

THE IMPORTANCE OF FUNCTIONS ASSIGNMENT FOR THE INTERGOVERNMENTAL FISCAL RELATIONS

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Abstract

The purpose of this paper is twofold. First, to review the basic principles of functions assignment among the different levels of government. Second, to show on the example of Lithuania, how inadequate assignment of functions leads to instability and disharmony in the practice of decentralizing country.

Nevertheless it is said that there is no absolute best way for designing of functions assignment among various levels of government, some basic principles, deriving from the theory of fiscal federalism, could be applied, especially for post-Soviet countries.

Therefore, first of all the paper starts with the reminder of Musgrave's Theory of Public Finance, pointing up three-state-function framework. After we will go through several decentralization criteria, justifying assignment of functions to levels of government. And finally we will provide an example of the functions assignment to Lithuania local government tier, emphasizing the main problems, coming from the inadequate assignment and conditioning further issues, concerning resources allocation and tax power division.

There are several reasons, why allocating fiscal resources and budget transfers among levels of government must come after a clear assignment of functions. Generally accepted intentions of fiscal decentralisation involve an efficient allocation of resources determined by an efficient assignment of functions. Therefore, transition countries, especially Post-Soviet, new EU member states, pursuing decentralisation development, should take into account the common principles of functions' assignment, trying to avoid unclearness and ambiguity in the field of fiscal intergovernmental relationships.

The assignment of functions and responsibilities across levels of government is changeable, developing with unstable social and political situations. In addition, political and economical systems are always adapting to new demands, changing laws. The main problem in this situation is how to satisfy the evolving residents' needs in the proper way within the current or prospective legal system.

Keywords: Intergovernmental fiscal relations, assignment of functions, fiscal decentralisation.

1. INTRODUCTION

A clear division of responsibilities between different levels of government should be the first fundamental step in creating a system of intergovernmental fiscal relations in order to ensure stable and meaningful decentralization. In practice, instability and misunderstandings appear when the law does not determine the responsibilities of different government levels precisely. When analysing the assignment of functions to the levels of government, we can see a clear relation between the three components – functions, expenditure and income. If the functions are assigned properly, the amount of expenditure for performance of functions, as well as the need for income to be collected to fund the expenditure becomes evident. Lithuania, in spite of two decades of independence, is still in the process of creation of the decentralized state. Therefore, it is important to understand and use the theoretical and practical experience of other countries. For this purpose, theoretical criteria of function assignment to the levels of government, then analysing how they are applied or may be applied practically in the country are provided in the article at first.

The *object* of study is intergovernmental assignment of functions. The *aim* of this paper is to assess the significance of assignment of functions to the intergovernmental fiscal relations in the decentralization process. In order to achieve the aim the following *objectives* are established: at first, the theoretical bases of criteria for the assignment of functions to the levels of government are discussed. Depending on the nature of state functions, they can be performed at the central, regional or local levels. It is, therefore, important to assign the functions logically to the level in accordance with the level that can implement them effectively. Later, it will be moved to the functions of the Lithuanian local government, their classification, suitability of

classification and reflection of decentralization components in the intergovernmental assignment of functions.

There are a number of researches on fiscal decentralization topic at the international academic level. However, there are not any consistent scientific researches done on local finances and intergovernmental fiscal relations. And often the practical processes are carried out without taking into account possibilities to use an existing platform and the experience of other countries. Therefore, this article in the scientific sense is new and important for two reasons: it presents the concentrated principles of intergovernmental assignment of functions to the Lithuanian scientists and politicians and introduces the processes taking place in Lithuania to international academic community.

2. THEORETICAL FRAMEWORK OF ASSIGNMENT OF GOVERNMENT FUNCTIONS BETWEEN TIERS OF GOVERNMENT

Recently it has been argued that country's history and its development stage define its current structure and ties between decentralization and privatization of state property. However, function assignment methods and responsibilities inside the country may vary by sectors that provide public services. This statement can be explained by the key roles of the state determined by Musgrave (1959) in his classic treatise. He determines the following key roles: macroeconomic stabilization, income distribution and resource allocation. This conceptual allocation of state duties helps us to determine, in principle, "the place" of need for functions, costs and income need, i.e. having determined which of conceptual functions listed by Musgrave are assigned to which levels of government, it will be easier to assign specific functions and, thus, the cost of those functions, as well as income to finance the latter (Oates, 1972).

For the sake of objectivity it should be noted that while many contemporary authors in principle agree that functions of stability and income distribution are assigned to the central government, while the function of resource allocation is shared by central and local governments, some have the opposite opinion which is going to be outlined below, next to the each function. This discussion will highlight the understanding even more that the specific situation of each country should be taken into account, the factors and circumstances should be assessed prior to the adoption of the specific model of assignment of intergovernmental functions.

1. **Ensuring a stable macroeconomic environment.** The maintenance of low levels of unemployment and price stability should be assigned to the central government, for two reasons. First of all, local government cannot deal with macroeconomic matters such as unemployment or price level effectively. For example, a successful program of reduction in unemployment will likely attract workforce from other regions, thereby reducing the impact of the program for local residents. Secondly, one of the basic tools of stabilization policy – control over the money supply through a monetary authority – rests with a central bank. However, not all authors agree implicitly with the above mentioned arguments. Here Fjeldstad (2001) argues that studies of some countries (including the U.S. and Western Europe) show that decentralization does not affect the macroeconomic stability (World Bank, 2000). Canadian data even indicate that growth of sub-national government budget had the economy stabilizing effect (Sewel, 1996). This can be explained by observations when the high expenditure functions (state health care, education) which are assigned to large jurisdictions has functioned as automatic stabilizers as these functions are periodic and not very flexible.

