



Endangered Municipalities? Case Study of Three Small and Critically Indebted Czech Municipalities

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Abstract

This paper addresses the issue of Czech small critically indebted municipalities, which has been neglected in the European discourse after successful European consolidation reforms. The Czech Republic is one of the Central European countries where there is no relevant debate on the mandatory amalgamation of small municipalities that are often faced with a combination of multiple risk factors.

This paper aims to analyze a sample of the Czech municipalities that are threatened by a combination of their small size and critical indebtedness. A research of the sample focuses on a) the identification of the reasons for critical indebtedness, b) the impact of critical indebtedness on the delivery of services and local democracy and c) the options and strategies to overcome the issues related to critical indebtedness.

Methodologically, the paper is a multiple-case study of three small critically indebted municipalities of the Karlovy Vary region, which was considered the worst region in 2012 in terms of the share of critically indebted municipalities, with several long-term critically indebted municipalities on its territory. Based on the media monitoring and economic criteria, the municipalities of Prameny, Bublava and Nebanice have been chosen.

The main finding of our research is the identification of so-called endangered chains: 1) small municipalities with low revenues resulting in 2) limited administrative and expert capacity that contributes to 3) a mistake in a large investment project resulting in 4) the economic collapse of the municipality that endangers the provision of services, and in the case of 5) insufficient social capital this can lead to agony of local self-government and the collapse of the municipality. According to the findings, the examined municipalities of Nebanice and

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Bublava correspond to the chain link 4, and in the case of Prameny it is possible to speak about the chain link 5.

Keywords:

Local politics, endangered municipalities, indebted municipalities, small municipalities, Czech Republic

1. Introduction

The Czech municipal structure can be regarded as fragmented and asymmetric, with more than 78 % of municipalities forming municipalities of fewer than 1,000 inhabitants³ (see Illner 2006, 17; Ryšavý and Bernard 2011, 23). Scholarly literature points to the inefficiency of such a system (among others, Matějová et al. 2017). Small municipalities are connected with small municipal budgets, resulting in financial problems (see Kruntorádová 2015; Hornek 2016) as well as restrictions on the provision of services and municipal development (see Act no. 128/2000 coll.; Bernard et al. 2011). Apparently contrary to the constitutional and legal definition of self-government (see Constitution of the Czech Republic; §2, §35 and §38 of Act no. 128/2000 coll.), the essence of small municipalities is diminished to the so-called maintenance functions (see Bubeníček 2010; Bernard et al. 2011).

In light of these facts we can find small municipalities in the Czech Republic endangered due to critical indebtedness. The reason for indebtedness may be insufficient financial revenues, poor strategic decisions, low administrative capacity, repayment of investment projects, flawed projects, legal disputes, or a combination of multiple causes. This then has serious implications for the local community. An example may be suspended maintenance of public greenery and local roads, disconnected public lighting, stopped collections of municipal waste; other services provided by municipalities (libraries, kindergartens, primary schools, etc.) may be limited or terminated.

It is important to examine the threatened municipalities not only following the outlined state of affairs, but also because the critical debt is naturally reflected not only in the services provided and in the strategies how to overcome the issue of resource constraints, but primarily in the very existence and form of local democracy. There is a change in the drawing-up of candidate lists, the number of candidates and the voter turnout. Critical debt may be the cause of significant cleavage in the municipality; in extreme cases, municipal elections may not be held at all due to lack of interest in managing the excessively indebted municipality. Every such case represents a serious crisis, which is treated ad hoc, the state has no exemplary legis-

3 Fifty-five percent of all municipalities are municipalities with fewer than 500 inhabitants, and up to 26 % of municipalities do not even have 200 inhabitants (ČSÚ 2017).

lative solution to such a paralysis of municipalities, which at the same time does not have to be a rare one at all (Hornek 2017, 116).

1.1 Aim of the Study

This paper aims to analyze a sample of the Czech municipalities that are threatened by a combination of their small size and critical indebtedness. A research of the sample focuses on the following questions:

RQ1: What are the reasons for critical indebtedness of municipalities?

RQ2: What is the impact of critical indebtedness on the delivery of services and local democracy?

RQ3: What are the options and strategies to overcome the issues related to critical indebtedness?

The paper has the character of a multiple case study, based primarily on qualitative research (see Yin 2003; Kořan 2008). The case study focuses on the research of critically indebted municipalities. The case study follows up on our own research (Hornek 2016), whose necessary components were semi-structured interviews with mayors of municipalities.

Research of “critically indebted municipalities”⁴ was carried out in three small referential municipalities. Reto Steiner draws attention to Witzel’s text, according to which “*focusing on a smaller studied sample allows for more intensive study and the gain of more complex results*” (Steiner 2002, 363). Municipalities were selected on the basis of three criteria: a) high insolvency risk, b) media monitoring, and c) affiliation to the region. Under criterion a), we have identified municipalities that were specifically and repeatedly referred to by the Ministry of Finance of the Czech Republic (MF ČR) as municipalities with a high insolvency risk (see MF ČR 2013, 2014). The specific selection was made using the ÚFIS system, or the MONITOR portal administered by the Ministry of Finance (Úfis 2014; Monitor 2019). The aim of the performed monitoring of the media (b) was an effort to ensure the selection of such municipalities whose problems were well covered by the media, which would strengthen the robustness of the information sources. The monitoring was focused on the period 2006–2018, including regional and national media. The selection included municipalities from the Karlovy Vary region (c). In 2012, it was assessed as the worst region in the Czech Republic (Ipoint.cz 2013) from the point of view of the share of high insolvency risk of municipalities. Based on such criteria, three specific municipalities – Prameny, Bublava and Nebanice – have been selected.

