

# **4 Public Administration at the Local and Regional Level in the Czech Republic**

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This chapter assesses how the public administration works at the regional and local levels in the Czech Republic and suggests ways to improve its effectiveness, including multi-level governance mechanisms to support more efficient policy delivery. For this, the chapter describes the subnational governance structure and the system of the delegation of competences. Considering the strong administrative fragmentation at the local level, the chapter focuses particularly on inter-municipal co-operation, co-ordination among levels of government and strategic planning practices at all levels. The chapter also assesses subnational governments' capacity and their ability to engage local stakeholders.

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## A complex multi-level governance system

After 1989, the Czech Republic transitioned from a centralised system towards a decentralised system of self-governing subnational governments. Since the change in the political regime in 1989, the Czech Republic has undergone several changes to its territorial administrative structure (Box 4.1). As of 2022, the country has a two-tier subnational system, that was established in 2003, with 6 254 municipalities (*obce*) and 14 regions (*kraje* – 13 regions and the City of Prague). At the regional level, the regional assembly (*zastupitelstvo kraje*) is each region's elected deliberative body. The regional assembly approves the region's budget and grants to municipalities (for amounts over CZK 200,000) and can also submit draft legislation to the national chamber of deputies. The regional committee (*rada kraje*) represents the region's executive body and is composed of the president (*hejtman*), vice-presidents and other members elected by and from within the regional assembly for four years. It is assisted by a regional authority led by a director. At the local level, the municipal council (*zastupitelstvo obce*) is the municipality's deliberative assembly and is composed of members elected by direct universal suffrage for a four-year term. The members of the municipal council elect (from within the municipal council) the members of the municipal committee (*rada obce*), which is the executive body of the municipality. The mayor (*starosta* in smaller municipalities and *primátor* in statutory cities), who is the head of the municipal committee, is also elected by the municipal council from among its members for a four-year mandate.

The capital City of Prague has a unique dual status as both a region and a municipality. Prague has 57 self-governing city districts (boroughs) with their own elected local authority and council. In addition, since 2003 (Decree No. 346/2020), Prague is divided into 22 administrative districts. The central Prague municipal government level decides, on the basis of the generally binding Decree No. 55/2000 Coll., which responsibilities are decentralised to boroughs. For example, Prague municipality owns real estate but decentralises the management of certain properties, such as public housing, to boroughs. Urban planning, on the other hand, is done at the central municipal level (OECD, 2018<sup>[1]</sup>). The board of the capital City of Prague is the executive body for independent or autonomous competences (see below).

There are different categories of municipalities, dependant on their size. In 2021, the municipal level comprised 6 258 municipalities of several categories, 604 cities/towns (*město*), 26 statutory cities (*statutarní město*) and 223 market towns (*městys*). If a municipality reaches the threshold of at least 3 000 inhabitants, it can apply for the status of a city, which is approved and determined by the chairman of the Chamber of Deputies of the Parliament of the Czech Republic following the government's statement (Ministry of the Interior of the Czech Republic, 2018<sup>[2]</sup>). There are specific criteria for a municipality to be designated as a city. For example, it must have a concentrated urban area in the centre, and a greater part of the municipality must be equipped with public water sewage systems, among others. Still, there are around 200 cities with less than 3 000 inhabitants, as historically, before the 2001 resolution, the criteria for being designated as a city were simpler (Ministry of the Interior of the Czech Republic, 2018<sup>[2]</sup>). Statutory cities have a special status granted by Act No. 128/2000, allowing them to define their own charter and internal organisation. In particular, they are free to establish districts at the sub-municipal level with their own mayor, council and assembly. It is worth noting that, independently from the category, cities/towns, statutory cities and market towns exercise the same range of autonomous competences (see below).

### Box 4.1. From a centralised regulation towards a decentralised territorial organisation in the Czech Republic

The Czech Republic has a long tradition of self-government, dating back to the old administrative feudal system (Plaček et al., 2020<sup>[3]</sup>). Before the change of the Czech political regime in 1989, the country had a three-tier centralised system of planning and organisation, with regions, districts and municipalities. After the Velvet Revolution in 1989, a series of discussions led to a shift away from the three-tier centralised system, introducing changes to the number of units; their names, powers, relations with the central authorities; and how to structure regional competencies.

The first wave of administrative reforms was mainly focused on creating self-government. In 1990, the Constitution recognised the right to self-government of the local communities and defined municipalities as the basic structure of the new local self-government (Constitutional Law No. 294/1990). Some state powers were slowly delegated to municipalities and the first municipal elections were held in 1990.

Law No. 369/1990 Coll., on Municipal Administration from 1 January 1991 (currently the Law on Municipalities 128/2000 and the Law on the Capital Prague 131/2000) established self-governing municipalities, with the same administrative boundaries as the previous local administrative units. The law provided them with a high level of independence. Within the limits set by the law, municipalities have their own budgets and assets and independently manage them. Law No. 369/1990 did not specify any constraints or limits for establishing a new municipality (e.g. minimum number of inhabitants, size of the territory, etc.). As a result, between 1990 and 1993, the number of municipalities increased by 50% compared to before the Revolution.

In the 2000s, another important wave of reforms took place with the creation of self-governed regions. While the 14 self-governing regions were created by law in 1997, the *de facto* establishment of autonomous regions only occurred in 2000, with the adoption of other laws governing the position of regional governments. Regions were established and recognised as higher territorial self-governing units in part to take over responsibility for European Union (EU) policy implementation. To complete these regionalisation and decentralisation processes, a reform, effective since January 2003, replaced district offices by municipalities with extended competences (see below), which took over most of their functions. The old districts still exist as territorial units and remain as seats of some of the offices, especially courts, police and archives. The Act on Territorial Division of the State, passed in 2020 and effective since 2021, aims to simplify the system of state territorial administration by completing the transition from the system of districts to the delegation of functions at the municipal level (OECD-UCLG, 2022<sup>[4]</sup>).

Since 2015, a process of recentralisation has been taking place to overcome the high levels of fragmentation. Some municipal responsibilities have been transferred from small municipalities to larger ones (to overcome municipal fragmentation) as well as to the central government in the framework of the social reform.

Sources: OECD (2017<sup>[5]</sup>); Plaček et al. (2020<sup>[3]</sup>); OECD-UCLG (2022<sup>[4]</sup>).

The allocation of responsibilities to local governments is complex, with asymmetric delegated competencies among three types of municipalities. The Czech public administration operates as a combined or mixed model of public administration. This means that the state administration is exercised not only by the state, but also by territorial self-governing units – the municipalities and regions. Thus, municipalities and regions exercise both their own or autonomous competencies (self-government) as well as competencies delegated by the central level (state) – the delegated powers. While the autonomous competencies are the same for all municipalities, and municipalities enjoy a high degree of autonomy for executing them, depending on their size and capacity, the delegated powers transferred to them by law by the central level differ, as set by Article 105 of the Constitution. There are three categories of municipalities, which vary according to the extent of delegated competences. At the upper level is a network of 205 municipalities with “extended powers” that fulfil several administrative functions delegated by the central government on behalf of smaller surrounding municipalities (e.g. civil registers, issuance of identity cards and driving licences; co-ordination of the provision of social services). At the intermediate level, 388 municipalities (including 205 municipalities with “extended powers”) with an “authorised municipal authority” perform delegated functions, but on a smaller scale (e.g. building authority, registry office, social assistance, administration of war graves, specific agenda on environment and agriculture). At the lower level, municipalities have basic delegated powers (e.g. elections, population records, water management). Smaller municipalities can also delegate additional functions to the municipalities with “extended powers” or municipalities with designated municipal authority by public law contracts if they do not want or cannot provide them due to a lack of capacity (OECD-UCLG, 2022<sup>[4]</sup>).

This complex system results in some overlaps in the allocation of responsibilities and calls for strong co-ordination among levels of government (Table 4.2). This is the case, for example, in waste management, where the national level prepares legislation and national plans, regions have their own regional plans, and municipalities implement them. Indeed, municipalities have only a small range of purely local competencies established by law, such as property management, the establishment of nurseries and primary schools, or sidewalk cleaning. Since most responsibilities are shared, it is crucial to establish vertical co-ordination mechanisms to manage those joint responsibilities (OECD, 2019<sup>[6]</sup>) (see below). However, given the high number of local self-governments, this vertical co-ordination represents a significant challenge for the country. This is why the central public administration tends to only work with the largest grouping of municipalities (Type III, 205 municipalities) when organising and monitoring the provision of delegated powers.

While the system appears complex, the asymmetry has allowed adapting to the very different local realities and facilitated the proximity between citizens and the public administration. The Czech public administration and citizens have gradually learnt to navigate within it. The asymmetry has allowed responding to the specific characteristics of small units, which have very different realities. This, in turn, has enabled the Czech administration, via local governments, proximity to citizens, who have a personal and direct relationship with mayors and elected representatives. This proximity between the public administration and citizens might play a role in the high trust gap between local/regional and national authorities: in the Czech Republic, while trust in national government only reaches 30%, trust in regional and local public authorities is 57%, according to the Eurobarometer (European Commission, 2022<sup>[7]</sup>).

**Table 4.1. Different types of municipalities in the Czech Republic and their own and delegated competencies**

	Type I: Municipalities with basic delegated powers (6 258)	Type II: Municipalities with authorised municipal authority (338)	Type III: Municipalities with extended powers (205)
Autonomous powers	Management of municipal property and issuance of generally binding decrees Territorial and regulatory plan of the municipality Establishing/regulating local fees Creating and managing nursery and primary education, basic art education		
Delegated powers	<ul style="list-style-type: none"> <li>Ensuring elections</li> <li>Population records</li> <li>Water management</li> <li>Local roads office</li> </ul>	<b>Type I + Type II competencies plus:</b> <ul style="list-style-type: none"> <li>Building authority<sup>1,2</sup></li> <li>Registry offices<sup>1</sup></li> <li>Selected environmental and agricultural agenda</li> <li>Social work provision</li> <li>Overlooking war graves</li> </ul>	<b>Type I + Type II competencies plus:</b> <ul style="list-style-type: none"> <li>Law enforcement offences</li> <li>Road authority</li> <li>Issuing identification cards (driver's license, trade license) and travel documents</li> <li>Management and co-ordination of motor vehicle and population registries</li> <li>Co-ordination of social services provision</li> </ul>

## Notes:

- Some of the municipalities with basic delegated powers have this responsibility.
- Currently going through reforms to move the authority away from the lower level municipalities to become a competency of the municipalities with extended powers.
- Reforms to expand the number of municipalities with authorised municipal authority.

Source: Author's elaboration based on OECD (2020<sup>[8]</sup>).

**Table 4.2. Distribution of power between different levels of government in the Czech Republic**

	Legislation	Regulation	Funding	Provision	
Defence	• Central government				
External affairs					
Internal affairs					
Justice				• Central government	• Central government
Finance/tax					
Economic affairs					
Environmental protection			<ul style="list-style-type: none"> <li>Regional government</li> <li>Local government</li> </ul>	<ul style="list-style-type: none"> <li>Central government</li> <li>Local government</li> </ul>	<ul style="list-style-type: none"> <li>Central government (some)</li> <li>Regional government</li> <li>Local government</li> </ul>
Public utilities			<ul style="list-style-type: none"> <li>Regional government (road infrastructure, co-ordination of transport)</li> <li>Local government (road infrastructure, transport)</li> </ul>	<ul style="list-style-type: none"> <li>Central government</li> <li>Regional government (infrastructure)</li> <li>Local government (road infrastructure, transport)</li> </ul>	<ul style="list-style-type: none"> <li>Central government (post services)</li> <li>Regional government (road infrastructure)</li> <li>Local government (road infrastructure, transport)</li> </ul>
Social welfare			<ul style="list-style-type: none"> <li>Regional government (co-ordination of social services)</li> <li>Local government (social protection of children)</li> </ul>	<ul style="list-style-type: none"> <li>Central government</li> <li>Regional government (social services)</li> <li>Local government (social services)</li> </ul>	<ul style="list-style-type: none"> <li>Central government (allowances)</li> <li>Regional government (social premises and services)</li> <li>Local government (social services)</li> </ul>
Health			<ul style="list-style-type: none"> <li>Regional government (hospitals)</li> </ul>	<ul style="list-style-type: none"> <li>Central government</li> <li>Regional government</li> </ul>	<ul style="list-style-type: none"> <li>Central government</li> <li>Regional government</li> </ul>

	Legislation	Regulation	Funding	Provision
		<ul style="list-style-type: none"> <li>Local government (primary care)</li> </ul>	(hospitals) <ul style="list-style-type: none"> <li>Local government (primary care)</li> </ul>	(some) <ul style="list-style-type: none"> <li>Local government (primary care)</li> </ul>
Education		<ul style="list-style-type: none"> <li>Regional government (secondary)</li> <li>Local government (primary)</li> </ul>	<ul style="list-style-type: none"> <li>Central government</li> <li>Regional government (secondary)</li> <li>Local government (primary)</li> </ul>	<ul style="list-style-type: none"> <li>Central government</li> <li>Regional government (secondary and some special school facilities)</li> <li>Local government (primary)</li> </ul>
Science and research			<ul style="list-style-type: none"> <li>Central government</li> </ul>	<ul style="list-style-type: none"> <li>Central government</li> </ul>

Source: Authors' elaboration based on: <https://op.europa.eu/en/publication-detail/-/publication/251c368a-960c-11e8-8bc1-01aa75ed71a1/language-en>.

Regional governments also have autonomous and delegated competences. Regional governments were established by Constitutional Law in 1997 (Act 347/1997) but acquired actual competences in 2000 by Regional Act No. 129/2000, which transferred a series of responsibilities to the new entities. The act entered into force in 2003, after creating the conditions for the regions to function effectively. Regions are responsible for several functions related to the development of their own territory; for example, they approve planning and zoning documents and are responsible for regional economic development and environmental protection. They are also responsible for regional transport. They can establish measures to develop regional tourism. In some instances, regions and municipalities bear responsibilities for the same policy areas; however, their competencies are divided between the funding of programmes and overarching policy in the case of regions, and the delivery of services in the case of municipalities. For example, regions fund sports activities, but municipalities deliver them (OECD, 2017<sup>[5]</sup>).

### ***Ensuring the successful implementation of multi-level governance reforms***

The Czech Republic has made important efforts to enhance the efficiency of the public administration system. The current public governance reform agenda, known as the Public Administration Reform (PAR) Strategy: Client-oriented Public Administration 2030 (Government Resolution No. 562/2020), is a step in the same direction, by enhancing the efficiency of the public administration system (see Chapter 2 for more details on the PAR). One of the strategy's key objectives is to improve the accessibility and quality of public services. For this, it considers that only municipalities with sufficient personnel and expertise should exercise delegated powers. To achieve this objective, the strategy contemplates the definition of a new structure of delegated powers by transferring some of the competencies of delegated powers to the Type II municipalities, at the same time, the number of Type II municipalities will increase. With this reform, the Czech public administration aims to ensure sufficient and more efficient service delivery and reduce the administrative burdens of the smallest municipalities. Still, it is important to mention that efforts to decentralise or recentralise responsibilities are dependent on the government of the day.

### Box 4.2. The Czech Client-Oriented Public Administration 2030 strategy

The Client-Oriented Public Administration 2030 strategy is the current reform framework in the Czech Republic. It aims to reform the Czech public administration through its vision statement, “in 2030, the public administration will be as client-oriented as possible and will thus contribute to further increase the quality of life of the citizens and the growth of the prosperity of the Czech Republic”. The strategy looks to improve how local public authorities manage public administration and how it is accessed and perceived by the Czech population. The reform strategy has five main goals: 1) accessible and quality public services; 2) efficient system of public administration; 3) effective public institutions; 4) qualified human resources; 5) informed and engaged citizens.

#### **Accessible and quality public services**

Under this goal, the Czech Republic looks to improve the availability of public services online and in line with the Digital Czech Republic Strategy. Czech authorities are also looking to reform the current system of municipal delegated powers by placing more municipalities under the Type II list of competences. It aims to improve the overall efficiency of the public administration in the Czech Republic

#### **Efficient system of public administration**

This objective looks to make the public administration much more efficient by introducing a new Competency Law. There is also an expectation to remove the various “duplications” or overlaps of competences that exist in the state administration. To improve efficiency, the reform aims to improve horizontal co-operation between its municipalities and between the bodies of the central state administration. The management of public funds is also expected to be improved and the Czech environment for innovation and the development of artificial intelligence enhanced.

#### **Effective public institutions**

Under this goal, the Czech Republic will create analytical teams to support evidence-informed decision-making in the public administration. There will also be stronger awareness of sustainable development for civil servants and in the state subsidy policies. To increase the efficiency of public institutions, more emphasis will be placed on implementing effective strategic management and systemic approaches to quality management.

#### **Qualified human resources**

This objective is to improve the human capital of elected representatives and officials at the subnational level. To attain a minimum level of expertise in the municipal and regional civil service, the goal is to improve and modernise civil service education in the country by introducing modern tools for educating the civil service. Within the new training programme, the Special Professional Competence exam would be simplified and focused on the professional activities of officials of territorial self-governing units. The control of the training process would also be strengthened while maintaining state supervision.

#### **Informed and engaged citizens**

The strategy highlights the decreasing interest in political participation, which is evidenced by voter turnout and political party membership. To combat this dynamic, the Czech strategy looks to boost citizen awareness of the functions of the public administration through enhanced communication

methods. The central government is also looking to improve the Czech population's awareness of the public administration's functions to improve the perception of the public administration.

Source: Ministry of the Interior of the Czech Republic (2022<sup>[9]</sup>).

Building consensus and buy-in from different stakeholders is crucial to implement the reforms successfully. The Czech Republic has a history of strong centralisation – before the Velvet Revolution, power was concentrated at the central level. The decentralisation efforts of the last years are thus viewed as a step forward in ensuring proximity with citizens and for policy implementation that responds better to local needs. As is the case in several OECD countries, recentralising some responsibilities is generally met with pushback from municipal associations and representatives. Indeed, multi-level governance reform processes often stall, fail and may be cancelled, postponed or even reversed. They may not go according to plan, and may be only partly implemented, adjusted or even circumvented during the implementation phase, without producing instant results or the expected outcomes. This is why it is crucial to accompany multi-level governance reforms with the appropriate consultations, negotiations and communication efforts to gain support from local actors and civil society (Box 4.3).

### Box 4.3. Key elements to ensure successful multi-level governance reforms

Multi-level governance reforms are particularly sensitive and difficult to conduct. These reforms are complex, as they involve several layers of government and refer to reshaping vertical and horizontal interactions between the central government and subnational governments, and also within subnational governments. They concern elected politicians and civil servants from central and subnational levels, as well as various other stakeholders, who sometimes have conflicting interests. In addition, gaining public support is often a challenge. There is either a lack of social demand from citizens or a lack of interest or, when they do express interest, public resistance is still often observed. Reforms tend to be perceived as threats to the existing social order and a risk of loss compared to previous situations, as witnessed by the failure of institutional and territorial reforms (e.g. municipal mergers, regional reforms and decentralisation).

Reshaping the multi-level system of government takes a long time and may need to be adapted. To generate the expected benefits, additional and complementary reforms are often needed to correct for potential deviations and improve multi-level governance mechanisms. Moreover, this is a never-ending process: the challenge of multi-level reforms is not merely to adapt to a new, stable and definitive situation, but to enable public administration at all levels of government to adapt continually to a permanently evolving environment.

OECD countries have adopted a diverse set of strategic levers to enable the successful implementation of multi-level governance reforms. Some of these levers are:

Pilot programmes, experiments and place-based approaches can demonstrate the effectiveness of reforms and pave the way for change on a larger scale.

Development of a multi-level co-operation culture and practice, wide-reaching consultations and negotiations at a preliminary stage and during the whole reform process to overcome opposition from local governments. Beyond organising consultations, multi-level governance reforms can be facilitated by associating local governments with the reform design and implementation, through negotiations with local associations and/or *ad hoc* commissions, at a preliminary stage and during the whole process. Other tools can be mobilised to “compensate losers” and offer trade-offs, such as temporary transition funds or mechanisms in the case of fiscal reforms, fiscal incentives, provisional guarantees or political compensation. Associations of subnational governments are essential to public administration reform



processes, as these intermediation bodies regroup information and provide stable negotiating partners for the government, hence helping to reduce substantial information asymmetries and high transaction costs.

Ensuring good communication practices, incentives, compensation and training activities to mobilise and generate acceptance from central and local civil servants. As decentralisation reforms affect central government structures at ministerial and self-governing units' levels, they can be perceived as a threat (loss of power and jobs) and there may be resistance. Difficulties can also arise from local civil servants, hence generating opposition to the reform. This dimension is key and should be addressed with appropriate responses.

Establishing expert committees to reach greater political adhesion across party boundaries. This may be especially crucial to keep the momentum for reform going despite changes in government. Parliaments may have an essential role to play in this respect to reconcile different points of view and reach a consensus between different stakeholders. *Ad hoc* parliamentary committees to consult, prepare and monitor the progress of reforms can be key success factors. Such approaches can also include consultation through permanent multi-level co-ordination commissions or forums or the reliance on *ad hoc* expert advisory committees.

Providing expertise, guidelines, technical support and prefiguring tools to local governments and stakeholders in the context of the reform can help to achieve its objectives. In contrast, a lack of guidance from the central government has been identified as a problem in several countries.

