

**EU PROGRES** Programme

Study:

# **Vertical Dimension of Good Governance**

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## TABLE OF CONTENTS

|   |           |
|---|-----------|
| <b>1. INTRODUCTION</b>  | <b>2</b>  |
| 1.1. SUMMARY  | 4         |
| <b>2. VERTICAL DIMENSION STUDY</b>  | <b>6</b>  |
| 2.1. INSPECTIONS  | 6         |
| 2.2. EDUCATION  | 7         |
| 2.3. HEALTH CARE  | 9         |
| 2.4. SOCIAL PROTECTION  | 10        |
| 2.5. URBAN AND SPATIAL PLANNING   | 12        |
| 2.6. HOUSING  | 15        |
| 2.7. UTILITY SERVICES   | 16        |
| 2.8. ENVIRONMENTAL PROTECTION   | 18        |
| 2.9. CULTURE  | 22        |
| 2.10. SPORTS AND RECREATION   | 24        |
| 2.11. TRAFFIC   | 27        |
| 2.12. ENERGY  | 30        |
| 2.13. ECONOMY AND ECONOMIC SERVICES   | 32        |
| <b>3. ORGANISATION OF AUTHORITY, ADMINISTRATION AND FINANCES</b>              | <b>35</b> |
| 3.1. SITUATION AND POWER  | 35        |
| 3.2. THE ISSUES OF THE MODEL OF AUTHORITY, BODIES AND<br>ORGANISATIONAL UNITS | 35        |
| 3.3. ORIGINAL AND TRANSFERED POWERS   | 37        |
| 3.4. ADMINISTRATIVE AND FINANCIAL CAPACITIES                                  | 40        |
| 3.4.1. ADMINISTRATION   | 40        |
| 3.4.2. MONITORING AND AWARDING WORK   | 43        |
| 3.4.3. FINANCIAL CAPACITIES   | 44        |

## **EU PROGRES Programme**

### **Vertical Dimension of Good Governance Study**

**Professor Snežana Đorđević**

#### **1. INTRODUCTION**

The European Partnership with Municipalities Programme – EU PROGRES is the largest area-based developmental programme in 2010-2014 Serbia. Covering 25 municipalities of the South and South West of the country. It is a result of a continuous pledge of support from two major donors - the European Union and the Government of Switzerland to the Government of Serbia. The Programme is implemented by the United Nations Office for Project Services (UNOPS).

The main objective of the EU PROGRES is to contribute to enhanced stability and socio-economic development in the beneficiary municipalities. Through a holistic approach, by addressing both immediate infrastructure and other pressing needs, and by facilitating creation of conditions for larger investments through, among others, preparation of technical documentation, by applying good governance principles and improving municipal and inter-municipal management capacity, and by promoting development potentials, the EU PROGRES contributed to accelerated growth and improvement of the overall living conditions within the Programme area.

Any efforts to improve governance at the local level therefore have to take into account also the relationship between the municipalities and the central state (what we will refer to as vertical dimension). Municipalities do not function in isolation from the state. Of course municipalities can and should invest in good governance at the local level, but the cornerstones of the system of local governance (the political structure of municipalities, their tasks and the modes of financing the fulfilment of their tasks) are set out in the central state legislation. EU PROGRES has recognised, from the very beginning, the importance of the vertical dimension in

all good governance activities. It has collected experience gathered throughout the implementation of several projects where the central state institutions/or legislation played a role.

Since 2012 EU PROGRES has organised a range of consultation workshops with representatives of towns and municipalities (heads of municipal administrations, finances and social issues) and representatives of ministries, who contributed with their knowledge and experience. The next step was discussion about the collected findings and results with the Standing Conference of Towns and Municipalities (SCTM) and the Swiss Development Cooperation (SDC), which was providing backstopping to the programme on Good Governance, held in January 2014.

The findings from these workshops have been analyzed in the Study presenting an overview of the most important areas of work of the local self governments, along with examples of the identified problems, recommendations and possible solutions that should be considered.