4 Critically indebted municipalities are considered to be municipalities that have been operating/operated their resources on a long-term basis with a higher level of risk according to the monitoring of economic management of the Ministry of Finance of the Czech Republic. In other words, they are municipalities that have failed to repay their debts for extended period of time.

The municipality of Prameny is situated on the Southern edge of the highlands of Slavkov Forest (Slavkovský les), with only 102 inhabitants. In the post-war period, it served as a military training proctor, and later uranium was mined nearby. The former mining municipality of Bublava is located near the Saxon border and has 401 inhabitants. The municipality of Nebanice is located on the Ohře River, with 341 inhabitants. The common characteristic of all three municipalities in the Karlovy Vary region is a significant reduction in the number of inhabitants as a result of the post-war expulsion of the German population.

If we should introduce the methods used, the first and the key method were semi-structured interviews with mayors. Semi-structured interviews were conducted with all the mayors of “critically indebted municipalities” (Michala Málková – Prameny, Igor Jirsík – Bublava and Jitka Vlková – Nebanice). The script of semi-structured interviews and the content of questionnaires for “critically indebted municipalities” focused in particular on the presented research questions:

- reasons and triggers of critical indebtedness (RQ1)
- information on the provided services, the detailed impact of critical indebtedness on municipal elections, including drawing up the candidate lists (RQ2)
- strategies to overcome problems in the municipality, membership and access to interest associations of municipalities, cooperation and communication with state authorities with regard to indebtedness (RQ3)

All the interviews stated above were implemented in 2013–2014. The monitoring of media was also quite crucial for treating all three research questions, primarily the databases PressReader, Newton Media Search and Anopress. In addition to semi-structured interviews, we also analyzed the following to identify the reasons for indebtedness (RQ1) – the revenues, expenditures between the years 2000–2018 and the volume of liabilities in individual municipalities in 2010–2018, the financial data come from the Ministry of Finance of the Czech Republic, mainly from the MONITOR information portal, the application ÚFIS, the monitoring of the economic management of municipalities and a Municipality budget portal. In order to settle RQ2, besides the aforementioned interviews we also analyzed the municipal elections in the period of 1994–2018 (we worked with data from the Czech Statistical Office, mainly from the electoral server), especially with regard to the voter turnout and the plurality index designed by Václav Bubeníček on the basis of the ratio between the number of electoral candidates and councilors’ mandates (Bubeníček 2010). According to Bubeníček, we will consider nonpluralistic systems those with a plurality index up to 1, the semi-pluralistic ones with a plurality index in the range of 1.01 to 1.99 and plurality systems with a plurality index 2 and higher (Bubeníček 2010, 99–100). When assessing the impact on elections, we also worked with the typology of Václav Bubeníček (Bubeníček 2010) that distinguishes small municipalities according to the plurality of the system and the level of cooperation

in drawing up the candidate lists.⁵ Research of European and world scholarly literature⁶ treating the issue of endangered municipalities was carried out as well as the monitoring of foreign media, particularly for the purposes of contextual anchorage.

2. Current Research: Terminology and Approaches

Problems of small municipalities have been given enough attention in the international arena across scientific disciplines. On the other hand, we practically find no works addressing the threats, paralysis or “collapse” of municipalities. The available works, therefore, from our perspective examined the context or selected aspects of the phenomenon of endangered municipalities. An example of the context may be the question of the ideal size of the municipalities that was already treated in ancient political thinking (Aristotle 1998) and is still topical (Newton 1982; Sharpe 1995; Keating 1995; Illner 2006). This is also linked to the works addressing the issue of the fragmentation of municipal systems and related consolidation reforms (e.g. Klimovský 2009; Baldersheim and Rose 2010, Tavares 2018), or the issue of inter-municipal cooperation that has been given a lot of attention in Europe recently, both in the form of publications and as the main topic of the municipal section at the ECPR Conference in Oslo 2017 (e.g. Hulst and van Montfort 2007; Teles 2016; Teles and Swianiewicz 2018). An issue of the *economy of scale* is likewise related to the size of the municipality (Newton 1982; Keating 1995; Swianiewicz 2002; Baldersheim et al. 2003). Numerous other texts deal with the provision of public services (Arcelus et al. 2015; Steen et al. 2017), reforms of the local public sector (Kuhlmann and Bouckaert 2016), the development of municipalities (Denters and Rose 2005) and their possible influence on the environment, or the issue of municipal waste (Soukopová et al. 2016). The issue of the quality of democracy is utterly inseparable

5 “Experience from the research of local political systems suggests that in the case of small municipalities the level of rivalry can be narrowed down to the question of coordinating the process of drafting the candidate lists. According to the level of rivalry, we distinguish between the co-operative (centrally coordinated) and non-cooperative model of drafting the candidate lists” (Bubeníček 2010, 156).

6 For this purpose, in the years 2015–2017, the authors used the libraries of such institutions like Leiden University, University of Warsaw, University of Potsdam, Humboldt University, University of Basel, University of Zurich, Vrije Universiteit Brussel or Pantheon-Sorbonne University. In addition, electronic resources listed in the following databases were used – for instance the Web of Science, Taylor & Francis Online, Scopus, EBSCOhost, Central and East European Online Library or Google Scholar. Among others, the following key words were used when searching through the databases: endangered municipalities, problem(s) of municipalities, collapse of municipalities, failed municipalities, municipal problems, indebtedness of municipalities, municipal debt, etc.

from the issue of not only small municipalities (e.g. Bernard 2015), but also of the very smallest self-governing European municipalities.⁷