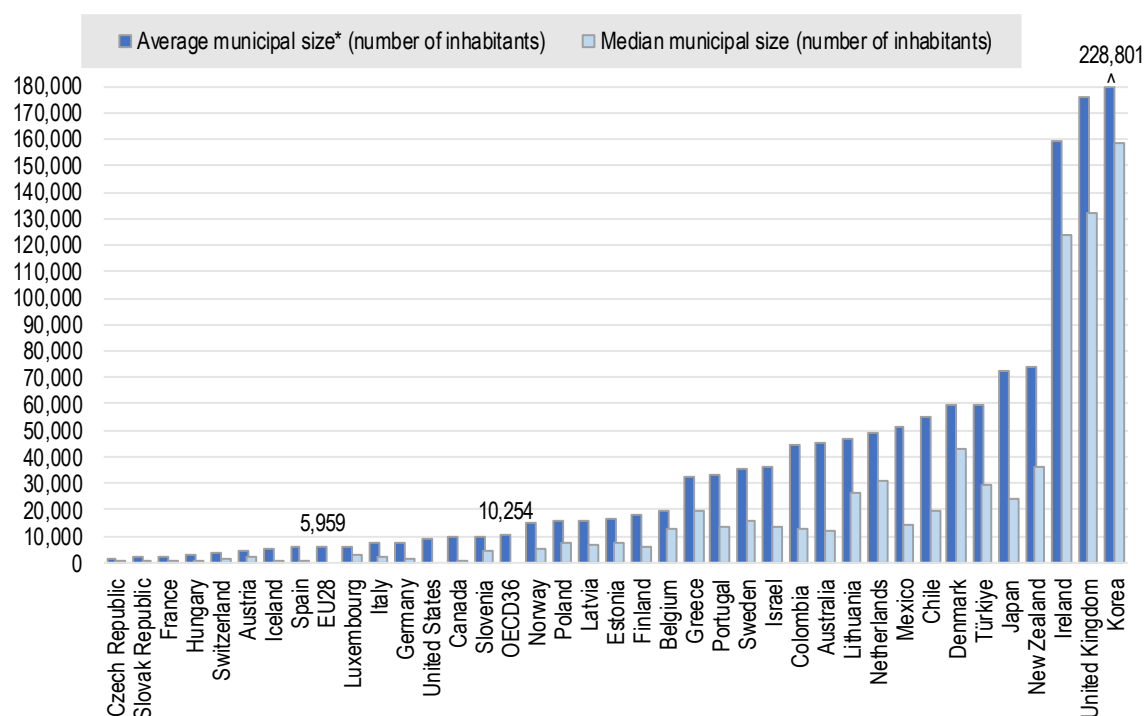
Sources: OECD (2017<sup>[10]</sup>; 2017<sup>[11]</sup>).

## Enhancing inter-municipal co-operation to foster efficiency in the regional and local public administration

### ***A highly fragmented territorial organisation affects public services and investment efficiency***

The Czech Republic's administrative organisation is highly fragmented, with a large number of very small municipalities in terms of area and population. This is due to a law passed in the early 1990s that enabled municipalities to split. In 2020, the average municipal size was the smallest among OECD countries (1 710 inhabitants per municipality on average), well below the OECD average of 10 250 and the EU average of 5 960. While the median size of Czech municipalities is 442 inhabitants, 95.7% of municipalities had fewer than 5 000 inhabitants and 88.6% had fewer than 2 000 inhabitants in 2021. The average municipal area is also the lowest in the OECD: on average, Czech municipalities have an area of 13 km<sup>2</sup> compared to 234 km<sup>2</sup> on average across the OECD. In the 1990s, and contrary to many OECD countries where mergers have been the rule, municipal fragmentation in the Czech Republic sharply increased – from 4 100 municipalities in 1990 to 6 230 in 1994. In 2000, the rising fragmentation ended with the 2000 Act on Municipalities, which introduced a requirement of having at least 1 000 inhabitants to create a new municipality and includes an option for voluntary municipal mergers, but without any concrete incentive for municipalities to do so. To minimise the effects of municipal fragmentation, the 2000 Act on Municipalities also promotes inter-municipal co-operation through public contracts for performing certain functions and voluntary municipal associations.

Figure 4.1. Average and median municipal sizes in the OECD and European Union, 2020



Note: Average calculations are based on population data as of 2019. Calculations do not comprise Indian Reserves and unorganised territories for Canada, Indian reservations areas for United States and French Guyana for France. For Türkiye, average and median municipal sizes exclude metropolitan municipalities in order to avoid double counting.

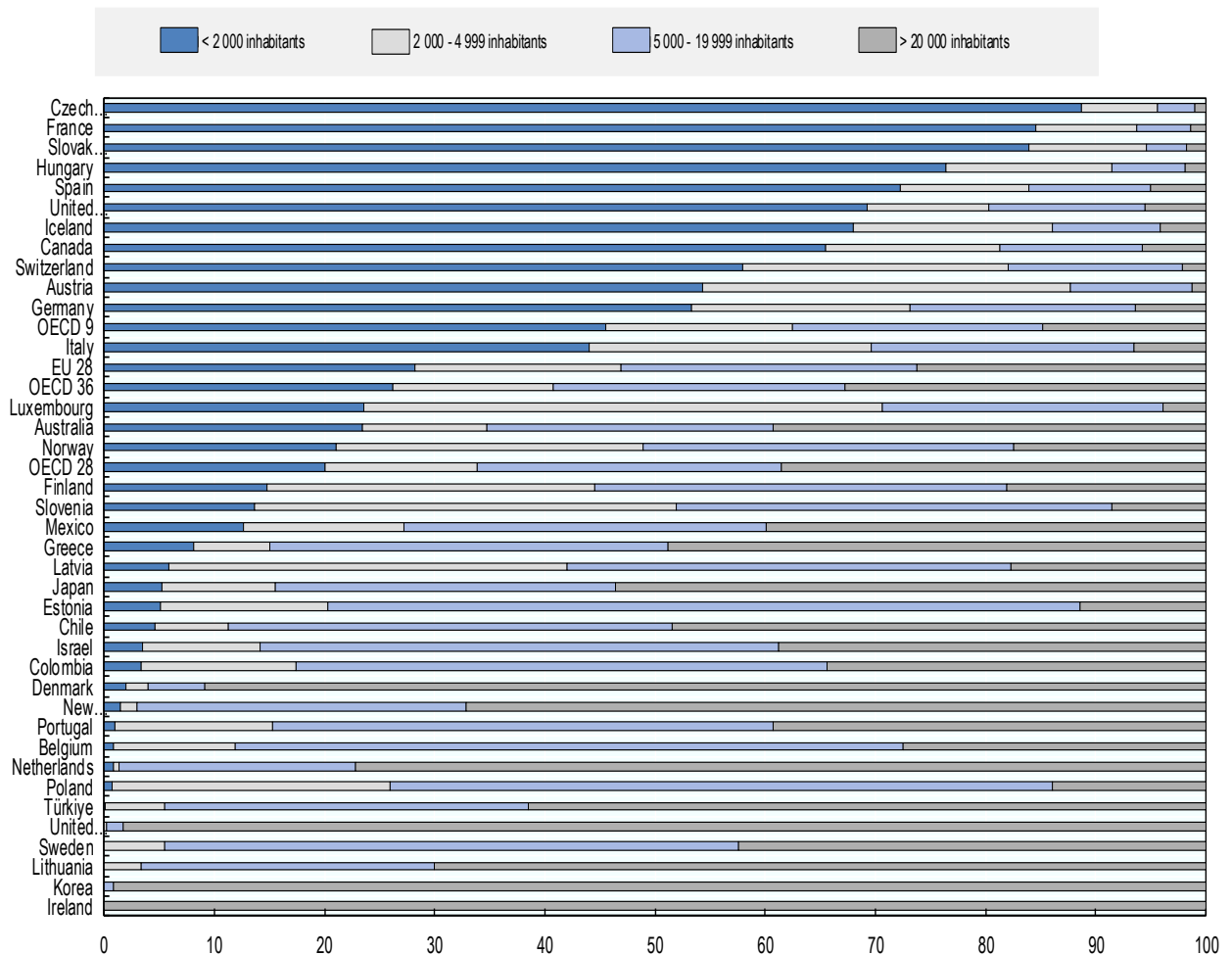
Source: OECD (2021<sub>[12]</sub>).

Czech regions are also small by international standards. The average size of Czech regions is 2.5 smaller than the average size of the EU28 NUTS 2 regions in terms of inhabitants and 4 times smaller in terms of area (Ministry of the Interior of the Czech Republic, 2018<sub>[2]</sub>). Only 3 of the 14 regions are large enough to be qualified as NUTS 2 regions for EU regional funding purposes (Prague, Central Bohemian and Moravian-Silesian region). The remaining 11 regions are NUTS 3 regions which, for statistical purposes, are joined to form 5 additional NUTS 2 regions (OECD, 2020<sub>[8]</sub>). It is for this reason that the Czech Republic has created “association of regions” at the NUTS 2 level, which are purely statistical units. The creation of cohesion regions has added some complexity to the functions of public administration systems and policymaking (OECD, 2020<sub>[8]</sub>).

The administrative fragmentation resulting in many small municipalities affects the cost efficiency of public service delivery. Due to the strong administrative fragmentation, most Czech municipalities are too small to ensure a cost-effective provision of public services (OECD, 2018<sub>[1]</sub>). Indeed, as has been highlighted by previous OECD work, international evidence suggests a U-shaped relationship between the costs of providing services and the size of municipalities (OECD, 2020<sub>[8]</sub>). In Spain, for example, per capita total expenditure has been estimated to be 20% higher in municipalities with 1 000 inhabitants compared to those with 5 000 inhabitants; in Switzerland, costs have been found to be higher and service quality lower in municipalities with less than 500 residents (OECD, 2020<sub>[8]</sub>). In addition, in the Czech Republic, many of these small municipalities are remote and sparsely populated, increasing even more the cost of public service provision (OECD, 2017<sub>[13]</sub>). The costs of providing services in places with smaller and more

dispersed populations are higher due to lower economies of scale and scope, higher transportation costs, and potential financial incentives for service professionals (OECD, 2021<sup>[14]</sup>). In addition, the population tends to be older in rural areas compared to cities, requiring different and potentially more expensive public services, as has been further revealed during the COVID-19 pandemic. This is set to worsen over time as remote and rural areas face a number of megatrends, including depopulation and an ageing population, that will shape the availability and quality of public services (OECD, 2021<sup>[14]</sup>).

**Figure 4.2. Municipalities by population class size, % of municipalities, 2019-2020\***



Notes: Previous years may have been used for some countries (based on last available census)

For the United States: size-classes are slightly different: less than 2 499 inhabitants, 2 500 to 4 999, 5 000 to 24 999, 25 000 or more

For Türkiye metropolitan municipalities are not included to avoid double counting.

1. OECD 28 refers to the average of unitary countries

2. OECD 9 refers to the average of federal or quasi-federal countries

Source: OECD (2021<sup>[12]</sup>).

#### Box 4.4. The COVID-19 pandemic has revolutionised service provision

The COVID-19 pandemic has had deep and indirect impacts on the provision of services in OECD countries and elsewhere. The pandemic was infamous for its effects on the increasing mortality rates due to high death counts, as well as disproportionate effects on rural populations. Disrupting the global economy, the pandemic is also likely to have drastic effects on the availability of public resources for social spending in the next years. The pandemic also forced 1.6 billion students out of school across 190 countries and affected financially distressed persons and their ability to receive medical care. This dynamic opened the door for the digitalisation of public services such as education and healthcare. Although the digitalisation of medicine and distance learning education filled the gaps in public service provision, it also highlighted inequalities between rural and urban populations as well as between income levels and broadband access. Amidst the COVID-19 pandemic, telemedicine filled a gap in service provision, proving that the digitalisation of services is an important aspect for service provision, whether during a crisis or not.

Source: OECD (2021<sup>[14]</sup>).

The small size of municipalities also brings challenges due to low capacity. As has been highlighted by previous OECD work and reaffirmed for this assessment, subnational governments in the Czech Republic face an acute gap in adequate skills and administrative capacity. This is particularly true at the local level where, in addition to the skill gaps, they confront difficulties attracting talent (see below).

In this context, local governments would greatly benefit from a rigorous estimation of the cost and quality of public service provision across the country. The Czech Republic lacks an accurate indicators system for assessing the cost and quality of public service delivery, making it difficult to assess the impact of administrative fragmentation on service effectiveness. Some OECD countries such as Australia, Denmark, Italy and Norway compile and publish such indicators (Mizell, 2008<sup>[15]</sup>). The most well-known system is the KOSTRA system in Norway, which has provided municipalities with a tool for internal planning, budgeting and benchmarking. It has also helped the central government assess if municipalities comply with national standards and regulations (OECD, 2020<sup>[8]</sup>). In Italy, the OpenCivitas portal provides a large number of detailed data on the performance of local governments (municipalities, provinces and regions) based on actual expenditures and public services provided (OECD, 2020<sup>[8]</sup>). Chile has adopted a complementary approach, by setting minimum standards for municipal services. Setting minimum standards for service provision at the local level could be a complementary tool for the Czech Republic to encourage municipalities to co-operate in order to attain the minimum and common set of services to which all citizens should have access regardless of where they live (Box 4.5).

### Box 4.5. Improving services at the local level: Developing indicators and minimum standards

#### The KOSTRA system in Norway

The KOSTRA system (Municipal State Reporting derived from the name KOmune-Stat-RApportering) is the information-reporting database for municipalities and counties in Norway. The system started in 1995 to provide a platform for municipal and county data to improve the organisation of planning and management and the realisation of national objectives (Statistics Norway, 2022<sup>[16]</sup>). In 2001, reporting to the KOSTRA system became mandatory for Norwegian municipalities and counties (Government of Norway, 2019<sup>[17]</sup>). The KOSTRA system can publish input and output indicators on local public services and finances, and provide online publication of municipal priorities, productivity and needs. The database integrates information from local government accounts and service and population statistics. It includes indicators on production, service coverage, needs, quality and efficiency. The information in the KOSTRA database is also easily accessible to public stakeholders for data analysis and independent research. The KOSTRA system is also used by local governments to compare practices, thereby promoting “bench-learning”. The KOSTRA system is regulated under the Local Government Act, which stipulates the obligation for municipalities and counties to report to the state through the KOSTRA system (Government of Norway, 2019<sup>[17]</sup>).

At the central level, the KOSTRA system has rationalised data collection and processing, contributing to uniform standards, thereby enhancing comparability across municipalities and services sectors. Additionally, the database has also served as a tool to ensure that municipalities comply with national standards and regulations and facilitated a common assessment of the local economic situation, which is used as the basis of a parliamentary discussion on the transfer of resources to municipalities. For municipalities, the KOSTRA system effectively minimised the administrative burden associated with reporting and acted as a tool for planning, budgeting and communication. The KOSTRA system, having the local government budgeting information, has permitted municipal governments to compare how money is spent in other municipalities and provides a comparison on a variety of indicators for benchmarking.

#### Minimum standards for municipal services in Chile

Chile’s framework for Quality Management Programme for Municipal Services (Programa Gestión de Calidad de los Servicios Municipales) has been in place for a long time. In 2006, the Certification System of the Quality of Municipal Services (Sistema de Acreditación de la Calidad de Servicios Municipales) was adopted by almost 100 municipalities with 2 management models: 1) the Management Model of Municipal Service Quality that defined three “management levels” through a scoring system; and 2) the Model for the Progressive Improvement of Municipal Management, a simplified version of the first model targeted to municipalities with intermediate or low “management levels”. The system was structured around a set of procedures and methods to support, guide and encourage municipalities to undertake continuous performance improvements.

In 2015, the Chilean government started revising the Certification System, moving towards a System for Strengthening and Measuring the Quality of Municipal Services to create a structure that better meets municipalities’ needs and requirements. The new system focuses particularly on the definition of guaranteed minimum standards to reduce territorial disparities (*servicios municipales garantizados*, SEMUG). At first, the SEMUG comprised seven municipal services, “the first generation of guaranteed minimum services”, that represented either a high impact for the community or high costs or income for the municipality. These minimum standards have been defined as a basic level of provision in terms of quantity and quality, which has been conceived to be guaranteed by all municipalities in the country – a common set of services to which all citizens should have access regardless of where they live. The

7 selected services included 22 standards and 47 indicators. To define the baseline values for each indicator, the Chilean government worked on a pilot implementation programme with 60 municipalities.

Sources: (Statistics Norway, 2022<sup>[16]</sup>); (Government of Norway, 2019<sup>[17]</sup>); OECD (2017<sup>[10]</sup>; 2012<sup>[18]</sup>); Mizell (2008<sup>[15]</sup>).

### ***Inter-municipal co-operation in the Czech Republic is fundamental for investments and service provision at the right scale***

Czech municipalities increasingly co-operate for investments and service delivery to counterbalance high administrative fragmentation. Inter-municipal co-operation in the Czech Republic is becoming increasingly common thanks to a vast legislative framework that enables formal and voluntary co-operation among neighbouring municipalities, in particular for autonomous competences (Table 4.3). Voluntary associations of municipalities (VAMs) are the basic form of inter-municipal cooperation (Bakoš et al., 2021<sup>[19]</sup>; Sedmíhradská, 2018<sup>[20]</sup>). The number of VAMs has been growing steadily since 1990, with significant growth around 2000 due to the adoption of the Law on Municipalities (128/2000) that introduced public-law forms of inter-municipal cooperation and restricted the use of some private-law forms (Sedmíhradská, 2018<sup>[20]</sup>). In 2022, there were 702 VAMs registered in the country, but some of them do not perform any activities. Still, as most of the existing VAMs are single purpose associations and bring only a few members, there is some overlap in the functions carried out by each association, as there aren't any overarching legislative rules and recommendations in place. A new draft amendment to Act No. 128/2000 Coll. is however under discussion. This amendment creates a new form of VAM, larger than the existing ones: the Community of Municipalities. Such Community of Municipalities should ideally be join the majority of municipalities with “extended powers” (Type III) from the same administrative district. The objective is to strengthen inter-municipal cooperation at a larger scale, that of “micro-region”, to ensure coordination of public services (e.g. social services), joint delivery of administrative activities and territorial strategic development, including strategic and spatial planning. While the draft law establishes a minimum number of members<sup>1</sup>, it envisages only voluntary membership at this stage.

While in some cases, inter-municipal co-operation is for planning and investment purposes, the majority of co-operation focuses on public service provision. In some cases, VAMs can be multi-purpose, covering several functions, mostly to help with the strategic development of its members (OECD, 2020<sup>[8]</sup>). However, as highlighted by several stakeholders and the Ministry of the Interior, a majority of VAMs are single-purpose and may focus on a one-time investment project or the ongoing provision of services. Indeed, local representatives most often refer to inter-municipal co-operation for waste management, water and sewerage systems, sports facilities, social care, and home care services, among others. Indeed, across the country, VAMs are mainly established to carry out autonomous competences such as education, cleaning, infrastructure, municipal property management, among others. Multipurpose VAMs have often been considered to be good examples for further promoting this type of co-operation, especially by the Ministry of the Interior. However, as with other VAMs, their set-up does not guarantee stability. VAMs often importantly rely on external, temporary sources of financing, such as from the state budget or EU funds rather than funding provided by member municipalities or own revenues from service provision (OECD, 2020<sup>[8]</sup>). They also receive funds from their members, but mayors are reluctant to raise membership fees to ensure adequate and stable financing (OECD, 2020<sup>[8]</sup>).

Table 4.3. Different types of formal inter-municipal co-operation in the Czech Republic

Inter-municipal co-operation structures	Regulatory/funding frameworks	Key characteristics
Voluntary association of municipalities (VAM)	<p>Law on Municipalities (128/2000 Coll.) regulates their formation and activity</p> <p>Law on Budgetary Rules of Local Governments (250/2000 Coll.)</p>	<p>The Law on Municipalities 128/2000 outlines the right to and regulation for co-operation between municipalities. It lays out the appropriate services the VAMs might serve in the country as well as their required makeup.</p> <p>The Law on Budgetary Rules of Local Governments 250/2000 regulates the management of VAMs and local governments. It lays out the budgetary guidelines by which VAMs and subnational governments must abide.</p> <p>A VAM can be founded by two or more municipalities based on a contract approved by the municipal councils of all participating municipalities.</p> <p>VAMS are financed through member contributions, non-tax revenues resulting from their operations and external resources (grants).</p> <p>In the Czech Republic, most VAMs are used for service provision in waste management and sewer and water management (Sedmíhradská, 2018<sup>[20]</sup>).</p>
Joint registered companies: joint stock companies, limited companies	Act No. 89/2012 Coll., Civil Code Act No. 90/2012 Coll., on commercial companies and cooperatives (Commercial Corporations Act)	The possibility of using contractual cooperation and setting up joint non-profit institutions and enterprises.
European groupings of territorial cooperation (EGTC)	<p>European Council Regulation 1082/2006</p> <p>Act on Regional Development 154/2009</p> <p>Law on Municipalities (128/2000 Section 55)</p> <p>INTERREG Europe</p>	<p>EC Regulation 1082/2006 sets out the legal regulatory framework for the creation and purpose of EGTCs. The regulation establishes EGTCs as legal personalities in the European Union and defines the requirements for their makeup.</p> <p>The Act on Regional Development 154/2009 regulates the creation of EGTCs in the Czech Republic. It gives the Ministry of Regional Development the duty of registering the EGTC in the Czech Republic and outlines the reasons for the annulment of the EGTC.</p> <p>Section 55 of the Law on Municipalities 128/2000 lays out the right for municipalities to engage in cross-border co-operation with municipalities of other countries.</p> <p>INTERREG Europe is one of the funding frameworks accessible to EGTCs under the European Regional Development Fund of EU Cohesion Policy. The programme funds national and subnational entities for regional development projects. There are many INTERREG organisations based on type: cross-border, transnational, interregional.</p> <p>EGTCs in the Czech Republic have been used for increasing co-operation and regional attractiveness between border municipalities. Some examples of EGTCs in the Czech Republic are: EGTC NOVUM, Dresden Prag EVTZ, Regionálna rozvojová agentúra Senica.</p>



Co-operation among municipalities for advocacy purposes has also proven effective in the Czech Republic. In a highly fragmented country, municipalities need to group to facilitate dialogue among levels of government and ensure that local voices and priorities are represented and taken into account when setting priorities. Two main associations of municipalities have a strong history in the Czech Republic: the Association of Local Governments and the Union of Towns and Municipalities (Box 4.6). The Ministry of the Interior, which leads the co-ordination with subnational governments, has made important efforts to communicate with these institutions – efforts that are recognised by local representatives that manifest they are periodically informed by the ministry of planned changes that may affect their territory. The associations of municipalities are also consulted when a decision will have a local impact, even though their priorities are not always taken into account. The communication channels established by the Ministry of the Interior are particularly important for taking small municipalities' priorities into consideration – as the associations are the only way they can manifest them.

