

Chapter 2

The Decentralization of Human Services: An Example of the Transformation of Public Administration in Central and Eastern Europe

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The decentralization of power has played a significant role in the transformation of the social structure of the former socialist countries of Central and Eastern Europe. Shortly after the introduction of systemic changes at the national level, significant changes at the local level also occurred (Baldersheim et al. 1995, 24). Beginning in the early 1990s, one of the most urgent tasks of the new governments was to restructure local governments by decentralizing the public administration system. This process involved, first and foremost, the replacement of the Soviet councils of the communist era with politically accountable local civil governments.

Administrative decentralization also necessitated a significant level of financial decentralization. The funding and financial conditions for autonomy, however, were created only after some delay. Hungary is

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somewhat different from other Central and Eastern European countries as the financial reforms were initiated during the second half of the 1980s, the last years of the socialist system.

Following the decentralization of the political, administrative, and financial roles of government in Central and Eastern Europe, service decentralization needed to be tackled. As a result of market pressures, local service provision was forced to change. The ability of consumers to demand higher-quality services created an increasingly competitive environment for the provision of these services. This was especially true in the field of human services, where market pressures forced local governments to search for innovative reform measures.

In the following pages, the role of social service provision in contributing to the creation of local democracy and civil society will be examined. In order to provide concrete examples of the complexities of this transition, Hungary's experience will be highlighted. Comparative analysis, statistical processing, and empirical data serve as the basis for the study.¹

The Process and Contradictions of Political and Administrative Decentralization

Within the framework of the systemic changes that took place in the early 1990s, political decentralization did not originally include the provision of social services. For example, it was assumed that the interests of the people involved with primary education were adequately served by the democratically elected local governments.

According to the Hungarian Act on Local Governments, local governments *manage the institutions* that provide services for their inhabitants, e.g., primary schools, hospitals, and retirement homes. They have the power to hire and fire the institutions' directors, define the objectives of these organizations, and in the case of education, determine the profile of the schools and the courses that should be offered. Local governments must also, however, provide financial resources for the maintenance and development of such service-providing institutions.

In this structure, the local government is representing local democracy, and its operation should reflect the voters' will. This is in contrast to what occurs in a local educational system, for example, where only the interests of the involved parties are considered. In this case, democracy has stopped at the formal level and has not fully penetrated into the community's life (Regulska 1996).

At the same time, Hungarian voters, for example, have become increasingly frustrated by the actions (or inaction) of their local governments. Although local governments throughout the region worked intensely during the period between the two elections, they did not exert enough effort to promote their accomplishments to their local populations. Thus, for example, voters in a specific community are not fully aware that their local government increased the amount of services it's providing and is, in effect, spreading democracy to all levels of the community. This is especially true in Poland (Bennett 1997, 27) and Hungary (Horváth 1997).

This phase of democratization is *service decentralization* and will be analyzed below. Because the transfer of power follows and builds on similar legal and political changes instituted at the local and regional levels throughout Central and Eastern Europe, it is possible to make generalizations. The increase of services provided by local governments throughout the region has not eroded democracy but has actually increased its complexity.

Service Decentralization

The new processes of service decentralization are forging ahead and forcing traditional public administration, which is inclined to think in stereotypes, to react. The biggest challenges to emerge are the result of changes in the financing of social organizations and service provision. In the following pages, four phenomena will be discussed:

1. the increased role of the nonprofit sector in the provision of social services;

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2. the reemergence of churches and private charity organizations at the local level;
3. the gradual creation of a system of sector-neutral funding by the state;
4. the partial introduction of market conditions in community consumption.

The emergence of these phenomena has reshaped the municipality's role in fulfilling public tasks in the service sector. It is decisive that local government is less and less the only customer of residential community services and to an even lesser extent an exclusive provider of them. One can find several players on both the side of the service provider and on the side of customers. As a result, the makeup of local government relations is necessarily changed.

Table 2.1
Average Number of CSOs per Capita

Group of Countries	Country	Mean
1	Albania	0.06
	Ukraine	0.02
2	Bulgaria	0.5
	Lithuania	0.7
	Romania	0.7
3	Czech Republic	4.0
	Estonia	2.6
	Hungary	4.3
	Latvia	1.4
	Poland	1.2
4	Slovakia	2.0
	Germany	4.7
5	Spain	3.8
	Austria	10.7
	Finland	20.6
	France	12.1
	Sweden	19.4

Source: Civicus 1997

Nonprofit Organizations and the Provision of Services

The number of civil sector organizations (CSOs) dynamically increases throughout a period of systemic transition. Comparative data shows that there is a significant relationship between the development of democratic institutions and the number of CSOs. In Hungary, the number of foundations increased from 400 to over 14,000 between 1990 and 1994, while the number of associations grew from 8,000 to 26,000 in the same period. (Központi Statisztikai Hivatal 1996, 7). Thus, there are on average 4.3 CSOs per 10,000 inhabitants. In a comparative perspective, as table 2.1 demonstrates, this data is similar to other Central and Eastern European countries at comparative stages in the transition process. This ratio is also close to the level found in Germany and Spain. In Hungary, most nonprofit organizations work within one settlement (Központi Statisztikai Hivatal 1996, 54–6). Their activities are almost identical with the human-service tasks of local governments. (Központi Statisztikai Hivatal 1996, 10-1; Horváth 1997, 46).