Due to the extremely fragmented municipal structure, special attention is paid to the issue of small municipalities in the Czech Republic, across multiple disciplines. In the Czech academic environment, we can see many texts that address the very definition of small municipalities (e.g. Illner 2006; Čmejrek 2010; Maříková 2012) because in the Czech Republic we can even find the smallest municipalities with only a few dozen inhabitants. Other texts focus on the Czech municipal structure and the impacts of its possible reform (e.g. Illner 2010; Matějová et al. 2017) on consolidation. In addition, we can also encounter the works that study the development of small municipalities (Bernard 2011) or general specifics of small municipalities (e.g. Ryšavý 2006b, Kopriva et al. 2017). If we move to political attention dedicated to small municipalities, we can mention the issues of local democracy in small municipalities (e.g. Čmejrek et al. 2010), participation (e.g. Čmejrek et al. 2009), councilors (e.g. Ryšavý 2006a), electoral strategies, elections and municipal coalitions (e.g. Balík 2009), or Municipal Tax Autonomy and Tax Mimicking (Sedmihradská and Bakoš 2016) or discussions on the introduction of directly elected mayors in these municipalities (Jüptner 2017).

If we move from small municipalities as an imaginary context directly to the issue of small threatened or critically indebted municipalities, we can find that the European scientific community rather neglects them for a simple reason – there haven't been any small municipalities in a number of Western European countries following the consolidation reforms. This also implies that we do not meet sophisticated terminology or even conceptualization in an international environment, either. This, of course, may not only be due to consolidation reforms but also to the scattering of the perspectives of various disciplines. We come across the term “failed municipalities” only in a single economic publication, *Municipalities and Finance* by the authors Blore, Devas, and Slater (2004). Their work relates to non-European municipalities. The authors divide the municipalities into four types⁸, where the last type consists of “failed” municipalities. However, this is a typology of municipalities in the third-world countries whose leadership is not elected but appointed. These municipalities often display budget deficits, which, at the same time, is not satisfactorily addressed (Blore et al. 2004). Central governments can proceed in such cases by removing the remaining functions from the failed municipalities. Such an approach was applied in Kenya or some South Asian states. In addition to securing new financial resources, a solution is also conditioned by the revival of local dem-

7 The smallest European municipalities include, for instance, the Slovak municipality of Příkra with 7 inhabitants, the French municipality of Rouvroy-Ripont also with 7 inhabitants, the German municipality of Gröde with 9 inhabitants, Swiss Corippo with only 12 inhabitants, or the Czech municipality of Vysoká Lhota with 17 inhabitants.

8 They divide the remaining municipalities into dynamic, handicapped and frustrated municipalities (Blore et al. 2004, 14–16).

ocratic accountability; however, this proves to be a long-term process (Blore et al. 2004). On the other hand, European researchers, especially from Germany, address municipal budget policy in situations where the municipalities lack resources for their running or are in crisis. An example may include a book dealing with consolidation strategies and possible events how to tackle local budget policy in the absence of municipal finances (Holtkamp 2010). We may also encounter research that focuses directly on municipal resources in a crisis. In particular, they deal with problematic situations and possible ways how to solve them, or they outline the paths out of the crisis on German municipalities (Hansmann 2011). The factors affecting the local consolidation policy in the consolidation of local budgets were also under observation (Geißler 2011). In Germany, research emerged into whether the possible introduction of municipal bankruptcy (insolvency of municipalities) could, under certain circumstances, be the right solution in the fight against the critical indebtedness of municipalities (Brand 2014). The same question was addressed in the past by the Czech Ministry of the Interior in two cases (in 2011 and 2013); it had the intention to amend the insolvency law to allow for the bankruptcy of the municipalities. In both cases, the Ministry of Justice, which has insolvency under its control, expressed fundamental disapproval, and thus there was no amendment (in detail Hornek 2016, 107–111). Besides the work of the authors of this text, the issue of critical indebtedness was partly treated within the Czech academic community by a work (Čmejrek and Čopík 2015) that focused on risk management of rural municipalities as a limit of their basic self-governing functions.

The current research also reflects the global financial crisis of 2008, which in Europe is also connected with a possible paralysis of European municipalities due to indebtedness. The crisis had an impact, among others, on the Southern European municipalities (CEMR 2009; UCLG 2009), which is treated, for example, in the publication by Knieling and Othengrafen (2016), who describe the phenomenon of the deepening of debt repayment⁹ on the example of Southern states.

If we were to show at least a few empirical examples of municipalities across European countries that are nearing the “failed municipalities”, we might as well start in the region of Southern Europe; there is – for example – an area of Andalusia along the Mediterranean Sea. A large number of municipalities have become the most indebted Spanish municipalities as a result of the collapse of the real estate market, such as Jerez de la Frontera or Monasterio de la Sierra, which has fewer than 50 inhabitants. Another Spanish example could be Pioz, unable to repay the investments made in infrastructure. Examples of critically indebted municipalities in Central Europe are predominantly related to fragmented municipal structure and specific local conditions. We can mention the Slovak municipality of Devín, which

9 In general, it could be argued that small municipalities manage to settle critical indebtedness with more difficulty; on the other hand, relative indebtedness may be even higher in large cities.

has been under the administration order since 2005, and its debt is essentially unpayable¹⁰, or the Hungarian municipality of Harkans with a debt of €14.9 million.¹¹

The international community focuses not only on the outlined economic problems of the municipalities, but we can also find a different problem that may lead to endangerment and a possible paralysis of the municipality. It may be of a nature similar to critical indebtedness and can even be related to critical indebtedness. The phenomenon is not exclusively associated with small municipalities, as it also affects large municipalities. We are talking about the demographic decline of municipalities or the phenomenon of “shrinking municipalities”. In the German-language area, the term “schrumpfende Gemeinden” is used in connection with the new German Länder or the Swiss cantons (BPB 2003). For example, Bartl (2011) explains the phenomenon of shrinking municipalities especially by moving and aging populations. The resulting decline in population has an impact on municipal budgets, which puts these municipalities in debt, their development is limited, services are curtailed, including health care, and in extreme cases they no longer have human resources to perform municipal administration and to nominate candidates for elections (Bartl 2011). It should be emphasized that, while the term “failed municipalities” primarily focuses on municipal indebtedness, the term “shrinking municipalities” is particularly concerned with demographic issues. Empirical examples of extremely small municipalities form a special chapter; they are basically slowly “dying out” because they have low birth rates and are not attractive to newly arriving population, as they do not provide, among others, any services. Although they do not tend to be critically indebted, they are extremely vulnerable to small tax revenues.

