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Financial Condition of Local Government in Poland vs Structural Reforms of Municipal Government in Scandinavian States

Abstract: The authors have undertaken an analysis of the phenomenon of debt of local government units in Poland. It is a dynamic phenomenon, which affects vast majority of municipalities and districts. A barrier to debt expansion has been established in the form of the Individual Debt Index (IOI), which has been in place since 2014 and its new elements entered into force on 1 January 2020. The structure of the index is intended to allow regional accounting chambers (RIO) to control the process and prevent its progression. The authors indicate, however, that the main problem for local self-government units is insufficient own income, which forces them to increase the pool of funds transferred from the central budget to self-governments in the form of grants and subventions and to look for various forms of loans for their activities. Using the experience of the Scandinavian countries, the authors propose to start territorial and resource consolidation reforms of small local government units – municipalities and districts. The aim is to facilitate better use of endogenous resources of territorial self-government units and use of economies of scale related to local economy and social resources. This should result, as in Scandinavia, in the development of public entrepreneurship, higher social efficiency and effectiveness, and stabilisation of the income of individual units. After more than 20 years of operation, small local government units in Poland have become structurally and functionally obsolete and do not guarantee modern development of local communities.

Key words: local government finances, debt of municipalities and districts, structural consolidation, endogenous resources, economies of scale, public entrepreneurship

1. Introduction

The issue of the assessment of the financial condition of local government units is extremely important both from the point of view of the value of information for decision-making and informational purposes, as well as due to the ability or inability to incur debt. This issue is also important for the evaluation of the efficiency and effectiveness of operation, as evaluation of financial condition provides information which makes it possible to make decisions on the implementation of new tasks and at the same time to evaluate (assess) the existing activities of self-government authorities in a specific scope. There are a number of studies which aim at analysing approaches, described in source literature, to the assessment of financial condition of local government in theoretical and practical terms and at assessing the information value of the individual debt index (IDI) as a measure commonly used in Poland to provide information about the financial situation from the point of view of possible debt absorption (Filipiak, 2018, pp. 73–86).

In source literature, for example, B. Filipiak combines an assessment of territorial self-government units' efficiency (evaluation of accomplishments) in performing the tasks assigned to them with the concept of new public management (NPM), which may raise justified doubts in some researchers who consider the concept to be theoretically outdated (related to the neoliberalism ideology) and to have been abandoned in practice after the last global economic crisis of 2007+. Let us add that we are talking about the political practice of countries that set the tone for reforms of local government systems – Denmark, Sweden, Finland, Norway, Switzerland, Canada and New Zealand. However, the abovementioned author correctly notes that in order to carry out “efficiency measurement based on performance measurement, it is necessary to build a system of indicators or an indicator that will show what specific goals, products and services local government units have to deliver and how they are delivered [...]. Undoubtedly, implementation of objectives, provision of products and services by territorial self-government units in the form of implemented tasks will affect the financial standing. An analysis of source literature makes it possible to indicate two basic directions of measurement of territorial self-government units' financial standing based on: 1) multiple empirical measures; 2. synthetic measure. The authors of studies stress that the financial condition cannot be described by a single indicator [...] based on available financial statements or data from local government unit's books” (Filipiak, 2018, p. 74). The discussion on this subject will continue in literature, also due to the changes that have come into force since 1 January 2020 in connection with the amendment of Article 243(1) of the Public Finance Act of 27 August 2009 (Dz. U. 2019, poz. 869). It will only have an indirect impact on the actual and real financial standing of individual local government units¹. The residents are more interested in how the financial situation in their municipality will affect the level of socio-economic development of the municipality and whether it will translate into the individual well-being of its residents; i.e. whether they and their children will have access to better public services, better school and pre-school education, better public transport or a cleaner environment. The aim of the article is to synthesize the arguments in favour of carrying out a consolidation reform of local government units in Poland, and the main hypothesis says that without it in the coming years the local government system will hinder socio-economic and civilisational development of the country and its inhabitants.

These aspects are of interest in this paper. It emphasizes the need to take advantage of the opportunity provided by the New Public Governance (NPG) theory, applied to increase financial, social and political effectiveness of territorial self-government units, especially at the municipal level. We are of the opinion that in this respect, contrary to the optimistic opinions of self-government circles, the situation of Polish territorial self-government units differs quite significantly from the best European models that we find in Scandinavian countries. What are the reasons for this? Can they be “cured” by creat-

¹ The concepts of financial condition and financial situation are almost identical. The financial standing of territorial self-government units is such a state of finances, e.g. of a municipality, which ensures the possibility of financing the implementation of statutory tasks at the current qualitative and quantitative level at a given moment in time and in the future, which is determined by the timeframe of the measurement. The financial condition is the result of decisions taken by territorial self-government units. Cf. M. Dylewski, B. Filipiak, M. Gorzałczyńska-Koczkodaj, *Analiza finansowa budżetów JST, Municipium, Warszawa 2011.*

ing an appropriate individual debt index (IDI) for local government units (LGU), or by using other information and management indicators?