2. **Ensuring an equitable distribution of income.** Distribution of resources and income, in general, is also assigned to the government competence and management. Such a policy is implemented because, first of all, efforts of sub-national government to distribute income equitably can be unsuccessful and can distort the geographic distribution of economic resources. A progressive tax which aims to "take money from the rich" can induce the higher-income citizens to leave their place of residence in one zone of jurisdiction and migrate as well as transfer the capital and created business and workplaces to another. In this case, one jurisdiction loses the potential income while the other receives. If such a tax is "imposed" by the central government, the migration within the country is avoided. The opposite problem occurs next to expenditure of jurisdiction, e.g. poverty reduction fiscal policy of local government may attract citizens with fewer resources to the zone of jurisdiction in that way creating an increase in local government expenditure.

Undoubtedly, the above-listed factors depend on the mobility options of the country's citizens. Citizens' mobility varies in different countries. Public policy models assessing the mobility of citizens in the United States may be less adaptable to other countries where family ties and traditions are stronger. If the sub-national jurisdiction complies with the places of residence of racial groups, policy transfer is unlikely to increase migration. Also, in the former Soviet Union countries housing problems and undeveloped real estate

market limit the mobility of citizens. Under such circumstances and having geographic regions of limited mobility opportunities for sub-national government to apply income distribution policy are higher than in Musgrave's model.

But in practice, decentralized government jurisdictions are engaged in distribution policy, too (Fjeldstad, 2001). E.g. such functions as control of land use and rent assigned to local government have redistribute effect. Management functions of state health care, primary education, water supply, housing and public transport which are assigned to sub-national government in many countries, play an economic role in the income distribution. Such public services are sometimes the only tool for subsistence grants in poor countries (Sewell, 1996). Relatively large local jurisdictions in Scandinavia are partially explained by the fact that they are partially responsible for the income distribution. E.g. in Denmark, where expenditure of local government accounts for more than half of government expenditure and about one-third of gross domestic product, social insurance accounts for more than half of the budget of local government (McMillan, 1995). Probably there are not any other countries like Switzerland where income distribution function is so far from a centralized management system. There functions of health care, education and welfare development are carried out by the local government (cantons) and cantons have priority in collecting a personal income tax. The example of Switzerland clearly shows that there is an alternative in assigning income distribution function to the levels of government.

3. **Ensuring an efficient allocation of resources.** Fiscal federalism model provides resource allocation to sub-national government with an important role. The classical argument of fiscal decentralization theory (Oates, 1972:35) states that decentralization helps to align demand and supply of local public goods better in a democratic state. Thus, according to the meaning the efficiency argument (e.g. resource allocation policy) should be assigned to the sub-national government, since its purpose is to ensure meeting of different needs and preferences of citizens. And application of the latter at a lower level of government is more effective as the local government understands the needs and preferences better than the central government being way from the citizens, optimizing the form and quantity of public services in that way (Enemuo, 2000, Rondinelli, et. al., 1989, Oates, 1972, Fjeldstad, 2001, etc.). According to some representatives of public choice school, decentralization also promotes a healthy economic interjurisdictional competition (Brennan, Buchanan, 1980, 2000, Breton, 1989).

However, some authors (Prud'homme, 1995, Rondinelli, et. al., 1989) contradict those arguments as they doubt the application of fiscal federalism in developing countries. Prud'homme puts forward three arguments to justify own contradictions. *Firstly*, in many developing countries adjustment of the preferences and needs is not spoken about, as often meeting at least the minimal needs of the population is the most important. *Secondly*, fiscal federalism model says that the tax payers (the voters for political representatives) express their preferences by "voting by legs" (Tiebout, 1956). However, in many developing countries where wealth and labour market is not developed enough, and the democratic traditions are still at the early stage of development, it is difficult to expect that citizens can easily change their place of residence in order to find a suitable package of public services as well as their voices would lead to something in political processes. And *thirdly*, even if the politicians elected by the citizens want to fulfil their election promises, sometimes this is not possible due to significant mismatch between available resources and possibilities. Even if recourses are sufficient, it does not mean that they would succeed in overcoming the existing bureaucracy. The author builds his doubts on the fact that in many cases the central government has the financial possibilities to hire more skilled workers and, thus, to provide the public goods more efficiently.

3. IMPORTANCE AND CRITERIA OF INTERGOVERNMENTAL ASSIGNMENT OF FUNCTIONS

So, having limited the target of the analysis to one of three functions of the state i.e. the resource allocation, at first, in terms of decentralization of government powers, the basic principles according to which the functions are assigned to central and regional and local government must be reviewed. Resource allocation focuses on two key issues: (1) to determine how the public sector interferes it while using limited economic recourses (i.e. through collective purchasing as the public sector is the buyer not only of final production, but also production factors such as workforce, capital and land); (2) to determine which level of government performs the procurement and is responsible for it. It is obvious that even the most decentralized countries some functions remain assigned to the central government.

According to K Martinez – Vazquez (1999), one of the ways to analyse distribution of state expenditures is to compare how the existing function distribution system comply with fundamental principles of decentralized management system. However, according to the author, there is no the absolute best way which would indicate which level of government must be assigned specific functions. Suitability of any assignment must be decided upon by the government in its decentralization strategy. In order to carry out this government's role in the economy certain criteria based on the principles and objectives are required. It is important to ensure that roles and functions of different levels of government are clearly defined because ambiguity of roles and responsibilities can become an obstacle for effective performance of local government.