Overall, we can see that a great deal of space is dedicated to the circle of issues associated with the threats to municipalities. Yet, the phenomenon of municipality threats has no established terminology and is fragmented across scientific disciplines. In general, there is a wide range of literature that deals with municipal indebtedness; however, we have not yet come across research into critical indebtedness of small municipalities and its impacts on the policy and the running of the municipality.

3. Critically Indebted Municipalities

3.1 Causes of Critical Indebtedness

The analysis of financial indicators and semi-structured interviews has shown that the critical indebtedness of the municipalities we have monitored originated in all

10 The annual revenues of the municipality of Devín represent the annual debt interest.

11 The state assumed a municipal debt of €10 million. Municipalities in Hungary have to fulfil the basic functions even if they lack the resources for them, and thus the state helps the municipalities.

cases in a long-realized investment project that the municipalities did not manage properly. All investment projects were launched in the period 1998–2001, and thus failing them was reflected in financial balances and municipal development for many years or even several decades.

The municipality of Nebanice wanted to build twenty new family houses in the interest of municipal development and population growth. In 2001, the municipality received a subsidy of 8 million CZK from the Ministry for Regional Development. The municipality built utility lines and foundations for the houses, but potential buyers of the houses dropped their construction plans. The municipality was left with over 12.5 million CZK in debt linked to the construction (Vlková 2013). Financial problems of the municipality of Bublava are connected with the construction of an aquapark. Construction began in 1999, and owing to political contacts the municipality received a subsidy of 17–20 million CZK every year. In 2002, however, the municipality failed to receive the subsidy, and the construction of the unfinished aquapark had to be stopped. The state subsequently asked the municipality for a fine and a return of subsidies due to non-compliance with the conditions of the contribution; the municipality should have eventually paid more than 30 million CZK. Another 20 million CZK was claimed from the municipality by a construction company that had carried out construction work for some time at its own expense. The litigation with the construction company then continued until 2016. At the same time, the municipality was left with the torso of an unfinished aquapark, which, for example, it refused to sell for one-third of the required price in 2008. The total debt with interest and sanctions exceeded 70 million CZK (iDnes.cz 2013; Jirsík 2014; ČT24 2018). Plans to build a mineral-water bottling plant stood at the beginning of the critical indebtedness of Prameny; it should have subsequently provided up to 19 million CZK to the municipal budget every year. After obtaining the building permit in 1998, the municipality acquired investors and made 17 wells for 17 million CZK by itself. After the construction situated in a protected landscape area had been blocked by nature conservationists, investors withdrew from the project. The municipality then tried to launch the project itself, but it only led to a gradual increase in debt, which in 2008 reached the astronomical amount of 50 million CZK with a budget of 3 million CZK. For many years, basically the same leadership of the municipality was trying to implement the project but gradually became indebted. Due to disagreements over how to deal with the debt, all councilors resigned in 2009, and no candidates came forward in the next six extraordinary elections. The municipality was run by an administrator appointed by the Ministry of the Interior, but he had no authority to resolve the municipal debt, and so it continued to grow. In 2010, the debt reached 80 million CZK, while sanctions interest was higher than the municipal budget of around 2 million CZK. In the course of 2015, all the municipal debt was bought by a Russian investor, who is currently the only creditor and can therefore significantly influence municipal functioning despite the execution of the municipality (Málková 2013, Dolanská 2017; ČT24 2018).

3.2 Impact of Critical Indebtedness at the Level of Services Provided

Nebanice and Prameny were forced to significantly reduce the provided services as a result of high indebtedness, which was reflected, for example, in the provision of public lighting. Nebanice has had the lighting turned off from midnight until 4 am since 2004, and in 2011 even until 5 am (e.g. Vlková 2013). Prameny disconnected the lighting between midnight and three o'clock in the morning. Both municipalities were forced to give up maintenance and repair of roads, which were attended to by the citizens themselves, or the Karlovy Vary region (KV region). Bublava, according to the words of the mayor, did not significantly limit the services, but due to the inhibited development of the municipality; it does not have a water pipe (in 2014, only about 15 homes had a water pipe), which was supposed to be built together with the unrealized aquapark.

Table 1

Comparison in services provided by the municipalities of Bublava, Nebanice and Prameny

Services	Bublava	Nebanice	Prameny
Public lighting	Yes	Yes, but limited at the time of debt	Yes, but limited
Waste collection	Yes	Yes	Yes
Maintenance of greenery	Yes	Yes (primarily with the help of citizens)	Voluntarily only residents
Maintenance of roads and walkways	Yes	Yes (only with the help of citizens)	Yes (only thanks to the company from the KV region)
Maintenance and repair of roads	Yes	No (at the time of debt)	No
Sewage services	Yes (part of municipality)	Yes	Yes

Source: own survey.

On the contrary, thanks to the enthusiasm of the local population, the critically indebted municipalities did not have to restrict cultural events in the form of a Nicholas day, burning of witches, a children's day, lighting of a Christmas tree, carnivals, a costume ball or feeding animals. Most of such events were organized by Bublava, while Nebanice and Prameny did not significantly lag behind.