2. Debt of Polish local government units. Causes and problems

Objectively, the functioning of public administration at the central, regional and local levels is affected by changing external conditions related to, inter alia, the development of economic and cultural globalisation processes, progressive monopolisation and financing of the world economy, whose carriers are transnational corporations and the most economically developed countries. “The global crisis has had an impact on the entire Polish economy, resulting in a long-term economic slowdown and strong fiscal tensions in the state budget. Since 2009, the public finance sector deficit has exceeded 3% of GDP for the three consecutive years and the public finance sector debt has exceeded 50% of GDP since 2010. The slowdown in the Polish economy has also had a number of negative effects on the financial condition of local government units, both on the income and expenditure side. At the same time, these processes were overlapped by the EU Financial Perspective 2007–2013, under which Poland received access to EUR 68 billion in aid for economic, social and territorial cohesion” (Kluza, 2019, p. 10). Despite this, stories about the “green island” should be treated as *fiction* rather than *science*.

The effects of the world economic crisis of 2007+ have also affected LGUs in the European Union. There, too, the debt of the LGU sector significantly increased in relation to its income. Between 2006–2007, it remained at 33%. Then it started to grow dynamically, and at the end of 2010 it constituted on average 44.7% of territorial self-government units’ revenues. It peaked in 2014 (49.5%) and by the end of 2015 it fell to 47.8%, almost 50% higher than before the crisis (Kluza, 2019, p. 20).

The increase of territorial self-government units’ indebtedness in most of the European Union countries was not so much a result of a decrease in the amount of funds available to them in relation to the tasks performed but, first of all, of their investment activity, especially at the beginning of the crisis. Local self-government units significantly replaced declining investments of the private sector, partly benefiting from the infrastructure measures under the EU Financial Perspective 2007–2013. The share of territorial self-government units’ investments in total investments in the European Union countries increased from 7.0% in 2006–2007 to 9.2% in 2010. Then it decreased slightly and since 2014 it has remained at the level of 8.3%. “Between 2009–2011, the highest share in total investments was recorded by Spanish (13.5%), Polish (13.3%), Latvian (12.1%), Dutch (11.3%) and Lithuanian LGUs (11.2%). Between 2009–2011, territorial self-government units allocated on average about 17% of their income to investments” (Kluza, 2019, p. 20).

The growing indebtedness of the public sector, including the local government sector, resulted in a further debate on how to introduce fiscal consolidation and on the choice of instruments which will be most beneficial for the achievement of long-term growth of the economies. As far as the LGU sector is concerned, recommendations of possible reforms for selected countries are included in reports of the Organisation for Economic Cooperation and Development (OECD, 2012). OECD reports for Denmark and Fin-

land presented recommendations which have also been featured in the debate on Polish self-governments, i.e. **merging small territorial self-government units into larger units** (in Poland, further existence of country districts is additionally problematic) and introduction of fiscal rules, in this case concerning limitation of local government expenditure growth (*Samorząd 3.0*, 2013). It should be added that already in 2007 Denmark undertook a reform of the local government system, which led to the consolidation of small municipalities, of which there are currently only 98 (in 1992 there were still 275 municipalities), and the average Danish municipality has 59 thousand inhabitants, with 5.9 million inhabitants in the whole country. This creates a very favourable rate of territorial fragmentation within the basic territorial division of the country (Sakowicz, 2010, pp. 332–336). In Finland, a similar process took place also after 2000, and out of the 460 municipalities existing at that time, as a result of that process we now have 310 municipalities, with an average population of just over 18,000, i.e. more than the Polish average. In both cases, the dilemma of whether to focus on *capacity* or *proximity* in the development of the local government system was clearly resolved in favour of “capacity” for development (Osiński, Zawiślińska, 2019, p. 126).

When analysing the causes and problems related to the growing indebtedness of Polish territorial self-government units, apart from the financial and developmental problems related to the effects of the last global economic crisis of 2007+, one should also stress the importance of other global and regional processes and phenomena that have taken place in the meantime. This is because we have been dealing with changes in the global political power structure and changes in the functioning and development priorities of regional integration organisations, including the European Union. An important objective challenge was also to adapt and use technological development as fully as possible to improve the effectiveness and social effectiveness of local government at all levels.

Endogenous conditions, resulting from the specific character of particular units, mainly rural and urban-rural municipalities, also had a very significant impact on the financial condition and the level of social development in case of many LGUs. After 2005 there was a kind of “demographic outflow” of young, often educated and talented people, but also of people who only had some basic skills, unable to find employment on the Polish labour market, to those European Union countries which did not introduce any transition periods after the EU extension in 2004 for migrants from Central European countries. It was halted between 2009 and 2011 by the effects of this global economic crisis, which affected some of the Western European states, members of the EU, but since 2012, migration with a view to establishing permanent residence, especially with a view to securing temporary work, has been clearly increasing. It has a significant impact on the Polish economy, but also on the social effectiveness of LGUs’ operation (Mączyńska, 2010). It causes undoubted loss of population potential in many municipalities, measurable losses on the labour market and contributes to the processes of ageing of the Polish society.

For the reasons mentioned above, presented only briefly, it is not possible to uncritically state that the reforms of the system of local self-government in Poland from the end of the 20th century guarantee constant success and development, meet the expectations of the society and do not require significant modernisation changes. The institutional

and structural modernisation of local government is a continuous process, not a one-off or “sudden” adoption and implementation of specific legal acts. “It needs to keep pace with the dynamics of economic, social and political processes within countries, take into account the impact of the European and global external environment and be based on the use of the latest communication technologies. It should take into account the democratic political culture of society and its aspirations to set strategic development goals and the civic need to share (or at least participate) in the system of exercising public authority. It should be remembered that there are and will be environments or groups of beneficiaries of the current state of affairs (after all, employees of public administration at all levels are also a significant interest group even in the conditions of a democratic state) who, for various reasons, will oppose the structural and functional modernisation of the system” of local government (Osiński, 2019, pp. 82–83).

