

Inter-municipal Cooperation and Austerity Policies: Obstacles or Opportunities?

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INTRODUCTION

The literature addressing the rationale for inter-municipal cooperation (IMC) has grown significantly in recent years, with studies pointing out the benefits associated with IMC, including the economies of scale and scope, enhanced negotiation of outsourcing deals, and improvement of credit ratings to attract external funds (Council of Europe 2010; Swianiewicz 2010; de Sousa 2013; Bel et al. 2013). In contrast to the extensive discussion of these motivations, the role played by austerity policies as possible drivers or obstacles to IMC has been conspicuously absent from the debate.

Different countries have responded to the crises unfolding since 2008 in different ways (e.g. Pollitt 2010; Raudla et al. 2016). The scope and content of the austerity measures adopted in response to the fiscal crisis

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F. Teles, P. Swianiewicz (eds.), *Inter-Municipal Cooperation in Europe*, Governance and Public Management,
DOI 10.1007/978-3-319-62819-6_2

have also varied considerably from country to country. Hence, we would expect that the austerity pressures have led to different developments in intergovernmental relationships as well. While there are many studies that have looked at whether IMC reduces local government (LG) expenditures, there has been less focus on the question of whether increased financial constraints lead to more extensive use of IMC by municipalities, especially in the European context (Bel and Warner 2015a; Homsy and Warner 2014). Furthermore, the paucity of comparative research on IMC identified in recent research (Teles 2016) justifies a closer look at the variation in the IMC solutions resulting from austerity policies in European countries. Given that the connection between fiscal austerity and public sector reforms is a complex one (Pollitt 2010), no linear effects of austerity measures on IMC can be expected.

IMC is frequently described as a tool to increase the LG capacity (Teles 2016) without resorting to blunter policy instruments such as forced amalgamations. Some authors have also argued that the fiscal crisis and the ensuing need to adopt austerity measures pressure LGs to find alternatives for delivering services in more effective and efficient ways, with IMC being a possible response (Bel and Warner 2015b). The profound challenges experienced by European countries as a consequence of the fiscal crisis, combined with the increase in the scope, size, and diversity of IMC, justify a closer look at whether and how austerity policies have shaped the developments of IMC across different countries. In particular, we are interested in the following questions: Has IMC become more prevalent in countries affected by the fiscal crisis? Has IMC been a primary tool employed by LGs to respond to austerity policies? Or has IMC been part of a broader set of reforms directed at the LG, which also includes territorial amalgamations and local finance reforms? Have austerity policies presented obstacles or opportunities for IMC initiatives? Are there variations across countries?

We conducted a survey of experts in 11 selected countries to investigate these questions: Portugal, Spain, Italy, Greece, Poland, the Netherlands, the UK, Finland, Iceland, Croatia, and Estonia.¹ The rationale for this choice is to include both countries that were hit hard by the fiscal crisis and implemented extensive austerity policies (primarily Southern European countries) and countries where IMC is known to be or becoming prevalent (the Netherlands, Finland, and Iceland).

The first section of this chapter describes the impacts of austerity policies on LG, addressing the different policy tools employed to cope with fiscal stress and improve local resilience. The section outlines theoretical predictions

about how austerity policies are likely to affect IMC and reviews the existing empirical literature examining that question. The second section reports the results of our survey and discusses the effects of austerity policies on LGs in a comparative perspective. The section “[Inter-municipal Cooperation and Austerity: Expert Survey Analysis](#)” concludes the chapter.

THEORETICAL DISCUSSION

The goal of this section is to discuss theoretically, drawing on the existing literature, how the context of austerity may influence the *constraints* and *opportunities* LGs face and what kinds of shifts in *incentives* are likely to take place—and how these, in turn, can influence IMC?

Generally speaking, the era of austerity is likely to create an environment for the LGs where they have to operate with *increasing constraints*.

The existing literature exploring fiscal crises and governance often argues that the need to undertake large-scale cutbacks leads to changes in governmental *decision-making processes*. In particular, it is expected that the need to undertake fiscal retrenchment would give rise to *increased centralization* of decision-making in the public sector (e.g. Levine and Posner 1981; Peters et al. 2011; Raudla et al. 2015a). Increased centralization is likely to occur when governments attempt to deal with common-pool problems involved in budgeting (Hallerberg et al. 2009; Raudla 2010; Raudla et al. 2015a). In the case of budgetary cutbacks (analogous to “maintaining” the commons), the costs of undertaking the expenditure cuts are concentrated within individual organizations, whereas the potential benefits (if any) of successful fiscal consolidation are diffused. Thus, it is very unlikely that the “spenders” would voluntarily propose cuts on themselves (Behn 1985; Dunsire and Hood 1989; Levine 1979). As a result, in order to adopt and implement austerity measures, top-down decisions would be needed (Levine 1979; Tang et al. 2014). Having a central actor that is able to monitor the behaviour of others and impose sanctions (if necessary) can help achieve coordination on the budgetary commons (Hallerberg et al. 2009; Raudla et al. 2015a).

Thus, given the likely resistance of the subnational units to voluntarily adopt fiscal discipline measures, we can predict that austerity is likely to lead to increased centralization in the relationships between the central government and LGs (Levine and Posner 1981). The central government can (re) exert its authority vis-à-vis the LGs via directly influencing their revenues (e.g. by changing tax laws, reducing LG grants, or changing the nature of

the intergovernmental grants), redefining the division of tasks between the central government and LG, reducing the decision-making discretion of the local authorities, and imposing constraints on their budgetary decision-making via fiscal rules (e.g. in the form of expenditure limits, deficit ceilings, or borrowing restrictions) (Bolgherini 2016; Clark and Ferguson 1983; Levine and Posner 1981; Mouritzen 1992; Overmans and Timm-Arnold 2016; Sørensen and Underdal 1993). The degree of *severity of the crisis* is likely to influence the extent to which austerity would lead to such forms of increased centralization (Bolgherini 2016; Kristinsson and Matthíasson 2016).

The size and scope of national-level austerity plans affect the scope of austerity management needs and tasks at the local level (Overmans and Timm-Arnold 2016). Drawing on the theoretical perspectives of *blame avoidance* (Hood 2011; Peters et al. 2011), it is likely that in response to fiscal crisis, central government actors may attempt to diffuse the blame for cutback measures and shift at least some of the burden of painful austerity policies on LGs. Thus, in the context of fiscal crisis and austerity, the LGs are likely to face a “*scissors-effect*” whereby they have to deal with an increasing demand for services while having to meet them with lower levels of revenues (Raudla et al. 2015b; Tarschys 1983).

Given the increasing *constraints* described above, what kind of shifts in *incentives* can we expect among LGs with regard to IMC? First, from the critical juncture perspective, fiscal crises are often presented as opening up *opportunities for reforms*, both in terms of policy and in terms of administrative structures. In response to a crisis, it is easier for policy actors to discredit the status quo, argue for change, and overcome resistance (Keeler 1993; Kingdon 1984; Pollitt 2010). Indeed, a critical juncture generated by a crisis can loosen constraints that allow for more radical reforms than would be possible during times of normalcy (Soifer 2012). The experience of a crisis can create a sense of urgency among policy-makers, motivating them to depart from the incremental reform path and push for swifter change (Keeler 1993). It is also argued that the *deeper the crisis*—that is, the more severe the fiscal pressures in a country—the bigger the “window of opportunity” for more comprehensive reforms (Keeler 1993; Cepiku et al. 2016; Raudla et al. 2015b). On the other hand, as Pollitt (2010, p. 18) notes, in the context of reduced resources, reforms cannot be “lubricated” with more money, and compensating the objectors to the reform becomes more challenging, which may, in turn, undermine reform efforts. As Peters et al. (2011) have emphasized, structural reforms, in particular, may be rather costly and hence face challenges in the context of austerity.

In light of these arguments, we can make diverging predictions about the effects of austerity on IMC. Our first theoretical proposition is:

Proposition 1: Austerity is likely to facilitate IMC.

There are several mechanisms through which austerity can facilitate IMC. First, the dissatisfaction with the status quo and the perception of a “crisis” may motivate LGs that have not engaged in IMC before to seek out more opportunities for it. It may also encourage the national governments to promote IMC more extensively than before. The main rationale for developing IMC under austerity is that the decrease in revenues associated with diminished transfers from upper levels of government and lower tax revenues requires cost-saving measures. Municipal amalgamations, IMC, or both are prime candidates to cope with this revenue squeeze. Indeed, when faced with increasing resource scarcity, administrative reforms that might benefit from savings generated by economies of scale—like IMC but also amalgamations (Bel et al. 2013)—are likely to look even more appealing than during times of “normalcy”. Hence, both fostering IMC and amalgamation reforms might enter the reform agenda since they help to address the perceived costs and inefficiencies related to fragmentation (Bel et al. 2013). Increased size associated with mergers and IMC can potentially increase the capacity of LGs to tackle additional functions passed on to them by national governments as a consequence of cutback measures (Zafra-Gómez et al. 2013).

Second, based on the existing literature, we can expect that in addition to increased centralization in the intergovernmental relations, the decision-making *at the LG level* can also become more centralized (Behn 1985; Tang et al. 2014). When few actors are involved in decision-making, the number of *veto points* is reduced and hence the adoption of IMC solutions may be facilitated.

On the other hand, the increased scarcity of resources may prevent LGs from advancing their efforts directed at IMC (or voluntary mergers). Thus, our second theoretical proposition is:

Proposition 2: Austerity is likely to inhibit IMC.