Why is the assignment of functions so important?

According to Dafflon and Madies (2009), there are at least three reasons to claim that allocation of financial resources and fiscal transfers must be carried out **only after a distinct allocation of roles and responsibilities to different levels of government**:

1) If the responsibilities of the different levels of government bodies are not determined well enough, then it is likely that recourses for performance of functions will also be assigned disproportionately (both in terms of funding resources and in terms of performance of functions);

2) If the responsibilities are not clearly and precisely defined, the concerns raise about improper perception of government and unfair distribution of power. Different government bodies can interpret the decisions on use of budget.

3) Finally, the principle of accountability being one of the advantages of decentralization can be applied only when the powers and responsibilities are distributed with high precision. In the case where responsibilities of different government levels “overlap”, when some government bodies usually located away from the taxpayers – voters may behave selfishly without liability.

Oates (1972), Dafflon, Madies, (2009), Dafflon (2006), p. 281, Ebel, Vaillancourt (2007), Davey (2003) present a number of criteria (Table 1) for intergovernmental allocation of functions. Oates, like the later models of other authors, offers a comparative matrix for interpretation of criteria confirming centralization or decentralization.

Table 1

(De)centralization criteria

	Criteria	Decentralization	Centralization	Author
1	Preferences	Heterogeneous	Homogeneous	Oates, 1972; Ebel, Vaillancourt, 2007
2	Economics of scale	No	Yes	
3	Spillover effects	No	Yes	
4	<i>Congestion costs</i>	Yes	No	
5	Decision-making cost	If it increases with increasing of group	If it decreases with increasing of group	
6	Fiscal competition			Dafflon, 2006
	Positive	Yes	No	
	Negative	No	Yes	
7	Additional (may be non-economic criteria too)	Yes or no	Yes or no	
8	<i>Subsidiarity principle</i>	Public goods are provided with a matter of priority by the government closest to the citizens		Ebel, Vaillancourt, 2007
9	Geographic area of benefits	Yes, if the function matches the geographical are of benefits	Yes, if the function matches the geographical are of benefits	
10	Traditions			Davey, 2003

Source: Oates, 1972, Dafflon, 2006:281, Ebel, Vaillancourt, 2007, Davey, 2003 (interactive).

According to Oates (1972), cited in Dafflon, Madies (2009), the **first criterion** is related to the level of heterogeneity. If individuals with similar preferences (e.g. if their living conditions are very specific) live in a small area, then decentralization may be the best way to meet specific needs. Ebel and Vaillancourt (2007) argue, that this principle is closely related to the principle of geographic area of benefits provided by the function, i.e. local governments can be the appropriate provider of public services only if the area matches that of the social preference.

The second criterion defines technical extent of economies of scale when provision and manufacturing issues of public goods are solved. According to Ebel and Vaillancourt (2007), public goods and services should be provided by that level of government which can realise economies of scale optimally. Dafflon and Madies (2009:32) note that the factors of economies of scale may vary depending on the function. It means that they have different functional ties. The functional area may be defined as follows:

a) in terms of **provision** of public goods (manufacturing), if economies of scale occur across the borders of the municipal area, then the need for cooperation between local jurisdictions when providing such services raises;

b) in terms of **use** of public goods, if public goods are provided by the local government, they have spillover effects.

The third criterion analyses spillover effects. There are two types of spillover effects as in case of economies of scale: provision of public goods (manufacturing) and use of public goods.

a) Spillover of **provision** (manufacturing) of public goods occur when a public good provided by local government body A affect adjacent areas and the latter do not participate in deciding upon and financing the provision of the public good.

b) Spillover of **use** of public goods occurs when the public good provided by the jurisdiction A can be used by people from neighbouring jurisdictions as they come to the area A and use the public good without paying for it but their isolation from the use is not possible.

The fourth criterion, opposite to the former, evaluates the negative external effects in territories, to be precise – congestion costs. Citizens' mobility enables them to use the public goods provided by farther located municipalities without paying for them.

The fifth criterion. If the cost of decision-making for a small group of residents is lower than for a big one, such an argument would suggest choosing the decision-making at the local level. And vice versa – if the decision –making cost is higher for a small group of residents, and having larger population economies of scale is reached – the function of providing the public goods should be assigned to the central government (Dafflon, Madies, 2009:31-35).

The sixth criterion. It is fiscal competition. The local government may set different taxes, and combinations of public services and goods paid by them that meet needs of local residents. Tiebout (1956) cited in Dafflon (2006:282) argues that it would be helpful to see a public goods provision system of many jurisdictions as if it were analogous to the free market of private goods. Competition between jurisdictions would provide diversity of “sets” of taxes and public goods. In this case, the citizens could choose the jurisdiction with a proper “set” i.e. the ratio of the provision of public goods and taxes calculated for them, the best suit their needs, thus, ensuring the provision of public goods.

The seventh criterion. Even though economists have (or at least should have) a key role in identifying and evaluating each of the above criteria, other experts of politics, sociology, history also participate in the process with own arguments and criteria that are important for (de)centralization decisions.