3. Regulations in force concerning the measurement and reduction of indebtedness of Polish LGUs

Since 2014, the only limitation applicable to debt being incurred by territorial self-government units is the so-called individual debt index of territorial self-government units. Its structure was specified in Article 243 of the abovementioned Public Finance Act. The debt of the local government sector has been and continues to be a cause for concern, because contrary to some opinions, the debt growth dynamics have not stabilised in recent years. The debt of the local government sector forecasted by the Ministry of Finance at the end of 2019 is to amount to PLN 86.6 billion, which is a significant increase in comparison to 2018, when the debt amounted to PLN 76.1 billion. An analysis of its development in territorial self-government units only leads to a conclusion that there is considerable diversity in its level and dynamics in Poland. Nevertheless, in literature, the very phenomenon of debt growth and its dynamics is believed to carry risks for the tasks performed by territorial self-government units and thus for their financial stability. It is not our intention to systematically analyse the evolution of legal regulations in Poland concerning the issue at hand, as it has been done in literature many times. However, some problems deserve more in-depth consideration.

As of 1 January 2020, amendments to the Public Finance Act concerning the debt index of territorial self-government units entered into force, especially amendments to Article 243 (1) (Dz. U. 2019, poz. 869). According to the Act, all debts of a given local government unit must be accounted for on the left side of the formula. This applies to any agreement similar in nature to credit, loan or securities issue agreements, including sale-back, sale by instalments, lease, forfaiting and other unnamed agreements with a payment term of more than one year which relate to the financing of services, supplies or works. Short-term contracts that are repaid in the same year as they are signed are excluded from the formula. In addition, in order to contract debts similar to credit or other unnamed agreements, a repayment limit should be set and a favourable opinion should be obtained on the matter from a regional accounting chamber. From 1 January 2019, all current expenditure on debt administration is covered by the debt index, not just interest and discounts.

The debt repayment limit applicable in 2020 should still be calculated as an average for the last 3 years of the current income ratio increased by income from the sale of assets and decreased by current expenses, to the current income of a given LGU. When setting the limit for 2020, current expenditure of the last 3 years shall not include expenditure on the repayment of instalments for commitments included in the debt title as referred to in Article 72(1) (2), if those commitments have been incurred since 1 January 2019. In addition, the denominator relationship (on both sides of the formula) of current revenue should exclude amounts of grants and funds earmarked for current purposes. In addition, grants and current funds for the implementation of a programme, project or task financed with EU funds and current expenditure on this account are excluded from current revenue and current expenditure (numerator on the right-hand side of the formula). Such a solution leads to the reduction of the amount of the unit's current income and, in principle, shows the real payment capacity of the given local government unit. The debt ratio will not include expenditure on investments which are to be financed at least in 40% by EU funds. It was previously 60%.

Some elements of the new solutions are being criticised as to which local government units will benefit from them and which will make losses in the future, especially in the context of further changes that will take place. In the formal and legal sense it is pointed out, for example, that the aforementioned article of the Act does not precisely define the category of "unnamed contracts." However, despite this, it seems reasonable to make rational and gradual changes in the law, as the debt has been growing for many years and the existing regulations prove insufficient to monitor and control this phenomenon. The lack of Polish law allowing for the possibility of bankruptcy (financial bankruptcy) of a municipality results in a certain comfort for local decision-makers when taking out loans and borrowings from various financial institutions which do not enjoy the best reputation. This may expose residents, especially of municipalities, to consequences, which may be difficult to predict, associated with turbulences on the financial institutions market. Such regulations are in force in the Scandinavian countries and have a positive impact on the financial stability of municipalities and the security of residents.

The debt of the local government sector and its share in the debt of the public finance sector in Poland has been growing since the beginning of the 21st century, especially of local government units and their associations. Thus, in 2001, it amounted to a total of PLN 10 billion 786 million, of which PLN 9 billion 009 million was the debt of local government units and their associations, while 1 billion 777 million was the debt of local government special purpose funds with legal personality, independent public healthcare institutions, local government cultural institutions and other legal persons created under separate acts to perform public tasks (Korolewska, Marchewka-Bartkowiak, 2011, p. 105). In 2002, the debt of the self-government sector amounted to PLN 14 billion 059 million, of which PLN 12 billion 002 million was allocated to territorial self-government units and their associations. In 2003 there was another, although small, increase to PLN 16 billion 550 million, including PLN 13 billion 798 million for territorial self-government units and their associations. In 2009, the total debt of the local government sector, after a systematic increase in previous years, increased to PLN 39 billion 325 million, including of

territorial self-government units and their associations to PLN 36 billion 325 million. In 2010, it was in total PLN 53 billion 531 million, of which PLN 50 billion 591 million was debt of territorial self-government units and their associations (Korolewska, Marchewka-Bartkowiak, 2011, p. 105). The liabilities of local governments also increased between 2012–2014 and 2018–2019 and were related to the investment cycle determined by the dates of obtaining funds from the EU. In 2014, the total debt of the local government sector amounted to PLN 72 billion 135 million, after which, between 2015–2017, the debt decreased and amounted respectively to: 71 billion 652 million, 69 billion 023 million and 68 billion 929 million, to rise incrementally to PLN 76 billion 125 million in 2018 and to PLN 86 billion 596 million in 2019 (Raport roczny, 2019, p. 10). It should be stressed that the real state of local government finances, taking into account indirect liabilities, not included in reports, but relating, for example, to debts of subsidiaries or so-called support agreements, highlights the greater dynamics of local government liabilities, which should be considered a negative and warning signal. The current average increase in total debt is 5% between 2013 and 2019 and the average GDP over the same period is 4.3%, while debt service costs are rising (Raport roczny, 2019, p. 11).