First, fiscal stress reduces the amount of “slack” resources available for LGs (Sørensen and Underdal 1993; Pollitt 2010; Raudla and Savi 2015; Wolman 1986); hence, they might have more limited means available for

conducting the relevant *analysis and preparatory works* that are necessary for various types of IMC. Given the fiscal stress faced by *national* governments, they may lack the necessary resources to “lubricate” the voluntary mergers and IMCs with additional insertions of funds from the central government budget, undermining the incentives to undertake them. At the same time, in light of the increased centralization argument developed above, from the perspective of the national government, imposing mandated amalgamation reforms may start looking more attractive than the slower (and potentially more expensive) reforms geared at fostering voluntary cooperation between the LGs.

Second, although a crisis can be seen as an opportunity for reforms, the context of a crisis and austerity measures are likely to increase the sense of *uncertainty* among the LG officials and shorten their time horizons of decisions (Caiden 1981; Jimenez 2009; Morgan and Pammer 1988), which, in turn, can undermine trust and reciprocity between different LGs. Since trust and reciprocity are considered to be conducive for solving collective action dilemmas (Ostrom 1990; Tang et al. 2014), the necessity to deal with fiscal stress and implement austerity measures may reduce the willingness and ability of LG officials to pursue IMC efforts. In addition, severe economic downturns may increase the *heterogeneity* of population within the communities but also between communities, and this may complicate any efforts at cooperation. Uncertainty caused by heterogeneity and decreased trust in local communities increases the transaction costs of IMC, which can only be overcome through more *formalized* types of IMC agreements (Feiock 2013). LG officials may be forced to accept top-down decisions valuing more formalized IMC options such as new entities (e.g. inter-municipal companies) to the detriment of other, more organic, and informal IMC solutions.

Finally, the *borrowing needs* of LGs in the context of austerity may further influence their incentives vis-à-vis IMC. Various forms of IMC may increase monitoring costs since an additional hierarchical layer might be needed to oversee the body in charge of the cooperation (Allers and van Ommeren 2016; Bel et al. 2013). Because of the increased inefficiency arising from additional monitoring costs, interest rates at which inter-municipal organizations can borrow might be higher than the rates available to individual municipalities (Allers and van Ommeren 2016). Thus, in the context of austerity, when the price of credit might become a weightier consideration in LG decision-making, the creation of additional inter-municipal organizations might look less attractive. On the other

hand, because of the scale effects and a greater distance from “political” decision-making (which may involve more extensive rent seeking), the borrowing costs for inter-municipal organizations might be lower than those for the individual LGs (Allers and van Ommeren 2016). Similar arguments apply to amalgamated municipalities.

So far, we have outlined the *general* predictions about how austerity might influence the incentives to pursue IMC (and also amalgamation reforms as an alternative). There are, however, a number of contextual and country-specific factors that are likely to shape the motives to undertake IMC.

First, the existing level of *financial autonomy* of LGs is likely to play a role in the austerity management strategies available (Ladner and Soguel 2015). If LGs have more financial autonomy in raising revenues, they can put more weight on that, in response to reduced transfers from the central government. Those with lower financial autonomy in terms of own revenues have to be more oriented to cutting expenditures (Overmans and Timm-Arnold 2016). This, in turn, is likely to influence the incentives to undertake IMC as well.

Second, the situation *at departure* (before the crisis) is likely to play a role in the impact of austerity on IMC. *More territorial fragmentation* among LGs is likely to result in a bigger push for mergers and IMC reforms as a result of top-down pressures (Bolgherini 2016; Kristinsson and Matthíasson 2016). On the other hand, densely clustered networks of LGs with prior experience in multiple cross-service cooperation endeavours are more likely to maintain the degree of credible commitment required to adopt and sustain IMC during economic and fiscal hardship (Shrestha and Feiock 2009; Lee et al. 2012).

Third, the austerity management responses of LGs are likely to depend on the *institutional features* of the LGs, including the relationships between elected officials and civil service (Overmans and Timm-Arnold 2016). Depending on the political system (e.g. a strong mayor or weak mayor or a mayor council or council manager, among many other possible configurations), the profile of the mayor, in particular, may be especially relevant for the overall attitude of the LG towards IMC. Some of the countries hard hit by the global crisis and austerity policies fit the strong mayor model, including Portugal, Greece, Spain, and Italy (Heinelt and Hlepas 2006; Magre and Bertrana 2007). The mayor represents the interests of the community in the face of higher levels of government (Heinelt and Hlepas 2006) and other governments in the region. The combination

of a strong mayor system and conditions of austerity is likely to entail further increase in centralized decision-making and a reduction in the number of veto points at the local level. As a result, it may be easier for mayors to push for the adoption of the IMC solutions of their preference. Political leadership, a key trait of strong mayor systems, is even more decisive in fiscal crisis situations.

With regard to existing empirical evidence on the relationship between austerity and IMC, there are only few studies that have examined this question explicitly. In their meta-analysis of the determinants of IMC, Bel and Warner (2015) find that among the existing empirical studies, more than half have found that fiscal constraints have a significant effect on cooperation (and a large majority finds a positive effect). Homsy and Warner (2014) find that in the US context, cooperation between municipalities has increased since the Great Recession. None of the six case studies of Italian municipalities described in Cepiku et al. (2016) identify IMC as a strategic approach to cope with austerity.

INTER-MUNICIPAL COOPERATION AND AUSTERITY: EXPERT SURVEY ANALYSIS

This section presents the results of our survey conducted with experts from 11 countries. The findings are summarized in three subsections: (a) the consequences of the financial crisis for LGs in terms of fiscal stress and changes in revenues, tasks, and fiscal rules as a result of austerity policies; (b) the impact of austerity policies on IMC initiatives; and (c) if IMC was adopted as part of a larger set of LG reforms instigated by the financial crisis and ensuing austerity policies.

Fiscal Stress in Local Governments After the Financial Crisis

In most of the countries covered in our study, LGs have faced increased fiscal stress as a result of the austerity measures. As can be seen from Table 2.1, in 9 out of the 11 countries, LGs have experienced *a fall in revenues* (resulting either from lower tax revenues and reductions in central government grants or from a combination of both). Revenue drops have been particularly dramatic in the UK (where central government funding to LGs dropped by 37% between 2010 and 2016) and Greece (where the central government grants have been reduced by 60% between 2009 and 2015). Only in two countries—Poland and Iceland—have LGs

Table 2.1 Fiscal stress and LGs: changes in revenues, tasks, and fiscal rules as a result of austerity

	<i>Changes in revenues</i>	<i>Changes in tasks</i>	<i>Is approval needed for a loan from central government?</i>	<i>New fiscal rules</i>
Croatia	Reduced	No change	Yes	Expenditure constraint; limits on the salaries of local officials
Estonia	Reduced		Yes	Yes: debt limits and budget balance requirements
Finland	Reduced	Re-arranged: increased until 2013, reduced since then	No	No
Greece	Reduced significantly	Not increased	Yes	Yes: limit on the debt servicing costs as a ratio of revenues; debt limit, balanced budget rule
Iceland	Not reduced	Increased	No	Yes (e.g. debt ceiling)
Italy	Reduced	Increased	No	Yes: expenditure and borrowing rules, balanced budget requirement
Poland	Not reduced	Not increased	No	Abolition of general debt limit in relation to revenues. Individual debt limits instead (according to capacity) (not directly related to the crisis)
Portugal	Reduced	Yes, indirectly. Not explicitly by law	No, unless they are under fiscal scrutiny—ex-ante supervision from the Accounting Court	Yes: new expenditure and borrowing rules; municipal financial restructuring and municipal financial rebalancing measures approved by legislation

(continued)

Table 2.1 (continued)

	<i>Changes in revenues</i>	<i>Changes in tasks</i>	<i>Is approval needed for a loan from central government?</i>	<i>New fiscal rules</i>
Spain	Reduced	Increased	No (but needed in some circumstances)	Yes: borrowing restrictions and balanced budget requirements
The Netherlands	Reduced	Increased	No (unless they are under fiscal scrutiny)	No
The UK	Reduced significantly	Increased (social care tasks taken over by LGs)	Yes	Referendum required for increasing council tax above a threshold rate

LGs-local governments

been spared from revenue reductions. In parallel with falling revenues, in more than half of the countries included in our study, LGs have been entrusted with *additional tasks* (especially in the area of social welfare). In none of the cases has the range of functions that LGs have been reduced. The only exception is Finland, where the recent reform plans entail the possibility of re-allocating social welfare and health functions from the local to the regional level. Thus, in most of the countries included in our analysis, LGs have faced the “scissors-crisis”: having to deal with additional tasks while facing falling revenues.

Alongside the combination of falling revenues and increasing (or unchanged) tasks, LGs in most countries have faced additional constraints in the form of new fiscal rules imposed on them by the central government. Indeed, only in Finland and the Netherlands have the LGs been spared from additional fiscal rules. In half of the cases, the new fiscal rules include limits on debt and deficit. In addition, in Croatia, caps have been imposed on LG salaries, and in the UK, LGs have to hold a referendum for increasing the council tax beyond a certain threshold. In at least half of the countries, LGs also need permission from the central government to incur a loan (either always or in specific circumstances).

