectiveness and efficiency of service delivery or in terms of changes to the quality of local and regional democracy. Furthermore, the impact of size on effectiveness and efficiency may differ between individual competences or policy areas.
  - e. There is no unequivocal relation between size and effectiveness in the delivery of services: large municipalities may benefit from economies of scale. However, beyond a certain point they may also create heavy bureaucracies, which may

- influence the effectiveness and efficiency of their action.
- f. There is no unequivocal relation between size and the quality of local and regional democracy. In general, individual participation (essentially through elections) may be better in smaller local authorities, while associative participation is usually lower. Within large metropolitan areas, internal decentralisation and deconcentration may help to improve participation (for example, elected bodies at municipal district level).
  - g. There is one clear relation between size and financial/budgetary autonomy in that very small local authorities often have very little financial freedom (if at all) because of their low income and high overheads.
  - h. Levels of satisfaction both in respect of service delivery and the credibility and sensitivity of local/regional government are important indicators for the optimal size.
  - i. E-government has a potential to affect the relationships between on the one hand the size of local and regional authorities and on the other hand both service delivery and the quality of local and regional democracy. The capital and human resource requirements needed to set up e-government will tend to require common action on a larger scale. At the same time e-government will make it possible to increase the possibilities for citizen participation.
  - j. The impact of a possible change to the size of a local or regional authority must be considered both in terms of effectiveness and efficiency of service delivery and in terms of quality of local and regional democracy and must be the subject of thorough analysis before any decisions are taken. Such an analysis should consider the consequences on effectiveness and efficiency in all individual policy areas or competences as well as the effects on democracy in the local community.
  - k. Where a local or regional authority is found to be too small in certain respects, external association and cooperation may be considered as solutions. Such cooperation may be horizontal, vertical and transfrontier (where relevant national legislation permits this).
  - l. Where a local or regional authority is found to be too big in certain respects, internal decentralisation and deconcentration may be considered as solutions.
  - m. In cases where merger of small local or regional authorities is found to be appropriate, consideration should be given, in the light of history and tradition, to designing the institutional structure of the new entity in such a way that the sense of identification of the population with the previously existing entities may, as far as possible, be preserved.
7. The issues of ownership of public capital, transfer of personnel and institutions as well as the sharing of the burden of debt and the possible shift in the fiscal burden should not be overlooked at the preparatory stage.
  8. Advantage should be taken of new technologies to improve the effectiveness and efficiency of service delivery and to enhance the quality of local and regional democracy.
  9. Advantage should be taken from the experiences of others, not only within the same

country but also across and outside Europe.

However, concrete solutions are rarely transplantable without adaptation, so that comparative efforts may most usefully be focused on the identification of the type of (broad) objectives that were involved in other reforms, the procedures in place and the issues to be dealt with in the course of their execution.

10. A decision to proceed with a proposal for territorial and/or administrative reforms should only be taken once the preparatory analysis has been completed and can be taken fully into account.

## II. Participation

11. Comprehensive systemic reforms are strongly dependent on the ability to create consensus. This may be less difficult in the case of smaller-scale reforms.
12. Among stakeholders and others concerned with a reform there needs to be at least that degree of consensus that permits the setting of clear goals for the reform.
13. Preparatory studies of a general type involving stakeholders and others concerned can be a useful means of developing this consensus.
14. Reform based on the willing participation by the level of local or regional authorities to be reformed is to be preferred to the exercise of its legal power by the higher authority against the will of the level involved. A “ bottom-up” initiative [5] may, in order to lead to a successful reform, need to be complemented by decision of the higher level, even against the will of some of the authorities involved in the reform. A “ top-down” initiative [6] should, in order to lead to a successful reform, seek to obtain the willing participation by the level of territorial administration that is to be reformed.
15. Stakeholders and others concerned should be involved from the preparatory stage.
16. Mergers and other changes involving modifications of boundaries should only be performed in conformity with the principles underlying the European Charter of Local Self-Government (such as the consultation of the local communities concerned, possibly by means of referendum). This does not preclude the central authorities from creating positive incentives for local or regional authorities to cooperate, merge, decentralise or engage in deconcentration.
17. Any process of reform should in its preparation, decision-making, implementation and evaluation be based on institutional dialogue that meets the parameters of effectiveness, transparency, accountability, representativeness and efficiency.
18. In order for the institutional dialogue to be effective it is to be ensured that:



- it takes place in a timely manner;
- it takes place on the basis of clearly established procedures;
- all relevant information is available to all participants, in particular relevant dates, agendas and events are to be made available in advance;
- the outcome, if not binding, is given at least due consideration in the final decision-making process;
- the institutional dialogue is meaningful and not rendered ineffective through parallel processes;
- whilst respecting the rules of public access to information, the basis on which information about the process is to be made available to the public is to be agreed by all participants in order to ensure the necessary trust between participants.