Many factors contribute to the fact that the situation will not start to improve suddenly and unexpectedly, plus there will also be the effects of unforeseen events, such as the coronavirus pandemic and its impact on the Polish economy, but also other European Union countries and non-European countries, such as the PRC and the USA. Therefore, the mere changes in the calculation of the local government debt index and the Strategy for Public Finance Sector Debt Management 2019–2022, adopted in September 2018 by the Ministry of Finance may prove insufficient. In the Strategy, the trend towards improved public finances through better, more competent debt management is clearly visible and widely justified. It is a continuation of the Strategy prepared the year before. “The objective of minimising the cost of debt service in the long term remains unchanged with adopted risk-related limitations. The tasks aimed at achieving the objective of the Strategy related to the development of the financial market, i.e. ensuring liquidity, effectiveness and transparency of the Treasury Securities Market (TS) and the task of effective management of the state budget liquidity have been maintained” (*Strategia*, 2018, s. 4). For the effective implementation of the Strategy, the basic assumptions were adopted, including, among others:

- a flexible approach to shaping the financing structure in terms of market, currency and instrument selection will be maintained, to the extent that it contributes to minimising the cost of debt service and with limitations due to the levels of risk assumed and the possible impact on monetary policy;
- the domestic market will remain the main source of financing for the borrowing needs of the state budget;
- the share of foreign currency debt in the Treasury debt will be lowered below 30% and in the perspective of the Strategy its gradual reduction will continue;
- the priority of the issue policy will be to build large and liquid fixed-interest-rate issue, both on the domestic and Euro markets (*Strategia*, 2018, s. 4).

A summary of the forecasts concerning the re-education of public debt and the costs of its servicing is presented in Table 1.

Table 1

Public debt and costs of debt service – summary of the Strategy's forecasts

Description	2017	2018	2019	2020	2021	2022
	(execution)					
1. State public debt:						
b) in relation to GDP	48.5%	47.0%	46.6%	45.2%	42.9%	40.7%
2. Amount referred to in Article 38a(3) of the Public Finance Act						
b) in relation to GDP	47.7%	45.9%	45.4%	44.1%	41.7%	39.7%
3. General government sector debt						
b) in relation to GDP	50.7%	49.2%	48.9%	47.7%	45.4%	43.4%
4. Expenditure on the servicing of the government debt						
a) in PLN billion	29.6	30.7	29.2	30.4–31.3	31.9–32.7	32.9–34.6
b) in relation to GDP	1.50%	1.46%	1.31%	1.28–1.32%	1.27–1.30%	1.27–1.30%

The amount determined as a result of the conversion of the amount of the public debt into Polish currency using, for liabilities expressed in foreign currencies, the arithmetic mean of the average exchange rates of each foreign currency announced by the National Bank of Poland and applicable on working days of the financial year and reduced by the amount of free funds used to finance the borrowing needs of the State budget in the following financial year.

The debt service cost projections for 2020–2022 are presented as a range, including a provision for foreign exchange risk.

Source: *Strategia zarządzania długiem sektora finansów publicznych w latach 2019–2022*, p. 3.

To summarise, it should be noted that measures have been planned in detail to reduce public debt, and thus also to improve local government finances. The adopted legal regulations will be conducive to the implementation of the adopted Strategy, however, whether the whole system of territorial self-government in Poland will make better use of the pro-development potential of structurally small and resource-poor LGUs (especially rural and urban-rural municipalities) remains a question mark. The examples of many European countries prove that in order to develop locally and globally in a sustainable way, Poland should go through **reforms to consolidate its municipalities** and perhaps districts.² The Scandinavian states are undoubtedly leaders in shaping optimal structures in territorial self-government systems and, consequently, pioneering solutions concerning implementation of tasks and improvement of LGU finances.

4. Structural reforms of the local government system in the Scandinavian countries

From the point of view of our considerations, structural and organisational issues are extremely important and may lead to a clear improvement in the state of local gov-

² The excessive number of districts, which were created as a result of the administration reform of 1998/1999, and their low development potential have already been pointed out many times. About 120 districts would be completely sufficient structurally and functionally if it is assumed that the second level of local government is useful at all. "The Polish districts, undoubtedly blatant in terms of their small territorial and population size against the background of the structures of the European Union countries, cannot be sustained for long. With the current level of electronic communication methods, the district office is not necessary at all, its functions can be successfully performed by municipal associations...", W. Kieżun, *Cele, konceptualizacja i realizacja reformy administracji publicznej w latach 1998–2001*, in: *Cele i skuteczność reformy administracji publicznej w RP w latach 1999–2001*, ed. A. Piekara, UW, Warsaw 2003, p. 126.

ernment finances, which are part of public finances. Drawing on the experience of the Scandinavian countries, we would like to draw attention to the systemic solutions that were applied there when it became clear that any changes in the debt index are purely subjective in nature and do not, in principle, aim at objective, real and effective use of the pro-development resources of local government units, both endogenous and exogenous. Structural and functional reforms of the municipal self-government system, taking into account the basic criterion of **social effectiveness** of a given territorial self-government unit, have become the basic indicator for evaluating and strengthening the development potential of municipalities.