In conclusion, we can see that the LGs in the countries covered in our study have had to deal with fiscal stress resulting from falling revenues and increasing (or unchanged) tasks in the face of additional top-down constraints imposed on them by the central government in the form of stricter

Table 2.2 Inter-municipal cooperation and the financial crisis

	<i>Has IMC become more prevalent after the crisis?</i>	<i>If yes, what types of IMC?</i>	<i>Motives/reasons for Yes or No?</i>	<i>Is IMC part of a broader set of reforms, including mergers?</i>	<i>Have austerity policies been obstacles or opportunities? Has legislation played a role in this?</i>
Croatia	Generally no. Some increase in IMC during the recent period but this was not a result of specific austerity policy measures	Not applicable	The existing cooperative structures at the local level are not the result of comprehensive and stimulating central policies (let alone austerity policies). In recent years, there has been an increase in the number of cooperative organizations: (a) specialized co-owned local utilities and (b) opportunities in EU rural development policies stimulated the creation of numerous “local action groups”	No significant LG reform has been implemented since 2009 (directly elected mayors); the territorial organization of Croatian LG and the national legal framework for IMC remain unchanged	Creating more specific, detailed, and comprehensive IMC legislative framework or its proactive stimulation was never on the political agenda during austerity years. Every Croatian government keeps a “laissez faire” approach towards IMC
Estonia	No, limited IMC	Not applicable	The focus on mergers has been facilitated by austerity but not triggered by it	No. In the 1996–2016 period, 72 LGs merged into 30 LGs; incentives for voluntary mergers have been provided during the past decade	Territorial reform legislation was approved in 2016: LGs should have a minimum of 5000 pop., but are free to choose with whom to merge (exceptions for island municipalities). Mergers as a pre-emption of IMC discourse

(continued)

Table 2.2 (continued)

	<i>Has IMC become more prevalent after the crisis?</i>	<i>If yes, what types of IMC?</i>	<i>Motives/reasons for Yes or No?</i>	<i>Is IMC part of a broader set of reforms, including mergers?</i>	<i>Have austerity policies been obstacles or opportunities? Has legislation played a role in this?</i>
Finland	No major change. IMC is already widespread	There are some compulsory IMCs, in social and health care and alarm centres, but beyond that LGs are free to find the best ways to produce services. For the main tasks of municipalities (education and culture) there are IMC and specific rules constraining local choices	The current government is reforming LG by creating self-governing regions and giving them many tasks (like social and health care) that traditionally have belonged to municipalities. As a result of this reform, the need for IMC will decrease dramatically and many hundreds of IMC organizations will be abolished as a result	The last LG reform (2007–2011) mandated the reorganization of social and health care services to serve a minimum of 20,000 citizens. This was accomplished through IMC in some cases and mergers in others. IMC is also growing in solid waste management since energy conversion requires large investments	As a response to fiscal pressures, in 2005, the Government of Finland restructured municipalities and services, leading to amalgamations and the establishment of new IMCs for social and health care. In 2015, the new government took a totally new direction and decided to reform LGs based on a two-level LG system
Greece	No. Austerity policies have not directly influenced IMCs in Greece	Not applicable	In some cases, member municipalities were less willing to pay their contribution to IMCs due to their own lack of resources. In other cases, municipalities seem to be more willing to join forces due to the lack of resources. But these cases have not changed the overall picture	Failed attempts to implement IMC as a preliminary stage for future voluntary amalgamations. Due to this failure, the first wave of amalgamations (“Kapodistrias-Reform”) was implemented in 1998	

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Iceland	No, IMC has been popular for the past 10–15 years	Across the board, there is increase in all forms of IMC	Yes, discourse about improving cost efficiency of LGs for the past 20 years; IMC as a response to internal fiscal stress	No direct actions on behalf of the central government in relation to amalgamation/IMC since the financial crisis in 2008	No. High inflation, unemployment, and currency problems were the biggest threats the local authorities faced but no direct actions on behalf of the central government
Italy	Yes, it has been fostered as never before	Municipal unions (MUs) (i.e. multipurpose formal entities) have been promoted. Conventions are allowed, but not actively “desired”	Size and economics of scale; inability of small municipalities to provide basic services Elimination of the provinces from the Constitution requires an intermediate/supra-municipal level	Yes. A major reform took place in 2014	Legislation on IMC is national but regionally specified and articulated. IMC organizations have been stimulated, but rules have not substantially changed
Poland	No	Not applicable	No connection to austerity policy but fiscal stress in Polish LG increased substantially in years 2009–2011 and since then it has been stable. EU funds are an important motive for IMC	No territorial amalgamation reform. Minor reforms to support IMC with minimal reference to austerity. A reform of metropolitan areas is being considered	Conditions for IMC have been changing due to some changes in legislation (e.g. change of the law on solid waste management) but no connections to austerity policies

(continued)

Table 2.2 (continued)

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Portugal	Yes	Compulsory; formal contracts; multipurpose organizations. Increased intensity in the use of inter-municipal communities (CIMs)	The CIMs were a generalized form of cooperation among LGs even before the financial crisis and the austerity measures	IMC has been indirectly affected by a broader set of LG reforms in Portugal, including the amalgamation of sub-municipal units called parishes	New legislation approved as part of territorial and functional LG reforms facilitates the transfer of responsibilities, resources, and political deliberative powers to the CIMs
Spain	No, and the trend has gone in the opposite direction	Reduction in the number of IMC organizations	The Law (27/2013) established that all IMC entities should meet some economic and fiscal sustainability criteria. If any IMC entity failed to achieve these criteria, it had to be dissolved. The outcomes of this legislation are still being analysed	There have not been global reforms related to either IMC or amalgamation	Local reform passed at country level has made more difficult engaging in IMC

(continued)

Table 2.2 (continued)

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The Netherlands	Yes, all types have been adopted. Some voluntary, some more compulsory. Some as formal IMCs, some as informal coordination platforms. If “purpose” is defined on a rather high level of abstraction, most are for single purposes	Reduction (sharing) of transaction/transformation costs resulting from getting new tasks at municipal level. Lack of expertise and general capacity in smaller municipalities (sharing of resources)	Some IMCs are linked to reforms directed at combining decentralization and coordination between municipalities. There are also some territorial amalgamations on the agenda, but that is an independent process (and not very strong)	There are no important changes in IMC legislation. Municipalities have large freedom in developing IMCs. There is, however, growing awareness in municipal councils that their influence in IMCs is usually limited; this might develop into something of an obstacle in some municipalities
The UK	Yes Council partnerships and agreements for administrative services and in local authority companies	Main reason: financial savings and cost reductions; also as an alternative to mergers	IMC is a LG response; no encouragement from the centre. Instead, pressures for mergers of county councils (an upper tier) for financial savings	More IMC but no legislation to facilitate it. Cities and Local Devolution Act (2016) is a new framework for councils that have brokered devolution deals with the central government to act together

IMC-inter-municipal cooperation, *LG*-local governments

borrowing and deficit rules. While in some of the countries the central government has opted to bear the brunt of the austerity burden (Croatia, Iceland, and Finland), in a majority of our cases, austerity has also spilled over to the local level, forcing LGs to operate in increasingly challenging environments.

Has IMC Become More Prevalent as a Result of Austerity Policies?

The majority of the countries covered in our survey did not experience any increase in IMC as a direct result of austerity policies. In five countries, austerity measures have led to more extensive use of IMC: Italy, Portugal, the UK, the Netherlands, and Iceland. In Italy, the national government has led the efforts to use IMC more extensively in order to cope with fiscal stress at the local level. Municipal unions (i.e. multipurpose formal entities) have been the preferred format of IMC. They are voluntary, but strong financial incentives have been put forth by the national and regional governments. Other forms such as conventions—looser and time-limited formal agreements—are still allowed but not openly promoted. Two reasons were put forth by Italian authorities as the main motivators. First, the goal to increase size and reap economies of scale in times of austerity was regarded as quite relevant for small-sized municipalities (more than 70% of Italian municipalities) to cope with their basic tasks assigned by national legislation. Second, the comprehensive reform of 2014 and the change in the constitutional law in 2016, which advocated the elimination of the provinces (second-tier level), required an “intermediate level”/supra-municipal alternative. In the UK, increasing fiscal stress of LGs has led to an increase in LG partnerships and agreements on administrative services and in local authority companies. Financial savings and cost reduction were the most frequently stated goals, but, for many LGs, IMC is also seen as an alternative to mergers. In the Netherlands and Iceland as well, increased fiscal stress of LGs has motivated them to make more extensive use of IMC. In the Netherlands, in particular, our experts suggest that IMC continues to serve as a strategy to reduce (share) transaction costs resulting from new tasks assigned to the municipal level. Unlike in Italy, however, increased IMC in the UK, the Netherlands, and Iceland has resulted from the bottom-up efforts of LGs (struggling with fiscal strain) rather than being directed by the central government.

In Portugal, IMC reform was undertaken in 2008, prior to the crisis, and resulted in the top-down creation of inter-municipal communities

(CIM) with compulsory geographical borders. The newly created CIM had as one of their major goals to apply for regional funds from the EU. Austerity, and particularly the bailout agreement, was seen as an opportunity to enhance the set of competencies and tasks assigned to the CIM. IMC was not regarded as an explicit policy to address specific austerity issues but rather as one of the strategies included in a broader set of reforms affecting LGs.

Spain is the only country that appears to have adopted legislation tightening the use of IMC. All municipalities under 20,000 residents (over 95% of the 8117 municipalities) were subjected to coordination of public service provision either directly by the province or indirectly through an inter-municipal arrangement (*Mancomunidades*). However, all *Mancomunidades* are now forced to submit their budgets and financial reports to the central auditing authorities (Bolgherini 2016). Noncompliance resulted in either massive adjustments or extinction, affecting primarily *Mancomunidades* addressing issues of economic and social development.