## 1.1. SUMMARY

### Vertical dimension of good governance

1. What is good governance and what is its vertical dimension in particular?
2. What has been done until now in this area?
3. What is planned for the future?
4. Programme contribution
5. Appendix with participants, process overview, analysis

1. What is good governance and what is its vertical dimension in particular?

*Good Governance* is the governance that adheres to the principles of democracy, transparency, accountability as well as efficiency, effectiveness and continuous service provision driven by citizens' needs. It brings together democracy with modernization of work (applying the principle of entrepreneurial governance), as well as good quality management in all areas (financial, budget, project, human resources management and inclusive decision-making).

*Vertical dimension of good governance* includes the existence of partner relations in cooperation and continuous exchange of knowledge and information between all levels of authority (local community, municipality, town, and province) and the national government.

2. What has been done until now in this area?

EU PROGRES Programme has dedicated one aspect of its work to the vertical dimension of good governance, identifying poor communication between the national and the local authorities as one of the greatest weaknesses of the system. Four round tables were held (in February, March, April and June) with the participation of local authorities' representatives from 14 municipalities in South Serbia together with representatives from ministries. General topics included: local self-government structure, organisation and powers, provisions related to activities and financial resources authorised to and concrete tasks implemented by local self-governments, as well as the relationship of government bodies to

the delegated and original activities of the local self-governments – the independence of local self-governments and national oversight.

### **3. What is planned in the future?**

In the future, the continuation of the European PROGRES Programme has been planned (2014-2017). Throughout the Programme implementation, information regarding current circumstances in relation between the Government of Serbia, its institutions, and local self-governments will be collected. Such information and findings will be obtained during at least three annual workshops, with participation of municipalities, relevant ministries and SCTM, as well as through in depth interviews and focus groups with the local self government's representatives.

### **4. Programme contribution**

The Programme has been focusing on concrete problems that local authorities encounter in their work, as well as on the identification of essential problems that impede normal functioning and provision of good quality services to citizens. It turns out that some of the problems are systemic in nature: poor and inadequate legal solutions, insufficiently developed procedures, weak cooperation practice, exchange of information and coordination between the national and local governments and often between departments within the local government itself.

Therefore, we will present this overview by looking at the most important areas of work of the local authorities, with examples of the problems and recommendations and solutions that can be considered. We felt that the final part of the study should be dedicated to organisation, administration, employees and local government financing. These issues arose along the way, as agents of different obstacles and problems, and we felt they should be highlighted, the problems they cause in practice should be indicated, and some general solutions offered.

## 2. VERTICAL DIMENSION STUDY

### 2.1. Inspections

Inspections are an important instrument for monitoring the situation in different areas, identifying problems, and measuring the quality of set objectives. The area of inspection in Serbia is still very much centralised, and the capacities of inspection authorities are often very weak, whether on the national, provincial or district level. Only a few inspections are decentralised to the level of municipality and town (educational, communal, environmental), and the local authorities indicate there should be a number of inspections on the local level in order for it to function normally in different areas.

Many municipalities/towns stress the need for urban planning inspection, indicate that communal inspection on local level must cover all the aspects of market inspection, continue to express the need for social protection inspection, ask for agricultural, veterinary, animal hygiene inspection, sanitary inspection, as well as tourist inspection and labour inspection.

**Recommendation:** Open the process of decentralising inspections in all fields: based on analyses and insights (with participation of local authorities), determine the dynamics in which each of them could be transferred to the local level. Educational inspection is a good example of the importance of gradual approach and the necessity for good preparation of the local authorities to take over these types of activities. This inspection was transferred to local authorities, but the process was very slow, and many local authorities have not formed it because of the lack of capacities and lack of any preparation for this complex work.

| Status   | Examples  | Recommendations   |
|--|---|---|
| <b>Normative framework – impossible to implement the laws adopted because of</b> | One urban planning inspector is in charge of several districts – Jagodina to Preševo.<br>Inspectors do not have municipal cars at their | Improve communication with inspections – introduce advisory service (and interpretation of the law).<br>Introduce coordinators for cooperation with ministries at district level, on the principle of |

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| <p><b>the lack of human and financial resources or inadequate interpretation of the law.</b></p> | <p>disposal. Inspection services perform only inspection and nor advisory services, there is no intermediation between LSU and line ministry.</p> | <p>one coordinator per ministry (strengthen monitoring of the implementation of regulations and advisory services). The Government would make the decision on introducing the coordinators, and ministries would delegate coordinators (form offices on regional level at least in order to improve communication and cooperation and accelerate the process).</p> |
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## 2.2. Education

One part of reform was implemented in the area of education (kindergartens, primary, secondary and adult schools), and although a part of the activities was transferred to the local authorities, there is still **hierarchy** between national government – local authorities – educational institutions, instead of the relationship of cooperation and partnership. Partnership would give chances for a more flexible system, that would be influenced more by client needs (children, students, parents), and therefore for better services.