The eighth criterion. According to Ebel and Vaillancourt (2007), many countries assign functions and responsibilities for the cost in accordance with the subsidiary principle stating that the functions should be performed by the lowest level of government that can do so efficiently. This principle is promoted by the European Charter of Local Self-Government: Public responsibilities shall generally be exercised, in preference, by those authorities which are closest to the citizen. Allocation of responsibility to another authority should weigh up the extent and nature of the task and requirements of efficiency and economy. (European Charter of Local Self-Government, Art. 4.3).

The ninth criterion. Functions should be assigned to the level of government whose jurisdiction most closely approximates the geographical area of benefits provided by the function. E.g. fire protection services provide benefit only the residents who are located near the relevant facilities. Meanwhile, the geographical area of benefits of air and water pollution prevention benefits larger regions or even the whole country.

The tenth criterion. Traditions and historical legacy of political economy. The variety of allocation of competencies between different levels of government limits the determination of common principles for allocation. According to Davey, history of the European Union has determined differences between Southern European / Mediterranean countries, where the central government retains the prefect of administration and the technical part of the public services, directly provide or control and assist local government bodies in providing such services and Northern European countries where the central government does not have much power (except for the capital city) entrust the provision of many services to the local government.

4. CLASSIFICATION PROBLEMS OF LOCAL SELF-GOVERNMENT FUNCTIONS

Having examined the main criteria for the assignment of functions, let's have a look at what functions of the state are assigned to the level of local government in Lithuania. Remember, that there is a system of two government levels i.e. central and local government. Even though, the assignment of many functions meets the above criteria formally, a deeper examination of the legislation has revealed that some functions are assigned not entirely clear and that creates problems of cost and income distribution and accountability. The problem is also observed in the classification of functions according to COFOG⁴² classification. At first, the classification nuances are going to be reviewed: whether the classification is adequate, and whether the functions formally assigned to local government reflect their actual independence indeed.

After the restoration of independence functions of municipalities were not specified by law immediately. Kleponis (2005) provides a brief history of functions of municipalities "including" into the Law on Local Self-Government: during the period since 1990 when the Framework Law on Local Self-Government was adopted, an issue of assignment of functions to municipalities was and still is relevant to everybody. Amending the Law on Local Self-Government, the articles regulating other functions (activities) of municipalities were changing all the time, too. It may be noted that there were certain questions arising then, as now, criticism due to functions and volume setting and grouping was expressed. This indicates that the functions in municipal activities have a deeper meaning and greater significance than might appear at first glance. Layout and grouping of functions in the law determine the relations between local government and institutions and citizens. The Framework Law on Local Self-Government (1990) established the functions of local self-government bodies i.e. competences, rights and powers of state government and government bodies elected by residents of the administrative territorial unit when implementing functions of self-government. Particular articles of this law were assigned to formation of institutions and settlement of their rights. The functions (as activities) of municipalities were separately regulated by some articles setting municipal property, local economy, management of local financial resources, and Art. 24 of this law determining the main socio-economic rights of local self-government. In this article there were twenty-four paragraphs identified which set out the activities assigned to municipalities. Extent of activities listed in these paragraphs of the article was quite extensive. In the law these activities were not distributed among municipal institutions, so municipalities where the boards did not assign those functions between the board, administration and other institutions had a number of problems in their activities.

Having assessed the situation of local self-government in Lithuania in 1990-1995, in the new version of the Law on Local Self-Government (1994) it was refused to divide the functions into single or separate articles or highlight them in any other way. This Law established competencies of municipal authorities, board, Mayor, administration and elder. Municipal authorities and officials acting in accordance to statutory competencies, implemented own powers as the institutions and municipal functions. In this case competences were seen as rights, powers of the institution and activities of this institution.

While preparing a new version of the Law on Local Self-Government (2000) municipalities' offers to refuse naming the competences of municipal institutions and through splitting them to determine powers of institution and functions of municipalities separately were assessed. Such decisions were also influenced by some other things established by the Law on Public Administration in 1999 (1999). Concepts, very important to municipalities (their institutions), were provided in this law. There were such concepts: entities of public administration, public service, administration of public service provision, arrangements for the provision of the public service, etc. So, the new version of the Law on Local Self-Government has articles on the functions of municipalities and municipal authorities and authority of officials.

As can be seen, the process of assignment of intergovernmental functions has not been easy. However, this transition process has not been escaped from by any post-communist country changing from a centralized to a democratic system of governance. After long decades when all the functions of the country were assigned to the central government, their reassignment between the different levels of government for several year (or decades) became a serious challenge to the democratic process. This process is not completed, rather half way through, as it is clear from the comments at the end of the chapter. But let us begin the analysis of functions of municipalities from the existing legislation and assessment of functions of

⁴² COFOG – Classification of the functions of government, abbreviated as COFOG, was developed in its current version in 1999 by the Organisation for Economic Co-operation and Development and published by the United Nations Statistical Division as a standard classifying the purposes of government activities (Eurostat glossary).

municipalities set there. The main questions raised in the previous section – is the establishment of functions of local government clear? Is the classification of the functions adequate? Because, as mentioned above, the correct and unambiguous allocation of intergovernmental functions influence expenditure of municipalities, their distribution and a clear vision of what the functions are and how much money is spent on them and the further problem of fundraising (distribution of municipality income). So, at first we will look at what functions are attributed to the self-government in accordance with legislation, then COFOG classification will be used to classify them. COFOG classification is chosen because according to it the local governments must submit the expenditure data.