In the remaining countries, our panel of experts did not identify major changes as a result of the financial crisis of 2008. In Finland, IMC was already a widespread endeavour and the most recent financial crisis did not affect these efforts. In Poland, internal fiscal stress and the lack of expertise and capacity in smaller municipalities are stated as key motivators for the continuing trend of IMC. In Poland, there has been an increase in the number of Integrated Territorial Investments since 2014, but these are justified as a new EU structural funds instrument and are unrelated to austerity policies. Studies undertaken in Poland indicate that EU funds have been one of the most important motivations for IMC since the 1990s (Swianiewicz et al. 2016). Finally, in Croatia, Estonia, and Greece, austerity policies did not have significant impacts on IMC.

Has IMC Been a Part of a Broader Set of Reforms Directed at the LG?

In several countries, IMC is part of a broader set of reforms on the political agenda, but in most cases, these reforms are unrelated to the financial crisis or austerity policies. The exceptions seem to be Italy and Portugal. In Italy, a major LG reform took place in 2014. Overall, the Italian case seems to be the one where the link between austerity policies and IMC is the most evident (Bolgherini 2016). Besides the cuts to public expenditures to

increase budgetary discipline and comply with EU requirements, Italy has also focused on territorial reforms aiming to rationalize LG architecture (Bolgherini 2016). The reforms conducted in 2007–2013 point to an increase in the number of MUs, a form of IMC clearly favoured by the national government to the detriment of other forms. Municipalities under 5000 residents were forced to manage the mandatory tasks assigned by legislation through MUs and those with less than 1000 residents also have to do the same for all administrative functions and public services (Bolgherini 2014). These compulsory changes were accompanied by the complete defunding of mountain communities (MCs), an older form of IMC involving the smallest municipalities in remote areas. A reduction in the number of provinces was also clearly signalled by their removal from Constitutional status and an increasing transfer of some of their functions to regions, metropolitan cities, and MUs (Bolgherini 2014). In the Italian context, perhaps more than anywhere else, IMC is not only openly promoted but often imposed in a specific format (MUs) to the detriment of others (MCs), resulting in effective reduction of municipal autonomy and an increase in the deficit of democratic legitimacy as MUs' officials are not directly elected (Bolgherini 2014). Municipal amalgamations are also included as a goal in this reform but they are still voluntary, even if encouraged (and financed) as never before.

In Portugal, the 2011 bailout agreement was the main catalyst for LG reforms. The merger of municipal and sub-municipal units projected in the Memorandum of Understanding (MoU) signed in 2011 by the Portuguese Government, the International Monetary Fund, the European Commission, and the European Central Bank was never fully enacted. Since the MoU was ambiguous in terms of which units should be merged as a conditionality of financial aid, the Portuguese Government opted for the merger of sub-municipal units, leaving municipal boundaries intact. The Portuguese territorial reform stands as an example of how austerity policies have generated an unbalanced outcome for the local level. Sub-municipal mergers were enacted without concomitant changes to municipal boundaries, the allocation of functions between municipal and sub-municipal governments, local finances, or local election rules (Tavares 2015). The urgency to cut costs (required in the MoU) and the imposed deadlines gave an incentive for the central government to produce ad hoc and fragmented changes. These external demands, which sanctioned the argument for rushed measures, together with the political costs of significant territorial changes, can explain the absence of a coherent reform

strategy and the missed opportunity to facilitate IMC. The main policy set by this reform affecting IMC was the enhancement of responsibilities, resources, and political deliberative powers of the CIMs.

Finland went through an important reform which started before the financial crisis and was unrelated to it (2007–2011). LGs were asked to reorganize their social and health care services to serve a minimum of 20,000 citizens. Many LGs decided to amalgamate, but others solved this upper-level mandate using IMC, resulting in a significant increase in IMC in the last ten years. In other areas, such as garbage collection, IMC is also growing because using garbage as energy requires large investments. The current reform effort, however, is directed at creating the second tier of LG (in the form of self-governing regions) that would be responsible for several tasks (e.g. in social and health care) that have traditionally belonged to municipalities. As a result, IMC is likely to decrease dramatically.

In Estonia, a law prescribing compulsory amalgamations was adopted in 2016 but this was a result a longer-term reform effort rather than having been triggered by austerity measures.

Other countries have not experienced comprehensive LG reforms. In Poland, for example, no territorial amalgamation reform has been implemented or seriously considered. The experts we surveyed identified a few minor reforms aiming to support IMC but with minimal reference to austerity. A reform of metropolitan areas is also being considered, but no final decision has been reached. Croatia has not seen any significant LG reform since 2009, when the direct election of mayors came into law. The territorial organization of Croatian LG has remained the same and the national legal framework for IMC was also unchanged during the financial crisis years. Strategic policy documents (Strategy of Public Administration Development 2015–2020, National Reform Programme 2016) include IMC as a part of LG consolidation, in order to provide technical and financial support to cooperating municipalities, but no IMC legislation has been implemented yet. Interestingly, in these documents, IMC is primarily regarded as a step towards possible territorial amalgamations and not a reform in itself. In contrast, LGs see IMC policy tools and linkages as an instrument to avoid mergers. Greece also faced an attempt to implement IMC as a testing ground for future voluntary amalgamations, but this was not successful in either the first (1998) or second (2011) wave of amalgamations, although both financial and political incentives were offered.

DISCUSSION

The main goal of this chapter was to conduct an exploratory analysis of the overall effects of austerity policies enacted following the financial crisis of 2008 and the possible effects of these policies on the use of IMC by LGs in selected European countries. Is there a relationship between austerity policies and IMC initiatives? We outlined two competing theoretical propositions. We found more support for the first proposition—that austerity facilitates IMC—than for the second—that austerity inhibits IMC. This appears to be the case in at least 5 countries out of 11. Although in most of the countries covered in this chapter LGs have experienced increased fiscal stress as a result of austerity measures, only in few countries—Italy, Portugal, Iceland, the UK, and the Netherlands—has IMC emerged as a solution to deal better with fiscal stress. In Italy, the comprehensive reform of IMC has been a top-down initiative, pushed by the central government, whereas in the UK and the Netherlands, more extensive IMC has resulted from the bottom-up decisions of the LGs to better deal with increasing financial strain. Other countries covered in our survey have also experienced changes in the IMC landscape (e.g. Croatia, Poland) but these have been unrelated to austerity policies.

There does not seem to be a direct connection between the severity of fiscal stress/crisis and IMC. While some of the countries where austerity measures triggered more extensive IMC have been experiencing severe fiscal strain (e.g. Italy), others have experienced it more mildly (e.g. the Netherlands). Furthermore, in some other countries most affected by austerity (e.g. Spain and Greece), it has not triggered any noteworthy changes in IMC (if, then perhaps in the opposite direction). Thus, although based on the theoretical discussion in the section “[Theoretical Discussion](#)”, IMC could be viewed as a potential solution to deal with increased fiscal stress by the LGs due to the economies of scale and cost savings it could deliver. In practice, LGs appear to prefer other ways for coping with increasing scarcity of financial resources.

Other questions deserve more detailed research in the future. How exactly are austerity policies and IMC connected? Which factors influence the choice of national governments to adopt enabling/inhibiting legislation? What are the motivations for voluntary adoption by LGs affected by austerity policies? Explaining the dynamics of this association requires an in-depth analysis of country cases. Although we did not explore it more closely in our survey, the obstacles to IMC in the context of austerity

could lie in the theoretical arguments outlined in section “[Theoretical Discussion](#)”: increased transaction costs of engaging in IMC, decreased trust in the context of crisis and austerity, and the lack of (historical) traditions and experiences of utilizing IMC.

In addition to an in-depth investigation of the relationship between austerity policies and IMC, future work should also focus on the countries that have implemented IMC initiatives as direct or indirect consequences of fiscal stress. IMC has been shown to generate efficiency gains for specific services, such as solid waste collection. Several empirical studies confirm the possibility of capturing economies of scale and cost savings through IMC solutions for waste collection (Bel et al. 2010; Bel and Fageda 2010; Bel et al. 2013; Dijkgraaf and Gradus 2013; Zafra-Gómez et al. 2013). However, cost savings accruing from IMC are contingent on service characteristics, the size of the population to be served, and the transaction costs entailed by the IMC solution (Bel and Warner 2015). Most studies have focused on solid waste management, a service for which costs are usually available. There is far less information about the effects of IMC for other types of services, but anecdotal evidence suggests that IMC arrangements for the delivery of social and cultural services are frequently sacrificed by LGs facing austerity (Bolgherini 2016), therefore implying that these alternatives may be costlier. Finally, there is also controversy over whether scale economies are achievable using multipurpose organizations for IMC. These and other implications of IMC arrangements implemented in the aftermath of the financial crisis should be explored in future research to determine their effectiveness in addressing the challenges faced by LGs in a context of austerity.

Acknowledgements The authors would like to thank the country experts for answering the survey questions and Pawel Swianiewicz and Filipe Teles for the careful review and suggestions. This research received funding from the project “SmartEGOV: Harnessing EGOV for Smart Governance (Foundations, methods, Tools) /NORTE-01-0145-FEDER-000037”, supported by Norte Portugal Regional Operational Programme (NORTE 2020), under the PORTUGAL 2020 Partnership Agreement, through the European Regional Development Fund, from the Portuguese Science and Technology Foundation (Fundação para a Ciência e Tecnologia) [Grant n.º PEst-OE/CJP/UI0758/2014], and from the Estonian Research Council Grant PUT-1142.