Some important issues that await the reform in this area are: stronger influence of educational institutions on creating school programmes, as well as in the preparation of laws and regulations and opening a number of elective courses that the schools could choose from based on students' needs. For example, around 80% of the programme would be mandatory and schools could choose around 20% of the courses.

The issue of funding modalities is also valid, which should change from funding per class to funding per student and project funding where possible. The selection of school and kindergarten principals should be left to schools and implemented according to professional results criteria (excluding political criteria) and without the approval by the ministry. This is even more relevant for kindergartens, which are entirely under the jurisdiction of local

authorities. The law should define requirements (for the position) and stop there. It is important to open the possibility for private schools to equally participate in the system.

| <b>Status</b>   | <b>Examples</b>   | <b>Recommendations</b>   |
|---|---|--|
| <b>Weak influence of educational institutions on the creation of school programmes.</b>   | Schools and professionals do not participate much in the process of law and regulations development. The model is uniform and does not allow for a number of elective courses and educational content that the schools could implement in accordance with their interests and needs.                | Strengthen the influence of educational institutions on the creation of school programmes. Work on the development of elective package in the school programme.  |
| <b>Funding is implemented by the number of classes, it is automatic and does not take into account the quality of work of institutions.</b>         | In rural and less developed areas with larger number of students and fewer number of classes, less funds are allocated which makes the school functioning difficult.  | Transfer from current funding modality per class to funding per student.   |
| <b>The selection of school and kindergarten principals is conducted by the municipality and approved by the line ministry.</b>                      | Political criteria, rather than professional ones are applied in the process of selection of principals in the municipalities (party affiliation), and thus the director is more dedicated to the political dimension of the work and governance and management is usually very much weakened.      | The selection of the school (and kindergarten) principals should be left over to the schools without the need for approval by the ministry.  |
| <b>The capacities of the network of educational institutions (primarily kindergartens and high schools) are sometimes insufficiently developed.</b> | A number of municipalities and towns have weak and insufficient capacities (Užice, Zaječar, Ivanjica, Kovačica – kindergartens; Belgrade, Novi Pazar – high schools). Local authorities do not include private institutions in the local services network, which is a logical result of the system. | Raise the capacities of the network of educational institutions especially in rural and less developed areas. Respond to the needs of beneficiaries (children, students). Consider including private institutions in the system (available to students of both private and public institutions – possibly voucher system). |

### 2.3. Health care

There is a *hierarchy* within the system instead of partnership relations between the national government, local authorities, health centres, pharmacies and hospitals. The partnership would introduce chances for a more flexible system, more influenced by the clients' needs (patients).

Some of the more important issues waiting for the reform of the sector are: the issue of greater independence of health centres and hospitals in the design of services. The funding reform should continue and develop in all areas (sector I, II and even III) into patient funding and the quality of services provided. The private sector should be included as a factor to increase competition, enrich the supply, improve the quality of services, but also affordability (decrease in prices).

The selection of health centre (hospital) directors should be left over to these institutions, without the meddling of local authorities (that as a rule promote party instead of professional criteria) and without the need for approval from the ministry.