3.3 Impact of Critical Indebtedness on Local Democracy

The indebtedness of individual municipalities clearly had an influence on the nomination of the candidates and the value of the plurality index in all municipalities.

Nevertheless, the specific impacts were diametrically different in individual municipalities.

Table 2
Values of the plurality index in municipal elections in critically indebted municipalities since 1994

Year	Bublava	Nebanice	Prameny
1994	3.2	2.42	1.16
1998	3	1.14	1
2002	6.28	2.42	1
2006	4.14	1.14	1.2
2009 (extraordinary)	x	x	2.4
2010	6.14	2	x
2012 (extraordinary)	x	x	1
2014	3	1.28	2
2015 (extraordinary)	x	x	2.2
2018 (extraordinary)	x	x	3.8
2018	1	2.57	2

Source: Czech Statistical Office 2018, own processing.

In Prameny, after the councilors had resigned in 2009, six local elections were not held because of the lack of interest in candidacy.¹² No earlier than in 2012 did the citizens agree to nominate the independent association *Naše Prameny*, from which the mayor Michala Málková emerged. Already in the next elections in 2014, however, the competitive association of *Svobodné Prameny* joined the actors. The association of *Svobodné Prameny* was formed around Václav Jeřábek, who was a councilor since 2012. In May 2015, the opposition councilor Jeřábek and his alternates resigned, and in September 2015 extraordinary elections took place. *Svobodné Prameny* did strengthen its position to two mandates in them (ČSÚ 2015), but Michala Málková remained the mayor. However, both councilors of *Svobodné Prameny* resigned in June 2017 on the basis of disputes about the form of debt relief, and another extraordinary election was held in Prameny on 6 January 2018. Four entities stood in the elections for the first time (the largest plurality index was reached in the municipality – 3.7 and the highest voter turnout in history – 86.96%). However, only *Společné Prameny*, led by Mayor Málková, and *Svobodné Prameny*, led by Aleš Dittert, made it to the municipal council. Two months after the election, Aleš

¹² There were three municipal administrators in more than two years, namely Jan Murín, Josef Novosad and Arnoštka Aubrechtová.

Dittert again resigned (also with all the alternate members), and the municipality once again became inquorate. Everything was resolved in the regular elections held in October 2018, when nine councilors were to be elected for the first time and not five – as had been the case before – to prevent the councilors from leaving in order to hold extraordinary elections. The voters took a great interest in the elections (voter turnout 86.46%). *ANO 2011* won the elections under the leadership of Mayor Málková in a ratio of 6:3 over the candidate list of *Prameny šťastné a veselé (Happy and merry Prameny)*. In these elections, none of the councilors who had resigned their seats in the past stood in the elections (Dolanská 2017; ČSÚ 2018). In the case of Prameny, we can talk about the loss of interest in the self-government of the indebted municipality, but after several years of agony, the local political system gained a pluralistic format, which, however, was not typical of it in the past.

Nebanice resonated with the need and interest to resolve the debt of the municipality, which since 2006 rather led to the restriction of plurality. Citizens agreed to nominate 8 candidates to a seven-member council under the heading of the association *Pro Nebanice*. In the 2010 elections, the value of the plurality index increased with the nomination of a further five independent candidates to an exceptional 2.0; however, all the mandates were seized by the original association, whose 9 candidates ran in 2014 under the heading of *SNK Nebanice* to the seven-member council once again as the only one (Vlková 2013; ČSÚ 2015), and the plurality index dropped to 1.28. For the second electoral period after debt relief, i.e. in 2018, the plurality in the municipality rose to the historically highest value of 2.58, when representatives of *SNK Nebanice* and *Independents* were elected in a seven-member council in a ratio of 4:3.

On the contrary, the plurality significantly grew as a result of the financial problems of the municipality in Bublava; the plurality index increased from a regular value of around 3.0 to 6.28 in 2002 or 6.14 in 2010¹³ (ČSÚ 2015). The reason was the existence of an opposition with a different idea of the possible completion of the aquapark (Jirsík 2014). Mayor Jirsík, who had run the municipality since 2002 (in the period when the municipality was forced to begin to return subsidies), decided not to stand for the elections in 2018 for family reasons¹⁴ (Drozdík 2018). Also this decision made local residents draw up only a single joint candidate list for the first time, and thus Bublava ranked among non-pluralistic systems for the first time since 1994.

It can be recapitulated that we can meet with cooperation in the nomination of candidates especially in Nebanice and in a limited time span in Prameny. The degree of rivalry then correlates with plurality; the lowest one is in Nebanice, the highest one in Bublava, divided into several political camps. Rivalry, regardless of its

13 Or 4.14 in 2006 and 3 in 2014.

14 The mayor was also brought to this decision by the death of his brother, a long-time mayor of the neighboring municipality of Stříbrná (Drozdík 2018).

degree, is at least to a certain extent related to the financial problems of individual municipalities and the ideas of their solution.

While the impact of critical indebtedness on plurality seems to be proven, the impact on voter turnout appears more complicated.

Table 3
Voter turnout in local elections in critically indebted municipalities since 1994
(in %)

Year	Bublava	Nebanice	Prameny	Average of KV region	Average of the Czech Rep.
1994	82.48 %	72.73 %	79.01 %	60.79 %	62.26 %
1998	65.44 %	52.42 %	40.45 %	37.52 %	46.72 %
2002	78.89 %	59.49 %	50.00 %	38.92 %	45.51 %
2006	75.00 %	44.21 %	60.53 %	39.14 %	46.38 %
2009 (extraordinary)	x	x	82.61 %	x	x
2010	88.69 %	56.60 %	x	41.79 %	48.50 %
2012 (extraordinary)	x	x	33.04 %	x	x
2014	80.95 %	45.88 %	75.24 %	38.53 %	44.46 %
2015 (extraordinary)	x	x	81.55 %	x	x
2018 (extraordinary)	x	x	86.96 %	x	x
2018	50.00 %	71.53 %	86.46 %	40.36 %	47.34 %

Source: Czech Statistical Office 2018, own processing.