NOTES

1. From 1 to 3 experts per country were contacted, 18 in total.

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Table 18.4 List of activities and projects of the micro-region Moštěnka

2016	“The centrum of common services Moštěnka”
2014	“Lowering dustiness”
2013–2014	“Microregion Moštěnka—bio-waste project (I)”
2011–2012	“Digital flooding plan and communicational system for municipalities of Moštěnka”
2011–2012	“Flood control in Microregion Moštěnka”
2012	“We want to learn! The support of technical/administrative education for local councilors”
2012	“Compost—purchase of 13 garbage cans for biowaste”
2011	“Public spaces maintenance”- purchasing common machines for maintaining green areas
2010	“Good practices of the regions Bohemia—Moravia”—common project of micro-regions Holešovsko and Moštěnka
2009	“Moštěnka is having fun, sports and celebrate”,
2007	Common planning of the key cycling paths in the micro-region Moštěnka
2005	“Supporting employment—education of citizens and granting microloans”
2003	“Information system of the Microregion Moštěnka”
2002	Strategic document of the development of the micro-region Moštěnka

Source: <http://www.mostenka.cz/>

our cooperation has begun. A decisive issue may be represented by competent and efficient managers who help small municipalities with its agenda. Currently, three managers are working on various projects. The second impulse was that we were able to create a good base and we can rely on many active people willing to put things forward. The partnership is very important here. The larger municipalities are helping with everyday agenda to smaller municipalities. We got used to that kind of cooperation in our region which helps our connectedness and it improves the relationship itself.”⁷

CONCLUSION

Both cases illustrate very active micro-regions. Regarding the first micro-region, despite its comparatively small size and structurally unfavourable location, its municipalities cooperate in several distinctive fields, including saving and subsequently operating the local railroad and it is seen as a pioneer in terms of IMCs in the micro-regional cooperation within education. Second, the micro-region of Moštěnka is larger in terms of the number of cooperating municipalities and it serves as an example of strong,

successful, IMC, helping to build the local community by initiating various activities within its territory. The micro-region is interconnected with the LAG, which enables the increased cooperation in numerous fields. It has also been successful in raising the region's capacity to obtain financial funding for a micro-regional development.

In conclusion, it is clear that both of these IMCs have been relatively successful in their goals of increasing the social and economic development in their specific regions. The reason for this success can be partly attributed to the good governance in the matter of the human capital. As many mayors have indicated in previous surveys,⁸ any effort in terms of local development is difficult without active citizen and there is less likelihood that projects could be successful. For this reason, it is indispensable to acknowledge that micro-regions' achievements reciprocally depend on the IMCs and its reliance on active citizens who are enthusiastic about taking part in betterment of their localities. This variable seems to be crucial as even the IMC located in peripheral region with unfavourable social and economic condition might serve as an example of good practices.

However, there might be other reasons why those IMCs are successful and indeed, we cannot rely merely on the interviews with the IMC representatives. Previous studies (cf. Binek 2012: 4) suggested that a part of the success could be attributed to the IMC size structure. The IMC in the IMCs consisting of more than 30 members is rather formalized and thus less effective than in smaller ones. Both the IMCs analysed here have the "optimal" number of members. Moreover, they both have set concrete goals that are achievable in accordance with the judgement of the representatives. This further increases the enthusiasm for cooperation among them. Lastly, the financial means are also very crucial but seemingly, the success itself is conditioned by both, the active citizens and their representatives. In spite of adequate financial resources, not all the micro-regions can follow the successful road of the above-mentioned cases. Yet, a comprehensive *large-N* analysis of all the micro-regions in the Czech Republic is still missing, albeit it could precisely shed light on the prime factors that may lead to the success and effectiveness of IMC.

NOTES

1. Regional Information Service, Ministry of Regional Development, available at <http://www.risy.cz/cs/vyhledavace/mikroregiony> (accessed 29 January 2017).

2. National Network of Local Action Groups in the Czech Republic, <http://nsmascr.cz/dokumenty/informace-o-mas/> (accessed 29 January 2017).
3. *Podpora meziobecní spolupráce*, Svaz měst a obcí ČR (2015), available at <http://smocr.cz/cz/nase-projekty/ukoncene-projekty/meziobecní-spoluprace/o-projektu.aspx> (accessed 29 January 2017).
4. The municipality is famous for the chateau where alleged witches were executed in the second half of the seventeenth century. The historical event was also filmed in a story.
5. Interview conducted 10 January 2016. Tel: +420,602,771,192 E-mail: svazek@rapotin.cz
6. The LAGs official webpage, <http://mas-mostenka.cz/mas/>.
7. Interview conducted 8 January 2016. Markéta Poláchová; Tel: 737,775,991; E-mail: marketa.kropackova@mas-mostenka.cz.
8. For instance the project of the Association of Local Self-Governments: “MAS jako nástroj spolupráce obcí pro efektivní chod úřadů”, available at <https://www.smscr.cz/aktuality/883-mas-jako-nastroj-spoluprace-obci-pro-efektivni-chod-uradu> (accessed 20 January 2017) and *Analýza potřeb venkova*. 2011. Research report. Olomouc: Palacky University.

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Can Tiny Municipalities Survive Through Extensive IMC Arrangements? The Case of Iceland

Eva Marín Hlynsdóttir

LOCAL GOVERNMENT REFORMS IN ICELAND

There has been a heated debate on local government reforms in Iceland for more than half a century. However, it was not until the early 1990s that the government was able to successfully promote large-scale mergers at the local level. As the Local Government Act (138/2011) states that amalgamation can take place only after a local referendum, the emphasis must be on the government's ability to promote large-scale amalgamation. Within a span of 20 years, the number of Icelandic municipalities dropped from around 200 to 74, which suggests impressive results. There is also extensive inter-municipal cooperation (IMC) at the local level, and all municipalities participate in IMCs to some extent. Nevertheless, amalgamation seems to be back on the agenda, and there are signs that we may see more reforms at the local level within a few years. The question that remains is why were the previous reforms not

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enough? The main reason lies within the fact that although the number of municipalities is only around one-third of its previous numbers, the reforms were only partly successful. Interestingly around 40 out of the 74 municipalities have less than 1000 inhabitants, and the number of these municipalities has remained more or less the same through the reform process. Thus, the main result of the reform was to cut down the number of tiny municipalities and increase the number of small municipalities. Nevertheless, there are still a substantial number of municipalities with less than 500 inhabitants, and there are six that reach the stage of Lilliput with less than 100 inhabitants. This opens up another question on how these Lilliput municipalities are able to survive in the light of legal requirements of the local government act that all municipalities regardless of size should provide their citizens with the same level of services.

THE LILLIPUT MUNICIPALITIES

The six municipalities that reach the status of a Lilliput municipality are Svalbarðshreppur (99 residents), Fljótsdalshreppur (74 residents), Tjörneshreppur (60 residents), Árneshreppur (55 residents), Helgafellssveit (55 residents) and Skorradalshreppur (53 residents). Out of these six, Árneshreppur is a special case as it lies in a remote and secluded area which is often completely snowed in for months during the wintertime. It is also the only one of these municipalities with its own school. Most of these municipalities have used the system of direct personal voting when electing their council. This simply means that all eligible citizens are on the ballot, and their fellow citizens may vote for whomever they like. The councils thus consist of five individuals with no political ties whatsoever. The individual who gets the highest number of votes is usually chosen by the council to be council leader (is. Oddviti) thus functioning as council leader, mayor and chief executive. The municipalities with the exception of Árneshreppur are all situated close to a larger municipality with a fairly easy access to services in the neighbouring municipalities. This brings forth the question: Why have residents in these municipalities repeatedly rejected amalgamation proposals? No doubts there are different reasons between different areas, but let us discuss the case of the smallest of these Lilliput municipalities, the municipality of Skorradalshreppur.

THE MUNICIPALITY OF SKORRADALSHREPPUR

Between 1994 and 2006, a large number of small and tiny municipalities merged in the fjord of Borgarfjörður in several stages into the municipality of Borgarbyggð with 3600 residents and 4924.9 km². The main centre of the municipality is the town of Borgarnes (ca. 1800 residents). The municipality of Skorradalshreppur also lies within the fjord of Borgarfjörður (ca. 80 km north of Reykjavik). The municipality lies in a beautiful secluded valley of a 208 km² which is a popular holiday destination for Icelanders. The local residents mainly live on farmland, as there is practically no urbanization within the municipality. The demographic changes of the population are different compared to its neighbour Borgarbyggð. The majority of the residents in Skorradalshreppur are above 50 years in comparison to 34 per cent in Borgarbyggð. The number of school children is also much lower than in Borgarbyggð. Thus, the population in Skorradalshreppur is ageing faster than the average of Borgarbyggð. This is similar to an ongoing trend within areas mainly consisting of rural farmland where the number of children has become dangerously low as the population becomes unsustainable.

The main source of income comes from property tax of the over 500 second homes situated within the valley of Skorradalur. As income tax is very low due to the number of residents, the property tax funds practically all service provisions, and due to unusually high level of income per resident, the municipality does not receive funds from the Equality fund unlike most other Lilliput municipalities. The municipality is also one of only three municipalities who in 2015 issued the lowest income tax rate possible.¹ Due to lack of urbanization and low internet connectivity the municipality rents office space in the village of Hvanneyri in the neighbouring municipality of Borgarbyggð. The office staffs consist beside the council manager of an office clerk and a planning and building officer. The fact that the municipality has its own planning and building officer is related to the large number of second homes within the municipality; however, it must be pointed out that this is an exception to the rule as municipalities with less than 2500 residents rarely run a planning and building office on their own.