The activities of CSOs are primarily realized outside the sphere of government but are often implemented in cooperation with governmental institutions. For example, among the institutions of public education in the academic year 1995–1996, only 2.4 percent of all schools and nurseries were privately run and acted independently of the state. On the other hand, various social organizations fulfilled several supplementary and special service activities by linking their programs to the operation

Table 2.2
Distribution of Revenue Sources for Nonprofit
Organizations, 1994 (%)

	Average of Seven Countries*	Hungary
state subsidy	43	21
private subsidy	10	21
revenue from activities	47	58

Sources: Központi Statisztikai Hivatal 1996, 28; Salamon and Anheier 1995.

* U.S., U.K., France, Japan, Hungary, Germany, and Italy

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of state institutions. Sometimes, they provide such services that otherwise would have no place in existing networks. For example, certain CSOs have organized self-help movements for the rehabilitation of young people addicted to drugs and established associations for people afflicted with certain diseases, for example, diabetes. In addition, CSOs raise private funds in the form of contributions, revenues, or private donations in order to provide local services.

Table 2.2 shows the distribution of revenue sources for nonprofit organizations. In comparison with developed countries, the proportion of funds provided by the state to this sector in Hungary is relatively low. While the size of the sector—in spite of its dynamic growth—is smaller than that of developed countries, the significance of private funds is greater. This is clearly connected to the scarce financial resources of local governments. The breakup of the state subsidy is as follows:

- 12 percent—normative subsidy from the state budget
- 67 percent—non-normative subsidy from the state budget
- 21 percent—subsidy from local government

The local government's share is relatively low at the moment. But its existence, and the fact that it is providing normative, guaranteed opportunities for subsidies, is important.

In sum, one can say that the role of nonprofit organizations in providing local human services is significant. The nonprofit sector also represents the local government's interests by promoting a sense of community at the local level through privately organized and self-managed solutions. The potential for development is obvious, and incentives from the central and local governments will play a large role. This type of decentralization, in contrast to the form represented by the regional local governments, is not focused on political power but is based on the democratization of service organizations. Its essence is the recognition that community interests are at the axis of fulfilling public tasks.

The Restitution of Church and Charity Services

Prior to the Second World War, Central and Eastern European religious organizations provided several public services. During the Communist era, however, the central government drastically reduced the scope for religious activity. The political changes that swept through the region in the late 1980s and early 1990s recreated the space that these organizations needed to support the local community. The changes also allowed for financial compensation and the restitution of property that originally belonged to these groups.

Political events involving religious groups, for example, the frequent visits of the Pope to Central and Eastern Europe, prove the willingness of the new democratic systems to cooperate with religious organizations and leaders. While the strength of the Roman Catholic Church may be obvious in Poland, it is noteworthy that countries such as Russia have opened new dialogues with prominent religious organizations. This trend is most evident when small community organizations are examined. In Hungary, the revival of the part of religious organizations in providing public services must be emphasized. As concluded from a representative survey, it is most common for religious groups to participate in primary education.² However, there is minimal activity in the area of social care. This is especially acute in smaller settlements (Horváth and Kiss 1996, 73–5).

On the other hand, the existence of the networks of religious organizations is an important potential advantage. The churches, mainly the Catholic and Protestant denominations in Hungary, are present even in the smaller settlements and possess the necessary infrastructure (i.e., buildings and staff) needed to run or participate in the provision of public service activities. When they are active, however, they tend to provide religious-based classes in the schools or, less often, manage clothing drives or distribute donations.

In return for these services, the local government supports the organizations, often by contributing donations in kind. For local governments, donations in kind are readily available and thus the easiest to give. Although this type of cooperation has only reached a modest

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level, its mere existence during this period of financial constraints shows a willingness to cooperate, which will most likely continue to grow. At this stage, direct financial subsidies are emerging only from the central budget. The revival of the willingness of religious organizations to be involved in social service provision is a clear example of successful service decentralization and, in a broader sense, democratization.

Sector-Neutral Financing

An important guarantee of service decentralization is the state's willingness to provide financing, no matter which entity, the local government or the nongovernmental organization, is providing the service. The transformation of the system that supplies funding from the central government to local governments is not yet complete. The main elements of the system are, however, already functioning.