The effectiveness of local government units is expressed through economic and financial independence or even certain self-sufficiency and functional efficiency. In social sciences, effectiveness is most often analysed from two perspectives: economic and organisational. The former dominates in the theory of economics, while the latter, which is a category for identifying the synergistic effect of an organisation, receives more attention in the field of management science – the basic category is the “efficiency of an organisation” (Waśniewski, 2018, p. 236). The discussion on efficiency categories in economic theory was initiated by M. J. Farrell, dividing overall efficiency into price efficiency, nowadays more often called allocation efficiency, and technical efficiency. In literature on economics there are also other classifications of economic efficiency, and the term “economic efficiency” itself is not used very often, more often its more detailed categories, e.g. allocation efficiency, called Pareto – Koopmans efficiency (Głodziński, 2014, p. 159), it occurs when it is not possible to improve the situation of one entity without worsening the situation of another, which makes it possible to assess whether the obtained ratio of inputs to outputs has the right proportions or production efficiency (Krawczyk, 2011, pp. 283–285). Economic efficiency also applies to public sector economics, including of course LGUs (Sekuła, Julkowski, 2017, p. 222).

For the sake of order, technical efficiency refers to resource conversion (e.g. services, work, raw materials etc.) into specific production. Technical efficiency may also be expressed as a potential for increasing the number of results with the given quantity of outlays or a potential for reducing outlays used for producing the given quantity of results. The level of technical efficiency is influenced by the scale of activity (*scale efficiency*) of entities and management practices used (*non-scale technical efficiency*). Technical efficiency is based on technological production capacities, but it is not related to the level of prices and costs (Kozuń-Cieślak, 2013, p. 27).

According to Douglas C. Northa, in the new institutional economy, the condition for long-term economic efficiency is **social efficiency** (Mroziewski, 2014, p. 224 and subsequent). Considering the neoclassical explanation and emphasis on allocation efficiency as incomplete and leading to wrong practical conclusions, he formulated the concept of adaptive efficiency, which is reflected in the flexibility of the institutional structure and manifests itself in the long term as an ability to accumulate knowledge, create forms of cooperation and attitudes of creativity that foster wealth creation (Kozuń-Cieślak, 2013, p. 26). Social efficiency is generally treated as a measure of the rationality of management from the point of view of social welfare and is determined in the same way as technical efficiency. Various social indicators are used to measure public sector performance and determine this efficiency (Miłaszewicz, 2015,

p. 129). If the size of the local government unit is too small (small population, small territory, small endogenous resources, including human resources, etc.), this results in inefficiency (unprofitability) of some investment projects in the scope of municipal infrastructure (social and technical) or functioning of public services, necessary for the local community.

The understanding of the concept of efficiency in management sciences has been strongly influenced by praxeology, therefore, it is most often indicated that economic efficiency is the relation of the effect (achieved result of an activity) to the input (production factor or a combination of them, which was used in the activity), emphasizing that it is an equivalent of praxeological cost – efficiency (effects divided by the input – relative formula of the measure) or praxeological profitableness (effects minus the input – absolute formula of the measure) (Głodziński, 2014, pp. 157–158). The typologies of efficiency created on the basis of management science derive economic efficiency, which can occur in financial or product terms, from the principle of rational management, which has also been recognised, as mentioned above, in economic theory (Szymańska, 2010, p. 156). At the same time, management science in a wider social context talks about the problem of efficiency by analysing the organisational efficiency category (Moczydłowska, 2013, p. 184). In considering the performance of an organisation, the terms *organizational performance* and *organizational effectiveness* are often used alternatively (Waśniewski, 2018, p. 236). In the theory and practice of the Nordic countries it is generally considered unjustified to ignore economic efficiency, especially social effectiveness or organisational effectiveness when making decisions on the structure of local government, and to absolutise legal solutions and structures.

The fundamental territorial-administrative division of the state is part of the form of the state (Pytlik, 2011, p. 97 and subsequent). In unitary states, the main problem to be resolved is definitely the number of levels of division and their self-government or self-government character. Two- or three-tier divisions are usually used. There are arguments and justifications for each of them. Due to the dominance in theoretical considerations, but also in the systemic practice, of the theory of neo-institutionalism – among others, J. G. March, J. P. Olsen, and in the theory of economics and the management sciences, of new public management (NPM), in the 1980s the two-tier structure of the local government system found its final recognition and application.

In the Scandinavian countries, the fundamental territorial division reflects in practice the constitutional principle of decentralization of power (although this principle is not formulated *expressis verbis* in all constitutions), since it is correlated with the rational transfer of powers and the definition of the method of financing the tasks performed by local government units. The distribution of tasks imposed by the two-tier territorial self-government stabilised in the 1990s, while until that time the number of tasks and their scope of implementation in the region in question expanded significantly between 1950 and 1980. This was related to the implementation of the Scandinavian concept of a “welfare state” implemented not only by successive governments led by social democratic parties, but also in this period by the executive, led by representatives of centre-right groups (so-called bourgeois parties) (Nowiak, 2011, pp. 12–13). Under the influence of the change in the scope of the Nordic countries welfare function, the structure of the basic units of territorial self-government was transformed and the functions of municipal

self-government changed. This process covered all the countries of the region, although not necessarily at the same time and to the same extent.