During the amalgamation process in Borgarfjörður, the residents of Skorradalshreppur were invited to join on several occasions which they repeatedly refused in local referendums. The long-time council leader Davíð Pétursson stated in 2014 in a newspaper article that one of the main

reasons the council had been against merging was that they wanted to finish the obligatory master plan of land planning first. At the same time, he pointed out that Skorradalshreppur was now ready to discuss amalgamation with their neighbours. Nevertheless, Skorradalshreppur still exists as a separate local government entity. However, it is too small to arrange service provision independently. Thus it relies on contract agreement with Borgarbyggð which provides, all school services, social services, provides access to sport and recreational facilities, and various other services. Furthermore, there is a contract with Borgarbyggð on the provision of the fire brigade services. For a municipality with more than 500 second homes scattered in a bushy landscape, the importance of a good fire brigade cannot be undervalued. However, as has been pointed out repeatedly in the Icelandic discourse on local government services, the method of using contract agreement although flexible and easy to use has one important flaw. Although Skorradalshreppur is covering costs of service provision, there is usually no board or formal decision-making forum for individual IMCs. The council of Skorradalshreppur does not have any authority over staffs within various service schemes similar to the authority they have over their planning and building officer. This also means that the citizens of Skorradalshreppur do not have direct influence on the way services are organized. It is unclear how responsive the council of Skorradalshreppur is able to be to various citizens' complaints and demands. Based on the method of contract agreement, it is possible that it might be difficult for citizens to get positive response as the service providers may point to the contract and claim it is out of their hands while the council may be in the same position not being able to change contracts very easily. On the other hand, the community of both municipalities is not very large, thus the closeness and familiarity may help in providing tailor-made solutions when possible.

THE FUTURE OF SKORRADALSHREPPUR

Lilliput municipalities have in the past few decades been merging into larger municipalities one after another. The fact that Skorradalshreppur is still alive and kicking is mostly due to the fact that it has a strong backup in its second-home owners. It has been suggested that individuals working and living within the capital city have moved their legal home to the Skorradalshreppur municipality to benefit from the low income tax level. Some have even gone so far to call it tax haven. The low number of

residents (53) in the municipality does not necessarily support this theory. However, it has repeatedly happened that the residence number suddenly rises shortly before popular referendums on controversial issues such as amalgamation proposals.

For how long Skorradalshreppur will be able to keep its Lilliput status remains to be seen, and there are strong forces on the rise who oppose this type of so-called pseudo municipalities and call for a real reform with the creation of municipalities that are able to provide their core services on their own.

NOTES

1. In 2015, local authorities were able to decide their income tax level between 12.44 and 14.52 per cent. Out of 74 municipalities, 57 used the highest percentage possible.

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Conclusion

Inter-municipal Cooperation Diversity, Evolution and Future Research Agenda

Pawel Swianiewicz and Filipe Teles

Our volume demonstrates that the experience of inter-municipal cooperation (IMC) in European countries is a highly diversified phenomenon. On the one extreme we find countries with a long-lasting and very dense network of various forms of IMC, while in some others this is still a rare form of innovation of governance arrangements. France certainly belongs to the first group. In 2014, the budget of French inter-communal *communautés* was over 40 billion euro, which equalled to more than 30 per cent of total spending of the municipal sector. And if other forms of such institutions are taken into account, the role of cooperative arrangements in the provision of local public services is even greater. In 2011, over 90 per cent of

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French communes belonged to a community, and if we also take into account other forms of inter-municipal institutions, the cooperation network is even more dense. The Netherlands, where in average each municipality is involved in 16 various forms of cooperative arrangements (both more permanent institutions and ad hoc contractual arrangements), is another evident example of the same group. Contrarily, Albania belongs to the latter group of countries in which IMC is still not a common phenomenon. As described in Chap. 17, the case of cooperation on solid waste management in the region around the city of Korca is, rather, an exceptional innovation, and not a common feature of the Albanian local governance landscape. Between these two extremes, we have the full range of countries in which this is relatively common, but still far from playing an important role in service provision as in the French, Dutch or Finnish cases. In Poland and Czech Republic, jointly provided local services account to a maximum of 3 per cent of total municipal spending, and in Slovenia, this is closer to 0.5 per cent, that is, very far from the above-mentioned figures.

If the picture of IMC in Europe is so much diversified, can we draw any meaningful, comparative conclusions? We believe so. In spite of the huge variation, the chapters of this volume have revealed several features and contemporary trends in IMC in Europe.

The first common feature in most of the analysed countries is the *development (growth)* of inter-municipal arrangements. It is increasingly clear that IMC has become more and more popular in many European countries. We discuss motives and drivers for this development later in this chapter, but the numbers are very clear. The chapter on France, the country with perhaps the most developed inter-local tradition in Europe, showed how the total budget of *communautés* has increased from 13 billion euro in 2000 to over 42 billion in 2014. However, this is not the only example. The Polish chapter demonstrates that the financial transfers between municipalities more than tripled during the last decade. There are more inter-municipal contracts as well as more spending by inter-municipal unions (for detailed data see also Swianiewicz et al. 2016). Also in the Czech Republic, the financial share of cooperative arrangements in the total municipal spending more than tripled since the beginning of this century, and more examples of similar developments can be found in other countries as well. This dynamics in selected countries is presented in Fig. 20.1.

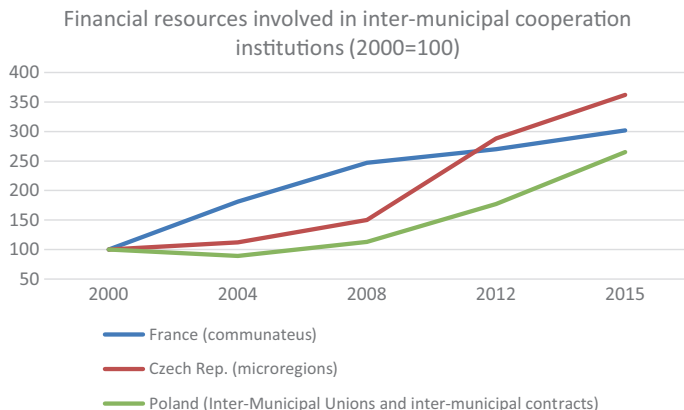


Fig. 20.1 Financial resources involved in IMC institutions

As expected, the second characteristic feature is *variety*. Here we mean not only how meaningful are cooperative institutions in the provision of local public services, but also the forms which they take in different countries. The empirical material presented in this volume confirms that we are dealing with an enormous complexity of various forms of collaborative institutions. Most of country chapters spend a considerable amount of words on explaining the different forms available in their countries—formal and informal, based on public and private law, bilateral and multi-lateral, single- and multi-purpose, and so on. Obviously, this complexity exists to a different extent in different countries. In some countries (like Slovenia or Spain), the number of available options is relatively limited, and IMC plays a limited role in the provision of local functions. But in the Netherlands or Switzerland the map is, indeed, very complex, and understanding all possible forms is not an easy task. The third section of this volume includes the discussion of individual, interesting case studies of these arrangements in various countries. They cover very different legal forms: (a) contractual arrangements between municipal governments (Skorradalshreppur and Borgarnes municipalities in Iceland), an inter-municipal union having the character of single-purpose association (sewage system in the valley of Raba river in Southern Poland), a private law company owned by local governments (waste management in the region of Korca city, Albania) and weakly institutionalised cooperative

arrangements (Oradea Metropolitan Area in Romania, the Czech case of a micro-region may perhaps classified in the same category).

The third common observation is a constant *evolution*, which—by the way—makes studying inter-municipal arrangements even more fascinating. We are not talking about a stable phenomenon but about a dynamic, constantly changing process. This *liquid state* of cooperation, as we called it in the introduction to this volume, is quite evident and constitutes one of its most relevant features, particularly given the challenges and the contextual changes of local government landscape in Europe during the last few decades. France is perhaps the best (although not the only available) example in this respect. Its inter-municipal institutions have been perhaps the most developed for decades among all European countries and are currently responsible for spending over one-third of the municipal sector expenditures. But what is perhaps the most striking is that for over two decades the inter-municipal institutions in France have been constantly being re-invented. New legal forms, ways of financing, allocated functions and political structures have been replacing old with a pace which have made trends difficult to follow for an external observer. And the new trends/forms are often contested in public debates, which allow us to expect further evolution in the near future. The latest experiments with metropolises and direct elections of inter-municipal politicians are confirmations of that observation.

Finally, when we study IMC we soon realise how *fuzzy* boundaries or definitions of the phenomena under our investigation are. In our volume we have tried to concentrate on “pure” examples of IMC, defined as situations in which two or more municipalities agree to cooperate (work together) to achieve mutual benefits. But, in fact, the development of this phenomenon is only part of the wider process of the emergence of collaborative governance, and it is sometimes very difficult to separate sharply from other forms of inter-institutional interactions. Some forms of cooperation are not only inter-municipal, but at the same time multi-level. Examples of such an institution might be Spanish consortia. Also in Poland, a recent (2015) amendment of the law allowed to create inter-municipal unions with the participation of both municipal and county governments. There are also several forms of cross-sectoral cooperation which are inter-municipal institutions at the same time. Local Action Groups (LAGs) promoted by the EU funds for rural development are inter-municipal, but at the same time they involve local businesses and third-sector organisations (so they are cross-sectoral and are forms of

community involvement mechanisms). Among the countries discussed in this volume, LAGs are popular, for example, in the Czech Republic, Slovakia, Poland or Portugal. Another form of “IMC’s not being just IMC’s” are companies owned by several municipalities, but also by the private sector. Finally, we can increasingly observe the “double-decker” structures of, for example, *sindicates* of inter-communal *communautés* in France or companies established and owned by inter-municipal unions in Poland. All of these examples suggest that the definition of IMC is not always very easy, and the borders between what is and what is not an IMC institution cannot be drawn sharply.