The voter turnout in Bublava in all the monitored municipal elections highly exceeds not only the average voter turnout of the other critically indebted municipalities, but also small municipalities of both the Karlovy Vary region and the whole Czech Republic. Until the last elections of 2018 voter turnout in Bublava never fell below 65 % (it reached 50 % in 2018) and mostly ranged around 80 %, even before the indebtedness of the municipality. It can be assumed that these values are related to the strong rivalry and plurality of the system, which may be inherent to the political culture in the municipality regardless of the aquapark project. However, the decision of the mayor not to stand in the elections again after 16 years led to the unification of the inhabitants and for the first time to the drawing up of a joint candidate list.

Nebanice reports average values of voter turnout. Significantly noticeable is the decrease in voter turnout in the case of the nomination of a single consensual candidate list, which was the case of the 2006 elections (44.24%) and in 2014 (45.88%). On the other hand, in 2010, an increase in voter turnout (56.6%) clearly reflected an increase in plurality in the form of the candidacy of five other independent candidates. In 2018, in Nebanice, we even recorded the second highest voter turnout in history (71.53%), which marks the new division of the municipality into two camps, as evidenced by the election results.

In Prameny, one of the highest voter turnouts was recorded in the first extraordinary elections in 2009 (82.61% of voters), which probably reflected the significance of the elections and the division of the municipality into two opinion camps with different views on how the debt of the municipality was to be resolved. After the next several years of collapse of the self-government, the turnout in 2012 fell to a record low of 33.04%. This was probably due to the skepticism of the local population associated with the experience of a number of vainly called extraordinary municipal elections that had never been held in the municipality in previous years due to the absence of candidates, but also to an obvious outcome linked to the nomination of a single five-member independent association to a five-member council. After returning to the plurality system in 2014 (75.24%), in extraordinary elections in 2015, extraordinary elections in January 2018 and regular elections in 2018, the voter turnout in the municipality has continued to increase and stays over 85%.

It can be concluded that it is common for all the involved municipalities that voter turnout increases due to increased plurality of the system (and vice versa). This effect, however, also manifests itself in individual municipalities beyond the period of their critical indebtedness.

3.4 The Role of Interest Associations, Public Administration and Intermunicipal Cooperation in Solving the Problem of Critical Indebtedness

The analyzed municipalities could not rely on the help of either of the two interest associations of municipalities in the Czech Republic and their experts when solving their critical indebtedness. None of our critically indebted municipalities was/is a member of the Union of Towns and Municipalities of the Czech Republic (SMO ČR) or the Association of Local Governments of the Czech Republic (SMS ČR); or, mainly due to the payment of membership fees, they cancelled their membership there, like Bublava (SMO ČR) and Nebanice (SMS ČR). In the event of an improvement in the financial situation, Prameny and Nebanice would not be opposed to membership in interest associations of municipalities in the future, the main incentive being the provision of information and counseling. Interesting is the case of Nebanice, which receives advice from interest associations without being their

members. Only Bublava does not consider joining the interest associations due to absent assistance from SMO ČR. Mayor Jirsík perceives membership in voluntary associations of municipalities as a sufficient solution how to be in contact with other municipalities (Jirsík 2014).

Table 4
Membership of critically indebted municipalities in the associations of municipalities

Data	Bublava	Nebanice	Prameny
Membership in SMO ČR	No	No	No
Membership in SMS ČR	No	No	No
Is membership in SMO ČR or SMS ČR beneficial?	No	Yes	Yes

Source: own survey.

Intermunicipal cooperation in indebted municipalities is mainly based on the exchange of experience; mayors' exchange advice, opinions, experience or legal counseling. The mayor of Nebanice, Mrs. Vlková, said that in the case of her municipality, such cooperation between mayors is of informal nature.¹⁵ A similar practice is applied in Prameny, where it is, however, limited to consultation on administrative tasks. The administration and agenda of debt repayment occupy all the working hours of the mayor, which undermines the establishment of deeper intermunicipal cooperation (Málková 2013). Bublava pursues formal intermunicipal cooperation; for instance, it is a member of the Union of Towns and Municipalities of Kraslicko. Cooperation lies in repairing infrastructure¹⁶, enhancing transport accessibility, or activities in the field of culture. Despite the institutionalization of cooperation, personal relationships still play a crucial role here, mayors know each other very well after the long existence of the union. For its location, Bublava also cooperates with German municipalities (Jirsík 2014). All the involved municipalities clearly prefer intermunicipal cooperation to amalgamation of municipalities. Mrs. Málková, mayor of Prameny, the most indebted municipality, considers municipal patriotism and identification with the municipality to be of high importance. Respondents also argued that the amalgamation of municipalities may burden their financially healthy part (Jirsík 2014). Mayor Málková stated that no municipality would even consider merging with Prameny due to its debts (Málková 2013). Only in Nebanice

15 According to the mayor, individual mayors of small municipalities do not want only their own municipalities to flourish, but also those in their neighborhood and, therefore, they help each other free of charge (Vlková 2013).

16 The municipality, for example, introduced gasification jointly with the municipality of Stříbrná, which was financially more affordable to both municipalities. The members pay their contributions to the union based on the number of inhabitants.

was the possibility of merging with neighboring municipalities actually debated; however, such a solution was rejected (Vlková 2013).