#### **Box 4.6. Association of municipalities for advocacy purposes in the Czech Republic**

##### **The Association of Local Governments**

The Association of Local Governments of the Czech Republic is a non-governmental organisation that promotes the interests of Czech municipalities and cities. It has been in operation since 2008 and has a membership of over 2 200 municipalities. The association also prides itself on being a “strong partner of the government, parliament and regions in the Czech Republic” while also defending the collective interests of Czech municipalities.

The organisation's aim is to support municipalities in the development of the rural economy and to advocate for municipalities at the national level. The Municipality 2030 (Obec 2030) agenda is also an initiative that was started by the association in 2021. It aims to assist local governments with their progress on the fronts of decentralised energy and its effects on rural development by advising municipal representatives. The Municipality 2030 agenda provides municipalities with financial/funding advice as well as infrastructural support in areas such as public lighting, the circular economy, electromobility, etc. Additionally, the association partners with private companies, such as Skoda and EKO-KOM, as well as state ministries like the Ministry of the Environment, the Ministry of Culture and the Ministry of Regional Development.

##### **Union of Towns and Municipalities**

The Union of Towns and Municipalities is also a non-governmental advocacy organisation made up of Czech municipalities. It unofficially started in 1907 when 210 representatives from 100 Czech towns convened for the First Congress of Czech Towns of the Czech Kingdom in Kolín. The union was formally established in Brno on 16 January 1990, after the Czech Republic officially decentralised and later became a partner of the central government two years later. The union is currently made up of over 2 700 towns and municipal governments, which collectively cover a population of 8 million (approximately 80% of the Czech population). The union also advocates for Czech municipalities and oftentimes acts as an intermediary to streamline the concerns of Czech municipalities to the Czech central administration and the European Union. The union lists its main objectives as promoting the “interests and rights” of its members and the education of members' representatives, among other things. Like the Association of Local Governments, the union assists municipalities in finding additional funding for its members as well as possible partnerships. The union is also a member of the Council of European Municipalities and Regions and the United Cities and Local Governments, international organisations for subnational governance.



### Association of Voluntary Associations of Municipalities of the Czech Republic

The Association was formed on the initiative from below, originally as an association of voluntary associations of municipalities of the Central Bohemia Region. It was subsequently joined by voluntary associations from other regions, and the association established itself nationwide. It brings together multi-agency voluntary associations of municipalities that have in the past been supported by funds from projects co-financed by the EU with a view to developing administrative capacity and strategic planning. Its members have an ambition to become Communities of Municipalities.

Sources: Association of Local Governments (n.d.<sup>[21]</sup>); Union of Towns and Municipalities of the Czech Republic (n.d.<sup>[22]</sup>); Sedmíhradská (2018<sup>[20]</sup>).

Stronger inter-municipal co-operation can be an adequate response to fragmentation, given the strong political resistance to municipal mergers. While the Czech administrative fragmentation is a prominent challenge, neither Czech municipalities nor political representatives have made a concerted effort to solve it through municipal mergers, neither from top-down nor bottom-up approaches. While very few municipalities have merged (Musilová and Heřmánek, 2015<sup>[23]</sup>), many remain hesitant about the idea of municipal amalgamation. One of the reasons behind this political resistance might be the recent history of centralisation in the Czech Republic (Bakoš et al., 2021<sup>[19]</sup>). Indeed, the increase by 50% of the number of municipalities after the Velvet Revolution was, to a certain extent, a response to the previous centralised system. Merging municipalities may be perceived as a setback in that conquest for greater local democracy. This contrasts with the experience of many OECD countries, which over the last 20 years have planned, launched or completed municipal mergers (Box 4.7). Still, as is the case in several countries that have implemented municipal mergers, the strong political resistance comes from local actors who see their political powers rebalanced. In this context, strengthening inter-municipal co-operation – and encouraging associations in a more concrete and explicit way – might be an intermediary solution to at least partially overcome fragmentation, which remains a key challenge for effective policymaking at the local level.

Local governments, especially smaller, would greatly benefit from long-term and stable inter-municipal co-operation across the whole policy cycle. Currently, co-operation between municipalities is mainly done on a project basis, lacking a comprehensive territorial development approach to co-operation and planning. In general, given the financing structure, co-operation takes place for particular investment projects or the delivery of certain services for which municipalities see an advantage for acting together, as external grants are project-based. This is the case for road construction or waste management services. However, Czech municipalities would strongly benefit from longer term partnerships that would allow them to set common territorial development objectives, to plan and implement projects with a long-term horizon and at the relevant scale. This particularly benefits small municipalities, that should group together for strategic planning purposes (see below). Some VAMs have already adopted this practice; municipalities across the country could further learn and benefit from those experiences. The associations representing municipalities or the Ministry of the Interior could promote peer learning in this regard.

Long-term, stable partnerships should target co-operation at the functional scale to improve the effectiveness of public policies. Focusing on functional areas at the urban scale, but also in rural areas, enhances the understanding of key economic trends that unfold on a spatial scale that is not properly captured by small administrative geographies (OECD, 2020<sup>[24]</sup>). Indeed, administrative boundaries – especially in a strongly fragmented country like the Czech Republic – do not necessarily capture or reflect the geographic reality of economic activity. In urban and rural areas, investment and services are best planned when seen from the perspective of functional service areas with networked villages, towns and more dispersed areas. Indeed, economic relations and flows of goods and people do not stop at the administrative border, but inherently connect different areas (OECD, 2020<sup>[24]</sup>). This is in line with the perception of some local actors who highlight the need for a “large geographical area or population” for a

VAM to reach its potential (Bakoš et al., 2021<sup>[19]</sup>). For this to happen, it is crucial to develop data on functional areas that can produce a more accurate picture of actual circumstances than administrative areas (OECD, 2020<sup>[24]</sup>).

Inter-municipal co-operation would benefit from concrete incentives to establish co-operation arrangements. While the voluntary basis of the Czech inter-municipal co-operation schemes is a way of ensuring that co-operation arrangements more effectively target local needs, transaction costs might be important for some municipalities, especially when the VAMs involve the participation of a large number of small municipalities. Some recent evidence points in this direction, showing that large Czech municipalities do not consider inter-municipal co-operation to be cost-effective (Bakoš et al., 2021<sup>[19]</sup>). Some evidence from France – a highly fragmented country like the Czech Republic – goes in the same direction (Tricaud, 2021<sup>[25]</sup>). Establishing financial incentives for municipalities to co-operate, from the planning phase, may help overcome these costs.

Many OECD countries have recently introduced financial incentives to encourage inter-municipal co-operation. For instance, France offers special grants and a special tax regime in some cases; other countries, like Estonia and Norway, provide additional funds for joint public investments. Slovenia introduced a financial incentive in 2005 to encourage inter-municipal co-operation by reimbursing 50% of staff costs of joint management bodies – which led to a notable rise in the number of such entities. In Galicia, Spain, investment projects that involve several municipalities get priority for regional funds (Mizell and Allain-Dupré, 2013<sup>[26]</sup>; OECD, 2019<sup>[27]</sup>) (Box 4.7). Poland is also gradually moving in this direction by providing additional funding for municipalities of the functional area that prepare a joint strategic plan (OECD, 2021<sup>[28]</sup>). These incentives may also help overcome political costs linked to co-operation and the sustainability of an association or agreement that usually depends on the political will of the mayor or local administration.

#### Box 4.7. Financial incentives for cross-jurisdictional co-operation

Most of the time, inter-municipal co-operation is promoted on a voluntary basis. Incentives are created to enhance inter-municipal dialogue and networking, information sharing, and sometimes to help create these entities. These incentives can be financial or more practical in nature (consulting and technical assistance, producing guidelines, measures promoting information sharing, such as in Canada, Norway and the United States). Several countries have also implemented new types of contracts and partnership agreements to encourage inter-municipal co-operation.

France has almost 35 000 communes, the basic unit of local governance. Although many are too small to be efficient, France has long resisted mergers. Instead, the national government has encouraged municipal co-operation. In 2022, there were about 1 254 inter-municipal structures with own-source tax revenues to facilitate horizontal co-operation. All communes are involved in them. Each grouping of communes constitutes a “public establishment for inter-municipal co-operation” (EPCI). EPCIs assume limited, specialised and exclusive powers transferred to them by member communes. They are governed by delegates of municipal councils and must be approved by the state to exist legally. To encourage municipalities to form an EPCI, the national government provides a basic grant plus an “inter-municipality grant” to preclude competition on tax rates among participating municipalities. EPCIs draw on budgetary contributions from member communes and/or their own tax revenues.

Inter-municipal co-operation has risen in recent years in Slovenia, particularly on projects that require a large number of users. In 2005, amendments to the Financing of Municipalities Act provided financial incentives for joint municipal administration by offering national co-financing arrangements: 50% of the joint management bodies’ staff costs are reimbursed by the national government to the municipality during the next fiscal period. The result has been an increase in municipal participation in such entities,

from 9 joint management bodies in 2005 to 42 today, exploding to 177 municipalities. The most frequently performed tasks are inspection (waste management, roads, space, etc.), municipal warden service, physical planning and internal audit.

At the sub-regional level in Italy, there is a long tradition of horizontal co-operation among municipalities, which takes the form of *Unione di Comuni*, intermediary institutions grouping adjoining municipalities to reach critical mass, reduce expenditure and improve the provision of public services. A law from April 2014 established new financial incentives for municipal mergers and unions of municipalities. Functions to be carried out in co-operation include all the basic functions of municipalities. All municipalities with up to 5 000 inhabitants are obliged to participate in the associated exercise of fundamental functions.

Source: OECD (2020<sup>[29]</sup>).

Further resorting to peer learning would also benefit inter-municipal co-operation. Peer learning and the creation of capacities are other crucial processes to further encourage municipalities to co-ordinate across the whole policy cycle. As the economic benefits of inter-municipal co-operation arrangements might not be seen in the short term or by municipalities that have never experienced them, in some cases, municipalities need to be persuaded of the benefits and meaningfulness of inter-municipal co-operation. As is the case in other countries such as Chile or Poland, diffusion and imitation seem to be key elements for the success of inter-municipal co-operation (OECD, 2021<sup>[28]</sup>).

Some OECD countries have opted to encourage collaboration by providing consulting and technical assistance, promoting information sharing, or providing specific guidelines on how to manage such collaboration. Arrangements to solve capacity issues have been prevalent among the Nordic countries (Denmark, Finland, Norway and Sweden), but they have also been practised in Chile, France, Italy and Spain, among others. Czech municipalities with successful stories can share their experience and encourage other municipalities to enter into such arrangements by showing that, through partnerships, municipalities can achieve more efficient and better results. Regions might play a key role in this task by organising peer learning, offering technical support and acting as political facilitators. The elaboration of a clear toolbox or guidelines on how to deal with the administrative procedures when establishing co-operative arrangements should accompany this process. Capacity-building processes might particularly focus on strategic planning at the supra-municipal level, either by peer learning or through external experts that can support municipalities in assessing the needs of a group of municipalities (see below).

Identifying and legislating on a specific set of tasks that should be performed by a group of municipalities could be an interesting way forward to ensure more efficient services and investments across the country. Joining inter-municipal associations in the Czech Republic are all on a voluntary basis. Sometimes small local governments only perceive the costs of inter-municipal arrangements (Box 4.7), reducing the incentives to establish VAMs. As has been highlighted by previous OECD analysis, mandating inter-municipal co-operation over a legally defined set of public services, delegated or independent competences can be an effective way of improving the quality and efficiency of service delivery and supporting wider use of inter-municipal co-operation schemes (OECD, 2020<sup>[8]</sup>). In Italy, for example, some evidence suggests that small municipalities benefit from cost reductions and better public services when participating in mandatory inter-municipal co-operation arrangements (Giacomini, Sancino and Simonetto, 2018<sup>[30]</sup>). Other countries, such as Finland, France or Germany, are also good examples of how mandatory inter-municipal co-operation has raised the stability of co-operation (Box 4.8). In any case, establishing mandatory and legally established tasks for inter-municipal co-operation schemes would need to be accompanied by appropriate financing mechanisms to execute those tasks, in particular with specific transfers, funding or financing for municipal associations.

### Box 4.8. Mandatory inter-municipal co-operation in OECD countries

#### PARAS Reform in Finland

Inter-municipal co-operation in Finland has gone through many changes throughout different reform periods. Initially, from 2005 to 2007, the Finnish government decided to move forward with the PARAS reform, which aimed to improve the various functions at the subnational, municipal level. These changes were designed to overcome increasing subnational spending, improve productivity, strengthen municipal and service structures, and boost local service provision. During the reforms, municipalities were left the choice to merge or to join a “co-management area” based on a compulsory threshold. In a bottom-up manner, the central government allowed municipalities to choose how to organise themselves while also incentivising municipal mergers through financial grants from 2008 to 2013. With the Finnish government mandating that all municipalities merge or join a local co-management area, the local governments need to reach a population in either scenario of 20 000 inhabitants for primary healthcare services and 50 000 inhabitants for vocational education and training.

In Finland, inter-municipal co-operation is, in fact, voluntary. However, for vocational education and health services, the government requires municipalities to engage in municipal mergers or to join a co-management area. The use of compulsory inter-municipal co-operation for some services allows the country to go without an intermediate level of government. With the structural regulation and reforms in Finland through the PARAS framework, the *ex post* analysis found that the integration of social welfare and healthcare services improved at the national level.

#### NOTRe Reform in France

Before recent reforms of the French municipal arrangements, the system of inter-municipal co-operation was complex. Like many other countries with high municipal fragmentation, the French government, like others, understood that municipalities preferred inter-municipal co-operation over municipal mergers. In 2014, the French government passed the NOTRe Law (New Territorial Organisation of the Republic) to overcome the existing fragmentation of its roughly 35 000 municipalities. The government set a set of regulations and reforms to facilitate the inter-municipal co-operation agreements. For instance, it mandated that municipalities that were not part of an inter-municipal co-operation agreement join one considering the additional requirements as a result of the reform. The government set up a minimum population threshold of 15 000 inhabitants for inter-municipal co-operation, up from the previous threshold of 5 000. The law highlighted the delegated mandatory responsibilities of the inter-municipal co-operation, known as *communautés de communes* (communities of communes). The groupings are obligated to work in the framework of seven responsibilities and must work on three responsibilities from a list of seven. Though France, like Finland, has a voluntary dynamic for inter-municipal co-operation, the state makes membership is mandatory and makes some aspects of service provision compulsory.

Sources: OECD (2020<sup>[8]</sup>; 2019<sup>[6]</sup>; 2021<sup>[31]</sup>; 2017<sup>[11]</sup>).

Strengthening incentives to encourage municipal mergers may still be a way forward worth debating in the Czech Republic. While municipal mergers have met strong resistance in the country, several stakeholders at all levels still manifest that the high fragmentation puts the efficiency of the public administration at stake. Mergers meet strong resistance not only in the Czech Republic, but in several OECD countries. Still, several OECD countries have opted for municipal mergers. Municipal mergers in OECD countries respond to different objectives, such as reducing the mismatch between obsolete municipal administrative boundaries and socio-economic functional areas, achieving economies of scale and scope in the provision

of local public services, or increasing municipal administrative capacity (OECD, 2017<sup>[11]</sup>). In the Netherlands and Switzerland, municipal mergers have been a gradual process and Nordic countries have implemented successive waves of mergers (e.g. Denmark, Norway, Sweden); in other countries, mergers have been mandatory (e.g. Denmark, Japan, New Zealand). Some countries encouraged mergers by keeping the former municipal administration with a sub-municipal status, like in Ireland, Korea, New Zealand, Portugal, the United Kingdom or in France, with the delegate mayors (OECD, 2020<sup>[8]</sup>; 2017<sup>[11]</sup>). Several OECD countries have used incentives to encourage municipal mergers, such as providing financial subsidies, guidance and technical assistance, introducing a special status for larger cities (Box 4.9). The Czech Republic could benefit from these countries' experiences to more effectively encourage municipal mergers, especially in the current context in which, in many areas, population decline is set to continue (OECD, 2020<sup>[8]</sup>).

#### **Box 4.9. What incentives are there for municipal mergers?**

When problems arise from having a fragmented subnational make-up, countries look to respond to these difficulties by merging municipalities. However, instead of forcing municipal mergers, several countries have provided their subnational governments with financial or institutional incentives to merge. While national laws allow municipal mergers to take place, municipalities may not do so for a variety of reasons. Therefore, one mechanism to increase voluntary amalgamations of municipalities has been through improved incentives from the national government for the subnational bodies.

##### **Financial subsidies**

When looking to respond to fragmentation, many countries have offered financial incentives, such as subsidies, for municipalities to merge. In Norway, such incentives took the form of a five-year financial support to help municipalities reorganise services and administration, as well as special aid for smaller municipalities. In Switzerland, funds for consulting, guidance and technical assistance were introduced to prepare the ground for mergers. In France, merging municipalities benefited from lesser cuts in grants than other municipalities.

##### **Mix of different types of incentives**

Countries looking to encourage their municipalities to merge often also offer a number of incentives to promote municipal amalgamation. In the Netherlands, municipalities that decided to merge were given guidance with the adoption of the "Policy Framework for Municipal Redivision". Merging municipalities were assisted by the Dutch provinces in the merger process and also received an adjusted and expended merger grant to compensate the newly merged municipalities for the "friction costs". In Estonia, the government planned to fund consultancy and expertise costs to help municipalities prepare for the merger process. It was planned that the merger grant be double for voluntary mergers, with its end date in January 2017, and included a bonus if the size of the merged municipality exceeded 11 000 inhabitants. In Italy, Law 56/2014 encourages municipal mergers through state and regional financial incentives. The Stability Law 2015 also introduced additional incentives for municipal amalgamations by excluding merged municipalities from the limitations set for hiring personnel. In Finland, the PARAS reform (see Box 4.8) offered financial and organisational support as well as consultation tools. The state also promised that subnational staff in the merging municipality would not be subject to lay-offs for at least five years after the merger took place.

##### **Special status for larger cities**

An additional incentive for municipal mergers is by granting larger cities a special status after the merger. In Japan, the central government introduced a third tier of special city status (known as core cities) to promote municipal mergers. It did this in the hope that municipalities would amalgamate,



reaching the status, in order to gain new responsibilities under this tier. This status concerned cities of more than 300 000 inhabitants which met a few other requirements. There is some evidence that this strategy may have been successful in Japan.

### Creating sub-municipal structures

Another incentive for municipal mergers is allowing the former municipal administration to be introduced as a sub-municipal structure (i.e. local deconcentrated units). The sub-municipal structures are generally given legal status under the municipality and have a deliberative assembly, a delegated executive body (mayor, council) elected by the population, an independent budget, etc., even if they depend on the municipalities. This structure of sub-municipal organisation maintains local accountability despite a comparatively large municipal size in terms of population. The representation of the local stakeholders is also increased through this sub-municipal structure, as it keeps the local identity of the previous administration and protects historical legacies, traditions and democracies. For example, there are many instances of sub-municipal structures in OECD countries: parish and community councils in the United Kingdom; *Eup* and *Myeon* in Korea; *freguesias* in Portugal; settlements in Slovenia, etc.

Source: OECD (2017<sup>[11]</sup>).

### Recommendations to strengthen inter-municipal co-operation

- **Develop an indicators' system that allows assessing the cost and quality of public service delivery at the local level.** This would help assess the impact of the administrative fragmentation on service effectiveness and, at the same time, would help ensure a minimum standard for service provision across the country.
- **Develop data on functional areas (in functional microregions and agglomerations) to be able to establish long-term and stable inter-municipal co-operation schemes at the functional scale.** In urban and rural areas, investment and services are best planned when seen from the perspective of functional service areas with networked villages, towns and more dispersed areas. For this to happen, it is crucial to develop data on functional areas that can produce a more accurate picture of actual circumstances than administrative areas. This will, in turn, facilitate joint strategic planning by a group of municipalities at the functional scale.
- **Introduce financial incentives, such as special grants or a special tax regime for inter-municipal co-operation bodies, to encourage inter-municipal co-operation.** These incentives may also help overcome political costs linked to co-operation and the sustainability of an association or agreement that usually depends on the political will of the mayor or local administration. These incentives should focus, in particular, on encouraging long-term partnerships that allow these bodies to set common territorial development objectives, planning and implementing projects with a long-term horizon and at the relevant scale.
- **Resort to peer-learning activities to encourage inter-municipal co-operation.** Municipalities sometimes need to be persuaded about the benefits and meaningfulness of inter-municipal co-operation. Czech municipalities with successful stories can share their experience and encourage others to enter into such arrangements. A particular focus might be given to peer learning through joint strategic planning by a group of municipalities. Regions might play a key role here by organising peer learning, offering technical support and acting as political facilitators. The associations of municipalities or the Ministry of the Interior can also promote peer learning in this regard. The elaboration of a clear toolbox or guidelines on dealing with the administrative procedures when establishing co-operative arrangements should accompany this process.

- **Identify a specific set of tasks that could be performed by a group of municipalities.** Mandating inter-municipal co-operation over a legally defined set of public services, delegated or independent competences can be an effective way of improving the quality and efficiency of service delivery and support wider use of inter-municipal co-operation schemes. This would need to be accompanied by appropriate financing mechanisms to execute those tasks, in particular with specific transfers, funding or financing for municipal associations.
- **Debate establishing concrete incentives to encourage municipal mergers.** While municipal mergers have met strong resistance in the Czech Republic, they can still be a way forward to bridge efficiency gaps at the local level. For this, a voluntary approach to mergers, with concrete incentives for municipalities, could be a way forward. This would need to be accompanied by the appropriate consultations, negotiations and communication efforts to gain support from local actors and civil society and ensure buy-in.