At the same time as the adoption of the two-tier structure of local government in the individual Nordic countries (with the second tier in provinces/regions having a self-government character), a tedious process of striving for structural and functional optimisation of local government units, taking into account the requirements of economic and social efficiency and organisational effectiveness, began. The broad range of problems related to this is usually defined by the term **consolidation**. It should be remembered, however, that a whole conglomerate of issues is mentioned here, including; merging small territorial self-government units into organisms larger in terms of territory and population, use of economies of scale, optimal use of endogenous resources, accumulation of organisational synergy, citizen-friendly application of the latest communication and information technologies, increase and improvement of political participation, professionalisation of public services provision based on new concepts of governance – *New Public Governance*, etc. As it has been stressed in source literature, changes in territorial self-government units structure mean that the size of units is not optimal from the point of view of governance, effective service provision, adjustment of local self-governments to global changes, urbanisation, development of new telecommunication technologies, public transport or appropriate response to changing needs of local communities. From this point of view, it could not be said that there is any one fixed optimal municipality size. Transformations in the structure of administrative units, division of tasks and finances should take place the more often the pace of civilization and organizational changes is increased (Skaburskis, 2004, pp. 38–55).

As a result of successive reform efforts in Scandinavia, we are now dealing with the presence of municipalities and provinces (regions) that are large in terms of population, size of territory and endogenous resources. It is widely recognised that only such self-government structures are able to cope with the socially desirable range of tasks and make the most socially effective use of the financial and material and intellectual resources at their disposal. The size of the municipality or province needs to be functional in relation to the scope of the tasks it performs. It is also clear that the provision highest-level public services by municipal entities remains professional, often through competitive tenders for their provision with the participation of private operators.

Let us stop here at the process of **territorial and resource consolidation** of municipal units, as well as higher level provincial/regional units, which has occurred and is occurring, as it would be difficult to say that it has been completed in all Nordic countries. The adopted “philosophy” of making changes indicates that we are dealing with an ordered, consistent and permanent process of searching for a territorial and functional optimum. Let us add that this is not a process characteristic only of the countries of Northern Europe. It has a much broader scope, involving both European and non-European countries. It has been occurring since the 1970s, and intensified especially in the 1990s, to different degrees and at different speeds, for example in Belgium, the Netherlands, Austria, Germany, as well as in Canada, the USA and New Zealand. The Nordic countries are among the pioneers of these reforms and therefore their experience seems most valuable.

Table 2, in synthetic terms, presents a summary of the number of municipal self-government units taking into account the years in which the most significant consolidation

reforms took place. Justifications varied, but there has always been an emphasis on fixed elements, including greater social efficiency, stable local finances, greater professionalisation of services and reduction of bureaucratic excess.

Table 2

Core territorial division units in Nordic countries (in 2020)

STATES	Municipalities currently	Provinces/ Regions	Changes in number of municipalities	Average number of inhabitants in municipality (2020)
Sweden	290	21 LÄN	in 1950, 2498 municipalities, in 1971, 464 municipalities in 1992, 286 municipalities	about 36,000
Denmark	98	5 REGIONER	in 1950, 1387 municipalities, in 1992, 275 municipalities	about 59,000
Norway	422	18 FYLKE	in 1950, 744 municipalities, in 1992, 439 municipalities	about 13,000
Finland	311	19 MAAKUNTA	in 1950, 547 municipalities, in 1992, 460 municipalities	about 18,000
Iceland	74	8 LANDVÆÐI	in 1950, 229 municipalities	about 4,600

Source: Own elaboration based on official state statistics (*Nordisk Statistik*).

The table shows the current number of municipalities in each country (01.01.2020). In the past, there were significant differences in relation to the present number of municipalities, which now seems to be the optimal state. The reforms were gradual and the intensity of the process of territorial and resource consolidation varied. The most fundamental changes have been made in this respect in Denmark, where at present, after the reforms that took place from 2002 to 2007, there are only 98 large municipalities. Compared to 1950, the number of basic units decreased 14 times. Part of the consolidation process took place as a result of bottom-up activities, accepted by local communities. This was the case with some Danish islands, among others. As a result of local referenda, Bornholm (since 1 January 2003), Ærø (since 2006) and Langeland (since 1 January 2007) became single municipalities, although, for example, Bornholm was previously divided into 5 municipalities. In order to prepare the Danish reform, the national Commission on Administrative Structures was established in 2002, consisting of 12 persons, including 8 representatives of local governments and ministries and 4 independent experts. In 2004 the Commission presented a report – *Strukturkommissionens betænkning* – in which it considered reform of the structure of public administration to be necessary (Sakowicz, 2010, p. 338). The report opposes the opinion that local democracy will be harmed in larger municipalities by indicating, based on empirical research, that citizens perceive the democratic character of a municipality primarily through the prism of a high level of public services, which can only be guaranteed by large municipalities. This argument is also raised in Poland, where the inhabitants often do not notice the cause and effect relationship between the size of their municipality and the high level of education, pre-school care or collective access to clean water and efficient sewage system with a treatment plant. The pro-development and pro-ecological awareness of the majority of the inhabitants of Polish municipalities, shaped by our political class in the period of

political transformation, has not yet been able to keep pace with the challenges of the present day and overcoming this barrier may be the most difficult issue in reform efforts.