| Status  | Examples  | Recommendations   |
|---|---|---|
| <b>Institutions are funded according to an inherited formula, it is automatic and the quality of work of the institutions is disregarded.</b> | Funding of all activities in sectors I and II, except for salaries, transferred to local authorities (municipalities – I, towns II).<br>Local authorities often complain about insufficient funds for the provision of this demanding public service. | Funding reform in all sectors of the system should be finalised (sectors I, II and even III) to funding per patient modality. The formula should also include rewarding the quality of services provided. |
| <b>The selection of health centre (hospitals in towns) directors is conducted by the municipality and approved by the line ministry.</b>      | In the selection process, local authorities have a dominant role applying political criteria (party affiliation). The promotion of political principles reduces the quality of management, which is very weak in this area too.                       | The selection process for health centre (hospital) directors should be left to the institutions, without the need for approval by the ministry.   |
| <b>Private sector exists in</b>   | Citizens use the services of public   | The private sector should be  |

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| <b>parallel with the public but it does not make a functional whole.</b> | institutions but they need to pay for private services themselves, which leads to great injustice (“double” charges, weak public service package, weaker offer for the poor, etc.)   | included as a factor of increased competition. Patients should be given a choice of private and public packages covered by the health fund (apply voucher system). |
| <b>Primary health care network capacity is often insufficient.</b>       | In many rural areas clinics do not exist, and in many areas there are insufficient human resources (specialists), resources for work and poor technical equipment. Bujanovac and Tutin indicate lack of hospital, i.e. medical centre. | Raise the capacities of the health institution network more evenly, especially in rural and less developed areas.  |

## 2.4. Social protection

A series of reforms has been implemented in the area of social protection since 2000, modernising work and in part also decentralising it. The system shows a relationship of **hierarchy** rather than cooperation and partnership between the national and local governments (including the centres for social work). Cooperation would provide chances for a more flexible system, greater influence on beneficiary needs (individuals, families, vulnerable groups) and would provide more optimal service packages.

Reforms in this area should be continued in the future period in the direction of strengthening accountability of local self-governments to meet citizens’ social protection needs, create the package of services suitable for concrete beneficiary needs, also ensuring better coordination between sectors (especially between health care and social services), better selection of human resources and more efficient and economic management of social services.

Some of the important issues that are yet to be included in the reform are: the issue of greater independence of the centres for social work (this form of decentralisation is postponed due to crisis and in the conditions of uneven regional development, where a centralised welfare

system can reduce inequalities). The issue of further modernisation of the system, raising human resource capacities, transfer to funding per number of beneficiaries and project funding, improve the private sector in the area, strengthening cooperation of the two sectors, improve the system of oversight and control, strengthening control in all institutions, but also moving inspections to the local level.

| Status  | Examples  | Recommendations  |
|---|---|--|
| <p><b>Centres for social work are the most important institutions that provide social protection services on the local level. The process of modernisation and capacity building is difficult in nearly one-half of the municipalities and in a number of towns, which has only been exacerbated with the crisis.</b></p> | <p>A number of towns (Pančevo, Sremska Mitrovica, Zaječar) and many municipalities are unsatisfied with the quality of work and the capacities of the centres for social work.</p>  | <p>Measure citizens' needs, identify high priority issues and create optimal service packages for vulnerable groups through the centres for social work.</p>   |
| <p><b>The number of socially vulnerable people has increased with crisis, so the government but also local authorities need to implement more diversified instruments to respond to their issues. Social entrepreneurship is an excellent instrument.</b></p>   | <p>Social entrepreneurship enables addressing social issues by commercial stakeholders investing in social protection programmes by providing work for vulnerable categories of the population. The majority of towns and municipalities do not know about this instrument.</p> | <p>Encourage more use of this approach that has given great results wherever it was applied. It has demonstrated great flexibility in adapting to the needs of different vulnerable groups, great creativity and innovation. (Zvezdara – Meals on Wheels, Batočina, Ub, Knjaževac, etc.)</p> |
| <p><b>The selection of the centres for social work directors is done by the municipality and approved by the line ministry.</b></p>   | <p>In the process of selection of the director, local authorities have a dominant role applying political criteria (party affiliation). Affirmation of the political principle diminishes the quality of governance and management, which are also very weak in this area.</p>  | <p>The selection of the centre for social work director should be left over to the institution, without the need of approval by the ministry.</p>  |
| <p><b>Funding is automatic and</b></p>  | <p>Nearly one-half of the</p>   | <p>Transfer from the current model</p>   |