## Enhancing strategic planning at all levels of government to pursue a client-oriented public administration

Strategic planning helps public administrations at all levels articulate their development vision, objectives and priorities and provides guidance for allocating public resources. In the Czech Republic, ensuring the overall high quality of municipal-level strategic planning can substantially contribute to advancing the Client-oriented Public Administration 2030 agenda. Good strategic planning could help municipalities deliver public services that target local needs, and strategically prioritise projects that have the most impact on supporting local development, hence optimising the use of public resources. However, despite having a clear planning system in place, several challenges remain in subnational strategic planning. First, the weak cross-sectoral co-ordination at that national level makes it difficult for regions and municipalities to align with national frameworks and reconcile different sectoral interests when planning regional and local development. Second, local and supra-local development strategies are not widely considered or used as an instrument to address local needs and, at the same time, contribute to regional and national development objectives. Third, most Czech municipalities are small and lack planning capacity, which has a direct impact on the quality of the local and supra-local strategic plans. It is unrealistic for the central government to provide support to over 6 000 municipalities. This thus requires seeking an optimised and more efficient solution to enhance local/supra strategic planning capacity. This section assesses the strengths and weaknesses of strategic planning in Czech subnational governments and explores potential ways forward, in particular, how to promote joint local planning, exploit the potential of functional urban areas (FUAs) in planning, and build local planning capacity in a more efficient and systematic manner.

### ***Strengthening a place-based approach to regional and local development strategic planning***

The Czech Republic has a clear multi-level strategic planning system, with the Strategic Framework Czech Republic 2030 being the “strategy of strategies” (Figure 4.3). Regional and local government strategic planning should take into account three key national documents, as listed below, as well as sectoral strategies. While the first two are non-binding for subnational governments, subnational government zoning and land-use plans must comply with the national spatial development policy. All regions and municipalities have land-use plans (mandatory). All regions are also mandated to have a regional development strategy, but municipalities are not obliged to have a municipal development strategy.

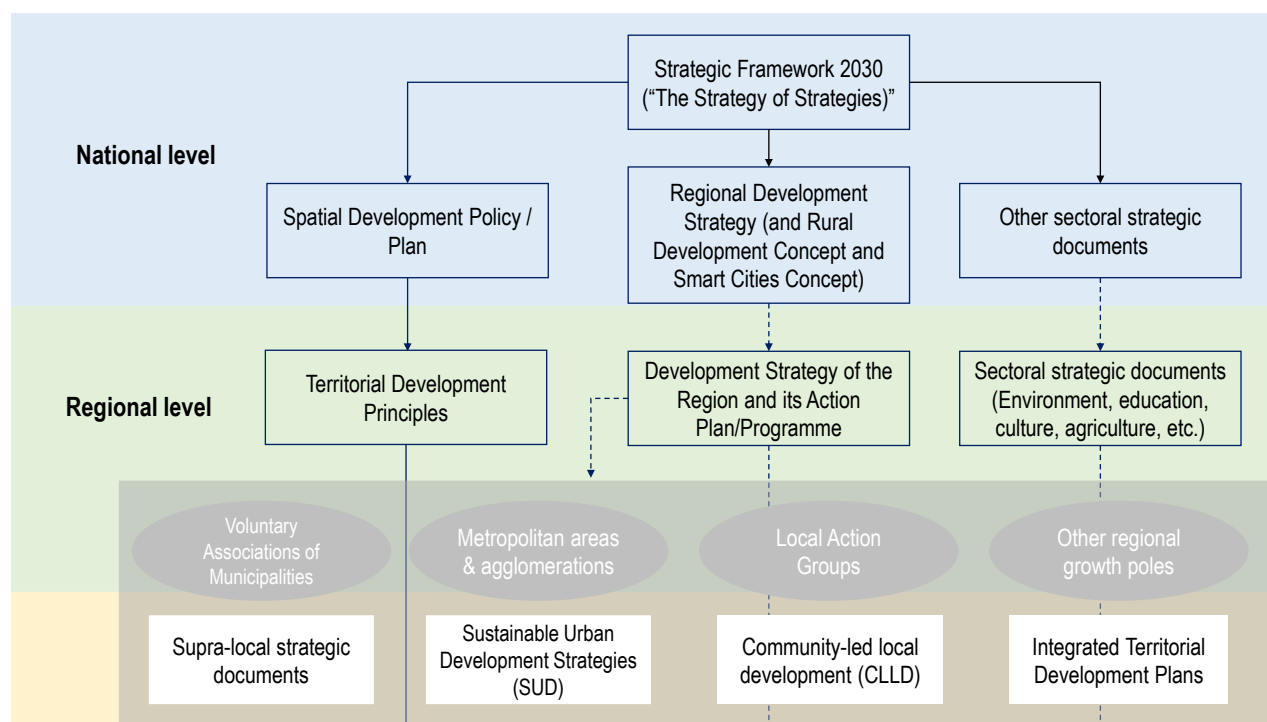
The Strategic Framework Czech Republic 2030, originally co-ordinated by the Office of the Government (Prime Minister’s Office) and then by the Ministry of Environment, was approved by a government resolution in 2017.<sup>2</sup> It serves as the “strategy of strategies”, setting out the vision for the country by 2030 under six areas: 1) people and society; 2) economic model; 3) resilient ecosystems; 4) municipalities and

regions; 5) global development; and 6) good governance. While all areas are relevant to subnational strategic planning, the vision for municipalities and regions<sup>3</sup> is the most pertinent to subnational strategic planning.

The Regional Development Strategy 21+ (RDS 21+), elaborated by the Ministry of Regional Development in accordance with Act No.248/2000 Coll., on Support to Regional Development. This place-based regional development strategy identifies five different types of areas within the territory<sup>4</sup> and sets differentiated development objectives and priorities for each type. This document is not binding for regions and municipalities when they develop their development strategies. However, the Ministry of Regional Development co-ordinated with the representatives from regions and municipalities through the regional standing conferences (one in each region)<sup>5</sup> to ensure that subnational development needs were incorporated into the strategy.

The National Spatial Development Policy, developed by the Ministry of Regional Development, in accordance with Act No. 183/2006 Coll., on Spatial Planning and Building Rules. It sets out the frameworks and principles for subnational spatial planning. This strategic document contains planning guidelines and delimits development areas and the main transport and infrastructure corridors, but it does not outline a general vision for spatial development. It collects and analyses the data relevant for territorial planning at the regional and local levels and guides lower level spatial planning.

**Figure 4.3. Strategic planning system for regional development policy and main implementation instruments in the Czech Republic**



Note: The dashed lines with arrows indicate that one document provides non-binding framework/guidance to another; sustainable urban development strategies are implemented through the integrated territorial investment mechanism.

Sources: OECD elaboration based on Ministry of Regional Development of the Czech Republic (2022<sup>[32]</sup>; 2016<sup>[33]</sup>; 2021<sup>[34]</sup>).

At the national level, there is room to more clearly define the territorial dimension of sectoral interventions, as indicated in the RDS 21+. Currently, national sectoral policies and line ministry subsidy schemes do not sufficiently consider the territorial dimension of their policy impact (Ministry of Regional Development of



the Czech Republic, n.d.<sup>[35]</sup>). In general, there is no one-size-fits-all method to address this issue and sectoral policies can apply the territorial lens in different ways. In some cases, sectoral policies may incorporate preventive or corrective measures to mitigate the potential territorial impact. For example, education funding formulae based on student thresholds can make providing services to rural areas harder and requires a “territorial fix”. The Ministry of Regional Development could work with line ministries to apply the territorial lens in sectoral strategic planning. This can be done through bilateral dialogue with line ministries and inviting regions and municipalities throughout the planning process, and systematically monitoring the application in sectoral policy implementation. This is particularly relevant for sectoral policies where regions and municipalities assume several responsibilities, such as education, transport, housing, tourism, etc.

The weak inter-ministerial co-ordination affects the design and implementation of regional development policy at the national, regional and local levels. Overall, sectorisation and specialisation seem to be well-rooted in the Czech public administration.<sup>6</sup> While the approach has supported clear responsibilities and accountability, the drawback has been limited incentives for ministries to co-operate on integrated (cross-sector) policies, such as regional development policy (Huerta Melchor and Gars, 2020<sup>[36]</sup>). This can, and frequently does, generate conflict in regions and municipalities, for example between monument and nature preservation and projects for transport infrastructure; between protecting good agricultural land and the desire for new residential and other forms of development (OECD, 2017<sup>[5]</sup>).

There is an outstanding need to ensure coherence between national and subnational planning. With a high number of subnational governments with potentially diverse sets of priorities, ensuring coherence among levels of governments is particularly crucial, as it can help all levels work in a more synchronised and complementary fashion. Establishing a mechanism to ensure that subnational authorities anchor their strategies (e.g. regional and local development strategies, micro-region strategies, sustainable urban development [SUD] strategies, community-led local development [CLLD] strategies) to the national frameworks is one way to accomplish this. However, currently, no such mechanism exists in the Czech Republic. The national and regional permanent conferences serve to reflect local needs mostly for EU-funded programmes, but yet miss a focus on ensuring the alignment of strategic objectives among all levels of government. The Ministry of Regional Development has been tracking the compatibility of strategic goals at each level of government, including municipalities, through the *Strategies Database*. While this database helps capture the linkages among already developed strategies, the Ministry of Regional Development can further provide support to subnational governments in the early stages of planning to ensure the alignment of objectives and priorities. This can include, for example, trainings or workshops on how to “localise” regional/national policy objectives and frameworks – e.g. if a municipality aims to boost education, how can it design a strategy that addresses local needs while pursuing the national education policy objectives?

The Czech Republic can assemble a high-level, cross-sectoral, multi-level co-ordination body to support regional and local development, including for subnational strategic planning. This body should ensure: the alignment between sectoral strategies and the RDS 21+ and help line ministries wear a “territorial lens” on their sectoral policies, when appropriate; and the alignment between regions’ and municipalities’ strategic planning documents and the objectives and priorities of RDS 21+. There are ongoing discussions in the Czech national government about creating such a body. There are two potential approaches to do so: 1) such a body could be either established as a new inter-ministerial committee or could be built on or incorporated into existing mechanisms or bodies, such as the National Standing Conference under the Government Council of European Structural and Investment Funds; or 2) the Sustainable Municipalities Committee under the Government Council for Sustainable Development. The latter approach can avoid the potential proliferation of government bodies. Regardless of the approach, decision-makers should participate in this body, especially for sectoral policies with a strong territorial impact (e.g. transport, housing, water, tourism, culture, etc.). Both regional and local representatives, including the associations of subnational governments, should also participate. Concrete examples of such mechanisms include the

Forum for Sustainable Regional Development in Sweden, the inter-ministerial committee focusing on inner areas development planning in Italy, and the Co-ordinating Committee for Development Policy in Poland (Box 4.10).

#### Box 4.10. Examples of inter-ministerial co-ordination platforms that support strategic planning

In Sweden, it is the job of regional development policymakers to convince other ministries that they should wear their “territorial lenses” when planning and designing sector policies. The Forum for Sustainable Regional Development 2022-2030 is one important co-ordination platform. It is positioned as part of the implementation of the National Strategy for Sustainable Regional Development throughout Sweden 2021-2030. The forum is chaired by the secretary of state for regional development. It is divided into two groups: one that promotes dialogue between national- and regional-level politicians, and one that fosters dialogue between national- and regional-level civil servants (director-level). Sweden has also created policy labs. There is one dedicated to exploring concrete policy methods for rural development. In addition, Sweden also relies on involving state agencies – both public servants/operational staff and decision-makers – in regional matters because these agencies support the implementation of regional development policy by different sectors while taking into account regional specificities that affect meeting sectoral aims.

Italy’s Strategy for Inner Areas is an integrated strategy tailored to reduce demographic decline and land abandonment in many rural areas by improving the quality of essential services – education, health and mobility – and promoting opportunities for economic activity and jobs. Within the framework of this strategy, the national government defined a set of integrated projects and their expected outcomes through an inter-ministerial committee to align objectives, adapt sectoral policies to specific territorial needs and match different sources of financing. This committee consists of representatives from the Ministries of Education, Health and Agriculture; the Department for Cohesion Policy; and subnational levels of government. For each policy area, the national government also identifies an alliance of municipalities willing and capable of working together towards a long-term strategy, including by unifying the management of functions relevant to the common strategy.

Poland established the Co-ordinating Committee for Development Policy as a permanent inter-ministerial committee with sub-committees linked to regional development issues (e.g. Sub-committee for Rural Areas Development, Sub-committee for Territorial Dimension). The committee carries out analysis and drafts documents to facilitate the implementation of the country’s Strategy for Responsible Development, which has a strong territorial dimension.

Sources: OECD (2020<sup>[37]</sup>; 2019<sup>[6]</sup>; 2022<sup>[38]</sup>).

The Czech national government can strengthen its support to municipalities by aligning local and supra-local development strategies with regional and national level ones, in particular with the regional-level development strategy and the RDS 21+. This is key to strengthening the place-based approach to strategic planning and ensuring that policy efforts at all levels are harmonious. To move in this direction, the Czech Republic can adopt two complementary measures:

Defining strategic planning at the local/supra-local level as an instrument to support the implementation of regional- and national-level policy objectives. For example, the dual purpose of local/supra-local strategic planning (supporting local development and advancing higher level objectives) can be stipulated in the RDS 21+ and/or Act No. 248/2000 Coll., on Support to Regional Development. The Polish Act on Principles of Implementation of Development Policy could serve as an example (Box 4.11). Regional standing conferences can be used as a platform to enforce the strategic alignment between local/supra-local development strategies and regional ones, and the RDS 21+, e.g. a dedicated technical working group

under each regional conference to discuss how to ensure strategic alignment among strategies. This process requires buy-in from highly autonomous local governments to gain legitimacy. This is why it would be important to begin with a discussion with local governments on the benefits, concerns and conditions, among others; and/or with a pilot to test how one can ground their local strategic planning in local needs while contributing to the national objectives in practice. Such discussion or pilot can also be initiated with VAMs, municipalities with “extended powers” or large cities, regarding supra-local strategic planning. In any case, considering the different realities and the high number of local governments, institutionalising local/supra-local planning does not mean making strategic planning mandatory or imposing one standard method of planning on all municipalities.

Providing specific technical support on fostering strategic coherence with higher level frameworks within the existing technical support framework for local and supra-local planning. The Czech Republic has online tools, manuals and guidance, and other forms of support for municipalities on strategic planning (e.g. the online planning tool ObcePRO). It could be beneficial to incorporate thematic sessions/focuses with good practices to guide local authorities to identify important regional and national documents that have an impact on local/supra-local planning, and to “localise” these higher level objectives in their local/supra-local plans. Both the national and regional governments and the associations of local authorities can offer such assistance. In the long term, the national government can consider providing financial incentives in addition to capacity-building programmes. For example, when appropriate, projects that clearly contribute to both local and national objectives can be prioritised in the allocation of national funds for regional development. Such a measure can start as a pilot under certain existing funding schemes or in some regions/micro-regions.<sup>7</sup>

#### Box 4.11. Polish Act on Principles of Implementation of Development Policy

On 15 July 2020, the Polish parliament passed a number of amendments to the Act on Principles of Implementation of Development Policy:

The adoption of a Medium-term National Development Strategy (10-15 years) that specifies the basic conditions, goals and directions of the country’s development in the social, economic and spatial dimensions, and detailed activities for a period of four years.

The introduction of the notion of a local development strategy (LDS): although the adoption of an LDS is not compulsory, the act considers it to be a valuable strategic document.

The requirement that the spatial planning document and the socio-economic development diagnostic need to be included in the LDS to ensure stronger relations between the two policy documents, as in the past they were separated and not fully co-ordinated.

A detailed process for elaborating a development strategy at the *voivodeship*, supra-local and municipal levels. A detailed process for consultation across levels of government for elaborating the LDS was also put in place.

A municipal LDS needs to be submitted to the *voivodeship* board to ensure alignment with the *voivodeship* development and spatial policy and, in this case, with the supra-local development strategy.

Source: OECD (2021<sup>[28]</sup>).

### **Engage with subnational authorities in national strategic planning**

Experiences of OECD countries have shown that inclusive strategic planning processes in which stakeholders at the national and subnational levels are engaged can enhance the legitimacy of

policymaking and increase the sustainability of policies beyond single electoral cycles. The OECD Policy Framework on Sound Public Governance (2020<sub>[39]</sub>) recognises the fundamental role of subnational governments in enhancing policies and strategies and recommends that “further efforts are needed to integrate them in the design and implementation of national strategies and policies.”

Subnational governments need to be formally and systematically involved early in national planning processes to ensure their views and priorities are considered in strategic plans and instruments. Consultation processes for the participation of subnational governments in the development of national medium- and long-term planning strategies in the Czech Republic are often informal but can also take place through the interagency commenting procedure. While the Governmental Legislative Code requires all public institutions to consult with stakeholders on draft legal acts, the Government Rules of Procedure (Art. II) also extend this obligation to non-legislative documents such as strategic vision documents/instruments and other sectoral and spatial policy documents. Consequently, ministries and public institutions are formally obliged by law to systematically consult subnational governments when strategies are developed at the national level. In practice, draft national strategic documents are published on a government portal accessible to subnational governments. Interested stakeholders may be aware of the timeframe due to the publication of a plan with a list of all legislative and non-legislative initiatives that is prepared annually. For local governments to submit comments to any draft government documents, they need to be represented by an interest group or association, such as the Association of Local Authorities, the Union of Towns and Municipalities, or the Association of VAMs, who act on their behalf and submit comments during an objection procedure. Regions, however, have the option to independently voice their concerns and counterproposals before the draft is discussed by government. In both cases, comments are collected digitally by making use of the electronic library of the legislative process (eKlep). Typically, 20 days are given to provide feedback on draft legislative documents and 10 days for non-legislative documents, which in practice can prove to be difficult for regional governments and municipal associations to comment. As set out above, no rules exist to specify the exact form of such consultations. The commenting phase takes place very late in the strategy planning cycle, once strategies are already drafted and are being prepared for submission to the government meetings. In interviews stakeholders reported that consultations with regional governments and municipal associations are sometimes considered mere checkbox exercises and provided comments are not followed up upon.

To allow regional governments and municipal associations sufficient time to submit their views and input during the consultations, the Czech government may consider expanding the minimum consultation period of 10 days, for instance by harmonising it with the 20 days given for consultations on legislative documents. The government could also introduce a requirement for line ministries to report and provide feedback to regional governments and municipal associations on how their input was used to build effective feedback loops. It could also be beneficial to ensure that feedback is integrated into future evaluations to be able to influence future policies and strategies, as highlighted in greater detail in Chapter 3.

Regional and local representatives are often also engaged through working groups organised by line ministries when strategic documents are prepared at the national level, as in the case of the Strategic Framework Czech Republic 2030 and the RDS 21+. Such a practice, however, depends on the line ministry. Discussions take place in specific, thematic councils and working groups, for instance the Council for Public Administration, where local governments are represented by regional and municipal associations. However, most often, decisions and outcomes are limited, according to stakeholders interviewed by the OECD. Line ministries may thus be missing an opportunity to collect valuable evidence to take informed decisions and risk overlooking important implications of sectoral strategies for subnational levels of government. The government of the Czech Republic could consider expanding and revising consultation processes with subnational governments (in the case of municipalities through associations), especially during the development of medium- and long-term strategic documents with a territorial dimension. Box 4.12 provides an overview of different institutional formats for engaging subnational governments in OECD countries. While a formalised consultation process on its own does not guarantee

better quality engagement, it can generate more proactive engagement among line ministries and regions and local governments early in the planning process, and also stimulate the active consultation of regional governments and municipal associations on draft strategic documents. Acknowledging that participation in consultation processes requires capacity and time and to avoid so-called consultation fatigue, participation in the development of medium- and long-term strategic plans and sectoral strategies should be voluntary.

#### **Box 4.12. Mechanisms to engage subnational governments in strategy making at the national level**

Across the OECD membership, different models and formats exist to engage with subnational governments in national strategic planning exercises:

In Wales (United Kingdom), “key partners” have been identified and engaged in a formal stakeholder group and steering committee composed of external partners and government officials.

For the preparation of the Irish Spatial Strategy, the importance of developing networks on cross-cutting themes was clearly recognised. Sectoral and geographic stakeholder working groups have been developed and supported to prepare the development plan.

Specific “task forces” have also been established in Lithuania to ensure key partners participate in the preparation of development plans.

Sources: Cardiff University (2005<sup>[40]</sup>); OECD (2021<sup>[31]</sup>; 2019<sup>[6]</sup>).

The centre of government (CoG) plays a crucial role in ensuring the engagement of subnational governments in national-level strategic planning. As outlined in Chapter 2, the CoG’s central position, cross-cutting approach and proximity to the chief executive make it well-positioned to lead strategic planning activities for the whole of government. In a quarter of OECD countries, the CoG co-ordinates strategic policy initiatives with subnational governments and in almost half of them, it works with line ministries to ensure multi-level co-ordination on policy issues with important territorial dimensions. See Chapter 2 for a more detailed overview of the role of the CoG in strategic planning. In the Czech Republic, while the strategic planning capabilities and activities of the Office of the Government have been limited in the recent past (see Chapter 2), the Ministry of Regional Development has played a role in the overall strategic planning system by supporting the co-ordination of housing and regional strategies prepared by line ministries, animating the Expert Group for Strategic Work and the Strategy Database Working Group, managing the registry of strategies, and providing guidance on strategy preparations at the subnational level (Ministry of Regional Development of the Czech Republic, n.d.<sup>[41]</sup>), in co-operation with the Ministry of the Interior. While the Ministry of Regional Development may lack the convening power to steer national strategies, this role has helped it better connect national and subnational strategic work.