Critically indebted municipalities solved their problems also with departmental ministries. The Ministry of Finance regularly communicated with all the municipalities since the onset of their problems, but the specific procedures were different. The municipality of Bublava was provided with a repayment schedule by the financial administration through the Finance Authority in Sokolov. However, in line with the schedule the municipality was to pay an amount equal to the amount of its annual budget (approximately 5 million CZK). Bublava naturally was not able to comply with this schedule and realized only such repayments that corresponded to its possibilities, taking into account the need to maintain the running of the municipality (Jirsík 2014). The municipality of Nebanice was promised by the Ministry of Finance to be provided with a financial advisor, who, however, never made it to the municipality. Likewise, the ministry did not send recommendations to the municipality for concrete measures, as promised (Vlková 2013). The Ministry of Finance has been intensively communicating with the municipality of Prameny since 2012, which Mayor Málková also attributes to the medialization of the problems in the municipality (Málková 2013). The approach of the Ministry of Finance brought specific benefits to municipalities later. In 2018, the Ministry provided an interest-free loan to Bublava, and the same solution may be implemented for Prameny in the future. There are even larger differences in the experience with the Ministry of the Interior of the Czech Republic. Whilst the municipality of Bublava was never in contact with the Ministry of the Interior (Jirsík 2014), Nebanice and the Ministry of the Interior irregularly and informally communicated, but no help to the municipality ever materialized (Vlková 2013). On the contrary, the Ministry of the Interior actively communicates (not only) with the municipality of Prameny, it proposes measures and there even occurs inter-departmental coordination of help to Prameny (Málková 2013).

The mayors of the critically indebted municipalities overall view the communication positively with the regional authority of the Karlovy Vary region, which actively communicated with all the involved municipalities and tried to help with methodological procedures (Málková 2013, Jirsík 2014). In particular, in the case of Nebanice, the municipality itself initiated communication with the regional authority, but subsequently regional authority itself actively assisted the municipality and, according to the mayor, the solution to debt relief would have been more complicated without the help of the regional authority. For example, the region mediated a financially affordable lawyer for the municipality and helped communicate with the Ministry of Finance (Vlková 2013). Other municipalities are trying to help in addition to the region. In 2018, the media recorded a public collection of municipalities and cities to help amortize the debt of Prameny. A similar loan is also talked about to help Bublava (ČT24 2018).

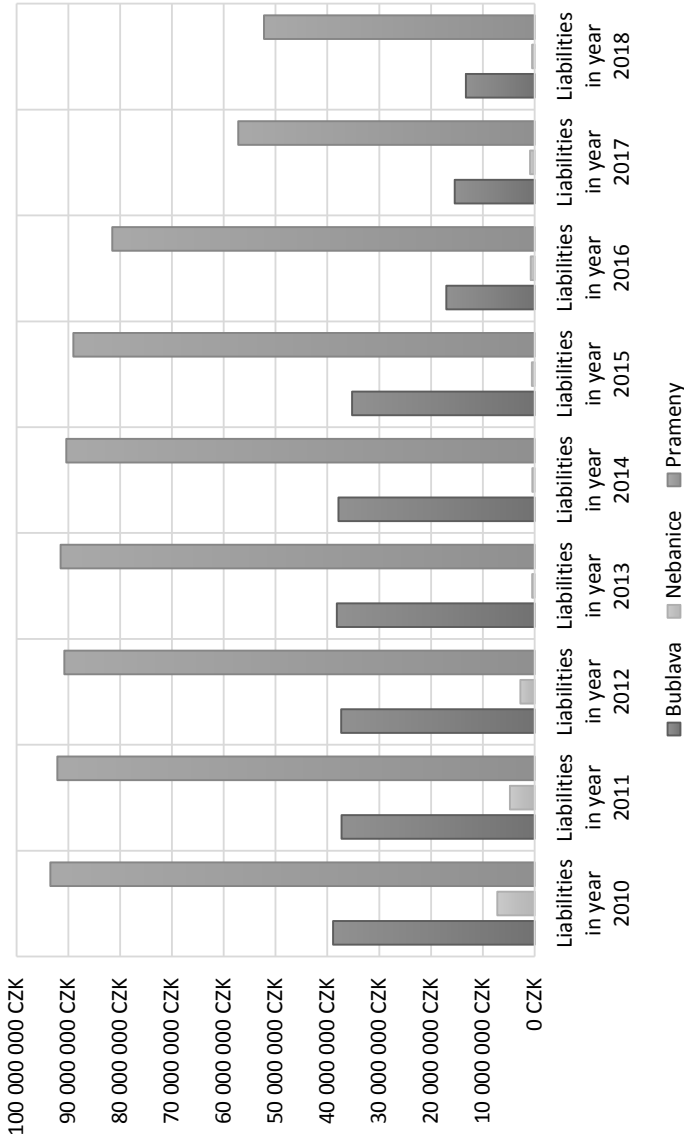
3.5 Method of Solving Critical Indebtedness