With regard to a subsidy due to a service provider undertaking the state's task, the Hungarian Parliament mandates the provision of a normative subsidy for nongovernmental organizations that have contracts with a local government to provide specific services to the community. The subsidy provided, however, does not necessary cover all costs associated with the provision of the particular service. As is the case with local governments, the remaining costs should be covered by other means. In addition, the local government remains the owner of a public service, even if a contract exists between the local government and the service provider. The total agreement should contain:

1. a statement that the provider fulfills some requirements for public education;
2. a financial contract signed by the local government and the provider;
3. a contract signed by the local government and the provider describing the services to be rendered.

As mentioned above, the normative subsidy from the budget does not necessarily cover the total cost of fulfilling the transferred task. This is the great significance of service decentralization from the financial point

of view. The situation allows or, more importantly, it requires the mobilization of other social resources. In other words, the state narrows the limits of its own activity, while maintaining certain controls that provide it with continued influence.

In certain cases, states or local governments make other sources of funds available for the use of the service provider. In 1997, for example, Parliament allowed Hungarian citizens to deduct 1 percent of their annual income to support the activities of a CSO of their choice. In many cases, these donations were used to support CSOs providing specific services to the community. Service decentralization is undeniably connected with the constraints associated with limitations on the state budget. At the same time, the use of innovative solutions allows for the transformation of the state budget in both its breadth and operational content.

The financial elements of service decentralization are often in conflict with other aspects of the decentralization process. The sector-neutral subsidy, which in its content has to be connected with funded services, may be in conflict with the block-grant system. The latter is used as a financial technique for local governments to maintain control of decision making at the local level, without direction from the central government. Sector-neutral financing, on the other hand, reduces the autonomy of local governments by allocating funds from the state budget for specific tasks; for example, local governments cannot influence the proportion of funding provided for certain tasks. Such conflicts are unfortunate because they provoke *opposing interests among the benefactors of various forms of decentralization*. It is, however, logical that the multifunctional application of the decentralization principle sets the various local government organizations against one another and makes them compete in a zero-sum game.

Deficit in Community Consumption

There are contradictions not only within the decentralization process, but also within the process of service transformation. The contradiction deliberately created by service decentralization is natural when market

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conditions are being introduced and the establishment of a competitive environment is a top priority. In fact, a tender for service contracts demands market criteria for judging the best, most cost-effective bidder. Initially, the introduction of private, social-service providers and their related costs will create social unrest and discontent due to rising costs and growing inequality.

The controls over services do not necessarily strengthen during the transition period. With the role of the market coming to the foreground, the position of the state is driven back, and its influence on the quality of services becomes limited. At the same time, the self-regulating role of the market is not yet fully integrated. All this may lead to increased feelings of defenselessness on the part of consumers. Another necessity is to enforce the targeted representation of interests as the decentralization of services continues. The weakening of the supremacy of local governments creates the need for special forums or boards to tackle issues that deal with social service provision in the local community.

Single-Purpose Boards (Special Districts)

Parallel to service decentralization is a trend in Hungary to experiment with local bodies that oversee the implementation of specific social services. Boards are created by law in certain areas of social services in order to fulfill specified tasks and ensure the right of input for those concerned with service provision. Other interest groups are authorized to autonomously govern themselves and the management of local public service activities. This system has produced both successes and failures throughout the country. The largest problem is that most decisions are made by a small, elite group of people. However, if the definition of tasks is appropriate, the rights to decide are limited, the conditions are focused, and the operations are effective, then the practice of local government becomes richer. A brief overview of the Hungarian case is worth examining.

Table 2.3
Minority Local Governments in Hungary, 1995

Minority	Number	% of total
Bulgarian	4	0.5
Roma	466	57.8
Greek	6	0.7
Croatian	57	7.1
Polish	7	0.9
German	162	20.1
Armenian	16	2.0
Romanian	11	1.4
Ukrainian	1	0.1
Serbian	19	2.4
Slovakian	51	6.3
Slovenian	6	0.7
Total	806	100.0

Source: Ministry of Interior 1995

Boards of service-providing organizations ensure the participation of consumers, service providers, and others interested parties in the operation of the institution. For example, parents, teachers, students, and other interested organizations can delegate representatives to serve on school boards. They participate in developing various internal regulations, determining the conditions for school activities run on an entrepreneurial basis, and commenting on the pedagogical program of the school.

After the transition, school boards were mandatory. It was soon obvious that while the program worked in some places, in many places the boards produced few results. Conflicts proved to be unmanageable in several places, and most organizations of teachers were opposed to interference in their professional issues. Therefore, the establishment of these councils is no longer mandatory, but it is a right for those people wishing to initiate them. The group of tasks that can be fulfilled by the council are prescribed by law.