INTER-MUNICIPAL COOPERATION AND TERRITORY (SPACE)

There are cases in which the cooperation between local governments involves units which do not share common borders, and are located far from each other. It includes international networks of local governments (e.g. Eurocities), twin-city arrangements, but sometimes concerns also the cooperation of two (or more) jurisdictions in the same country. But the main focus of our volume is on area-based cooperation of local governments, jointly organising, delivering or coordinating functions on the territory of neighbouring units. And the results presented in the preceding chapters reveal a significant relationship between inter-municipal arrangements and various spatial aspects.

Perhaps the most appealing is the relationship with territorial reforms. The pressure for territorial amalgamation is usually related to the widespread belief that the organisation of services may bring economies of scale and increase administrative capacity for better provision. According to some authors, as we mentioned in the introduction to this volume, IMC may be a viable alternative to territorial reform (Hertzog 2010). And this argument is frequently repeated in several European countries. In more or less explicit ways, it is spelled-out in France, Czech Republic, Slovakia, Slovenia, Iceland but also in Finland. It has been also discussed during recent debates in Norway.

Since economy of scale and administrative capacity are often mentioned as theoretical arguments for *cooperation*, it is often assumed that the small scale of local government is an important driver for IMC. Following this assumption, we might expect that those arrangements are more popular in countries which have more territorially fragmented municipal structures, and in smaller local governments within each of the countries. But

empirical data only confirm these expectations to a limited extent. In 2015, there were ten European countries with the mean population size of municipal governments below 5000 (5 of them are discussed in our volume). Within that group, IMC is indeed extremely popular in France, Switzerland and Iceland. But Czech Republic, Slovakia, Hungary or Ukraine have much less-developed institutions of collaborative inter-municipal arrangements. At the same time, it is very much popular in the Netherlands and Finland—both with a population size of municipalities well over the European average.

Also within-countries variation does not always meet the theoretical expectation. The Swiss chapter shows an expected correlation (small local governments more often involved in IMC arrangements), even if the statistical relationship is relatively weak. But data from other countries do not confirm the rule. The chapter on the three Nordic countries (Iceland, Norway and Finland) finds no support for this claim. In Poland and in Spain the relationship seems to be the opposite—small local governments are involved in cooperation less often than their larger partners. The Spanish chapter suggests an explanation for this phenomenon in the weak capacity of the smallest local governments to organise and manage their presence in these new institutions. Therefore, not only some *push factors* (demand for cooperation due to small scale), but also *pull factors* (the necessary capacity to be engaged) matter for explaining the variation among local governments. If this logic is confirmed, it is one of the arguments undermining the claim that IMC can always be a substitute to territorial reforms, in achieving their goals.

One more different perspective on the relationship between size, territorial reforms and IMC is brought by the Albanian case study of waste management in the Korca region. 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 spatial structures, reducing the number of local governments more than six times. Interestingly, not only these arrangements are still found useful in spite of the reform, but the perception is that cooperation is nowadays easier and smoother. The first reason is related to the lower number of partners which need to agree on crucial decisions, but the second is related to the increased capacity of cooperating municipalities. This example shows that territorial reforms and IMC do not need to be mutually exclusive strategies. The same conclusion is suggested by the experience of the United Kingdom, country with by far

the largest (and still growing in the process of further territorial consolidation) local government units in Europe. As documented in Chap. 2 of this volume, its inter-municipal structures have developed within the last decade.

SCOPE OF INTER-MUNICIPAL COOPERATION

Since we are dealing with a very much diversified set of institutions operating in different institutional and economic settings, there is no surprise in the fact that the typical areas of cooperation vary from one country to another. However, there are sectors in which cooperative arrangements are especially popular in the vast majority of the studied countries. One of them is waste management, which due to strong scale-effect requires cooperation mechanisms especially in countries with a strong territorial fragmentation. This sector has been mentioned among the most popular areas of cooperation in Czech Republic, Finland, Germany, Iceland, Norway, Poland, Portugal, Slovakia, Slovenia, Spain and Switzerland. Another very popular area is water and waste-water management listed among the most frequent sectors in Germany, Poland, Portugal, Slovakia, Slovenia and Spain.

Three other sectors which have been mentioned the most often are of a different character. In countries with a high share of cohesion regions (Czech Republic, Poland, Portugal, Slovakia), raising EU structural funds is often mentioned as the primary area of the cooperation activity. In few other countries (Czech Republic, Iceland, Portugal, Slovakia) an important area of cooperation is economic development and tourism.

The Netherlands, Switzerland and the three Nordic countries covered by our study (Finland, Iceland and Norway) represent a different model in which the most frequent scope of IMC is related to planning and social services (employment, social care, education, culture) as well as to fire brigades and crisis centres.

MOTIVES AND DRIVERS OF COOPERATION

If size is not sufficient as an explanation of the cooperative endeavour, what are the other drivers which push local governments towards working with their neighbours?

Chap. 2 by Raudla and Tavares demonstrates that in contemporary Europe one of the factors facilitating the development of IMC has been the economic

crisis and the austerity measures undertaken by central governments. From other studies we know that austerity has also supported territorial amalgamation reforms in several European countries.¹ What are the mechanisms of that impact? In their theoretical interpretation, Ringa Raudla and António Tavares indicate two major factors. The first is related to the widespread belief in economies of scale, so it is expected that joint service management or provision may help to reduce costs. The second mechanism is more of the psychological nature—crisis makes leaders and institutions more open for looking for reform options. However, at the same time crisis may produce barriers for cooperation, since it may increase transaction costs and decrease trust, which is an important pre-condition of any cooperative arrangement. Their analysis suggests that the facilitating nature of the crisis has often prevailed over barriers created by the changing economic environment.

The chapter comparing three Nordic countries suggests that constitutional and legal issues are crucial to understand the variation in propensity towards cooperation. First of all, in some cases cooperation is compulsory (imposed by the law). Second, the allocation of functions also matters. There are some functions which require coordination across boundaries more than others, and especially if the level of local autonomy is high, local governments are pushed into looking for solutions in collaboration with their neighbours.

But even if it is not obligatory in strictly legal terms, there might be strong external incentives which makes cooperation a “not to refuse” option. Those incentives might be of different character. They are often financial—either in form of specific grants for cooperating municipalities, or through the access to alternative financial sources (e.g. taxes) only under the condition of creating an inter-municipal institution (the latter played an important role in stimulating the creation of French *communautés* some years ago). The other type of incentives might be functional—related to transferring additional competences to local governments who engage in inter-municipal arrangements.

Interestingly, while in several countries this is strongly encouraged by central governments (e.g. in Finland, Portugal, to a smaller extent also Czech Republic and Slovakia), in some others the government stays mostly ambivalent (e.g. Poland) and in some others it treats these institutions with a certain degree of distrust and tries to discourage them (e.g. Norway and Spain).

The incentives come usually from the national level (in regionalised countries this occurs at the regional level). But, increasingly, the European

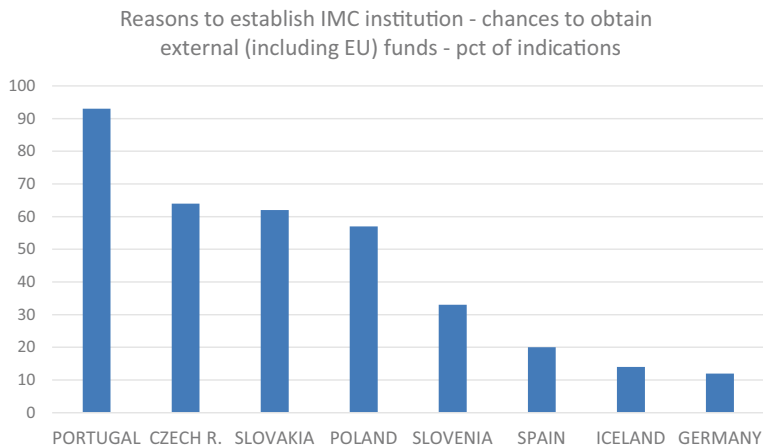


Fig. 20.2 Reasons to establish IMC institutions

Union and its structural funds have been perceived as an important stimulus of cooperation, especially in countries with a large share of “cohesion regions” eligible for EU regional development funding. Figure 20.2 shows how often the external funds incentives were indicated as one of the main reasons to organise IMC in our survey of IMC institutions in eight European countries.² In Portugal and several new member states (Czech Republic, Slovakia, Poland), willingness to increase chances for obtaining EU funding has been mentioned as the most important (in Portugal even the most frequent) motives.

Finally, the incentive might be also of a soft, and sometimes of exogenous, character. The 2010 Toolkit of IMC prepared jointly by the Council of Europe, UNDP and LGI Programme of the Open Society Institute has played an important role in stimulating the discussion on local collaborative arrangements, especially in the eastern part of the continent.

ACTORS AND LEGITIMACY IN INTER-MUNICIPAL COOPERATION

As we claimed in the introduction to this volume, IMC is mostly about the way we deal with collective service provision. Nevertheless, as it has been demonstrated in Chap. 3, personal leadership on a municipal level is very important. In the vast majority of the analysed countries the Mayor is by

far the most influential actor, having an impact both on initiating and on managing of collaborative arrangements. But the weakness of generalising the relevance of that observation lies in the fact that our sample has been mostly limited to countries with a strong mayor leadership model. In the future, similar research should be extended on countries with collective or more managerial models of leadership.

Not surprisingly, on the level of individual inter-municipal institutions, the analysis proved that the larger the institution, the more money is involved in it and the *harder* are its institutional structures. It is precisely in those cases that mayors try to be more involved and to keep an eye (and hand) on its operation.