To promote more consistent engagement with the subnational level to embed sectoral policies with a territorial lens, capacity and knowledge about consultations with regional governments and municipal associations should be mainstreamed across government, not only concentrated in the Ministry of Regional Development. This requires specific training or guidance for civil servants on how to use a variety of different consultation processes, differing in scope, timing and necessary resources. Currently, only a few guidelines or toolkit documents on stakeholder consultation<sup>8</sup> provide more detailed guidance to inform about and promote engagement with subnational governments during strategic planning processes. The Ministry of Regional Development could thus consider developing detailed guidelines, toolkits and training efforts for officials to integrate engagement with regional governments and municipal associations into the planning cycle. Due to the CoG’s unique role in setting standards on policy and strategic documents and providing guidance and capacity to line ministries to ensure that these quality standards are met (see

Chapter 2), the Office of the Government could support the use and enforcement of such guidelines and tools.

*Engaging with regional and local authorities in monitoring and evaluation of the strategies and policy priorities*

Performance monitoring and evaluation (M&E) are pivotal instruments for clarifying the outcomes strategies that policies or programmes aim to attain and enhance their efficiency and effectiveness. Both seek to measure and improve government performance through different approaches. M&E can also benefit from the participation of subnational authorities. For instance, participants in policy programmes, regional- or local-level implementers, or community members impacted by the examined policy intervention can improve the quality of M&E exercises. While stakeholders are traditionally involved in M&E through consultations on indicators and feedback on results, more participatory approaches that enable stakeholders to share their needs and expectations have gained momentum in recent years. Against that background, the OECD Recommendation of the Council on Public Policy Evaluation recommends to “engage relevant stakeholders in the evaluation process from the outset to create ownership for change and trust in evaluation results” (OECD, 2022<sup>[42]</sup>).

Currently, regional and local governments are only sporadically involved in policy M&E at the national level in the Czech Republic. No government unit in the CoG is tasked with M&E strategies and there are limited capabilities in the Ministry of Regional Development to follow up on the substance of strategies (whether national or sectoral strategies with a territorial dimension or subnational strategies). This makes the alignment with and involvement of subnational governments more challenging. While the register of strategies managed by the Ministry of Regional Development also includes strategies from subnational governments, the Ministry of Regional Development does not have the capacity to carry out or proactively support their M&E (see Chapter 3). Czech line ministries have consulted with subnational entities on indicators, information and data in the past. Moreover, in some cases, officials from regions and municipalities were invited to report on the outcomes of (integrated) policies/programmes with a territorial impact. Building on these efforts, the government could thus consider taking additional steps to move toward a more participatory approach to M&E. While the type and scope of stakeholder participation in M&E exercises depend on their respective purpose, line ministries could engage more systematically with subnational governments in M&E. Due to their insights into the potential territorial impact and benefit of policies and their role as implementers of many national programmes, regional and local governments are well placed to participate in and inform M&E processes at the national level. Box 4.13 provides an overview of the potential advantages involving subnational governments in M&E processes can bring.

### Box 4.13. Potential advantages of subnational government participation in monitoring and evaluation

A robust and systematic participatory approach to monitoring and evaluation (M&E) that engages subnational governments, can help:

- ensure that M&E findings are relevant to regional and local conditions
- provide a sense of ownership over M&E results and policies at the subnational level and thus encourage their use to enhance decision-making and ultimately promote sustainability
- increase subnational M&E capacity through institutional learning and self-assessment
- increase the national government's understanding of policies with regard to what works, what doesn't and why and strengthen strategic planning and policy design by improving links between public interventions and their results
- promote enhanced communication and collaboration between government representatives at different levels of implementation
- strengthen public accountability and transparency and, in turn, foster trust
- promote a more efficient allocation of resources.

Source: Author's adaptation of UNFPA (2004<sup>[43]</sup>).

M&E activities on national strategies are regularly conducted in the Czech Republic, particularly through the work of specific working groups attached to councils and the publication of annual reports on the implementation of strategies, but more can be done based on the results of these evaluations (see Chapters 2 and 3).

A wide array of possibilities exists to involve regional and local government stakeholders in M&E processes. As shown in Figure 4.4, these possibilities range from passive involvement through interviews and focus group discussions to collect data to granting regions and municipalities an active role in defining objectives, identifying indicators, deciding how and when information is collected, analysing information, and using the analyses to improve policies and service delivery and hold the national government to account. Since subnational representatives are often the best placed to identify the impact of policies or programmes on the ground due to their territory-specific knowledge and understanding, they can play an important role in designing and adapting M&E methodologies and data-collection methods. They are often also in the best position to judge if policies need to be changed to correspond to regional or local needs. As performance and results can only be measured with clearly defined and operationalised targets and indicators, subnational governments can help create an adequate indicators system to better measure progress. While it should be left to line ministries to decide for each M&E process which subnational government representatives participate, to what extent and how, the Czech government could develop and implement a proactive strategy for engaging subnational governments with the help of the M&E unit in the Ministry of Regional Development. To facilitate implementation, all participatory M&E processes for individual M&E exercises should be accompanied by detailed delivery plans that detail what is to be done, by whom, by when and using what resources.

Figure 4.4. Four-stage model to categorise stakeholder participation in monitoring and evaluation



Note: INTRAC four-stage model based on Bakewell, Adams and Pratt (2003<sup>[44]</sup>).

Source: Author's work adapted from INTRAC (2020<sup>[45]</sup>).

## ***Towards stronger subnational strategic planning for regional and local development***

### *Strengthening long-term planning at the regional level*

Czech regional governments would benefit from long-term cross-sectoral development strategies that guide sectoral policy choices. On average, Czech regions have 25 strategic documents, excluding implementation plans and supporting documents. Although each region has a regional development strategy which should serve as the umbrella strategy for the region, it is not yet a common practice for regions to use this umbrella strategy to reconcile and co-ordinate sectoral interests, nor to guide decision-making and make strategic choices. The 14 regional development strategies often have a time horizon of three to seven years. A few of them follow the European Commission multiannual financial framework 2021-2027. Only two regions have a strategy in place with a horizon of more than ten years (and one of them is from 2009-2020 which has not been updated). Having a longer term strategy in place can help anchor sector policy interventions for regional development, for example in transport, housing, education, economy, innovation, etc., and facilitates integrated actions by helping each sector in the region understand and work towards realising agreed-upon, long-term development objectives (OECD, 2020<sup>[37]</sup>).

There are limited incentives for actors to co-ordinate and work together to overcome policy fragmentation at the regional level. Regional experts participating in different working groups with line ministries do not have sufficient incentives or lack effective mechanisms to meet regularly to discuss and exchange on synergies across sectoral policies, jointly designing integrated actions to support long-term regional development goals, and how they can convey the regional needs to various line ministries and help “territorial proof” sectoral policies.



The national government can support regions to explore techniques and tools (e.g. strategic foresight) to develop long-term development strategies, with a special focus on reconciling sectoral interest and outlining a collective vision and objectives. This could be included in the methodological guide prepared by the Ministry of Regional Development. The ministry can also guide regional governments in developing cross-sectoral development plans. The pilot project “Understanding how sector policies shape spatial (in)balances”, initiated by the Ministry of Regional Development in the Olomoucky Region, is a good practice that could be expanded. It would be beneficial for regional governments to put in place formal cross-sectoral co-ordination mechanisms.

*Encourage joint municipal strategic planning to overcome capacity gaps and reach an appropriate scale for effective planning*

The administrative fragmentation at the local level hampers effective local strategic planning. The existence of many small municipalities impedes planning at the right scale and ensuring a capacity level that allows municipalities to plan their development effectively and strategically. Small municipalities often do not have the size or capacity to prepare strategies. In 2020, 95% of the 205 municipalities with “extended powers” and Prague had a valid territorial development strategy. As per the *Strategy Database*, 195 out of over 500 cities (*města*) have published their strategies; only 52 out of over 6 000 municipalities (*obce*) have done so<sup>9</sup>.

In some cases, Czech municipalities carry out joint planning to overcome capacity gaps and reach an appropriate scale for planning through various forms and mechanisms. For example, a study on local strategic planning in the South Bohemia Region found that, among 622 surveyed municipalities, 86% of rural municipalities and 62% of town municipalities drew up a joint development plan (micro-region strategies) through the VAMs (Řehoř, 2015<sup>[46]</sup>). There are also SUD and CLLD strategies associated with EU funds – SUDs are developed by groups of municipalities usually in the same FUA, CLLDs are developed through local action groups. Some municipalities may also pool financial resources to hire external experts to conduct needs assessments for the overall jurisdiction. Then each municipality develops a local development strategy based on the analysis. While this is the least formal way of co-operating without an institutional set-up, it can also be a good solution for overcoming the municipal capacity gaps in planning and as a starting point for establishing a common development vision of a larger area. Yet several issues need to be considered:

1. Such practices are *ad hoc* and depend entirely on the willingness of municipal governments to co-ordinate. Mayors and elected representatives may not see the value in this approach or do not prioritise planning to support local development. There is no mechanism in place to formalise this practice.
2. There is no clear principle to help decide *which* municipalities should plan together. As mentioned above, there are various scopes for municipalities to plan jointly, but it appears principles are lacking to help municipalities draw the line to define with whom they should plan. Municipalities usually plan based on the existing VAM and Local Action Group (LAG) structure. In particular, it is not yet common among Czech municipalities to adopt the concept of an FUA in strategic planning for territorial development.
3. There is also no clear framework or guidance on *how* municipalities should plan together. While joint municipal planning is a critical approach to address resource gaps in planning and exploit cross-jurisdiction socio-economic linkages, in itself, it is not sufficient to ensure high-quality planning. On the one hand, deficiencies in local planning activities (e.g. weak need assessment, insufficient stakeholder consultation, etc.) may persist regardless of whether planning is done individually or jointly; on the other hand, joint municipal planning may require additional/new knowledge and skills. For example, when municipalities design the stakeholder engagement process in joint planning, they need know-how and guidance on how to ensure that all stakeholders

from different jurisdictions are consulted, and that their opinions are equally reflected in the joint strategy. The quality of joint planning may also depend on the quality of co-operation among the group of municipalities in general. Stakeholders identified that the quality of co-operation in the VAMs varies, depending on each municipality's willingness and level of engagement.

The Czech Republic may wish to establish functional territorial boundaries for planning purposes, including but not limited to exploiting the potential of agglomerations and metropolitan areas. The Ministry of Regional Development has defined 13 agglomerations and metropolitan areas across the country, and they can develop SUD strategies to use Integrated Territorial Investment. Currently, however, only around half of them have SUD strategies in place.<sup>10</sup> In addition, it has been identified that some urban development strategies may lack a properly integrated approach to link housing, transport and land-use policies involving all municipalities within the FUA (OECD, 2017<sup>[47]</sup>). Furthermore, joint planning should be promoted not only in metropolitan areas and agglomerations, but across the entire territory. For this reason, the Ministry of Interior is currently preparing an Act to create "Community of Municipalities" (*společenství obcí*) at the level of functional micro-regions and which could subsequently be used also for the needs of planning cooperation in agglomerations.<sup>11</sup> Financial and non-financial incentives could be introduced to encourage joint strategic planning among agglomerations and these Communities of Municipalities (Box 4.14). The Czech Republic can also provide technical assistance to a group of municipalities that would like to conduct joint strategic planning.

#### Box 4.14. Providing incentives for local strategic planning at the right scale

##### The Swiss federal agglomeration programmes

The Swiss federal agglomeration programmes, funded and administered through the Federal Road and Agglomeration Traffic Fund, provide competitive grants for public and individual transport infrastructure in agglomerations. The Federal Fund contributes 30-50% of the funding to the selected investment projects and the higher quality projects can receive a higher share of grants.

The funding programme is designed to incentivise co-ordination and co-operation among local authorities. As a condition to access the grants, local authorities need to plan and implement projects in a co-ordinated way to address local needs. They need to harmonise their transport, urban development and land-use plans and develop their agglomeration programmes jointly across administrative units. Some local authorities developed model projects precisely to construct collaborations and create an agglomeration programme to access the fund. In 2015, the canton of Uri and eight municipalities of the Lower Reuss Valley jointly developed an agglomeration plan for the federal programme. The plan outlined the goals and strategies in the context of the Lower Reuss Valley's future development with respect to housing, landscape and transport. Around 40 agglomerations throughout the country have participated in this programme.

##### Functional economic regions in New South Wales' vision planning

The state government of New South Wales in Australia released "The Vision", outlining its 20-year vision for economic development in New South Wales. The state government then assisted local councils in developing regional economic development strategies based on the concept of functional economic regions. Developing these enables faster access to dedicated state funding and may be used to support other types of government grant applications.

Sources OECD (2020<sup>[37]</sup>); NSW Government (2021<sup>[48]</sup>); G20-OECD (2022<sup>[49]</sup>).

The Czech Republic can support municipal joint planning by building on good practices and experiences gained from SUD and CLLD planning. Seven SUD strategies and 178 CLLD strategies were established in the Czech Republic for the 2014-2020 programming period. These strategies address a wide range of development issues, from social inclusion and innovation, mobility, jobs and skills to climate adaptability, entrepreneurship and support for small and medium-sized enterprises, and culture and heritage. Although SUD and CLLD strategies in essence are investment instruments subject to specific regulations of EU funds and do not necessarily outline a long-term development vision for the defined area, municipalities have undoubtedly gained experience for joint planning in developing these strategies. For example, many municipalities have established strategy working groups for developing SUD strategies. Studies found that some local action groups have gradually established co-operation with different types of actors (e.g. among municipalities, other local public agencies, businesses and, to a lesser extent, non-governmental organisations) and started common development of the territory (Svobodová, 2015<sup>[50]</sup>; Boukalova, Kolarova and Lostak, 2016<sup>[51]</sup>). The national government can help capture and disseminate good practices and lessons learnt from existing SUD and CLLD planning exercises to support and promote municipal joint planning. This can include developing a catalogue of good practices and/or manuals for joint planning (beyond SUD and CLLD) or providing peer-exchange platforms, such as joint planning workshops.

### *Broaden the focus beyond EU funding on local development strategies*

Access to EU funds is a main driver behind the elaboration of local/supra-local development strategies. Local government projects are often possible to implement only if they are funded through the EU Cohesion Policy. Meanwhile, EU funding schemes often require that local governments have local development strategies and demonstrate their projects can support the development objectives in the strategies. To some extent, this motivates municipalities to develop strategic plans. This is not technically a problem, but when the planning is disconnected from local needs, and the planning document is solely used to obtain funds rather than for strategic management and decision-making (Ministry of the Interior of the Czech Republic, 2020<sup>[52]</sup>), certain difficulties can arise. For example, some local development strategies include initiatives such as building fairs and parks, which may be too ambitious considering the localities' assets, population or resources. Others emphasise fashionable industries (e.g. cycling tourism, high-tech fields, etc.), without reflecting the background, needs or assets of the given place or region (Ministry of the Interior of the Czech Republic, 2020<sup>[52]</sup>). Strategic planning is viewed as a formal "tick-the-box" exercise rather than a meaningful process to better pursue and advance local development objectives.

The national government can help address this issue in several ways:

1. Ensuring municipalities have access to data at the local level and providing them with appropriate tools and knowledge to develop evidence-based and robust analysis. The trainings and support to municipalities on strategic planning should thus include a focus on finding and gathering data, needs assessment, and the subsequent priority setting.
2. Broadening municipal focus beyond EU funding. Municipalities mobilising various funding streams beyond EU funds could help better design and implement local development strategies so they do not design projects only around the EU funding parameters. Providing a catalogue of various potential financial resources (e.g. different Operational Programmes, national and regional funds, own resources, innovative ways to mobilise private finance, etc.) and support municipalities to match financial resources with investment could help.
3. Building municipal capacity to apply strategies to support decision-making. To ensure the stability and continuity of local policies and investments, local authorities should use their development strategies and frameworks to guide day-to-day decision-making. Specific tools include adopting decision-making principles and frameworks and building robust policy monitoring and evaluation system that is linked to the strategies. This could better support policy and investment decisions

focused on meeting strategic aims while also optimising funding resources and aligning with political objectives.

4. When appropriate, supporting municipalities (especially VAMs or cities or large municipalities) in long-term strategic planning. Many local strategic documents tend to have a short- or medium-term time horizon, ranging from three to seven years, moving towards at least a 10-year planning horizon can be valuable for policy continuity and stability. For VAMs and relatively large municipalities with sufficient planning capacity, the government can consider providing targeted capacity building programmes focusing on long-term strategic planning, including strategic foresight techniques. This can start as a pilot with a few VAMs and urban centres, for example. The recommendation above on defining local strategic planning as an instrument to support regional and national objectives can also, to a certain extent, help strengthen long-term strategic planning at the local level, as municipalities anchor their planning to long-term frameworks at the regional and national levels.

*Provide tailored support to different groups of municipalities, including for joint strategic planning, and promote peer exchange*

The national and regional levels, as well as the associations of local governments, play an important role in supporting strategic planning in municipalities. The Ministry of Regional Development has developed methodological guidance for strategic planning and, building on this, the Ministry of the Interior has developed a strategic planning manual for municipalities. Regional governments, associations of municipalities and some other initiatives (e.g. Healthy Cities of the Czech Republic) also play a role in supporting local strategic planning and harmonising terminologies based on the guidance. The Ministry of Regional Development also provides training, such as the three-day training module StrataEduca, which targets staff working on strategic planning from all levels of government. Municipalities can also apply for support through the online platform, ObcePRO,<sup>12</sup> developed by the Ministry of Regional Development, to receive guidance on the content and structure of local development strategies. The platform also offers useful tools, such as working with statistical data, templates and samples of supporting documents, or e-learning. Since 2015, over 500 municipal development strategies (individual municipality or joint strategies) have been published on ObcePRO, using the templates or guidance from the platform.

There is room to better tailor the assistance provided to different groups of municipalities in strategic planning, including specifically for joint planning. Local/supra-local strategic planning may take different forms depending on municipal context and size. There is no one way or right way to undertake municipal strategic planning, especially given the high diversity of Czech municipalities. If a group of small municipalities plan together, for example, they may need technical assistance to carry out joint planning, as well as the knowledge to develop a clear action plan anchored in a joint strategy, and particularly how to link projects with the budgeting process. The current support provided by the national government does not always differentiate among different types of municipalities (e.g. large vs. small, those at the border vs. those in the interior, etc.) and the challenges they face. Stakeholders admitted that among local administrations, different municipalities have different strategic planning needs and capacities. The national government could consider conducting a survey and/or focus group discussion among municipal staff responsible for strategic planning, including those for supra-local strategies, to understand their different needs and design corresponding technical assistance.

The national government can involve consulting companies that work in local planning in the process of designing and delivering technical assistance. Stakeholders observed that many local authorities seek external consulting companies to carry out strategic planning activities. Sometimes these companies do not follow the guidance provided by the national government, which may lead to low-quality local strategic plans. One way to address this problem is to engage these consulting companies when developing manuals, templates, trainings, etc. for local planning. For example, the national government can invite these consulting companies, in addition to representatives of local governments, when elaborating the

templates or methodology for local planning. On the one hand, working with multiple municipalities, these companies can provide insights regarding some common challenges in local planning; on the other hand, they will then be aware of the existing manuals and are more likely to use them when they offer their services to local authorities. To some extent, these consulting companies can also serve as intermediaries to disseminate knowledge provided by the national and/or regional level to the multitude of municipalities with which they work.

### ***Stakeholder and citizen engagement in subnational strategic planning***

The low level of effective stakeholder engagement and consultation is one of the major shortcomings in municipal strategic planning and administration (Ministry of the Interior of the Czech Republic, 2020<sup>[52]</sup>; Řehoř, 2015<sup>[46]</sup>). As mentioned above, municipalities often find it difficult to gain wider political consensus for long-term local development strategies, thus local planning documents often only cover a unique political cycle. One of the key factors behind this is insufficient stakeholder engagement and support for the strategies. Stakeholders interviewed and responses to the OECD questionnaire also identify the lack of participatory culture in the Czech Republic and insufficient effective stakeholder engagement as a challenge for subnational planning. For example, an analysis by the Ministry of the Interior identified that interest groups are often invited to provide comments and feedback at some stage in the planning or project design process, but their involvement tends to be reduced in later phases. Some local governments tend to assess development needs and set priorities without consulting local interest groups at all (Ministry of the Interior of the Czech Republic, 2020<sup>[52]</sup>). Many local administrations do not “institutionalise” stakeholder engagement activities and do not have any written rules, for example for conducting public consultations (Ministry of the Interior of the Czech Republic, 2021<sup>[53]</sup>).

In partnership with the associations of municipalities, the national government could develop practical tools to support stakeholder engagement exercises at the local level. The tools can include a checklist with actionable practices for municipalities to organise stakeholder engagement activities, accompanied by concrete examples of those practices. The actionable practices may include, for example, whether municipalities map out different groups of stakeholders in their jurisdiction, whether they design tailored engagement channels and communication tools for different groups, etc. Tools can also include a simple “decision-making” tree to help municipalities choose appropriate channels and instruments to engage with stakeholders for different purposes in the strategic planning cycle (e.g. vision-setting, identifying priorities, discussion on specific policy measures or investment programmes, etc.). Regardless of the form of the tools, the differences among municipalities in terms of size, development needs, administrative capacity, etc., should be taken into account. Ideally, tools to support small rural municipalities should differ from those used by large cities, as they likely face different challenges in engaging with stakeholders.

As a first step to developing these tools for Czech municipalities, it will be beneficial if the national government, together with the umbrella organisations of municipalities and VAMs, can identify good practices for stakeholder engagement at the local level. This is particularly important since stakeholders interviewed pointed out the lack of participatory culture in the Czech Republic. In local planning, it is crucial to develop and promote tailored instruments to engage different types of local stakeholders (non-governmental organisations, businesses, citizens, students, etc.). To do so, municipalities need to understand the specific challenges (e.g. difficulty in effectively using social media, lack of capacity in organising thematic events to discuss planning issues with citizens, using jargon to communicate with non-governmental actors, etc.). Conducting an analysis across different municipalities (e.g. VAMs, metropolitan cities, urban and rural municipalities) can help the Czech Republic develop tools that are tailored to the different local realities. A study on local stakeholder engagement in the Slovak Republic, which takes into account both general experts’ perspectives on preferred stakeholder engagement tools and the actual uptake of those tools by local governments, could provide inspiration (Box 4.15). The Czech Republic can carry out a similar analysis based on a diverse sample of municipalities (e.g. small and large, rural and urban, those with a strong tourism industry, etc.).