19. In order for the institutional dialogue to be transparent, the rules of access to public information must be respected and the results of the dialogue must be made public as soon as possible.

20. Those participating in the institutional dialogue are accountable to democratically elected bodies (assemblies).

21. In order for the institutional dialogue to be representative all levels of local or regional authorities with a legitimate interest in the matters at hand should be involved, regardless of the party political make up of these local or regional authorities. Participation in the dialogue should generally not be limited exclusively to those who belong to the political majority. In as far as participants represent local or regional authorities, they must be representative of these local or regional authorities.

22. In order for the institutional dialogue to be efficient it is essential that:

- the best possible use is made of existing resources and procedures;
- care is taken to avoid unnecessary duplication;
- the dialogues between different levels (state-region; state-local level; regional-local level, federated state - local level) are well co-ordinated.

### III. Design

23. The time schedule for implementing a reform should be given careful consideration. On the one hand, enough time should be devoted to the necessary discussions and practical arrangements at central as well as at local level, and on the other hand a time perspective that is too long could result in the loss of momentum.

Any proposed reform should usually be expected to take several years.

24. Any plan for reform should be designed in clearly distinguished steps.

25. Any reform requires assigning clear responsibilities, including for identifiable leadership in

order to ensure both continuity and consistency. Special importance should be given to the possibility of anchoring the process of reform in a body or administrative arrangement between the institutions involved.

26. It is important to learn from previous experience both at home and abroad. However, concrete solutions are rarely transplantable without adaptation, so that comparative efforts may most usefully be focused on the identification of the type of (broad) objectives that were involved in other reforms, the procedures that were in place and the issues that had to be dealt with in the course of their execution.
27. The reform strategy should include an adjustment procedure to address specific concerns of specific local or regional authorities which arise during the reform process. The necessary consensus about the goals of the reform should ensure that this procedure is not used to try to alter the strategic objectives of the reform.
28. Where the population is not uniformly distributed across the territory and economic conditions vary, the possibility of applying differentiated solutions should be considered :
  - the same levels of local and regional administration need not exist everywhere in the state;
  - competences of local and regional authorities of the same level may differ;
  - institutional relations of local and regional authorities of the same level may differ.However, it is not excluded that a uniform approach is followed after such consideration.
29. Designing a process on a “ bottom-up” experimental approach may generate useful results both as regards fine-tuning the objectives and the process of reform, as well as for creating a momentum in support of the reforms.

## B. Decision-making

1. The decision to go ahead with a proposed reform should be taken at the highest institutional level, following consultations with the institutions involved (see recommendations on institutional dialogue) and may be influenced or concluded by a referendum where such a consultation is permitted by statute.
2. The plan for reform and for its implementation should be decided upon at the highest institutional level, following consultations with the institutions involved (see recommendations on institutional dialogue).
3. Support for reforms may be obtained both by engaging in consultations with those concerned and by empowerment of the local or regional authorities within a national, centrally established framework.

## C. Implementation

1. Leadership, as mentioned above, [7] is also essential for successful implementation.
2. As the emphasis in the process shifts from the central authority to the decentralised authorities in the implementation phase, it is particularly important to clearly assign the responsibility of leadership at a decentralised level during that phase.
3. Central [8] political commitment to the reforms remains necessary in order to be able to resolve any serious problems arising in the implementation phase.
4. A common framework of reference needs to be in place for the implementation phase, for example, by including planning procedures involving all actors concerned.
5. A “ bottom-up” experimental approach may generate useful results also in the implementation phase.
6. The central authority will usually need to set up supporting programmes providing information technology and other necessary infrastructure. Such programmes may be designed in the planning process referred to above.
7. There must be in place a robust framework to preserve normal budgetary discipline during the transitional phase, to safeguard the assets and to ensure any transfer of staff of local or regional authorities being reformed is efficiently handled.
8. Monitoring the implementation of reforms is essential in order to identify bottlenecks at a timely moment and to allow for the comparison of experiences by the different local and regional authorities involved.
9. Such monitoring should be carried out at all levels of public administration involved in the reform, both by those involved and by independent monitors and have a broad focus not limited to the reform of administrative structures as such.

#### D. Evaluation

1. Upon completion of the reform, independent evaluation studies with a broad focus and not limited to the reform of administrative structures as such, should be carried out in order to verify whether and to what degree the objectives of reform have been achieved.
2. Evaluation should also be carried out by those directly involved in the process of reform.
3. The results of evaluation should be made public.
4. Measures should be taken to ensure that reforms may be adjusted or even reversed where they are shown to have significantly fallen short of their objectives. These measures should include, where it does not already exist, the creation of a legal framework to regulate the rights and obligations affected by the adjustment or reversal

of the reform.