Chapter 4 suggests that scale of operation has an impact also on citizens' interests in the operation of inter-municipal institutions. This issue concerns the democratic dimension of cooperative operations, which has been sometimes mentioned in the academic literature (Haveri 2003; Wollmann 2010; Négrier 2005; Dafflon 2012, also Hertzog et al. 2010), but rarely discussed empirically. In our volume, it is covered by two chapters: Chap. 4 by Gendźwił and Lackowska, which comparatively covers four countries, and in Chap. 8 presenting the experience of the Netherlands. The former pays special attention to the fact that while talking on the democratic dimension of IMC, it is useful to distinguish (and measure separately) input, throughput and output legitimacy. Especially in relation to input legitimacy the authors discuss the concept of “borrowed legitimacy”, in which councillors of the club members control the operation of the institution on behalf of their (poorly informed) citizens. The Dutch country chapter does not refer to the concept of “borrowed legitimacy” literally, but the logic of the argument goes in the same direction. And the final conclusions are not that pessimist as some of the earlier studies had suggested: “In terms of a democratic deficit, the general conclusion is that, as far as the representative institutions are concerned, there is little evidence of a systematic deficit. Citizens and organizations are however to a large degree dependent on their representatives to have any influence on IMCs”.

FUTURE RESEARCH AGENDA

In spite of the existing comparative publications (Hulst and Van Montfort 2007, 2012; Swianiewicz 2011; Teles 2016; Bel and Warner 2015—in the latter case limited to single service—waste management), IMC studies are

still a highly under-researched area in international comparative studies.³ The deficit is especially related to two areas (dimensions) of the research:

- (1) International comparative studies going beyond the general description of the situation in individual countries but researching empirically individual cases of IMC and analysing factors behind successes and failures, diversified satisfaction of members, democratic performance and several other features which characterise individual institutions.
- (2) Comparative analysis which would try to explain variation among countries. What are the factors beyond an enormous difference in the role played by IMC in various countries?

Our volume has made a step in this direction. Several chapters in the first part are based on the joint survey conducted among offices of IMC institutions in several European countries. At least two of them also open a space for further empirical research. The chapter by Silva and Pano suggests a methodology for empirically measuring and comparing the governance capacity of individual IMC entities. The chapter by Gendźwiłł and Lackowska tries to empirically address the issue of democratic legitimacy in inter-municipal institutions. But these are just first steps on that way and we hope that other researchers will follow these paths in the future building of new empirical knowledge, eventually leading to new theoretical conclusions.

Our joint survey, conducted in eight countries, has allowed gaining some comparative perspective of practical functioning of IMC's as seen by bureaucrats in leading offices of these entities. But in the future research, the academic community should complement this picture with empirical material using other perspectives—especially from individual municipal governments involved in the collaboration and citizens, who are consumer/recipients of the services delivered by these cooperative arrangements. It would allow to cover more diversified forms of IMC, including contractual arrangements between two or more local governments, informal cooperation or multi-level forms of cooperation including communes and provinces in Spain, municipalities and counties in Poland (our survey, discussed in Chaps. 3–5, and in some of the country chapters, concerned only permanent inter-municipal institutions, being usually separate legal entities, but ignored more informal, ad-hoc or multi-level arrangements).

Our empirical base is not sufficient enough yet to formulate definite conclusions on the factors behind variation among countries. For the moment, we are able to offer few hypotheses which might be tested in future research projects.

Discussing the coordination of functions in European metropolitan areas, Heinelt and Kübler (2005) defined three conditions of successful cooperation:

- (1) Organisational culture favourable for cooperation
- (2) External incentives
- (3) Strong leadership⁴

The conditions formulated by Heinelt and Kübler may be treated as important factors explaining scope and forms of cooperation. The variation of organisational culture reflects the variation of social capital among European countries, which in a simplistic form has been measured for many years by the Eurobarometer. Therefore, the first potential explanatory variable is related to the level of social capital. We expect that social capital—through the trust between potentially involved actors—makes IMC easier. Consequently, the density of those institutions may be related to the type and level of social capital.

As explained earlier in this chapter, external incentives factors may refer to central government policies, but also to EU regional policies which play an important role in stimulating cooperation, especially in the cohesion regions. On the European level, it is important to distinguish between cohesion and non-cohesion regions, as defined by EU regional policies. Therefore we expect the density of IMC institutions to be dependent on external incentives provided by regional, national and European level.

Regarding the leadership factor, in addition to individual styles of leadership, the formal position of the local leader seems to be important. We may refer to Mouritzen and Svara (2002) classification of types of leadership, but in the European context the distinction between strong, direct legitimacy of directly elected mayors and a more collective style of leadership seems to be especially important. In the former case, we expect that mayors play direct, significant role in initiation and maintenance of the cooperation, while in the latter case, we expect a stronger role of professionals and bureaucrats (Zerbinati 2012 distinguishes in this context between political entrepreneurship and administrative entrepreneurship; see also Zerbinati and Sourtaris 2005). This claim has been partially (and

positively) verified in Chap. 3 of our volume, but more tests are required, since most of the countries studied in our survey have adopted the strong leader model, so the comparative base with countries following alternative models is not sufficient yet.

The fourth potential explanatory variable is related to the level of territorial fragmentation/consolidation of municipal tier governments. Since economies of scale are often indicated as one of the potential benefits of IMC, some authors argue that the demand for IMC exists first of all in territorially fragmented systems (France being a classic example, but similar arguments might be used in other countries). We argue that these arrangements occur in various countries regardless of the level of their territorial fragmentation. The nature and motivation behind the establishment of new inter-municipal institutions may differ between countries with relatively big and small municipalities.

The fifth variable is related to the level of functional decentralisation and to the level of local self-reliance in dealing with their tasks. The allocation of tasks among tiers of governments has a direct impact on the potential scope of cooperation. One may expect that a larger scope of local responsibilities as well as more financial autonomy (which by the same token mean: lesser dependence on the support from the central budget) would produce more demand for cooperation, since local communities may, to a lesser extent, rely on external support (intervention) in solving difficult issues they cope with.

These hypotheses are summarised in Fig. 20.3, and they may be a base for the future research agenda.

We suggest that, rather than a closed and already explored field, IMC is an open ground for researchers, offering numerous questions and hypotheses to be tested. This book examined the nature of IMC in Europe. This meant looking in depth to the intrinsic features of the governance arrangements and institutions in collaborative settings between municipalities. These included drivers of cooperation and their impact on the forms it takes, the role of the actors involved and the democratic aspects of these governance experiences.

We believe this to be an informative book given the comprehensive information we provide regarding different aspects of this phenomenon. It reinforces the relevance of IMC and of new research agendas required to provide some clues to the questions that remain still to be answered.

IMC is a growing occurrence in Europe and one of the most diverse phenomena in local government's landscape. The multiple forms it takes,

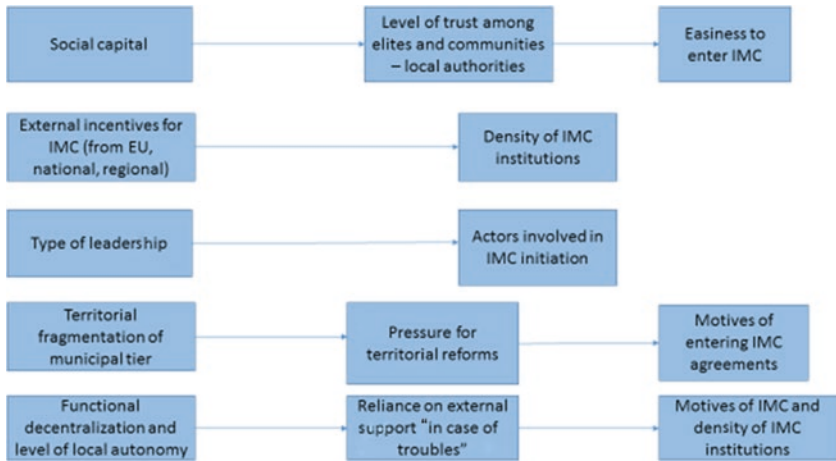


Fig. 20.3 Tentative hypotheses to be tested in future research

the fuzzy definition this entails and the research complexity it brings, should act as an incentive for the research interest on it. Above all, we would like to underline the evolution of IMC in Europe, and particularly in some of its countries, the fact that it corresponds to a process of permanent adaptation to the context and to new needs. This *liquid state* of cooperation is, indeed, one of its most interesting features. The capacity of these organisations to perform their role, with adequate governance capacity, relies precisely on this: the way these arrangements are able to mutate, adapt and evolve.

IMC has become a synonym of local government and institutional evolution and adaptation. It has risen up the European political agenda and transformed local government landscape. We expect it to continue on a growth and evolution path.

NOTES

1. After 2008, that is, during last eight years, municipal amalgamation reforms have been implemented in Albania, Greece, Ireland, Latvia, in some parts of federal countries of Austria and Switzerland, accelerated (started earlier transformations) in the Netherlands and Finland, and are currently implemented in Estonia, Norway and Ukraine. In Portugal, similar reform has been implemented on a sub-municipal (parish) level. In most of those cases,

the reforms have been directly or indirectly connected to attempts of coping with negative consequences of the financial crisis.

2. More information about the survey and sampling method may be found in Chap. 3 of this volume.
3. In addition to the above mentioned, one may also add studies focusing on comparisons of two different European countries, for example, Wollmann (2010) on France and Germany, Bolgherini (2011) on Italy and Germany, Bolgherini (2014) on Italy and Spain.
4. We refer, predominantly, to horizontal cooperation, but—as Grote (2003) convincingly demonstrates—elements of hierarchy may increase efficiency of network coordination.

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