According to the freedom of decision-making on the functions of Lithuanian municipalities in accordance with the Law on Local Self-Government they are divided into:

- Assigned (which according to decentralization components has to correspond to devolution). These functions are performed by municipalities under the Constitution and the competence provided by the law, obligations to the community and its interests. When implementing these functions, the municipalities have the freedom of initiative of decision-making, their adoption and implementation set by the Constitution and laws and they are responsible for implementation of the assigned functions. When implementing these functions activities of municipalities are bound by statutory requirements and procedures which, when established by law, are set in other legislation too;
- State (transferred by state to the municipalities, which according to the decentralization components has to correspond to delegation). These are the state functions transferred to municipalities under the law taking into account the interests of residents. Municipalities in the implementation of these functions have a statutory decision-making freedom. While implementing these functions, the municipality activities are limited by decisions of state institutions and (or) officers. In some cases, state functions can be delegated to the municipalities to perform on a contractual basis. The municipality may enter into such an agreement only if the board of the municipality agrees. These functions are usually short-term or bear seasonal nature.

The first comment grabbing attention when reading the functions listed in the law is the lack of logical assignment of functions. It is not clear what principles are applied to assign these functions. Therefore, in order to classify them a particular classification or criteria should be chosen. As Lithuanian municipalities are required to provide budget expenditure data classified according to COFOG classification (this classification of state functions has been in force since 2004), the table below is drawn to try to assign each function of the municipality to a certain class of COFOG classification.

Table 2 is compiled using such a method: the criteria listed on the left are according to COFOG classification. Next, there are 2 columns dividing the functions into assigned, i.e. devolution and belonging to state i.e. delegation. As there is no sharp detachment between obligations and functions in the table excluding assigned functions and those assigned by the state to the municipalities, these columns are divided into two parts in order to distinguish between the functions and obligations of municipalities.

Due to lack of place, for example, not all classification is included but only first COFOG positions – CG010 General public services. Having stated to classify according to this principle it was noticed that not everything what in the Law on Local Self-Government is considered to be the functions of municipalities are functions in fact. The authors of the law attributed both real local self-government functions like provision of public utilities, education or health care services and local self-government obligations like planning and affirmation of the municipality budget, establishing and maintenance of municipal budgetary institutions, establishment of municipal public institutions, municipal institution and other municipal legal entities and so on. Therefore, assigned functions of municipalities and functions of state are divided into different categories i.e. *obligations* and *real functions* in the Table 2.

Table 2

Classification of municipal functions according to the Law on Local Self-government and COFOG classification

	Devolution		Delegation	
COFOG Classification	Independent functions of municipalities		State (delegated by the State to municipalities) functions	
	Article 6/part of article		Article 7/part of article	
	Obligations (responsibility)	Real functions	Obligations (responsibility)	Real functions
CG010 General public services				
CG0101	1) drawing-up and		33) gathering, storing and	

Executive and legislative organs, financial and fiscal affairs, external affairs	approval of a municipal budget; 2) setting of local fees and charges 3) management, use and disposal of the land and other property which belong to a municipality by the right of ownership 4) incorporation and maintenance of municipal budgetary establishments, incorporation of municipal public establishments, municipal undertakings and other legal persons 22) planning of the infrastructure, social and economic development, preparation of strategic development and actions plans; programmes related to the development of tourism, housing, small and medium undertakings; 24) implementation of information society development;		provision to the European Commission in the manner prescribed by the Government of the information about financial relations of municipal institutions and undertakings controlled by a municipality, which meet the criteria set by the Government, as well as about undertakings which must maintain separate accounts;	
CG0103 General services		27) management and use by the right of trust of land reclamation and hydrotechnical construction works which belong to the State by the right of ownership; 41) ensuring of rendering of burial services and organisation of maintenance of cemeteries;	2) management of registers assigned by the law and furnishing of data to State registers; (01.03.03.02) 14) management of archival documents assigned to municipalities in accordance with legal acts;(01.03.03.02) 17) provision of statistical data; (01.03.02.02) 31) processing of data related to declaration of a place of residence and accountancy data of persons who do not have a place of residence;	
CG0106 General public services n.e.c	20) setting of special architectural requirements and issuing of documents permitting construction in accordance with the procedure laid down by the law; 21) supervision of exploitation works in accordance with the procedure laid down by the law.	19) territory planning, implementation of solutions of a general plan and detailed plans of the territory of a municipality.	10) management, use and hold in trust of the State land and other State property assigned to a municipality; 12) execution of State guarantees for tenants moving out from dwelling houses or their parts and flats, which are returned to owners; 13) control of use and accuracy of the State language.	1) registration of acts of civil status; 11) consideration of citizens' requests to restore ownership rights to the existing real property, as well as adoption of decisions on the restoration of ownership rights in the cases and according to the procedure laid down by the law.

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Unfortunately, the majority of assigned functions of municipalities do not satisfy the classification as it is difficult to assign the function to the particular group even having in front of the description provided by the law. So, it is vague how the municipalities make statements to assign expenditures to one or another group, and Table 2 presents classification based on the discretion of the author. There is no wish by the author to deny that the functions are assigned so as they are assigned in every municipality but to reveal the principle itself due to assignment process, sequence and adequacy.

The text highlighted in grey shows the functions which precisely match COFOG classification. As we can see, some functions attributed to one or another category of functions by the author match the classification not fully, while some match it absolutely. Some of the function text matches only partially.

So, in the author's view, obligations must be clearly distinguished from the functions in the law. What are the consequences if it has not been done?