### Box 4.15. Study on stakeholder engagement in local strategic planning in the Slovak Republic

A study on stakeholder engagement in municipalities in the Slovak Republic reveals potential opportunities for creating a methodological framework for local governments to adopt fit-for-purpose tools for stakeholder engagement in local strategic planning.

The study collected the perspective of experts on which tools are the most important for involving stakeholders in local strategic planning in the country context. It then surveyed the engagement processes of a sample of 286 municipalities (among its 2 927 municipalities) to see which tools are *de facto* used by municipalities as essential tools for public participation. Results show that while experts recommend public discussions, face-to-face meetings for planning documents, public deliberations and participation in working groups, in reality, questionnaires and surveys are the most commonly used tools by Slovak municipalities, which experts ranked lower in terms of importance. A jointly identified important form of public involvement for both experts and municipalities is the creation of working groups in the planning process.

One important finding is that the Slovak municipalities are aware of the importance of citizen involvement, but there are weaknesses in their co-operation with specific stakeholders (e.g. universities, colleges, non-profit organisations and the media), in particular to co-ordinate the different interests and priorities of individual stakeholders in a timely manner to support local development. The study also points to the need to utilise ways of engagement based on mutual communication and support informing the entities, as a complementary tool, in addition to traditional tools and forms. Digital communication methods can be used to capture trends and patterns, such as building information databases, sharing them and applying them to local development. In the context of Central and Eastern European countries, it is necessary to educate stakeholders and build their awareness of public participation.

Source: Vitálišová, Murray-Svidroňová and Jakuš-Muthová (2021<sup>[54]</sup>).

### **Recommendations for enhancing strategic planning at all levels**

**Strengthen a place-based approach to regional and local development strategic planning.** This includes strengthening cross-sectoral co-ordination to align sectoral strategies with the RDS 21+ and fostering the coherence between local/supra-local development planning and regional/national frameworks (e.g. the RDS 21+ and other regional and national strategies).

- Assemble a high-level, cross-sectoral, multi-level co-ordination body to co-ordinate sectoral policies with regional development policy to ensure a clear, coherent national framework for regional and local development. It could also help align local plans with the objectives and priorities set by the RDS21+. This body can either be a new inter-ministerial committee or be incorporated into existing bodies, such as the National Standing Conference under the Government Council of ESI Funds or the Sustainable Municipalities Committee under the Government Council for Sustainable Development.
- Incorporate a thematic focus on how to foster strategic coherence with higher level frameworks in the existing support for local/supra-local planning (e.g. manuals, trainings, etc.). When appropriate, projects that are clearly identified as meeting local needs and contributing to national agendas in a local development strategy can be prioritised in the allocation of national funds for regional development.

- In the long term, clearly define local/supra-local development strategy as an instrument to support the implementation of regional- and national-level objectives. This can be done, for example, by stipulating this instrumental role of local/supra-local strategic planning in the RDS 21+ and/or the Act on Support to Regional Development.

**Revise the procedure for the consultation of regional governments and municipal associations when developing strategic planning instruments with a territorial dimension.**

- Ensure that all line ministries consult with regional governments and municipal associations in the planning process of medium- and long-term strategic plans and sectoral strategies.
- Consult with regional governments and municipal associations already at an early stage in the planning cycle of strategic documents with a territorial dimension, e.g. within the framework of existing ministerial working groups.
- Expand the current binding minimum period of 10 days for consultations to give regional governments and municipal associations sufficient time to submit their views.
- Require that line ministries to report and provide feedback to regional governments and municipal associations on how their input was used to build effective feedback loops.

**Scale up and further disseminate detailed guidelines, toolkits and training efforts for civil servants to engage effectively with regional governments and municipal associations within the planning cycle.**

- The Ministry of Regional Development could provide more detailed guidance and tools to inform and promote the use of consultation processes with regional governments and municipal associations, differing in scope, timing and resources needed.
- The centre of government could support the use and enforcement of guidance and tools developed by the Ministry of Regional Development.

**Move toward a more participatory approach to monitoring and evaluation through the systematic engagement of regional governments and municipal associations.**

- Develop and implement a proactive strategy across government for engaging with regional governments and municipal associations with the help of the Monitoring Unit in the Ministry of Regional Development. Accompany this with detailed delivery plans for individual monitoring and evaluation exercises specifying what is to be done, by whom, by when and with what resources.
- Raise awareness among regional and local governments of the benefits that can be derived from measuring performance and evaluation more generally.
- Consider the active participation of regional government and municipal association representatives in appropriate monitoring and evaluation exercises (particularly on strategies with a territorial dimension) and involve them in decision-making regarding what information to collect, what methods to use and how to analyse data.
- Involve regional governments and municipal associations in periodic and systematic routine meetings to review relevant performance data and strategy evaluation exercises.
- Discuss with regional governments and municipal associations about which criteria and indicators should be used to measure progress.

**Building regional and local government capacity of regional and local governments and VAMs in developing long-term and integrated development strategies and using strategies to support decision-making.**

- Guide regional governments to adopt cross-sectoral long-term regional development strategies (e.g. regular cross-sector meetings in the planning process, use of foresight techniques in elaborating regional development strategies with more than a ten-year horizon, etc.).

- Identify functional areas across the entire territory for local planning purposes and promote cross-municipal joint planning at the functional scale (e.g. FUA). The national government can provide financial and non-financial incentives to promote joint strategic planning within the framework of Communities of Municipalities (currently proposed through legislation) and/or functional micro-regions, for example. The government can make joint strategic planning on functional areas a condition to unlock additional funding in certain national schemes. National or regional actors can support co-ordination if joint planning involves a high number of municipalities.
- Exploit the potential of FUAs in integrated joint strategic planning. This can include promoting the adoption of SUD strategies in all FUAs and providing targeted trainings or peer-learning workshops to support these FUAs to adopt an integrated approach to planning, linking various sectors and involving all municipalities.
- Ensure that VAMs and municipalities have access to data at the local/supra-local level and provide them with the appropriate tools and knowledge to develop evidence-based and robust analysis. This includes further developing data at the municipal level, providing catalogues and manuals on different databases and sources, and trainings on data analysis.
- Provide capacity programmes (e.g., trainings, seminars, manuals, practical guides, peer exchange forums, etc.) to VAMs and municipalities, focusing on applying the strategies to support daily decision-making and policy design to ensure the continuity of policies and services to pursue long-term development goals. These programmes could include a seminar or training on data analysis; a consolidated catalogue of various potential financial resources and principles to help VAMs and municipalities match financial resources with investment; disseminating examples of adopting local decision-making principles and monitoring and evaluation systems linked to local strategies; a pilot action with VAMs and large urban municipalities to carry out long-term strategic planning (over 10 years) using strategic foresight and data projection techniques. Regardless the forms of support, designing such programmes should be based on evidence. This said, the government can consider carrying out a survey and focus group consultations with VAMs and different types of municipalities to identify their capacity needs in strategic planning and use the results to design the programmes and support.

**Build subnational capacity for stakeholder and citizen engagement in strategic planning.** This can be particularly beneficial to help subnational authorities gain a wider political consensus on their development strategies so that they can be adopted beyond short political cycles.

- Partner with the associations of municipalities to develop practical tools to support stakeholder engagement exercises in municipal strategic planning. Such tools can include checklists, a collection of good practices or a simple decision-making tree to help municipalities choose the appropriate instruments to engage with stakeholders for strategic planning, according to their local context. It would be beneficial for the national government and both levels of self-government to carry out an analysis of stakeholder engagement practices among Czech municipalities, to understand the preferred form of engagement and specific challenges and use such analysis to design tools for municipalities.

## Enhancing vertical co-ordination among levels of government for policy provision and investment

Ensuring coherence among levels of government for policy planning and implementation may help improve the quality of policies and services delivered to citizens. In the Czech Republic, policy implementation at the subnational level is inconsistent within the same sector or policy field (Ministry of the Interior of the Czech Republic, 2016<sup>[55]</sup>). For example, stakeholders mentioned that practices in introducing digitalisation in public service delivery vary significantly by level of government. Some municipalities have a higher



uptake than others. A study of local government strategies during the COVID-19 crisis reveals the absence of effective co-ordination mechanisms between the central government and municipal actors. It identified that the complicated and bureaucratic administrative setting does not allow key decision-makers at the national and local levels to quickly share information and take informed decisions to devise the optimal response in a short period of time (Plaček, Špaček and Ochrana, 2020<sup>[56]</sup>). This inconsistency can affect the overall quality or outcomes of national policy because it can lead to discrepancies in implementation across regions and municipalities. Thus, better co-ordination among levels of government in policy delivery may help address such inconsistency.

Territorial fragmentation challenges co-ordination across levels of government. The Czech Republic faces challenges in ensuring effective vertical co-ordination – for service delivery, administration or investment – partly due to the territorial fragmentation. National-local co-ordination is very challenging due to the high number of municipalities. In this scenario, the Union of Towns and Municipalities and the Association of Municipalities play an important role in facilitating this co-ordination. When it comes to implementing delegated responsibilities, the national government also tends to co-ordinate only with the municipalities with “extended powers”/Type III municipalities. Regarding regional-local co-ordination, the number of municipalities by region differs greatly across the country, and thus, so do the co-ordination challenges. Overall, there is no one-size-fits-all solution for all regions in terms of how to effectively co-ordinate with municipalities. While regions can use similar mechanisms to co-ordinate with municipalities, they need to take into account the specific characteristics of the municipalities in their territory (size, capacity, resources, etc.)

When it comes to specific investment projects or service delivery, there is no legal framework or dedicated mechanism for different levels of government to co-ordinate or co-operate (Ministry of the Interior of the Czech Republic, unpublished<sup>[57]</sup>). In some cases, all levels of government co-ordinate investment projects when it is required to obtain funding, but this is rather the exception than the rule. Or, for example, the construction of a regional-level road requires each municipal government to issue a permit for the section located in their municipality. These procedures are often not well co-ordinated and the discrepancy in administrative capacity – hence the time to issue the permit – across municipalities can pose significant delays for regional investment projects. In particular, stakeholders mentioned that there are cases when a regional government invests in a regional road and the relevant municipal governments are not informed in advance and are thus unable to plan or prepare.

The Czech Republic can explore the use of territorial contracts to support vertical co-ordination for public investment and service delivery. OECD countries often use contractual agreements between different levels of government and sectors to align priorities and projects. France, which also has an important number of municipalities, has adopted different contracting tools to enhance co-ordination across levels of government, including with regions and municipalities (Box 4.16). Indeed, experiences show they can be flexibly applied in countries with a relatively high or small number of municipalities. They are effective instruments for identifying common targets, setting clear and transparent objectives, sharing information, and making credible engagements among different levels from the early stage of investments. While serving different objectives, contracts might help to ensure that national policies and regional and local priorities are coherent and “synergistically” contribute to national development targets. Contractual arrangements for investments and policy delivery could be capacity demanding for local governments. The adoption of a territorial agreement could specify priority projects for the development of the area covered by the agreement. Municipalities can sign agreements with the regional self-government or a national ministry.

#### Box 4.16. State-region contracts, city contracts, and recovery and ecological transition contracts in France

France has a long history of contractual arrangements linked to the decentralisation of specific tasks to regions, departments and, to some extent, municipalities. State-region contracts, launched in 1984, initially aimed at building regional capacity through a long negotiation process between subnational governments and the central government's deconcentrated bodies. These contracts established the objectives, implementation and funding modalities for specific tasks. They can also have an incidence on financial transfers from the central level to the subnational one. France is now in its sixth generation of state-region contracts. Through this process, regions have developed extended capacities and responsibilities in terms of economic development, employment and vocational training, including larger budgets and the involvement of new actors (e.g. academics, civil society). Urban policy has generally been focused on renewal in deprived neighbourhoods in cities of all sizes. It is formalised through city contracts (*contrats de ville*) concerning urban, social and economic development, in particular to address the devaluation of certain areas and urban and social segregation. These are annexed to state-region contracts and mainly passed between the state and the agglomerations, which allows pooling the actions of different communes.

State-metropolis pacts were launched in 2016 to empower and support investment in metropolitan areas; between 2016 and 2018, 485 contracts for rural development were signed to revitalise rural areas through initiatives in social cohesion, economic attractiveness, access to public services, mobility, access to digital technologies, and the ecological and energy transition.

In 2020, France introduced recovery and ecological transition contracts (*contrats de relance et de transition écologique*, CRTE) for inter-municipal co-operation bodies. These contracts last from 2020 to 2026 and provide a framework for the territorialisation and co-ordination of a range of public policies that, as a whole, contribute to the challenges of territorial cohesion and the ecological transition. The priorities of the contract are defined locally and agreed upon with the state. Inter-municipal co-operation bodies can access funding for the projects in the contracts from a variety of sources, including the local investment support grant (DSIL), EU funds, state government ministries implicated in the contract, and the private sector.

Source: OECD (2022<sup>[58]</sup>).

Given the fragmentation of local administration and their diversity, the Czech Republic can pilot the use of territorial contracts targeting public investment projects that currently have low uptake. For example, such an approach could be used to motivate collaboration between national ministries or regions with municipalities that are not covered by Integrated Territorial Investment (ITI) and CLLD. Or it could be used for investing in education (co-ordination between building primary schools and secondary schools), for which municipalities generally have low incentives or face more difficulties co-operating with the regional level. The advantage of a pilot action is that the national government can provide hands-on support and identify lessons learnt from the process, which can then be scaled up to other sectors or municipalities.

Co-ordination is also needed between the state administration and regional and local self-governments. Incentive structures and institutionalised mechanisms in this regard appear to be lacking. The problem can be threefold: first, without an incentive structure or institutionalised mechanism for the self-government units to co-operate or co-ordinate with line ministries for territorially relevant interventions. Currently, co-ordination is *ad hoc* and depends on the political will of the self-government units. Second, those national subsidies can be insufficient, limiting capacity at the territorial level to implement national policy. Compounding this is that staff dedicated to delegated functions may take up other tasks. Third, state

agency budgets are frequently allocated on a project basis rather than focusing on advancing overall policy objectives. This could limit their capacity to co-ordinate and ensure the overall alignment of territorial policy delivery and national agendas. Co-ordinating the implementation of Roma integration policy is one concrete example that illustrates the co-ordination challenges (Box 4.17).

#### Box 4.17. Implementation of the Roma integration policy among levels of government in the Czech Republic

The only systematic measures to engage local and regional authorities to implement the Czech Republic's National Roma Integration Strategy (NRIS) are the regional co-ordinators for Roma affairs and Roma advisors with the municipalities. Regional co-ordinators for Roma affairs are financed from state subsidies administered by the Office of the Government, which also ensures their methodological guidance. However, the subsidies are insufficient to cover all the tasks, therefore co-financing from the regional budgets is necessary. In practice, only a minority of co-ordinators (3 out of 14 regions) are assigned full-time to Roma affairs issues (the other assignments usually deal with co-ordinating national minority and foreigner-related affairs). At the municipal level, the working hours of the employees (Roma advisors) assigned to this agenda remain negligible (less than quarter-time positions).

The NRIS itself is binding only on the central government bodies. Many municipalities are engaged in exclusionary, segregating acts that go against the purpose of the NRIS. Political will, however, is a very important factor in local decision-making, and this also means mechanisms put forward by one local administration can be stopped by a newly elected one.

The Czech government's Agency for Social Inclusion (ASI) has been the most important vehicle of social inclusion at the local level. It motivates municipalities to implement social inclusion measures through its own activities, mainly by providing incentives associated with opportunities to apply for EU funding. The ASI local counsellors are in contact with the regional co-ordinators for Roma affairs and the Roma advisors at the municipal level to secure basic co-ordination with NRIS implementation. Besides particular municipalities, the ASI also collaborates with regional authorities in the formulation of regional social inclusion strategies. Three regional authorities (of 14) are currently engaged in a project with the ASI.

However, because its own operation is project-based and not systematically financed from the state budget, the ASI cannot cover the state's entire territory and its focus depends on implemented projects. The ASI and its local counsellors are more facilitators and supporters, and if they want to lead the municipalities towards implementing inclusive measures, they have to act sensitively, as there still is great resistance to Roma inclusion in many areas. An important question is who in the Czech Republic could remind local policymakers more systematically of the human rights dimension of the problems Roma face.

Source: European Commission (2020<sup>[59]</sup>).

One important formal co-ordination platform for public investment is the national and regional standing conferences. These conferences, however, focus mostly on co-ordinating investments financed through EU funding programmes rather than on vertical co-ordination for overall public investment supporting regional development. For example, regional standing conferences generally discuss the substance of calls for EU funding programmes, aligning their timetable and communicating regional proposals for investment to the national level through the National Standing Conference. The regional standing conferences also prepare documents for managing authorities upon request, co-ordinate activities within

their territory and prepare the annual report on the implementation of the regional action plan. There are also various working groups under the conferences for specific subjects. Such mechanisms are considered effective by the stakeholders interviewed, especially as their effectiveness has improved over the years. However, small municipalities without sufficient administrative capacity are often occupied by administrative tasks and lack the motivation and capacity to actively voice their needs in these conferences and the sub-working groups, especially if it is not mandatory.

The Czech Republic could consider creating a cross-sectoral, multi-level dialogue body to facilitate and institutionalise co-ordination among levels of government. Such a body could focus on practical aspects of national policies that need to be co-ordinated with subnational governments. It could also strengthen vertical co-ordination by aligning objectives at all levels and ensuring that policies are designed and implemented in a way that subnational governments understand. To some extent, this body is similar to the regional standing conferences, but would cover all sectors contributing to regional development rather than specific regional policies. Such a body should be led and operated by a core group (e.g. the centre of government) and include the Ministry of the Interior, the Ministry of Regional Development, the Ministry of Finance, and regional and local representatives. It should meet regularly and invite line ministries and relevant municipal groups (e.g. the Ministry of the Environment and VAMs that carry out joint service delivery in the water sector) on an *ad hoc* basis to discuss specific policy implementation issues with regions and municipalities. In particular, the subnational government associations – the Association of Regions, the Union of Towns and Municipalities, and the Association of Municipalities – should be permanent members of such a body and should be actively engaged. Italy has three levels of “conferences” between the central and subnational governments, serving as fora for inter-governmental co-ordination (Box 4.18). The high-level, cross-sectoral and inter-governmental co-ordination platform on regional and local development proposed above in the strategic planning section could be part of this overarching dialogue body.

#### Box 4.18. Inter-governmental co-ordination platforms in Italy

In Italy, inter-governmental co-ordination mechanisms are well developed. The main institutional mechanisms are the so-called “conferences”: the Conference of State-Regions; the Conference of State-Cities and Local Autonomies; and the Joint Conference of State-Regions-Municipalities and Local Authorities. The three conferences are held in the Prime Minister’s Office.

**The Conference of State-Regions** is presided by the prime minister or the minister of regional affairs. It gathers the presidents of the regions and other ministers whenever matters related to areas of their competence are discussed. The central government consults the conference regarding all legislative initiatives related to areas of regional interest. Regional governments play a key role on this platform and in the process of institutional innovation, especially relating to the transfer of functions from the centre to the regions and local authorities.

**The Conference of State-Cities and Local Autonomies** is presided by the prime minister. It gathers the minister of the interior, the minister of regional affairs, the minister of the treasury, the minister of finance, the minister of public works, the minister of health, the president of the Association of Italian Municipalities, the president of the Association of the Italian Provinces, the president of the Association of Italian Mountain Communities, 14 mayors and 6 presidents of provinces. The conference co-ordinates the relations between state and local authorities, as well as studies and discusses issues pertaining to local authorities.

**The Joint Conference of State-Regions-Municipalities and Local Authorities** includes all members of the other two conferences. Its overall mission is to foster co-operation between the state and all the local and regional authorities. It is competent in cases where all levels of government are called upon

to express themselves on the same issue (shared competence). In particular, it is consulted by the central government on the financial law and on the decrees concerning the allocation of personnel and financial resources to regions and local authorities.

Sources: OECD (2007<sup>[60]</sup>); European Committee of the Regions (2019<sup>[61]</sup>).

### **Recommendations to enhance vertical co-ordination**

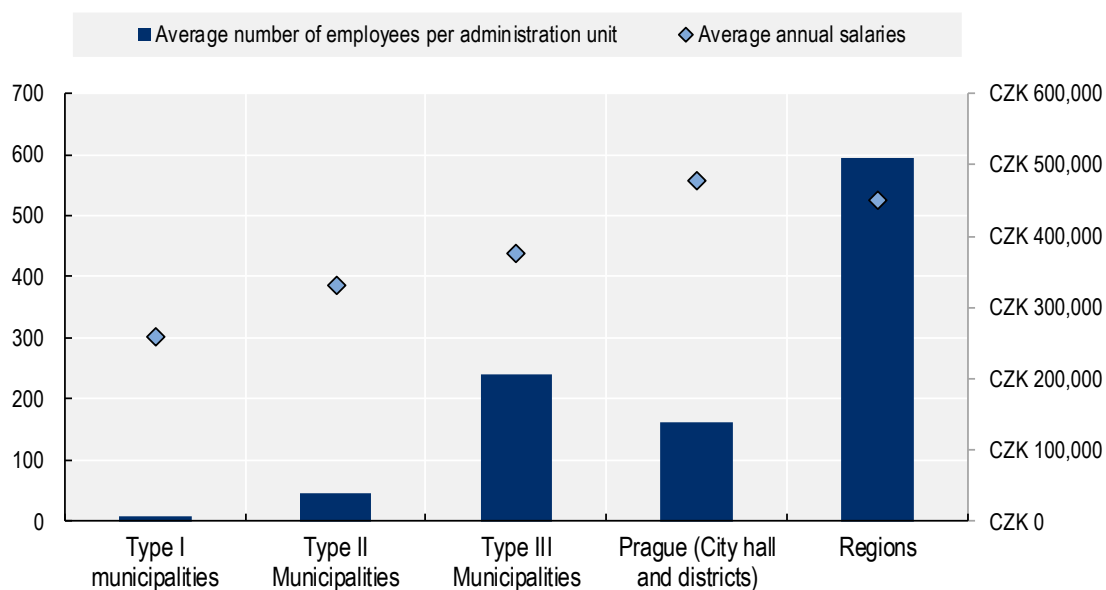
- **Start a pilot action to use territorial contracts for inter-governmental co-operation** for public investment projects that currently have low uptake. For example, such an approach could be used to motivate co-operation among municipalities that are not eligible for ITI and CLLD. The advantage of a pilot action is that the national government can provide hands-on support and identify lessons learnt from the process, which can then be scaled up to other sectors or areas.
- **Create a cross-sectoral and multi-level dialogue body as an institutionalised co-ordination mechanism** to focus on the implementation of national policies that require the co-operation of subnational governments.