5. Measures should be taken to ensure that the results of evaluation are taken into account in the shaping of general policies on reform and in any subsequent process of reform.
6. Evaluation results should also be made available to other member states of the Council of Europe and be forwarded to the Congress of Local and Regional Authorities of the Council of Europe for information.

[1] Size is usually expressed in terms of number of inhabitants, the density of inhabitation, geographical area and the resources at its disposal.

[2] The mode of operation concerns whether the authority in question will only be responsible for the final delivery of services or also for producing them.

[3] Or, as the case may be, within the sub-national territorial entity leading the reform.

[4] Size is usually expressed in terms of number of inhabitants, the density of inhabitation, geographical area and resources at its disposal.

[5] A “ bottom-up” approach to reform is the approach where action for reform by the higher level of territorial authority is dependent on the initiative of the level of local or regional authorities to be reformed (“ bottom-up” initiative).

[6] A “ top-down” approach to reform is the approach where the initiative for reform is taken by a higher level of territorial authority (“ top-down” initiative).

[7] In A 25.

[8] Or, as the case may be, a local or regional authority leading the reform.

## Appendix 6: Explanatory Note on the Preparation of the National Work Programmes on Decentralisation / Local Government Reforms

### FOREWORD

The present note is intended to provide guidance in the preparation of coherent country work programmes on local government reforms.

Where national governments have already set decentralisation and public administration reform strategies, the NWP should take account of these strategic documents. However, some reorganisation of relevant elements and adjustments in their presentation will probably be required, in order to submit them according to the suggested format. In addition, a greater degree of precision might be necessary in the description of these elements.

Indeed, the NWP should be considered not only as a benchmark for evaluating the pace of local government reforms, but also as a tool for encouraging demand-driven support for these reforms. To achieve this result, the NWP should not only show the government's vision and commitment, but it should also be designed as an operational tool including a step-by-step description of what should be done in co-operation with the donor community.

The NWP will consist of two parts : a description of key medium-term priority objectives in the field of local government reforms and an action plan, designed to reach concrete targets and achieve the objectives.

### A. MEDIUM-TERM PRIORITIES OF THE GOVERNMENT

The first part of the NWP should include a short description of government priorities (priority objectives) in the field of local government reforms for the coming 2 years. Setting these priorities (objectives) is a way of summing up how the government will proceed in order to reinforce local democracy and build effective governance at local level.

When completing this part, national authorities should consider that not all important objectives are " priorities" . In order to streamline the NWP, it is suggested to list a maximum of 5 key priorities.

These priority objectives can be expressed in broad terms or be more specific, depending on their nature. However, they should be sufficiently precise and unambiguous, and focus on crucial problems that hamper local government development. To clarify the objectives it is suggested indicating in what way (i.e. through which key interventions) the government intends strengthening local government.

Please note that it is important to mention, for each objective, the lead authority (i.e. the authority responsible for organising work, ensuring co-ordination between the various stakeholders, monitoring the process for reaching the objective).

## B. ACTION PLAN FOR LOCAL GOVERNMENT REFORM

The action plan template takes the form of a table with four columns:

- ⇒ Improvement targets
- ⇒ Measures / Activities
- ⇒ Timetable
- ⇒ Remarks

### 1. Improvement targets

This column will include the description of the improvement targets that the government's action is designed to reach within the implementation period, in order for the government to achieve its priority objectives. In other words, this column will include the positive results that the national authorities are committed to obtaining. It is worth mentioning that the action plan should not become a declaration of intent; it is an implementation tool for policy decisions already made. Therefore, improvement targets should not only be coherent with the corresponding priority(ies), but also concrete and achievable within the given timeframe. Please note that improvement targets may be linked to two or more objectives, if this is appropriate (e.g.: "complete the transfer of property to local authorities" can serve both the objective of raising the level of local government own resources and the objective of enhancing local development policies).

Improvement targets should not be confused with the final procedural steps of institutional processes. As an example, the adoption of a law is not a proper improvement target and should not be listed in this column. What should be described in this column is rather the positive result that the adoption of a law (possibly in conjunction with other measures) should entail. Thus, the adoption of a new law on local finance is a final procedural step, which will appear in column 2; examples of improvement targets are: increasing local government own resources by a certain percentage, or the introduction of fair and objective allocation criteria for state grants, or the development of a sound equalisation formula.

Please note that it is important to mention, for each improvement target, the lead authority (i.e. the authority responsible for organising work, ensuring co-ordination between the various stakeholders, monitoring the procedure for reaching the target), in particular if this authority is different from the one responsible for the objective. The other stakeholders involved should also be mentioned.