Nebanice was allowed by the state to return its subsidy and debts connected with the construction by gradual and long-term repayment, which was at the expense of the municipality's operation and all its development. On the other hand, thanks to this arrangement, the municipality avoided executions, and it was able to repay its debts in 2013 according to the repayment schedule. The gradual sale of the houses under construction helped to repay the debts. Due to the conditions set by the financial office, the municipality of Bublava could not manage the terms of the repayment schedule. However, thanks to the gradual repayment, it managed to gradually remedy its debt (as in the case of Nebanice), as it reduced the municipality's operation and completely gave up the development of the municipality. The situation in Bublava was even worse because it had its accounts blocked, could not receive any subsidies or handle the property. This changed in 2018 when the municipality received an interest-free loan¹⁷ from the Ministry of Finance in the amount of 13 mil. CZK for the duration of 14 years. This, in particular, helped the municipality become consolidated; for the first time in 16 years, it will even have 0.5 million every year for investments that were previously impossible due to seized accounts (ČT24 2018). Prameny addressed its critical indebtedness only after its self-government had been restored in 2012. Distraint is still imposed on Prameny, and the municipality may not use the remaining municipal property without the bailiff's consent. Councilors cannot decide between the offer of two investors who offer the municipality the repurchase of lots for a mineral-water bottling plant and assistance with credit consolidation. Until the dispute is resolved, the Ministry of Finance refuses to grant any loans to Prameny. Despite the non-payment of amortization, the municipal leadership managed to reduce its municipal debt by 24 million CZK between 2016 and 2017 through an agreement on debt remission and consolidation of debt to the state. Nevertheless, in 2019 the municipality remains indebted with more than 50 million CZK.

Figure 1 shows that the extent of indebtedness of municipalities corresponds to the massiveness of the problematic investment project, which was lower in Nebanice. At the same time, it is clear that the effects of the improperly handled projects will stigmatize the municipality in the case of Bublava for decades. The problem of Prameny persists and seems to be unsolvable; the leap reduction in 2016–2017 is not likely to continue because it largely concerns amortization now. The Ministry of Finance has filed the municipality of Prameny up to the present as a risky one with a high risk of insolvency (Ipoint.cz 2013; MF 2013; MF 2014; Monitor 2019).

17 The conditions of the loan by the Ministry of Finance are as follows – the municipality will repay the debts it has towards the financial authorities and in case of any new loan over 2 million CZK, Bublava must inform the Ministry of Finance.

Figure 1
Total liabilities of critically indebted municipalities in 2010–2018



Source: Monitor and Úřis MF ČR (the Ministry of Finance of the Czech Republic), own processing.

4. Conclusion

The first of our questions was about the causes of critical indebtedness. As a cause of critical indebtedness, we have identified an administratively and financially overly demanding investment project in all three cases that failed to be completed. The financial impact of such projects was often multiplied by interest and sanctions for non-compliance with the subsidy terms (Bublava, Nebanice). Legal disputes (Bublava) or the passive attitude of the locals to solving the problem (Prameny) have also contributed to critical indebtedness.

The second research question focused on the impacts of critical indebtedness. It has been proven that all three municipalities were forced to reduce even the most basic public services provided in such a municipality, which directly affects local people. While Nebanice was affected for a shorter period, insecurity lasts longer in Bublava, and in the case of Prameny it is practically a persistent state. Critical indebtedness also had an impact on local democracy, which was, however, manifested in each of the examined municipalities in a specific way. In Bublava and later also in Prameny there was a significant cleavage connected with the solution of critical indebtedness, while in Nebanice the self-government remained unified. In Bublava there was an increase in the number of candidates in municipal elections due to the indebtedness and fragmentation of the municipality, while in Prameny, in the first phase, citizens completely ceased to stand for the elections, and several municipal elections could not take place due to this, which further added to the deepening of the problem. Subsequently, after 2014, the councilors voiced their opposition to resolving debts by resigning, which led to two extraordinary elections and worsening of municipal uncertainty. In the first phase of the debt, the number of candidates decreased in Nebanice.

The third research question was focused on how to deal with critical indebtedness. It can be stated that the municipalities we have examined did not consider the solution through assistance from the municipal associations or even through the amalgamation with another municipality. All municipalities communicated with state authorities and individual ministries, which, however, due to the non-coordination of state policy towards critically indebted municipalities, made the situation in the municipalities we have examined worse rather than better. The situation changed only around 2018, when central public administration became more open to remitting parts of some debts and providing interest-free loans under specified conditions. Due to the lack of relevant legislation (forced amalgamation, municipal bankruptcy), problems of some critically indebted municipalities may be unsolvable. All three surveyed municipalities tried to solve their debts by dramatically reducing the municipality's expenses. This is how Nebanice managed to settle its debt. Bublava faced uncertainty for many years due to protracted lawsuits with a construction company (which were solved in 2016 by the Supreme Court) and

seized bank accounts. The situation in Prameny can only be solved within the span of several decades and is linked to the transfer of land to the investor.

If we look at the three monitored critically indebted small municipalities in more detail, we can find a wide range of common features at the onset of their problems, including their sequence, which in the case of small municipalities can be summed up for the sake of clarity in the following points:

1. Small municipalities naturally have a low budget.
2. Owing to low revenues, these municipalities have only limited administrative and expert capacity that can result in unqualified decisions or serious administrative errors.
3. In connection with the limited administrative and expert capacity, there will be a serious mistake made in the implementation of a large investment project, or an overall wrong project or project exceeding the financial possibilities of the municipality is being materialized.
4. As a result of problems with the investment project, the municipality will begin to report overdue debts, and insolvency and the attachment of municipal property will occur.
5. In the event of insufficient social capital¹⁸ of the municipality endangerment may arise there, or possibly “collapse” and agony of the municipality.

All the monitored critically indebted municipalities share the first four chain links listed above, the fifth link corresponds in a critical time span to Prameny only. We regard the suggested threat chain (or imaginary “crash slide”) as important for identifying and preventing the phenomenon under our examination. The first and second risk factor is basically inherent to all small communities, and only a major investment project is sufficient to turn the risk of collapse into reality. At least the first four risks are met by a number of other Czech municipalities.¹⁹ The aforementioned endangered chain to municipalities includes the economic, social and political dimensions of the problem, the “extra” fifth chain link also points to the vulnerability of demographically and socio-economically weak communities.

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18 In other words, in the absence of the will and potential of the local community.

19 E.g. Turovice in the Olomouc region.

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