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Interest-representation forums are less common in social institutions where the representatives of those receiving the service, their close relatives, the employees (nurses and others), and the local government or other organization running the institution may participate. The interest-representation forum may consider complaints, initiate actions against the maintaining organization or against the supervisory authority, or both. The largest problem for this type of forum is that the detailed operational rules for governing are defined by the institutions themselves.

Minority local governments are elected in general elections. Table 2.3 indicates their distribution by ethnic groups. Apart from protecting minority rights, the minority local governments also participate in satisfying the particular community needs of ethnic populations. Their characteristic tasks are teaching the language of the minority, providing nursery education in the mother tongue, supporting primary education, and organizing cultural events for the minority community. Separate supplementary funding is provided by central sources for these activities.

In addition, minority local governments have guaranteed rights that allow for their representation in other local government bodies. They also have the right to be represented on each school board. Nevertheless, the conditions for the role of service organizations in minority local governments are not yet fully established. This is especially true in the case of the most populous Roma minority.

The organization of healthcare takes place within the framework of social security. The self-governing bodies for social security are elected during general elections and are supplemented by representatives from employer organizations. This solution based on service organizations is very controversially in Hungary. While local governments are responsible for financing healthcare institutions and hospitals and for guaranteeing that health insurance is paid by the insured, they do not have the preconditions necessary for operation. In addition, decisions related to insurance duties are made in Parliament and not by this body

of representatives. In this sense, the decentralization of healthcare has not fully occurred. Rather, the structure in operation, with multiple layers of decision makers, has created increased confusion.

Regional economic are found operating in various capacities in the field of regional economic development. The experiences associated with these types of boards are much more favorable, although the system is not operating perfectly. Regional development councils assemble the social players who are interested in regional economic development, including local governments, economic chambers, representatives of labor councils, employees, and other associations interested in the economic viability and development of the region. Their objective is to successfully combine state funding with private, entrepreneurial capital. These councils support the activities of local governments by bringing together representatives of various social bodies in the community. A similar role is played by labor boards, which unite representatives from the employees, employers, and regional local governments in order to implement employment policies. These organs promote social cohesion by bringing various community groups together and negotiating a unified strategy for development.

Regional development and labor policy are not directly related to human services, but their linkage cannot be denied. Labor issues, especially in connection with vocational training and its development, are of a similar nature. The restructuring of vocational training is one of the main questions facing economies undergoing massive restructuring. If vocational schools in these economies allow students to leave school without an adequate education, they will only reproduce long-term unemployment. Although regional development is primarily focused on technical investment, it is important to develop a larger vision that brings the technical needs of the community together with the social and service needs of the population.

In sum, the example of human services in Hungary indicates the need for a wider form of local governing beyond regional local government. A symbiosis of various forms of local government is needed because local governments in themselves can be abusers of power in the same way as

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the despots of monolithic states. Local internal pluralism is needed to insure the symbiosis of various structures of power. This would involve consultations with service organizations and other social resources.

The path to achieving this objective is rather thorny. It is relatively easy to let the various interest groups come forth and demand autonomy, but it is more complicated to create the conditions for autonomy and ensure restrictions on power. The Hungarian example proves that attempts to arrive at this type of partnership can meet a dead end. The institutions promoting decentralization, which were thought to be democratic, often created dysfunctional decisions. In order to have long-lasting success, permanent checks and balances need to be built into the system.

At the same time, it is not advisable to rely on the activities of any single form of local government to institute reforms that aim at exclusivity. Rather, by working with communities and organizations that are gathered around an issue that is specific and limited in scope, it is possible to develop better alternatives than those offered by left-wing or right-wing parties (Chandler and Clark 1995, 771–2). Solutions offered by any of the approaches will be unable to find support among all segments of the population; the complexity of interests was proven by the multiple interests surrounding the delivery of human services.

Important issues linger for the future of transition in Central and Eastern Europe, including whether these divergent views of local government are allowed to voice their opinions in the policy-making process, institutional systems and financial solutions are developed to promote the necessary operational tools for amplifying these voices, and adequate social space is provided to allow these groups room to operate. The initiatives are there, although in contradictory forms in many cases. Having the opportunities provided by a developing market economy and democratic system, new community needs are emerging almost automatically. The development of institutions and support systems should follow social need in a way that can adequately provide for the community.

Notes

1. The comparative research was implemented in the Czech Republic, Poland, Hungary, and Slovakia with the support of the Norwegian Research Council for Applied Sciences (NORAS). A summary of the results can be found in Baldersheim et al. 1996. The empirical data surveyed the service situation in 400 local governments in Hungary. A summary of the results appears in Horváth and Kiss 1996.

2. The survey was carried out on a representative sample in 400 local governments in 1994. The work was lead by Gábor Péteri and the author.

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