### 2. Measures / Activities

This column will contain the series of measures/activities which should be adopted/completed, in order to reach the related improvement target. These measures/activities should be organised and presented as a step by step procedure. As an example, if the government is committed to

improving the distribution of responsibilities in a given area (education or social protection, etc.), not only the adoption of the corresponding legal provisions, but also all the required preparatory and follow-up activities, should be listed under this column. National authorities are free to include a detailed list of the various procedural steps or mention only major activities. Again, the level of accuracy is a matter of balance and this may vary depending on the improvement targets. It is recommended to include at least the (3-4) major procedural steps in the column, corresponding to key intermediate outputs. If concrete (initial) steps in pursuing some of the improvement targets have already been completed, these steps may well appear in the list.

### 3. Timetable

This column will include the timeframe for the implementation of the various “Measures/Activities” planned. It is important to be as precise as possible. However, if difficulties were encountered in setting clear deadlines for some procedural steps, it would be possible to indicate the timeframe in a broader way (e.g. mentioning the quarter in which the activities will be implemented/the output produced). For steps already achieved, the word “completed” (or equivalent) will appear in the column.

### 4. Remarks

This column may be used by the national authorities to provide additional information on the improvement targets and related procedural steps, as they deem appropriate. Any ongoing work could be mentioned in this column. National authorities may also indicate if support is already provided and highlight their needs for any (additional) support which may help to achieve the expected results.

I. MEDIUM-TERM PRIORITIES OF THE GOVERNMENT

<p>Priority 1 (Example)</p> <p>Reinforce the financial basis of local government, correct vertical and horizontal imbalances in the distribution of financial resources and increase local government room for manoeuvre in funding local services according to local needs, through the review of the state grant and equalisation systems</p> <p>Lead authority: Minister of Finance, in close co-ordination with the Minister responsible for Local Government</p>
<p>Priority 2 (Example)</p> <p>Enhance the role of local government in supporting sustainable development and strengthen its capacity to design and implement local development policies, through the review of legislation on regional development, land use and (urban) planning, the completion of the transfer of property from state to local authorities and targeted capacity-building for local managers and officials.</p> <p>Lead authority: Minister responsible for Local Government, in close co-ordination with the Minister responsible for Planning/Development policy.</p>
<p>Priority 3</p> <p>...</p>
<p>Priority 4</p> <p>...</p>
<p>Priority 5</p> <p>...</p>



## II. ACTION PLAN FOR LOCAL GOVERNMENT REFORM IN ... (2007 – 2008)

1. IMPROVEMENT TARGETS <i>Please indicate the positive <u>results</u> to be obtained within the implementation period 2007-2008.</i>	2. MEASURES / Activities <i>Please indicate the <u>step by step procedure</u> to reach the improvement targets and the related outputs.</i>	3. TIMETABLE <i>Please indicate the <u>timeframe or deadlines</u> for the implementation.</i>	4. REMARKS <i>Please provide short additional information, e.g. on support already available or required.</i>
<p>Example: Priority 1– Target 1 Consolidate in a single block grant existing specific grants earmarked to finance local services in the field of Education, Health Care and Social Affairs, and devise a distribution formula based on objective criteria (standard costs) (Lead authority: Minister of Finance; Stakeholders : Ministries of Local Government, Regional Development, Education, Health Care, Social Affairs (...)) and the Association of Municipalities).</p>	<p>Example: 1.1 Setting up an expert task force with a clear mandate (output: mandate adopted; expert task force operational) 1.2 Conducting baseline research and preparing an assessment report with guidelines and/or recommendations, including on accompanying measures required (output: report transmitted to decision-makers) 1.3 Drafting the legislation (output: draft legislation) 1.4 Consultation with local authorities (output: feedback from local authorities) 1.5 Completion of the drafting work (output: submission of the bill to Parliament) 1.6 Adoption by Parliament of the new legislation (output: new legislation enacted) 1.7 ... [other activities in support of further implementation steps, including capacity-building accompanying measures, as appropriate]</p>	<p>Example: 1.1 – completed  1.2 – by 31.05.07  1.3 – by 31.10.07  1.4 – by 31.01.08  1.5 – 1<sup>st</sup> quarter of 2008  1.6 – Parliament will be asked to finally adopt the new legislation in October 2008</p>	<p>Example:  1.2 Work is ongoing. Support is being provided by ... [Agency]  1.3 Assistance (expertise/ advice) in the elaboration of distribution formula (including the definition of standard costs) is required</p>

<p>Example:                  Priority 1 – Target 2                  Increase by 20% the amount of the equalisation grants within two years and develop a new equalisation formula aimed at reducing disparities in fiscal capacity [present equalisation level: 72%; target equalisation level: 80%]                  (Lead authority ...</p>	<p>2.1                  ...</p>	<p>2.1                  ...</p>	
<p>...</p>			