Firstly, as the functions show not only what the local government has to do but also indicate the amount of cost for each function individually; if the functions are not distinguished properly, the further analysis of cost loses its meaning.

Secondly, majority of functions provided by the municipality to the citizens are paid from so called user charges. Thus, if the particular functions are not pictured in the accounting, it stays not clear which collected taxes are appointed to pay one or another function.

Thirdly, the concepts of democracy and decentralization emphasise participation of citizens and accountability of local self-government for own voters. On purpose to acknowledge the citizens that they would know where and how the taxes paid by them are distributed, at first, they have to know how the functions are assigned. In other words, if when reading the Law on Local Self-Government is not clear which class of the classification a particular function should be assign to, as well as it is not clear what amount of finances is allocated for the implementation of the function. It can be concluded that it is too early to speak about decentralization and resource allocation for implementation of functions while institutional affairs are not settled. Thus, at first the analysis is headed to institutional economics, and only after to fiscal decentralization.

So, to sum up it can be stated that:

- In the Law on Local Self-Government functions of municipalities are listed incoherently, changing from one course of activities to another. Whereas, the municipal costs are classified according to functional classification, in order to maintain a logical sequence, it would be meaningful to list municipal functions according to consistency of functional classification.
- The real functions of municipalities are mixed with obligations of municipalities. Having detached the real functions of municipalities from their obligations and having listed the functions according to COFOG classification as it is done with costs it would be clear how much money the municipality spends on a particular function, then it would be evident what is the need for funds i.e. how and in what ways the municipality has to raise funds for the performance of the specific function.

5. REFLECTION OF DEVOLUTION AND DELEGATION PRINCIPLES IN DETERMINING FUNCTIONS OF LOCAL GOVERNMENT

With regard to the decentralization from the point of view of function assignment place in self-government institutions, it is necessary again to get back to the key components of decentralization. This time two components are important for us – the delegation and devolution. Deconcentration will be left aside for now as it is mentioned above it only means deconcentration of central government functions in order to make their performance easier. Thus, in this section it will be tried to assess what is the extent of decentralization of local municipalities with regard to the criteria which reflect state function delegation or devolution, what specific concepts and definitions indicating the decentralization of functions of the local government are found in the Lithuanian legislation and how they can be interpreted.

Delegation of public functions is used when providing public services national priorities have to be met. Unified national legal regulation specifies how to provide public services. Some services such as social services or unemployment benefit payments provided by the local government are provided on behalf of central government and must comply with the basic principles only a very limited freedom of actions is left for local government (Hermann, Horvát, Péteri, Ungvári, 1999, p. 117).

Unlike deconcentration, **devolution** of government functions promotes regional and local self-government. Devolution is carried out by assigning the functions and financial resources to regional and local government to draw up own budgets and to provide local public services. Two key factors of decentralized government system are the ones that the local government decision-makers are elected by local residents at the same time being subordinated to higher authorities directly. Decentralized local government has its own legal status and rights as well as ownership of the local infrastructure needed to fulfil its responsibilities and provide the public services. At the same time decentralized local finances allows to use financial resources more efficiently as local officials can respond to needs and preferences of local residents better (Martinez – Vazquez, 1999, p. 162). However, devolution does not mean abdication of responsibility. Assignment of essential functions to municipalities must be accompanied by the appropriate audit, control or other effective systems. But at the same time cooperation of different levels of government should be developed rather than control or maintenance.

The assigned functions of municipality (Article 6) in accordance with the Lithuanian Law on Local Self-Government. According to the characteristics listed above this type of local government functions is attributable to devolution what by implication should mean (if it is so, it will be analysed later) that local institutions are free to make decisions on execution of assigned functions, combine them according to the needs and priorities of residents.

The functions of state (transferred by the state to municipalities) (Article 7). According to the characteristics listed above this type of local government functions is attributable to delegation when the central government forward the decision-making freedom and public administration functions to the local government or semi-autonomous organizations which are not fully controlled by the central government but are accountable for it.

The most important condition for assignment of public services, apparently, is their funding and fiscal decentralization following it. If the functions are assigned to the category of assigned ones (i.e. the municipalities may decide on their performance) and the cost of execution of the functions is financed by the central government, this phenomenon is quite ambiguous. On the one hand, it seems that the municipality has all the freedom to decide for provision of certain public services to own citizens, on the other hand, if the institution is usually financially dependable on, it cannot feel completely independent.

Moreover, in terms of public finances it is complicated as the following key problems must be solved: how much money to give to finance a particular function, what the source of those funds is and how much freedom of choice the local government has when choosing the object, size and structure of the funding source. For these reasons the assignment of functions and distribution of local self-government costs are closely inter-related problems. Generally accepted goals of decentralization are compound of efficient allocation of resources through the responsible and accountable government, adequate provision of public services to different jurisdictions, maintaining of economic stability and promoting of economic growth.

Let's have a look at the reflection of devolution or delegation observed in the Lithuanian legislation. Having getting two major laws – the Constitution and the Law on Local Self-Government of the Republic of Lithuania, it was tried to find the concepts and definitions illustrating the functional decentralization of local government.

Art. 119.3 of the Constitution of the Republic of Lithuania indicates: *The procedure for the organisation and activities of self-government institutions shall be established by law.* It is called a top-down system.