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| <p><b>does not take into account the quality of work of the institutions.</b></p>      | <p>municipalities indicate that there are insufficient funding capacities for the work in this area, including Belgrade municipalities (because of centralised funding in Belgrade). In less developed areas, the quality of the package of social services is under serious threat.</p>  | <p>of funding to the project funding model, monitoring indicators for the institutions' quality of work and beneficiary satisfaction.</p>  |
| <p><b>Resolving the issue of the most vulnerable categories of the population.</b></p> | <p>Legally invisible persons (Roma community), internally displaced persons, lack of basic human rights and liberties (right to education, social protection and similar). The Roma community from the IDP group on the territory of Novi Pazar Town do not have basic living conditions – housing, water, electricity, sewage, furniture, etc.</p> | <p>Adopt and implement local action plans for the improvement of the position of Roma in accordance with the National Strategy. Expand the scope of free legal aid or issue an order by the government for all LSUs to form offices for free legal aid or advisory services. NOTE: The Law on Free Legal Aid is under development. The construction of social housing for the most vulnerable populations on land owned by State owned PUCs (large enterprises e.g. power, water, forest etc.). Raise the level of public awareness of the majority community about the threat to the basic rights of the Roma community, open primary schools for adults.</p> |

## 2.5. Urban and spatial planning

Urban and spatial planning is a very important activity that is still insufficiently regulated. The network of plans has been well-founded, but the problem lies in the practice of non-compliance with the laws and planning solutions and this has been going on for too long. This practice has inevitably led to **urban planning chaos, wild allotment and construction** and to many conflicts and problems (threat to security, dysfunctional solutions, lack of urban order). Subsequent correction of these oversights by way of recovery plans is too expensive.

The planning area has for decades been facing serious weaknesses: the plans are not developed, the area is neglected, burdened by corruption, the system is centralised and local authorities really have too modest capacities. This situation is especially visible in towns (higher population density and greater necessity for plans), so town representatives are rightfully more frustrated with the existing situation. There is also a chronic lack of experts in certain areas as well as of highly qualified professionals (especially in smaller or peripherally located municipalities).

In the area of **urban and spatial planning** citizens and civil society organisations should finally get effectively included in planning processes, problem identification as well as decision-making on optimal solutions. In this sense it is necessary to raise public awareness about the purpose and importance of procedures. More work should be done on higher availability and clarity of planning documentation.

| Status  | Examples  | Recommendations  |
|---|---|--|
| <p><b>Positive legal regulations do not proscribe the obligation of participation of the local self-government units in the process regulating content, manner and procedure of development and adoption of planning documents. Although LSU bodies actively participate in the process of Spatial Plan adoption (giving their opinions on the Plan regarding concretely the territory of the given local self-government), experience tells us that Spatial Plan makers on the central level in the majority of cases do not accept comments and suggestions by the LSU.</b></p> | <p>Local self-government units have objections to the procedure of the Spatial Plan adoption in Serbia. Representatives of local self-governments – spatial/urban planners are not adequately included in the procedure of the development of planning documents, which cannot therefore be implemented adequately in local policies (strategic and development objectives). LSUs are obliged to harmonize their planning documents with the Spatial Plan of the Republic of Serbia, because the Spatial Plan draws legal force from the Law and Planning and Construction.</p> | <p>The Law should also anticipate that the Spatial Plan of the Republic of Serbia be based on spatial plans of local self-government units, that is, to reverse the process of plan/s development: LSUs develop their plans based on which the Spatial Plan of the Republic of Serbia is developed. This solution would enable LSUs’ direct influence on Spatial Plan development, participation of local communities in the development of a very important national strategic document, identification and articulation of real needs of local communities on the issue of spatial planning, higher level of authority, accountability and expertise (capacity building) of local partners, etc.</p> |