### **Building subnational government administrative and strategic capacity to enhance policy and service delivery**

The lack of staff in many small municipalities poses a challenge for implementing municipal priorities. Strengthening municipal administrative capacity is one of the key recommendations of the *OECD Economic Survey 2020 of the Czech Republic* (OECD, 2020<sup>[8]</sup>). According to OECD data, over half (55%) of general government employment is at the subnational level in the Czech Republic (see Chapter 6). While this is the average among OECD countries, the fact that the Czech Republic has a high number of municipalities means the average number of employees per government unit is very small. According to the Ministry of the Interior, there is a total of 99 159 employees across all subnational governments in the Czech Republic (including turnover over the year). Among them, 84% are full-time jobs and 92% are at the local level (including Prague and its district) (Ministry of the Interior of the Czech Republic, 2022<sup>[62]</sup>). There is a stark difference between small municipalities – those with basic power – and the others, as shown in Figure 4.5. Small municipalities (to recap, 77% of Czech municipalities have less than 1 000 inhabitants) have a *de facto* inability to ensure sufficient and qualified staffing for municipal authorities (Ministry of the Interior of the Czech Republic, 2018<sup>[63]</sup>).

## Figure 4.5. Average number of employees per administration unit and average annual salary in the Czech Republic

2021 data of 3 827 local governments and all regions (13 regions and Prague)

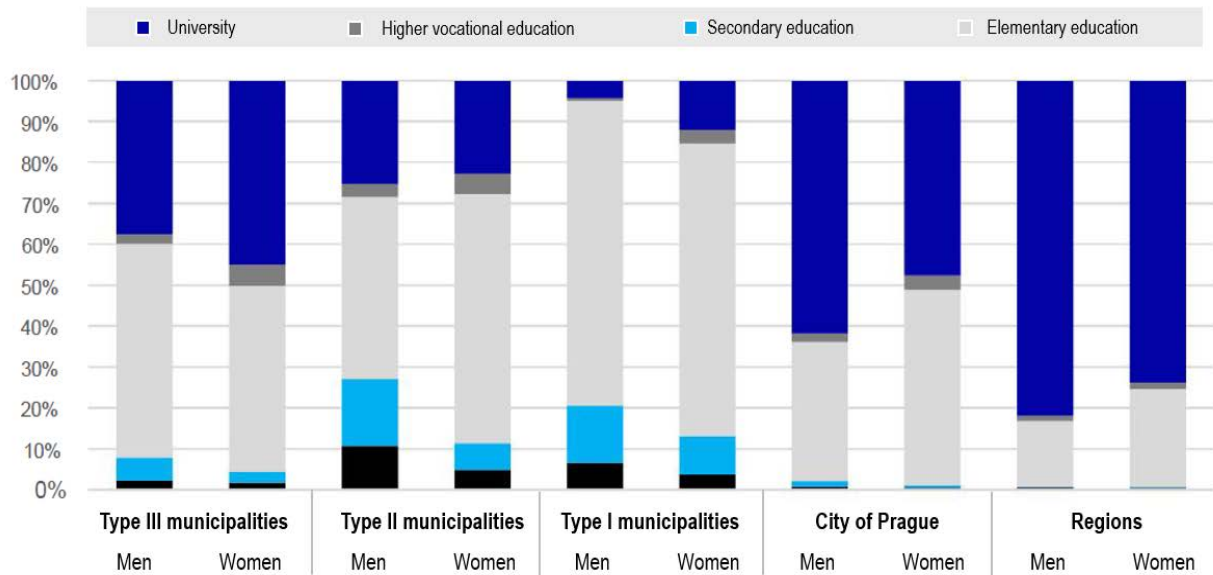


Notes: Averages are calculated based on data from 3 827 local governments (61%) and all regions. Data are missing for 1 Type III municipality out of 205; 6 Type II municipalities out of 183; and 2 421 Type I municipalities out of 5 866; 48 out of 57 districts in the City of Prague.

Source: Author's work adapted from Ministry of the Interior of the Czech Republic (2022<sup>[62]</sup>).

The lack of adequately educated and skilled staff and expertise in small municipal offices is an acute challenge when dealing with specialised areas such as investment projects, procurement and financial management. Local governments are key investors. They invest in roads, energy supply, water management, schools and hospitals, among others. The lack of skilled employees in these areas could contribute to a lower number and lower quality of investment projects in a municipality. This issue was analysed in the 2020 *OECD Economic Surveys: Czech Republic* (OECD, 2020<sup>[81]</sup>). Evidence shows that in the Czech Republic, investment per capita in small municipalities (less than 500 inhabitants) is less than half of investment per capita in mid-size (5 000-10 000 inhabitants) or large municipalities (more than 100 000 inhabitants). The Ministry of the Interior has identified this low level of expertise in financial management as one of the factors leading to a high risk of insolvency<sup>13</sup> of municipalities (Ministry of the Interior of the Czech Republic, 2016<sup>[64]</sup>).

Figure 4.6. Level of education of subnational government public employees in the Czech Republic



Notes: Averages are calculated based on data from 3 827 local governments (61%) and all regions. Data are missing for 1 Type III municipality out of 205; 6 Type II municipalities out of 183; and 2 421 Type I municipalities out of 5 866; 48 out of 57 districts in the City of Prague.

Source: Ministry of the Interior of the Czech Republic (2022<sup>[62]</sup>).

In the Czech Republic, the national government has very limited influence on public employment (e.g. number of employees, etc.) in regional and local governments. Regardless of whether they exercise delegated or independent responsibilities, employees in subnational governments are governed by the Act on Officials of Territorial Self-governing Units rather than the Civil Service Act, which governs civil servants at the state level. The remuneration of subnational employees is set according to Government Order No. 341/2017 Coll. Salaries are set on the basis of the official's classification in the salary grade and salary step<sup>14</sup>. Subnational government officials are required to pass the Special Professional Competence exam to demonstrate their competencies.

The national government can support learning and staff development at the local level to build institutional memory and effective workforces. Focusing only on estimates of how many employees will be needed to implement projects and simply replacing workers with the same skills may not be effective in the long term. It is also unrealistic to assume that all municipalities can recruit sufficient employees and experts. At the same time, the situation for municipalities to fulfil their tasks and their budgetary resources (transfers and own tax revenue) are constantly evolving, and are less predictable in the eye of climate change, the energy crisis, the COVID-19 pandemic, inflation, among other uncertainties and challenges. Supporting municipal administrations to learn and adapt established working methods to meet new demands can be a key solution for addressing the capacity challenge.

### ***“Scale-up” capacity building at the municipal level***

Czech municipalities face difficulties in developing institutional memory and capacity. In small municipalities, which are the majority in the Czech Republic, it is common for municipal staff to be stretched over several tasks. For example, for investment projects, the same groups of employees might be responsible for planning, project prioritisation, implementation, procurement, monitoring and communication, among others. These municipal employees may gain knowledge at their job over time; but when they leave, they also “take away” all their knowledge in managing investment projects. This is in



stark contrast with the big cities, which have a stable administration structure and specialisation of tasks, which, even with a high turnover rate, are managed to build institutional knowledge and train new employees within its own capacity.

Municipalities may find it difficult to access and use methodical support from the 14 regional offices – such support was previously provided by the 77 district offices, which are closer to municipalities. On the one hand, for regions that cover a high number of municipalities, the supervision and support can be capacity and resource demanding. On the other hand, municipalities complain that following national legislation and all the guidance – for both independent and delegated responsibilities – adds significant administrative burdens on them.

There is room to build capacity at the right scale to enhance efficiency by pooling expertise or encouraging peer learning through the VAMs. For example, if a VAM carries out joint strategic planning, the national government can provide support (e.g. experts, trainings, etc.) to the VAM secretariat and build its capacity. Furthermore, facilitating peer exchange and knowledge sharing is a key method of supporting a large number of municipalities. In particular, for small municipalities, there is potential for the national government to support train-the-trainers programmes to build economies of scale for capacity building.

The Czech Republic is also considering developing regional competency centres for public procurement purposes. Centres of shared specialist services with teams of professionals are being piloted on a voluntary basis and, if successful, should be expanded to form a country-wide network. These competency centres have great potential in building local capacities and could potentially be expanded beyond public procurement. This is the case of pilot advisory support centres in Poland (Box 4.19).

Another option, or in addition to the competency centres, is to support networks or organisations targeting municipalities that face common challenges. Not only can such networks or organisations provide support, they can also facilitate exchange among local authorities to tackle specific issues. For example, municipalities in economically and socially vulnerable areas may face similar structural challenges and could receive tailored support. This could also be initiated by municipalities, but could significantly benefit from support from the Association of Municipalities and the national government. Such a network or organisation does not have to be a public entity but can take the form of a non-profit organisation, as in the case of the Sustainable Islands Network in Greece (Box 4.19).

#### **Box 4.19. Examples of organisations providing technical support and capacity building to local governments**

##### **Advisory support centres in Poland**

One of the projects in the National Strategy for Regional Development for Poland is to establish advisory support centres. The main goal of the advisory support centres is to support areas of strategic interventions (e.g. territories with structural development disadvantages or challenges). This includes strengthening their administrative efficiency in strategic management and implementing comprehensive development projects. This pilot project aims to build the capacity of local authorities in strategic planning and the use of territorial investment instruments. It helps local governments develop and manage their partnerships with other local governments as well as civil society organisations. The capacity-building process brings together the stronger and weaker municipalities (in terms of capacity) in the same functional areas to identify common development priorities, shared potential for realising them, and challenges and solutions. By doing so, it reinforces partnerships and co-operation in functional areas and strengthens the implementation of the territorial approach.



### **The Sustainable Islands Network in Greece**

The Sustainable Islands Network (DAFNI) is a non-profit company of island local authorities. It was set up in 2006 to empower the islands' local authorities and activate a sustainable model for island development based on sustainable and intelligent management of natural resources and infrastructure, sustainable tourism utilising the natural and cultural resources of the islands, and the functional interface of the primary to the secondary and tertiary domains. The DAFNI network currently counts 48 members, including 44 island municipalities in the Aegean and Ionian Islands, the North Aegean and South Aegean, as well as the Regional Union of Ionian Islands. It has scientific and technical training, deep knowledge of the local needs and development dynamics of the islands, as well as dedication, over time, to the implementation of integrated solutions that meet the identified needs of each island individually. One key project is the development of a Geospatial Data Portal for all Greek islands except Crete and Evia. The project is essentially about creating an organised database network (platform) with common standards and protocols, which will ensure compatibility and interoperability between data and services. The network also co-ordinates and actively participates in initiatives to strengthen local government and island society, seeking to develop policies tailored to the islands' particular challenges and development opportunities. It co-ordinates, for example, the Smart Islands Initiative, which is supported by over 200 municipalities and regions, networks, and energy bureaus of islands across Europe.

Source: OECD (2021<sup>[28]</sup>).

### ***Tailor capacity building to different groups of municipalities, taking into account local development profiles and policies***

The current education system and trainings for officials of territorial self-governing units appear to be burdensome in relation to the actual needs of municipalities and, in some cases, do not reflect the actual content of officials' administrative activities. All officials of territorial self-governing units are required to obtain a relatively wide range of knowledge of the procedural regime of the Act on Administrative Code. This is reflected in the general part of the Special Professional Competence exam, which officials are obliged to pass, regardless of the type of municipality and their competencies. However, for many small local administrations, some proceedings are not even conducted in their regime (e.g. the administration of taxes, fees and other similar monetary payments). The obligation for all municipal officials to pass the Special Professional Competence exam seems to be unnecessary (Ministry of the Interior of the Czech Republic, 2022<sup>[65]</sup>). The forthcoming amendment to the Act on Officials of Territorial Self-governing Units proposes major changes to the training system, e.g. simplification of the Special Professional Competence exam, which would focus more on the professional activities of officials of territorial self-governing units and simplification of the system of accreditation of educational programmes.

Another disconnect with reality is the absence of trainings and systematic education for elected municipal representatives. Elected representatives such as municipal councillors, mayors or employees working in the commissions are not covered in the legally mandated trainings and education for territorial self-governments. This is a problem, as in many very small and remote municipalities, mayors also carry out public administration tasks. Councillors play a determining role in the overall development but also day-to-day operations and practices of the municipalities. The fact that elected representatives are not trained systematically could pose a problem for many municipal administration tasks, such as budgetary practices. There is a need to expand educational opportunities for elected representatives of territorial self-governing units.

The diversity of municipalities generates a great need to better understand municipal capacity needs and provide comprehensive, continuous capacity-building programmes. Rather than solely relying on a

top-down approach of inspection and providing recommendations for municipalities, the national government can try to ask municipalities to identify the difficulties they face in public administration and policy provision. This could help the national government structure its capacity-building efforts in a more specific and targeted fashion and avoid adding an unnecessary burden on municipalities. It can also help put into perspective whether the municipal gaps in public administration and management are pertinent to certain regions or groups of municipalities, thereby helping the national government (and regions) to provide tailored support. The aim should be to reinforce the capacities of municipal public officials and institutions in a systemic and sustainable way, rather than offering technical assistance on a case-by-case basis.

Capacity-building and technical assistance activities could be diversified and enhanced. With limited resources and time, only a small portion of the over 6 000 municipalities can receive the various trainings. Workshops and trainings can also be time-consuming, and some charges are high for many small municipal offices. Furthermore, municipalities might not be interested in attending general trainings that are not specific enough to help them address practical challenges in planning. They might find the documents too extensive and too time-consuming to follow. There is room for the national government to increase the use of digitalised materials and develop “light” documents or practical toolkits in plain language. The possibility for the national government to mobilise regions or municipalities with “extended powers” to aid other municipalities or VAMs could be explored. The French National Agency for the Cohesion of Territories provides an example (Box 4.20).

#### Box 4.20. The National Agency for the Cohesion of Territories in France

The National Agency for the Cohesion of Territories (ANCT) was created by law in 2019 and set up in 2020. Its creation reflected the central government’s action to support subnational governments to promote their projects while taking into account cross-cutting challenges (e.g. cohesion, digital, ecological and demographic transition). The ANCT facilitates subnational governments’ access to resources needed to carry out projects according to their local contexts, notably by providing them with engineering resources (e.g. studies, forward-looking workshops, training, co-financing of project managers). It also implements programmes to strengthen territorial cohesion by directing public investment towards small and medium-sized towns, disadvantaged areas, the development of circular economies, industrial renewal (particularly in rural areas), and the provision of local public services. The ANCT is also strongly involved in the digitalisation of territories through the establishment of dedicated infrastructure and supporting different uses (from the fight against illiteracy to the development of new technologies).

The ANCT facilitates the implementation of typical territorial projects, such as the revitalisation of city centres and industrial fabrics, strengthening employment and healthcare services, promoting economic attractiveness, etc. It also meets specific needs upon request, such as renovating schools, developing alternative transport modes, deploying free Wi-Fi in public spaces, among others.

Prefects are the local representatives/contact points for local governments that would like to request support from the ANCT. Prefects are the direct representative of the prime minister and every minister at the departmental level (101 departments in France). They plan and implement government policies and are responsible for national interests, administrative supervision, compliance with laws and public order.

Sources: OECD-UCLG (2022<sup>[66]</sup>); ANCT (n.d.<sup>[67]</sup>).

## **Recommendations for building administrative capacity**

**“Scale-up” capacity building at the municipal level.** The aim is to build economies of scale in capacity building and to reinforce the capacities of municipalities in a systemic and sustainable way, rather than offering technical assistance on a case-by-case basis.

- Enhance the efficiency of capacity building by pooling expertise or encouraging peer learning through the VAMs. For example, if a VAM carries out joint strategic planning, the national government can provide support (e.g. experts, trainings, etc.) to the VAM secretariat and build its capacity. Furthermore, facilitating peer exchange and knowledge sharing is a key method.
- Continue efforts to create regional competency centres. In the long term, these centres could be expanded to provide a wide range of capacity-building activities to local governments, beyond procurement. These centres should be developed in close consultation with local governments in different regions of all types.
- Support municipalities to develop networks or organisations that target certain groups of municipalities that face common challenges (e.g. economically and socially vulnerable areas) and facilitate exchange among them.

### **Tailor capacity building to different groups of municipalities, taking into account local development profiles and policies.**

- Develop a long-term capacity-building plan for municipalities based on municipal governments’ feedback and opinions. This can be done based on a survey and consultation. One of the goals is to understand whether the municipal gaps in public administration and management are pertinent to certain regions or groups of municipalities, thereby designing and providing tailored support in a systemic and sustainable way, rather than offering technical assistance on a case-by-case basis.
- Increase the use of digitalised materials and develop “light” documents or practical toolkits in plain language to facilitate uptake/use by municipal staff.
- Mobilise regions, municipalities with “extended powers” and associations of municipalities to provide technical assistance (e.g. experts, workshops, counselling and advisory services) to municipalities or groups of municipalities. The assistance can include a “general part” (e.g. a pool of experts or a series of workshops for common projects carried out by many municipalities, such as water management projects) and also be able to cater to the specific needs of some municipalities upon request.
- Continue the special competency education reform to reflect and adapt to the actual tasks and competency needs of different groups of municipalities and expand educational opportunities for elected representatives of territorial self-governing units.

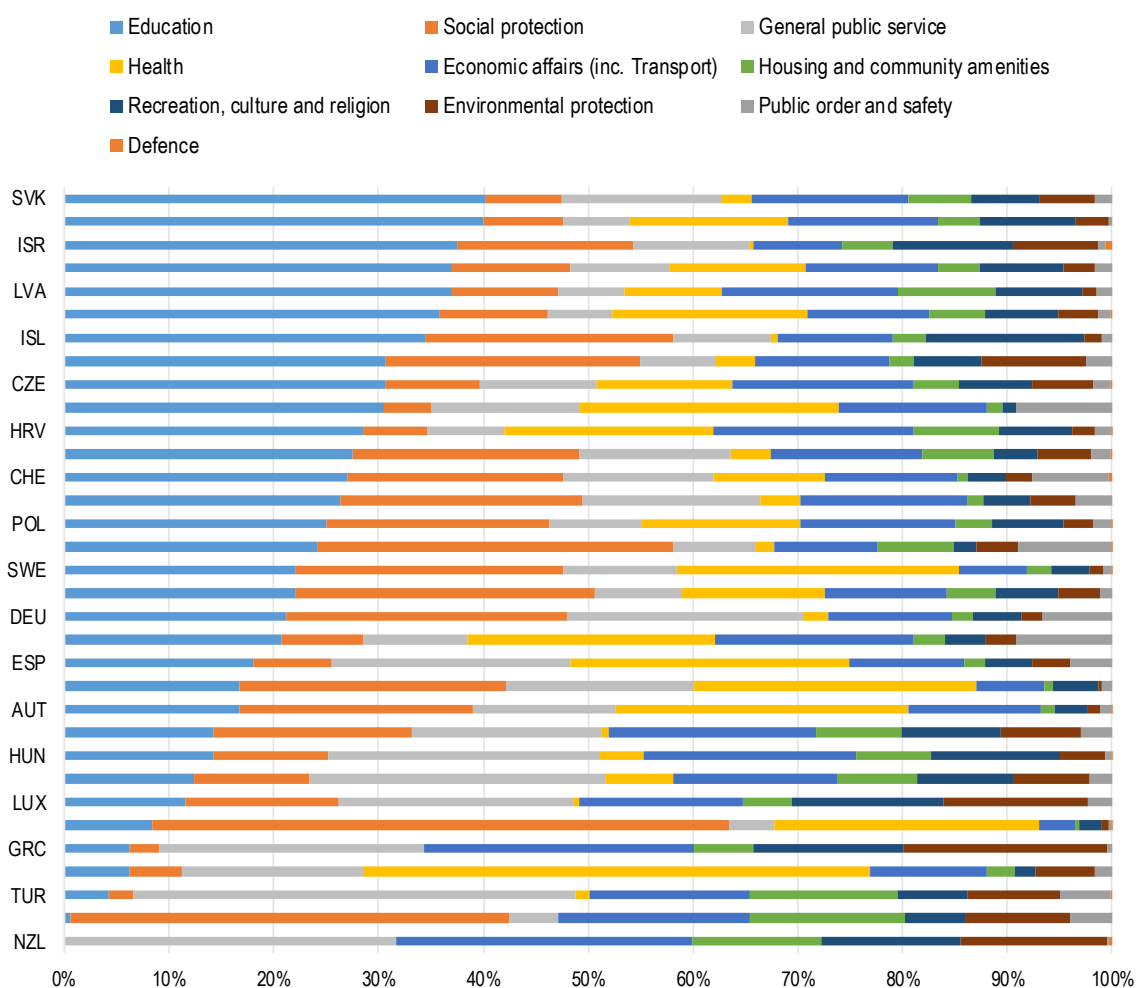
## **Strengthening subnational fiscal capacity**

While subnational governments are responsible for delivering key services, subnational government spending is still below the OECD and EU27 averages. In 2020, regional and local spending accounted for 27.7% of general government expenditure, below the OECD average (36.6%) and the EU27 average (34.3%), but above the EU27 average for unitary countries (21.9%). The share of staff expenditure in subnational government expenditure is significant (44.0% vs. 34.4% in the OECD in 2020 and 32.1% in the EU) and subnational government staff expenditure accounted for more than half of public staff spending, a level in line with the EU27 average (53.6%), but well above the EU27 average for unitary countries (34.7%) (OECD-UCLG, 2022<sup>[4]</sup>). However, the discretionary powers of subnational governments are limited, as an important share of spending is made on behalf of the central government, which determines local government employees’ salaries. It is worth noting that regional expenditure has been

continuously growing since the *de facto* creation of regions in 2000, as they have been gaining more spending responsibilities and resources from the decentralisation process. In 2020, they accounted for 47.8% of subnational government expenditure (13.2% of public expenditure, or 6.2% of gross domestic product [GDP]), while municipalities accounted for the remaining 52.2% (14.5% of public expenditure, or 6.8% of GDP) (OECD-UCLG, 2022<sup>[4]</sup>).