In the Law on Local Self-Government:

Art. 3.2. *Local Self-Government is self-regulation and self-action of the communities of the administrative units of state territory, in accordance with the competence defined by the Constitution and laws, which are provided for by law and which are composed of permanent residents of these units.*

Art. 3.8. *Functions of municipalities are functions of local government, public administration and provision of public services assigned to the municipalities in accordance with the Constitution and laws.*

Art. 3.9. *The exclusive competence of a municipal council is the competence defined by the Constitution and laws and which cannot be transferred, interfered in, implemented by any other local institution. The municipal council cannot renounce their exclusive jurisdiction or transfer it to other local authorities.* This article does not provide explanation what the competence is itself, only that it is set and that no one can take it over.

Let's look into the Constitution again:

Chapter X, Art. 120, Part 2 states: *Municipalities shall act freely and independently within their competence defined by the Constitution and laws.* But any other statements or explanations of what the competence of municipalities is and how it is determined cannot be found in the Constitution.

Later, exceptional and ordinary competences are listed in Article 16 of the Law on Local Self-Government but the definition which would help to distinguish the duties, functions, activities and competences are not provided. However, these concepts are found both in the Constitution and the Law on Local Self-Government.

The Law on Local Self-Government:

Art. 4.1. *The principle of representative democracy.* It can be understood as the provision of the certain function to the residents. This, apparently, is the subsidiarity principle expressed in other words. This principle states that the residents have to be provided the services by the institutions located closest to the residents in order to meet their needs the best. At the same time, there is the responsibility in front of the voters, the citizens who receive the services. Therefore, every citizen must be aware of which functions are performed by the municipality, how much money i.e. taxpayers' money is spent on them.

No more decentralization criteria related to the provision of functions to the residents cannot be found in two main pieces of legislation.

The reader may wonder why certain definitions and explanations are searched for so precisely. Of course, the meaning of concepts can be understood or the explanations can be found in a dictionary or other pieces of legislation. But then, there is a danger that the readers will understand them differently. Therefore, in author's opinion, all used conceptions should be defined clearly and unambiguously in the basic legislation. One of the objectives of this article is to assess the fiscal decentralization of local government in Lithuania.

The certain criteria are important for the assessment of decentralization. Among them what are the functions transferred to local government to perform individually and which are delegated to. If the legislation does not explicitly differentiate between the competencies, obligations and functions, and especially between assigned or transferred functions, it is not possible to assess how far they are assigned or transferred. Certain criteria of function assignment were identified in the previous chapter. Here it will be tried to assess the subsidiarity principle including many criteria of function assignment and stating that implementation of public obligations has to be assigned to the public government bodies which are close to the citizens, and the functions which cannot be performed by the public government bodies at the lower level are transferred to the bodies at the higher level.

The subsidiarity principle is not defined neither in the Constitution nor in the Law on Local Self-Government, but Article 3, Paragraph 7 of the *Law on the Amendment of the Law on Public Administration of the Republic of Lithuania defines the subsidiarity principle*, according to which the emphasis goes on that "the decisions of entities of public administration must be adopted and implemented at the most efficient level of public administration system". According to Baltušnikienė and Astrauskas, the application of subsidiarity principle is especially important in areas where the competence of general public government bodies occurs (i.e. where the functions are shared between the various levels of government). Baltušnikienė, Astrauskas, 2009, p. 8).

As decentralization criteria are not clear in terms of functions, a few particular examples can be analysed. The functions specified in the Law on Local Self-Government which are allocated to the execution of the local government are chosen and the potential efficiency after the allocation is analysed according to the allocation criteria of intergovernmental functions in the first section.

1. 7.35 function – radiation protection. It is doubtful whether the municipalities in Lithuania have enough technical capacity, professionals for solution of this problem. Technical volume of this external effect is greater than the territory of local government. In other words, radiation bears the spillover effect between the municipalities.

2. 6.28 function – *protecting and improving* the environment. It is a very broad concept which does not define what these objects to be protected are – air, land or water? If we take the example of water, let's say a river. The river flowing in several municipalities, it is an example of spillover effect.

3. 6.8 function. Part of the function - pre-school *education* organization (devolution) and part of 7.7 function – pre-primary education organization (delegation).

Due to the lack of space in the article, only one example, illustrating the ambiguously situation of function assignment and co-sharing is presented below. As it can be seen in Table 3, only two functions are analysed – assigned municipality function – pre-school education organization and the function transferred to the municipalities by the state - pre-primary education organization. Analysis of only these two functions causes considerable confusion.

At first, other functions, even if they are related to the education, with very different requirements and performance conditions are added to a fairly specific function provided to preschool-aged children –

organisation of informal education of adults, the organization of youth employment, general education, vocational training and organization of vocational guidance, maintenance of schools (classes) engaged in general education programs and designed for the country's students with exceptional abilities or special needs. Each of the listed activities are regulated by other laws, their implementation requires a different infrastructure and human resources. In economic and responsibility terms such assignment of functions leads to assessment of problems. If the municipality has to classify the costs according to OECD function classification, for both an economist and a voter who according to the principles of democracy local politicians are accountable for is not clear what the exact cost is incurred in organizing pre-primary or pre-school and what the cost is of other activities.