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| <p><b>Spatial plan of the Republic of Serbia regulates the territory of LSU in too much detail, thus disabling LSUs to adopt urban plans that would be applicable and realistic for the local self-government and citizens.</b></p> | <p>SPSPA Stari Ras, Sopoćani, SPSPA HYDRO-POWER PLANT - Brodarevo 1 and 2 on the river Lim.</p>   | <p>Spatial Plan of the Republic of Serbia should be a framework spatial plan, provide baseline and guidelines, recommendations and be flexible within the boundaries of other laws, in order for LSUs to leave space for developing realistic and good quality urban plans.</p>  |
| <p><b>Too much autonomy and lack of efficiency of public companies and institutions whose consents and conditions are necessary in the process of issuing location and building permits.</b></p>                                    | <p>Acquiring fire protection consent in the majority of cases lasts longer than the deadline for issuing the building permit itself. In addition to clear legal formulation within Article 33 of the Law on Fire Protection, which provides that the Ministry shall give consent to project documentation, relating to fire protection, for construction, adaptation and reconstruction, in practice the rule is that the Ministry of Interior (Mol) makes an overall assessment of the Main Project, although it should be limited to fire protection.</p> | <p>Law on Fire Protection does not define a deadline in which the relevant Mol body should give its consent to the project documentation, relating to fire protection. It is necessary to provide a legal term – shorter than the term for issuing building permits, as well as adequate negative sanctions towards responsible persons or institutions in cases of breach of deadline. Consider the possibility of suspending fire protection consent, considering that fire protection study makes an integral part of the Main Design, which is according to the law developed by a licensed person, by the Ministry, for the development of fire protection study.</p> |
| <p><b>Law on Public Property is in collision with the Law on Planning and Construction</b></p> <p><b>The adoption of by-laws is a fast procedure, not public and</b></p>  | <p>The powers of land lease. LPC knows only of lease up to 99 years, whereas LPP allows for alienation also, but only in cases where conversion has been performed from government to public property. In practice, laws are not implemented but problems are solved on case-by-case basis – on occasion of ownership conversion. Regulation on the criteria for</p>  | <p>Harmonization of LPC with LPP (LPP has better defined property and legal relations). Make LSU obligated to complete the actions prior to conversion: preparation of documentation (contracts, relevant court decisions).</p> <p>In this concrete case change the Regulation or repeal it, and in the</p>  |

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| <p><b>transparent enough, preventing adequate participation of interested parties and often in collision with valid legal solutions.</b></p>  | <p>the classification of state roads and the Rules on conditions that need to be fulfilled from the aspect of traffic security by travelling subjects and other public road elements are in collision with the Serbian spatial plan and regional spatial plans.</p> | <p>future introduce a mechanism for public and transparent procedure enabling adequate participation of interested parties in developing laws and by-laws. For example, change the LLSG so to envisage consulting SCTM when developing the law and by-laws referring to LSG powers.</p>   |
| <p><b>Law on Legalisation of Illegally Constructed Buildings – Draft.</b></p>   | <p>The Law will enable the legalisation of illegally constructed buildings at very favourable prices – shorter route to acquiring permission. The government is legalising lawlessness.</p>   | <p>Enable free legalisations of buildings to socially vulnerable groups (up to a certain size, emergency accommodation, etc). Other categories depending on the location, building equipment, size. Prevent the appearance of witnesses as proof. After legalisation – rigorous control and punishment of illegal construction.</p> |
| <p><b>Because of the large number of sectoral regulations, there is a problem with issuing permits (location and construction) to build specific buildings in LSU of smaller size or with smaller capacities.</b></p> | <p>Building solar and wind parks, mini hydropower plants and other similar facilities.</p>  | <p>Pass a consolidated handbook or instructions with detailed explanation of the procedure and the necessary documentation for the LSG. The handbook can also contain most common practice examples.</p>  |

## 2.6. Housing

Housing policy was very much neglected in the period after 2000 and left over to the market and individual skills. In the coming period, local authorities should deal with the area of housing policy more seriously, enrich laws and regulations and make housing more accessible, as an essential need and a precondition of welfare and quality of life of citizens. The entire public sector (government and local authorities) need to develop this area to a greater extent, with the tendency for further decentralization (strengthening the capacities of local authorities) and

the implementation of a variety of modalities of housing support to citizens. Analyses show that in Serbian social housing, priority must be on citizens in the most difficult housing situation (determine priority groups) and search conducted for economically most viable solutions. However, comparative experiences globally indicate that housing policy can be observed more widely as an instrument of raising availability and quality of services for wider social strata, which makes this area much more complex and demanding.