Major changes have taken place in Sweden, where the number of municipalities since 1950 (2498) has been reduced to 290 today, i.e. almost 9 times, with a significant increase in the population of the whole country, the largest in the region³. The number of municipalities in Iceland has decreased more than 3 times and almost halved in Norway and Finland since 1950. With a significant (proportional) increase in their population. “In the course of the discussion on comprehensive changes in the structure of local government, the main dispute concerns, on the one hand, effectiveness – the *capacity* of municipalities to provide effective services to their inhabitants and, on the other hand, *proximity*, which is considered an important element of local democracy” (Sakowicz, 2010, p. 333). In Poland, this mythical “closeness,” perceived physically, plus the political interests of some circles, including the local government lobby, have so far prevailed. To the detriment of the inhabitants of small municipalities and the economic and social development of Poland.

Does this mean that there are no small territorial or population-based municipalities in the Nordic countries and is the size of the municipalities similar, at least in these two aspects? Well, no, there are differences, and they are considerable, although on the other hand, there are also requirements, for example, as to the desired size of the municipality determined by the minimum number of inhabitants who live within its borders, e.g. 5,000 or 10,000 inhabitants. However, it is primarily geographical factors, including insularity or terrain, that decide on exemptions from these requirements in special cases.

For example, in Denmark, the smallest municipality – Læsø – has 1817 inhabitants and the largest – Copenhagen – 589,699. The municipality of Sottunga in Åland has 97 inhabitants in Finland (one of the smaller islands of the archipelago), while the largest one, Helsinki, has 628,834 inhabitants. In Sweden, the smallest municipality, Bjurholm, has 2451 inhabitants and the largest one, Stockholm, has 911,989 inhabitants. In Norway, the smallest municipality – Utsira, an island in the Norwegian Sea, has a population of 200, and the largest – Oslo – has 658,390 inhabitants⁴. There are also differences in the size of the municipal territory: the largest municipality in the Nordic countries is the municipality of Kiruna in Sweden, which has a surface area of 20,551.4 km², i.e. more than most Polish voivodeships (only the Mazowieckie, Wielkopolskie, Lubelskie, Warmińsko-Mazurskie and Zachodniopomorskie voivodeships are larger). The largest Polish municipality – Pisz – has 634 km² and is small in relation to the Swedish municipalities, 162 of which are larger territorially (some 30 times) than Pisz. Even if we take into account that the territory of Sweden is about 130 thousand km² larger than Poland, such a difference is unjustified in terms of the importance of pro-development endogenous resources. Denmark has a territory of only 42,933 km², and the largest Danish municipality is more than twice as big as the Polish one. A significant number of small Polish municipalities and districts do not have their own, endogenous pro-development

³ For example, in 1960, Sweden was inhabited by 7.51 million people, and at the end of 2018 – by about 10.21 million. In Denmark in 1960 it was 4.56 million people, at the end of 2018 about 5.81 million, in Norway in 1960 – 3.56 million, in 2018 – 5.34 million.

⁴ As of 1 January 2020, a local government reform came into force in Norway, which led to the consolidation of small municipalities, of which there are currently 356.

potential, which causes and will cause their uneven development and civilisational distance of their technical and social infrastructure, but also their inhabitants (Osiński, Zawiślińska, 2019, pp. 126–129).

With regard to the Nordic municipalities, some legitimate questions can be raised: whether in any of the countries in question the mentioned territorial and functional reforms took place to the detriment of the inhabitants, access to public services has deteriorated or the quality of public services has deteriorated, whether the efficiency of serving the inhabitants by various branches, agencies, commissions or municipal institutions has deteriorated, whether the representation of the inhabitants in the municipal council and its other agencies (commissions) has deteriorated, whether the state of local finances may have deteriorated, making, for example, new infrastructural or other investments impossible, whether the total expenditure of the municipality has increased, threatening social welfare payouts, whether there is a feeling among the inhabitants of the municipality that the municipal authorities have “moved further away” from them and that access to them is more difficult than before the reforms, etc.?

The answer to each of the questions posed is negative. Such permanent negative consequences have not been noticed, despite careful monitoring and evaluation of the changes made (Birgersson, Westerståhl, 1990; Gustafsson, 1992, pp. 104–116). Also, surveys conducted among residents did not show any disturbing signals. The evaluation made it possible to make almost immediate corrections in areas where there were some “tensions” (e.g. in Sweden the establishment of sub-municipal and institutional committees as a legal possibility since 1979) or even minor conflicts (redistribution of municipalities – in 1977, 10 new municipalities were thus created, to be merged in the future, leaving two municipal centres, etc.). The research also did not confirm certain truths, which are treated as “revealed truths” in Polish discussions about the necessity of departing from the current small municipalities, namely that the smaller the municipalities the greater political participation of the inhabitants. Due to increasingly better possibilities of communication with the local authorities, such dependence did not occur in the Nordic governments (Arsen, 2002, pp. 317–333). This is because it is more dependent on the level and type of political culture of the society and the level of public trust, which in the Nordic countries is the highest in local authorities (at around 70%). On the other hand, according to surveys among the inhabitants, as a result of the reforms, they have started to feel a clear improvement in the level of services provided by the municipalities and in comprehensive resolution of their most important life problems on one level.