The largest category of subnational spending in 2020 was education, accounting for 30.6% of subnational expenditure and almost half (49.3%) of total public spending in education. The second most important area of spending was economic affairs (17.2%), particularly transport, followed by health (13%) and general public services (11.1%). The share of health in subnational government spending has increased significantly since 2013, as decentralisation of healthcare has ramped up (OECD-UCLG, 2022<sup>[4]</sup>). Subnational governments are also responsible for almost 80% of total public expenditure in environmental protection policies, as well as for 71.1% in the sector of housing and community amenities (OECD-UCLG, 2022<sup>[4]</sup>). Even in cases where much of the funding is covered by the state or social funds, local governments are often responsible for setting up, investing and managing the delivery of services (OECD, 2020<sup>[8]</sup>).

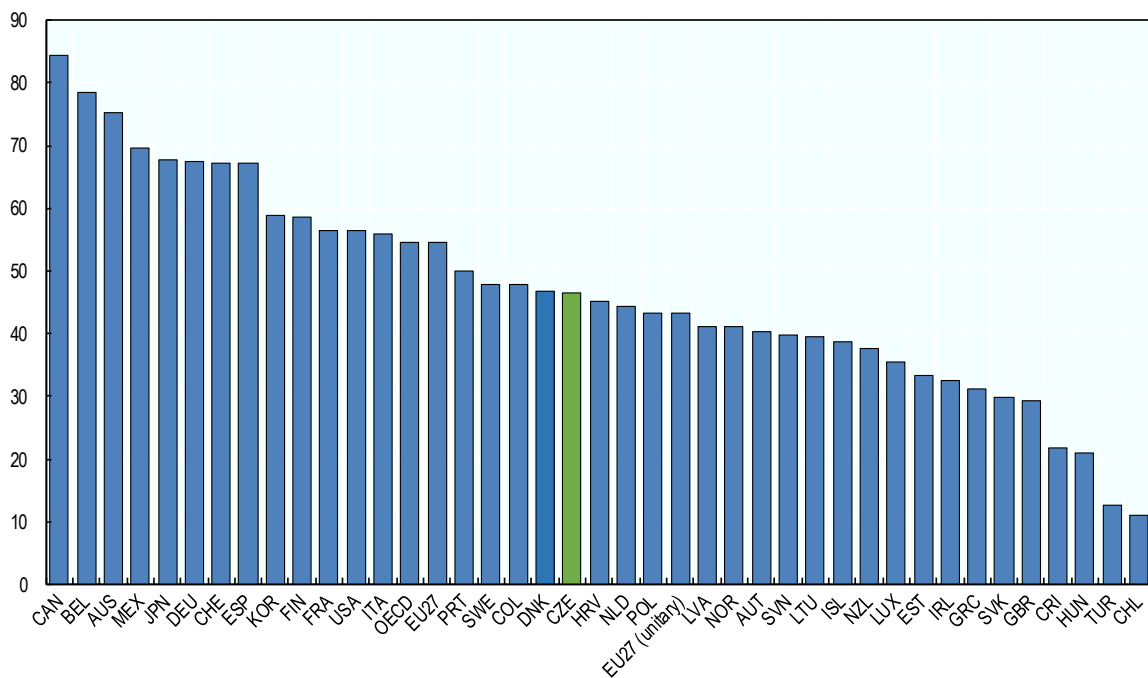
**Figure 4.7. Subnational government expenditure by functional classification as a percentage of total subnational expenditures, 2020**



Source: OECD-UCLG (2022<sup>[68]</sup>)

On average, Czech regions and municipalities are important investors, but investment per capita in small municipalities is very low. Subnational government investment represented 46.4% of public investment in 2020, below the OECD and EU averages (54.6% and 54.4%, respectively, in 2020) but slightly above the EU average for unitary countries (43.2%). In 2020, most subnational government investments were dedicated to economic affairs and transport (30.7%); education (25.6%); environmental protection (12.2%); and recreation, culture and religion (11.5%). Despite the increasing role of regions in investment, the municipal level remained the primary subnational government investor, accounting for 64.3% of subnational government investment was done at the municipal level in 2020. Investment per capita in small municipalities (less than 500 inhabitants), however, represents less than half of investment per capita in medium-sized municipalities (5 000-10 000 inhabitants) as well as large municipalities (more than 100 000 inhabitants). As explained earlier in this chapter, the low levels of investment in small municipalities compared to that of medium or large cities is largely due to a lack of skills and administrative capacity to deal with complex investment projects.

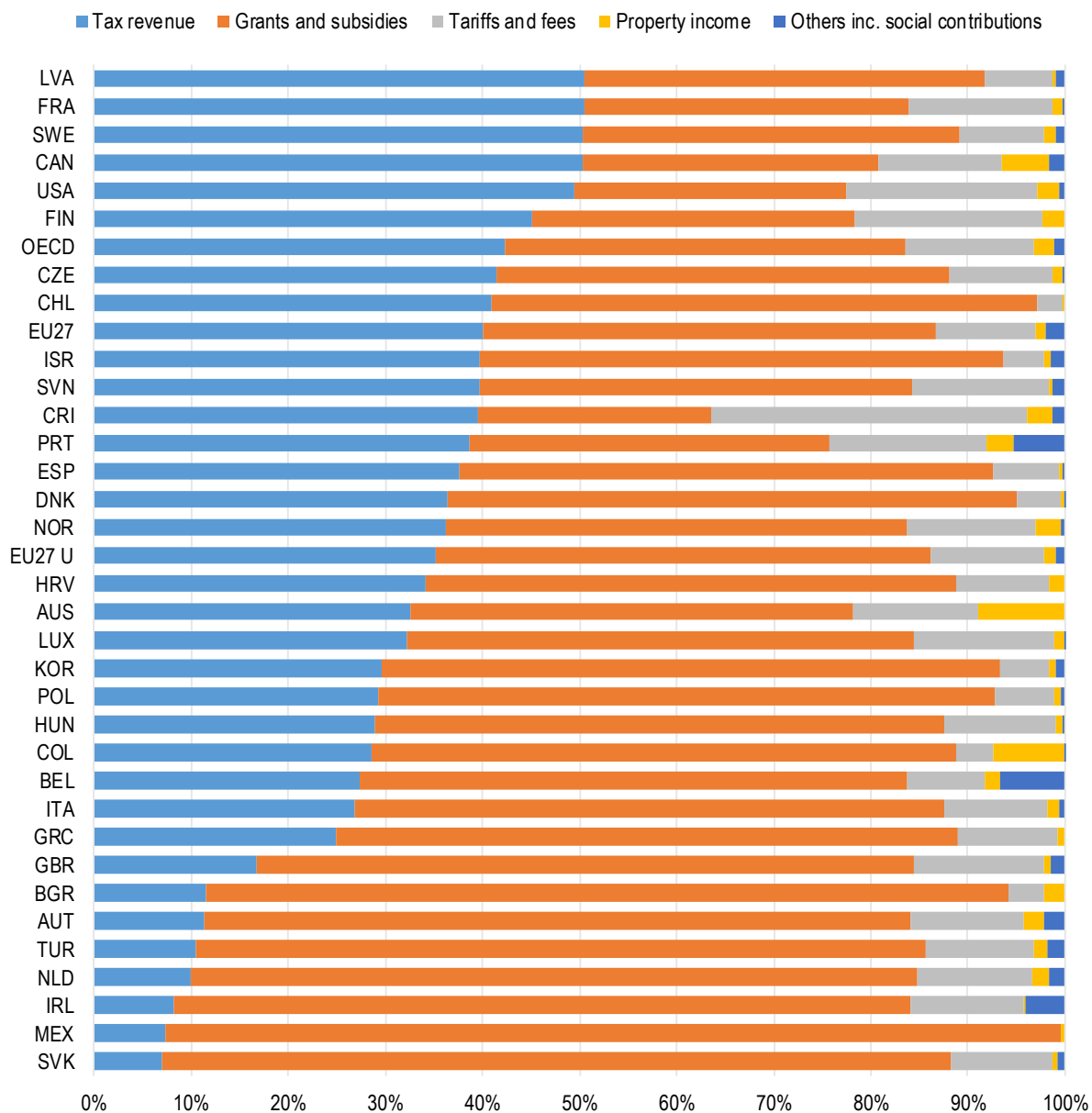
**Figure 4.8. Subnational public investment as a percentage of total public investment, 2020**



Source: OECD-UCLG (2022<sup>[68]</sup>)

According to the Local Finance Act 243/2000, subnational government's revenue comes mainly from a mix of taxes and intergovernmental transfers from the central government. Taxes (shared and own-source) and transfers (grants and subsidies) accounted for more than 88% of subnational revenues in 2020, while tariffs and fees amounted to 10.5% (Figure 4.9).

**Figure 4.9. Subnational government revenues by type, percentage of total subnational government revenue, 2020**



Source: OECD-UCLG (2022<sup>[68]</sup>)

Subnational governments are strongly dependent on central grants and subsidies mostly aimed at funding state delegated functions. In 2020, grants and subsidies accounted for 46.7% of subnational revenue (vs 41.2% in the OECD, 46.6% in the EU27, and 51.1% in the EU27 unitary countries). There is a complex system of grants from the central government to subnational governments in the Czech Republic. Transfers include hundreds of subsidy schemes, which are mostly earmarked. Grants typically come from the national budget or the budget of several state funds. Grants for current expenditure are based on a formula set by the Ministry of the Interior and are, for example, used to finance education, specific development programmes or infrastructure maintenance. The formula for municipalities is based on their population and the extent of their delegated competencies. Municipalities with extended powers receive

an additional transfer from the state. However, the link between the cost of providing delegated services and the amount transferred for these services is small, which reduces efficiency. This is particularly true for education grants, a major component of central government earmarked transfers, which are allocated on a per-student basis and do not reflect the actual cost of the service. Some transfers are fixed and relatively stable over time, such as social transfers for regions to cover healthcare funding. In addition, municipalities can apply for subsidies from the regions, which can stem from the individual responsibility of the region (e.g. for a specific regional programme) or from the redistribution of state subsidies (e.g. for teacher salaries) (OECD-UCLG, 2022<sup>[4]</sup>). While this system ensures subnational governments some stability, especially for small municipalities, it also limits their autonomy. There is thus space to increase the use of non-earmarked grants that would match funding facilitating efficiency and innovation from the bottom.

Tax revenues represent a significant source of subnational government revenue, especially for municipalities, but tax autonomy is limited, as taxes are mostly shared. Subnational government tax revenue accounted for a significant share of subnational government revenue in 2020 (41.4%), close to the OECD (42.4%) and EU27 average (40.1%), and above the EU27 average for unitary countries (Figure 4.9). However, subnational governments raise a very small proportion of total taxes, as subnational tax revenues represent 28% of public tax revenue and 5.6% of GDP. The rest goes to the central government and the state fund for traffic infrastructure, according to a complex tax-sharing system.

In addition to being complex, the tax sharing formula implicitly encourages municipal fragmentation. Each individual region's share was set in legislation in 2005, with a coefficient roughly in line with the estimated costs for delivering autonomous competences. For municipalities, the calculation is more complex and tends to favour small municipalities, with the exception of the four biggest cities. Population size is the main criterion (88%), the others being the number of children in nursery and primary schools and the size of the cadastral area. Act No. 609/2020, which amended some tax acts, increased the shares for regions to 9.78% (from 8.92%) and for municipalities to 25.84% (from 23.58%) in 2021. This tax-sharing scheme induces some equalisation between municipalities that compensates, to a certain extent, the non-existence of an equalisation grant at the regional or municipal levels (OECD-UCLG, 2022<sup>[4]</sup>). However, the formula implicitly encourages very small municipalities to remain small as, on average, they receive significantly more tax revenue per inhabitant (Sila and de la Maisonnette, 2021<sup>[69]</sup>). While it is true that it is important to compensate small municipalities for the higher per capita costs of delivering basic services, it is also true that, given the strong administrative fragmentation, the tax-sharing formula could be made more neutral for small municipalities, so they do not have strong incentives to remain small.

Own-source taxes represent a small share of subnational government revenue. Regional governments do not collect their own taxes and the property tax on land and buildings is the only tax levied by municipalities. The property tax, based on the size of the property rather than its value, remains a minor tax, accounting for 3.6% of subnational government tax revenue, 1.5% of subnational government revenue and 0.2% of GDP in 2020, which is one of the lowest in the OECD (the OECD average was 1.0% of GDP in 2019). In 2009, a marginal rate was introduced to give municipalities some autonomy over tax rates, so they can increase the rate up to five times the minimum threshold. However, most municipalities tend to set their local property tax rate at the lower level set by the central government, and less than 10% of municipalities have made use of the possibility to increase tax rates (OECD-UCLG, 2022<sup>[4]</sup>; Andrlík, Halamová and Formanová, 2021<sup>[70]</sup>). Municipalities have also set a wide range of exemptions for this tax. In its 2022 Policy Statement, the government announced it would expand the municipalities' leeway to set the coefficient of the real estate tax. To complement local tax revenues, Czech municipalities have the right to set seven local fees, including water and sewerage charges, municipal waste collection fees, and library fees.

Reforming the tax sharing formula and providing more tax autonomy to some local governments may help improve their efficiency. International evidence shows that subnational governments are more efficient when local residents self-finance local services through local taxes and charges (Sila and de la Maisonnette, 2021<sup>[69]</sup>). As suggested by previous OECD work, the tax autonomy of Czech local



governments can be strengthened by encouraging municipalities to raise more revenue from the property tax. Indeed, collecting higher levels of property tax not only strengthens the local fiscal base, but also means a counter-cyclical revenue source that provides stability for local revenues (OECD, 2020<sup>[8]</sup>). This is particularly relevant in the current context of uncertainty, considering that unexpected crises will likely be more common in the coming years. For this, property tax evaluation should be based on regularly updated estimates of property value rather than the size of the property, as it is today. To avoid resistance to the tax and unintended consequences for vulnerable households, targeted means-tested exemptions could be introduced (OECD, 2020<sup>[8]</sup>). Increasing the municipal tax base may be another way to strengthen tax autonomy. For this, and as recommended by previous OECD analysis, the tax-sharing formula could be tweaked to disincentivise small size of municipalities (see above) and to raise the weight of factors linked to economic activity (number of employees) and income (OECD, 2020<sup>[8]</sup>). In addition, mirroring the asymmetric assignment of responsibilities, the Czech Republic might consider designating, for example, the municipal income tax as own-source only for certain types of municipalities or large cities, as small municipalities do not necessarily reach an optimum size to collect taxes efficiently. This would need to be accompanied by adequate equalisation mechanisms (see below).

Due to changing demographic trends, and to reduce territorial inequalities, there is growing pressure for horizontal revenue redistribution across subnational governments. Many OECD countries resort to fiscal equalisation. There are a wide variety of fiscal equalisation models. Most can be classified depending on whether they equalise fiscal capacity or expenditure needs, or a combination of both; whether they are funded by vertical or horizontal grants; and whether they pursue a full or partial equalisation goal. However, many combine multiple features and some issues are relevant to all systems (Dougherty et al., 2022<sup>[71]</sup>). Currently, some implicit equalisation elements can be found in the tax-sharing formula (see above); and transfers dedicated to special programmes for structurally affected areas (such as RE:START to support the coal mining regions). However, these mechanisms do not necessarily have clear and transparent equalisation objectives. This is why the Czech Republic could benefit from an equalisation system that promotes the tax and development efforts of subnational governments (Sila and de la Maisonnette, 2021<sup>[69]</sup>), while at the same time makes the objectives of reducing territorial inequalities explicit, clear and agreed upon by all relevant actors.

### ***Recommendations to strengthen subnational finance***

**Expand the use of non-earmarked transfers to subnational governments to strengthen their autonomy.** While the earmarked grant system ensures some stability to subnational governments, especially for small municipalities, it also limits their autonomy. There is space to increase the use of non-earmarked transfers to match funding, facilitating efficiency and innovation from the bottom. Introducing some performance criteria in the use of grants could also increase their efficiency.

**Providing more tax autonomy to some local governments may help improve their efficiency.** As suggested by previous OECD work, the tax autonomy of Czech local governments can be strengthened by encouraging regions and municipalities to raise more revenue from the property tax. For this, property tax evaluation should be based on regularly updated estimates of property value rather than on the size of the property, as it is today. To avoid resistance to the tax and unintended consequences for vulnerable households, targeted means-tested exemptions could be introduced. Increasing the municipal tax base may be another way to strengthen tax autonomy. For this, and as recommended by previous OECD analysis, the tax-sharing formula could be tweaked to disincentivise small size of municipalities and to raise the weight of factors linked to economic activity (number of employees) and income. In addition, mirroring the asymmetric assignment of responsibilities, the Czech Republic might consider designating, for example, the municipal income tax as own-source only for certain types of municipalities or large cities, as small municipalities do not necessarily reach an optimum size to collect taxes efficiently.

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## Notes

<sup>1</sup> According to the draft law, the status of Community of Municipalities can be acquired if the union groups at least 15 municipalities or at least three fifths of all municipalities from the administrative district, if less than 30 municipalities belong to this administrative district. A municipality can be member of only one Community of Municipalities.

<sup>2</sup> The Strategic Framework Czech Republic 2030 was prepared by the Sustainable Development Unit in the Office of the Government. The unit was transferred to the Ministry of the Environment in 2018. The implementation of the Strategic Framework has been steered by the Ministry of Environment since then. See Chapter 2 for more details.

<sup>3</sup> The vision is "Responsible use of land creates the conditions for a balanced and harmonious development of municipalities and regions, improves spatial cohesion, directs the suburbanisation trend and limits forced mobility. Cities and towns create preconditions for maintaining and improving the quality of life of their population. Competent public administration communicates openly with citizens and integrates them systematically into decision-making and planning. Housing is adapted to climate change."

<sup>4</sup> The five types are: metropolitan areas; agglomerations; regional centres and their hinterlands; structurally affected regions; economically and socially vulnerable areas.

<sup>5</sup> This is a co-ordination platform that gathers representatives from the Ministry of Regional Development and regional and local stakeholders (e.g. regional governments, the Union of Towns and Municipalities, the Association of Municipalities, integrated territorial investment municipalities, non-governmental organisations, etc.) to co-ordinate the preparation and implementation of the RDS 21+ in the regions.

<sup>6</sup> This structure is partly influenced by the Law on Competency, which strictly defines the responsibilities of each ministry, without providing sufficient flexibility and motivation for inter-ministerial co-ordination and co-operation to address cross-sector issues. See Chapter 2 for a more detailed analysis.

<sup>7</sup> Such incentives should be designed with careful consideration to avoid creating inequalities. Some small municipalities may not have sufficient administrative capacity in strategic planning, and national funding schemes should not "punish" them. The quality of strategic linkage is only one criterion or value-added point.



<sup>8</sup> For instance, the Ministry of Regional Development's online toolkit to support strategic management and planning in public administration, available at: [https://www.mmr.cz/cs/microsites/portal-stragicke-prace-v-ceske-republice/nastroje-a-metodicka-podpora/podpora-strategickeho-rizeni-a-planovani-ve-verejn](https://www.mmr.cz/cs/microsites/portal-strategicke-prace-v-ceske-republice/nastroje-a-metodicka-podpora/podpora-strategickeho-rizeni-a-planovani-ve-verejn).

<sup>9</sup> However, this database may not cover all local strategies and is not up to date. For further analysis regarding registry of strategies in the Czech Republic, please refer to Chapter 2 on Centre-of-Government.

<sup>10</sup> The seven SUD strategies are: Prague, Brno, Ostrava, Pilsen, Ústí-Chomutov, Olomouc and Hradec-Pardubice.

<sup>11</sup> The proposed legislation identifies that a Community of Municipalities should cover at least 20 municipalities, or at least three fifths of all municipalities from the administrative district of the municipalities with extended powers. Further information can be found in the previous section on *Enhancing inter-municipal cooperation to foster efficiency in the regional and local public administration*.

<sup>12</sup> <https://www.obcepro.cz>.

<sup>13</sup> Insolvency of a municipality is defined as a state where the municipality is unable to meet its financial obligations and provide basic services to its citizens.

<sup>14</sup> The salary grade is determined on the basis of the Government Regulation on the catalogue of jobs in the public services and administration and corresponds to the classification of the most demanding work which the employer requires the employee to perform. The salary step is determined by the amount of professional experience to be credited and the rate of credit for that experience (all defined by law).



**From:**

## **OECD Public Governance Reviews: Czech Republic**

**Towards a More Modern and Effective Public Administration**

**Access the complete publication at:**

<https://doi.org/10.1787/41fd9e5c-en>

### **Please cite this chapter as:**

OECD (2023), "Public Administration at the Local and Regional Level in the Czech Republic", in *OECD Public Governance Reviews: Czech Republic: Towards a More Modern and Effective Public Administration*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/d869cf72-en>

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