| Status   | Examples  | Recommendations   |
|--|---|---|
| <b>Slow issue of construction permits.</b>   | Serbia ranks 179 (out of 183 countries in the world) by speed of construction permit issuance, which is a big problem both for construction and business activities.  | Shorten the procedure for issuance of building permit.  |
| <b>Local authorities do not deal with the process of land preparation for construction, which seriously slows down the construction process and makes it more expensive.</b> | Construction is too expensive because the investor needs to secure many permits for land preparation, lose a lot of time and spend a lot of money (for permits and often for bribe to speed up procedures). | Local authorities should return to the planning and land preparation process for housing construction, which will make the process of construction considerably cheaper and easier. |

## 2.7. Utility services

The area of **utility services** is under jurisdiction of the local self-government but is suffering from an obsolete mode of operation. For years these companies had monopoly in service provision, organisation was weak, employment conducted through party, family and friendship connection channels, and not by professionalism and quality. Management in these companies is as weak as their productivity. The prices of services are as a rule not market prices and are often subsidised. Very rarely is the quality of work monitored, citizens' needs measured, and almost never is the satisfaction of clients with services provided measured.

It was only with the return of property to local authorities (2011, Law on Public Property) that Public Utility Companies (PUC) could stabilize, and with governance reform (2012, Law on Public Enterprises) and opened space for the private sector in this area, did they get the opportunity to operate as competitive market companies. The priority in this area would be to focus on conditions for doing business, as well as on the quality of services received by the citizens.

Changes would need to mean also constant inclusion of citizens in order to identify their needs, priorities and prepare as optimal as possible service packages (accessible and good quality). One of the priorities is further rationalisation (more efficiency, effectiveness) including work modernisation and professionalization. Under the new conditions the companies would need to be more market oriented, and local authorities would have to develop monitoring and control systems and develop instruments for intervention in each situation where citizens' interests are threatened. This role also demands serious capacity building of local authorities as regulators, skilful creation of contracts, monitoring the quality of services and protecting citizen standards in all areas of services provided.

| Status   | Examples  | Recommendations  |
|--|---|--|
| <b>Intransparent procedure of adopting business operation and development programmes for public companies on the national level.</b>   | <i>Putevi Srbije, Srbijavode, Srbijašume, etc.</i> and their periodical (mostly annual) programmes and business operation and development plans.                                  | Establish mechanisms for including local self-governments in the procedure of adopting business operation and development programmes that are of local public interest. This can be done through direct inclusion of LSUs or indirectly, through SCTM. |
| <b>The problem of PUC functioning – too large subsidies allocated for PUC funding, which remain inefficient.</b><br><b>The problem of small municipalities where PUCs do</b> | Inadequate management has led to debts in pay roll and impossibility of regular functioning.<br>PUC is small, the problem is funding of the PUC, they do not even have enough for | Government should regulate the functioning of PUCs in small municipalities. Several municipalities should join forces and have one company that would perform all these activities.<br>The new law on PCs should recognise                             |

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| <b>not have their own income or they are too low for their functioning and then funds are used for other than their originally budgeted purpose (allocation). Low payment execution because of the lack of responsibility by the PUC.</b> | salaries, they are on the municipal budget, budget line 451 unallocated funds. Misuse of the Law on the Maximum Number of Employees in LSG – forming new PCs employing additional people. | municipal joint initiatives, establishing one company for utility services (the law needs to be amended). Professionalization of the PUC. Amendments to the Law on Public Private Partnership in terms of improving utility services provision.   |
| <b>Subsidized prices of a number of services (water, electricity, kindergarten, etc) is not a long-term sustainable solution.</b>   | The crisis has shown that service prices prevent normal functioning of PUC and institutions.  | Enable market competition, support the building of organisational and functional capacities of PUCs and decrease subsidies.   |
| <b>Local authorities do not have the opportunity to more seriously influence market prices nor subsidise vulnerable categories.</b>   | In many communities (smaller), systemic weaknesses can be more clearly seen, where clients who can afford real prices pay reduced prices.   | Enable LSU to, based on social map, relieve vulnerable categories of payment (of part or entire payment) of public services cost. For the majority of other clients it is possible to form more realistic (closer to market) prices.  |
| <b>Law on PUCs (2012) and the Law on Concessions open the possibility for greater involvement of the private sector in the area of public services provision.</b>   | Competition between the private and the public sectors as a rule results in better services, lower prices and greater citizen satisfaction.   | Strengthen the capacities of local authorities for the role of regulators of business regime and service provision, monitoring the quality of services and protection of citizen standards in all areas of services provided and also for the development of good contracts protecting the citizens' interests. |