Scandinavian research on local government in the countries located in the Baltic Sea region indicates that Polish municipalities are overwhelmingly too small in terms of population, territory and resources to be socially, economically and organisationally effective and functionally efficient (Assarson, Hadenius, 1994). Their size, endogenous resources and economic potential (technical and intellectual) make it impossible in practice to effectively develop own resources and make it difficult to use subsidies, grants or European funds while leaving much to be desired in resident services in many municipalities caused by the lack of professional staff and low use of new information technologies in these activities. Commonly known data on the number of inhabitants in municipalities in Poland is confirmed by statements of researchers from Scandinavia. One of the simplest indicators of territorial fragmentation of the state is the average size

of the municipality expressed in terms of population. In this case, the municipalities are smaller in population than in Poland, for example in France, Spain, Italy, the Czech Republic, Slovakia and Hungary. However, there is another indicator determining the degree of territorial fragmentation of local government units (Osiński, 1999, p. 67) that is much more useful, and this one shows that Polish municipalities are among the smallest in European countries.

The majority of Polish municipalities (1592 municipalities with less than 10 thousand inhabitants, out of a total of 2477 municipalities in 2019) with their **current territory and population are not, nor will they be**, due to the subjectively shaped legal framework, socially, economically, financially and organisationally effective. A change in this objective status can only be caused by extraordinary circumstances (e.g. the fact that the lignite mine and the Belchatów power plant are located in the Kleszczów municipalities and taxes are paid there, which does not result from any particular abilities of its inhabitants or the efficiency and effectiveness of the municipalities authorities). Therefore, it should be clearly indicated that in Poland for almost 10 years we have been losing about 1.5–2% of GDP annually due to the territorially inappropriate structure of basic local government units. Additionally, the civilisational differences between large and rich and small and poor municipal units will grow and deepen, although these “gaps” will be filled with funds from “Janosikowe” payments by subsequent authorities. Is there really a reason for uncritical admiration for the Polish administrative reform of 1998/1999?

5. Conclusion

The search for objective debt indicators (IOI) of Polish territorial self-government units should be continued in order to prevent the trend of uncontrolled indebtedness of municipalities from deepening and consolidating. However, we do not see in the application of the indicator an objective factor contributing to debt reduction and real improvement of social effectiveness of territorial self-government units, consolidation of their pro-developmental character or utilisation of economies of scale. The financing model for territorial self-government units should be based on the assumption of a significant increase in the share of own revenues in the structure of their budget revenues. Transfers from the central budget in the form of grants and subventions should play a significantly declining role and be fully justified in the tasks to be performed. The system of local self-government units in Poland is burdened with an objective structural flaw, which is becoming more and more obvious and significant over the years. It is expressed in the small populations, territories and resources of municipalities and districts, whose finances are far from satisfactory, which inhibits socio-economic and organisational development.

A rational and objective change of this state of affairs is possible through consistent implementation of **consolidation reforms** at the level of both municipalities and districts. The most successful reforms of this kind have been carried out in the Nordic (Scandinavian) countries and the experience of those reforms should be disseminated in Poland and their basic assumptions and guidelines for implementation should be used. The establishment of large municipalities (approx. 800–850) and large districts (approx. 110–120) should be complemented by functional changes and a new division of tasks

between the individual levels, with real and not fictitious consideration of the subsidiarity principle. Popularisation of task budgets in all local government units, adoption of the formula of *public entrepreneurship* (Osiński, 2008, pp. 37–38) as a method aimed at increasing own revenues of local government units and application of other instruments resulting from the *new public governance* are the best and real ways to improve qualitatively the efficiency, effectiveness and participation of Polish local government.

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Kondycja finansowa samorządów lokalnych w Polsce a reformy strukturalne samorządów gminnych w krajach skandynawskich

Streszczenie

Autorzy podjęli się analizy zjawiska zadłużenia jednostek samorządu terytorialnego w Polsce. Jest to zjawisko dynamiczne, które dotyczy zdecydowanej większości gmin i powiatów. Barię dla ekspansji zadłużenia stanowi istniejący od 2014 roku Indeks Długu Indywidualnego (IOI), którego nowe elementy weszły w życie 1 stycznia 2020 roku. Struktura indeksu ma na celu umożliwienie regionalnym izbom rachunkowym (RIO) kontrolowania tego procesu i zapobiegania jego postępowi. Autorzy wskazują jednak, że głównym problemem dla jednostek samorządu terytorialnego są niewystarczające dochody własne, co zmusza je do zwiększenia puli środków przekazywanych z budżetu centralnego do samorządów w formie dotacji i subwencji oraz do poszukiwania różnych form pożyczek na swoją działalność. Korzystając z doświadczeń krajów skandynawskich, autorzy proponują rozpoczęcie reform terytorialnych i konsolidacyjnych zasobów małych jednostek samorządu terytorialnego – gmin i powiatów. Celem jest ułatwienie lepszego wykorzystania endogenicznych zasobów JST oraz wykorzystanie korzyści skali związanych z lokalną gospodarką i zasobami społecznymi. Powinno to zaowocować, podobnie jak w Skandynawii, rozwojem przedsiębiorczości publicznej, większą efektywnością i skutecznością społeczną oraz stabilizacją dochodów poszczególnych jednostek. Po ponad 20 latach działalności małe jednostki samorządu terytorialnego w Polsce stały się strukturalnie i funkcjonalnie przestarzałe i nie gwarantują nowoczesnego rozwoju społeczności lokalnych.

Słowa kluczowe: finanse samorządów lokalnych, zadłużenie gmin i powiatów, konsolidacja strukturalna, zasoby endogeniczne, korzyści skali, przedsiębiorczość publiczna