Table 3

Assignment of pre-school education and pre-primary education to local government

	Devolution	Delegation
Law on self-government	6.8 (partial function) - organization of pre-school education , non-formal education of children and adults, organisation of occupation of children and youth;	7.7 (partial function) - organisation of pre-primary education , general education, vocational training and vocational counselling, ensuring of studying of children under 16 years of age, residing within the territory of a municipality, in accordance with compulsory education programmes, maintenance of schools (classes) which implement general education programmes and are designated for pupils having exceptional talents or special needs;
Law on education	<p>7.2 Pre-school education shall be carried out at home and at the request of the parents (guardians) – in accordance with a pre-primary education curriculum. Pre-school education of children may be compulsory in accordance with the procedure and in the cases laid down by the Minister of Education and Science and the Minister of Social Security and Labour.</p> <p>7.3. Pre-school education shall be provided to a child from his birth until the commencement of provision of pre-primary or primary education.</p> <p>7.4 The pre-school curriculum, prepared in compliance with the criteria of pre-school curricula approved by the Minister of Education and Science, shall be implemented by pre-school education schools, general education schools, freelance teachers or other education providers.</p>	<p>8.2 Pre-primary education shall be carried out according to a one-year general pre-primary education curriculum approved by the Minister of Education and Science. Pre-primary education shall be carried out by pre-primary education schools, general education schools, freelance teachers or other education providers in compliance with the procedure laid down by the Minister of Education and Science.</p> <p>8.3 The provision of pre-primary education to a child shall start on the calendar year when a child reaches six years of age...</p>

Secondly, assigned municipality function – pre-school education organization which should reflect devolution i.e. full decentralization, it seems that it is not so. As we can see, the curricula are established by the Ministry of Education as the Law on Education of the Republic of Lithuania. Moreover, the sentence “According to the order and cases set by the Minister of Education and Science and the Minister of Labour and Social Security, pre-primary education may be compulsory for certain children” indicates that the function assigned to the municipality cannot be treated as being assigned.

And thirdly, the provision of the Law on Education of the Republic of Lithuania on that: “Pre-school education is provided to children from the birth till they receive pre-school or primary education” brings even more confusion because the word “or” may refer to the function which has to be performed or may not. In this case pre-school education function remains uncertain and children from 6 to 7 years may be provided both pre-school and pre-primary? It remains unclear who is responsible for the education of children at this age, in fact.

So we can see inaccurate assignment of functions causes problems of both interjurisdictional misapprehension and responsibility and resource allocation and accountability for it. In order to distinguish and define interjurisdictional allocation of functions clearly, it is necessary to have decentralization matrix and define devolution distinctly.

6. CONCLUSIONS

Since 1959 when Musgrave identified three main functions of state: stabilization, income distribution and resource allocation and in 1972 Oates' idea that state functions should be assigned to different levels of government, there are regular discussions going on how to find a better model for the assignment of functions in democratic and decentralized countries.

And while many politicians and scholars agree with the idea that there is no a model which is perfect and suitable for all systems, the main criteria of intergovernmental assignment of functions based on both theoretical studies and empirical research are presented in the scientific literature.

Lithuania, like many post-communist countries, declaring the idea of decentralization and having ratified the European Charter on Local Self-Government, is in the process of decentralization. Legacy of the Soviet system and the frequent change of political parties hinder the effective implementation of the process. Also the lack of economic knowledge is often observed in the actions of politicians, so, the first part of the article is devoted to the theoretical justification.

When analysing the classification of functions of Lithuanian municipalities it appeared that autonomous (devolution) and assigned by the state to municipalities (delegation) functions are presented without any logic system and do not match any classification, despite the fact, that expenditure reports of municipalities must be handed with compliance with COFOG classification. Therefore, when having tried to group the functions of municipalities it turned out that it is not an easy task since only few descriptions of functions match the classification. It creates a problem of accountability as a citizen in a democratic society cannot see what expenditure is incurred by the municipality performing a particular function. It brings problems both of accountability and economic and political analysis.

Another aspect of functional decentralization study is that assessment of reflections of devolution and delegation in functional distribution has showed that not all functions of municipalities are so in reality. The example of pre-school and pre-primary education shows that there is no clear line between responsibilities of different tiers of government. The specific function provided to the preschool-aged children is accompanied by other ones with different requirements and performance conditions, even if they are related to the functions of education. All activities listed in one function are governed by other legislation and their implementation requires a different infrastructure and human resources. In addition, since these functions are a matter for central government legislation, it is hardly possible to assign it to autonomous functions of municipalities.

Thus, we can see that incorrect assignment of functions leads to problems of both inter-jurisdictional miscommunication and responsibilities and allocation of recourses and accountability for them in the system of functions of government – expenditure for the performance of those functions – income to fund the expenditure.

The proposed solutions after analysis of the theoretical points of functions assignment and particular country's situation would be as follows:

- (1) Nevertheless no single best assignment of functions can be found neither in theory nor in practice, at least clear functions assignment between levels of government should be defined in the law with transparency; and appropriate legal framework enabling precise accountability of both (in case of Lithuania) government levels can be established. It would help to avoid the source of conflict between central and local governments and leads to more efficient provision of public goods as well as the stability of the system.
- (2) The classification of functions should be united with the classification of expenditures (i.e. if Lithuanian municipalities has to present their expenditures according to COFOG classification, functions shall be divided according the same system). Thus responsibility and accountability of government units will be clear and encourages democracy.
- (3) Co-sharing of public functions between tiers of government should be also defined clearly and in no uncertain terms. The above presented case of pre-school and pre-primary education shows that key decisions in education regulation in order to establish common requirements and standards for the whole country is taken by the central government, simultaneously the provision and organisation of pre-school and pre-primary education is carried out by the local government. In this (and other similar cases) clear distinguishing between delegated and devolved functions should be made.

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