## 2.8. Environmental Protection

Environmental protection is an area that local authorities have only recently realised as an important jurisdiction. It demands the change of attitude towards the outside world, nature, food and it is in close connection with sustainable development process. The new environmental protection laws oblige the local self-government to adopt environmental

protection strategies, local environmental action plans (LEAPs)<sup>1</sup>. Research<sup>2</sup> shows that 44 municipalities and towns (30%) have adopted environmental strategies with action plans, while 101 (70%) do not have such a document. In municipalities and towns in which there are strategies, they are not implemented. 18 strategies (43%) were adopted by 2006, which means that they are overdue and the action plans cannot serve as basis for project selection or development. Weak results of implementation of these strategies have discouraged the local authorities from efforts to revise existing or adopt new strategies. Strategies that were developed before 2012 are implemented sporadically through individual projects rather than systematically.

In addition, the Law on Local Self-Government Funding gives local authorities the right to introduce **environmental taxes** and create **environmental funds** for funding the projects in this area (funds distributed in proportion 60% to national and 40% to local authorities). Research in this area indicates that even 115 to 130 local authorities (80-90%) spend less funds on environmental programmes than the legal minimum (as sum of national and local fees). According to the law even, unspent funds must be transferred to the following year so that this neglected area could be promoted as one of the priorities.

Research has shown that the resources out of these funds are usually redirected to other priorities (unallocated funding), that the local community (interest groups, citizens, NGOs) do not get involved in the processes of problem identification and project development, etc. The main reason for this is lack of awareness about the importance of these issues as well as lack of plans and strategies. The same research identified that only 17 municipalities (12%) organise public hearings about the budget and the programme of the local fund for environmental protection, 71% do not call local CSOs to public debates, and 91% do not consult CSOs when making decisions on the fund programme.

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<sup>1</sup> Environmental Protection Law, Official Gazette RS, No. 135/2004, 36/2009, 36/2009, 72/2009.

<sup>2</sup> Research by expert team of EC *Stanište*, 2012.

A number of donors are focused on raising awareness and increasing activities in this area, so this has a good effect on the change in awareness and behaviours in this sphere of services. Political elite, however, should have crucial impact on central and local levels.

### Proposal

The area of environmental protection demands cultural and life philosophy change. It requires education of citizens and all representatives of authorities, municipality, town, government. This area requires the partnership of all stakeholders, because everyone has effect on the quality of the environment.

Laws provide local authorities with instruments to resolve these issues: environmental taxes, environmental fund, obligations to develop local environmental action plans, etc, but in practice the effects are often weak. So it often happens that the money from the environmental fund is redirected to other needs, NGOs only sporadically receive support from local authorities to implement some projects in this area. With the crisis this obligation was even changed, so collected funds both from the national and local level government can be used for other purposes.

The area of **environmental protection** demands raising capacities of local authorities for better work in the area, improving the culture but also responsibility for public goods that are often under impact by both the local and national governments.

| Status  | Examples  | Recommendations  |
|---|---|--|
| <b>LEAP is a document that reflects the quality of the environment in the local community, identifying main problems and planning for impacts and improvements.</b> | LEAP is often developed by a narrow circle of people, not involving the citizens, so it remains empty words on paper. Neither these plans, nor strategies, are implemented. | Citizens and CSOs must be included in the process of identifying the problem, priorities and the process of searching for adequate solutions (organise public debates) as well as in making important decisions. |
| <b>In the process of</b>  | Environmental taxes are charged,  | Return to the original solution and  |

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| <p><b>strengthening environmental protection policies, the law introduces environmental <i>taxes</i> and the obligation to form an <i>environmental fund</i> as important source of funding for this type of projects.</b></p> | <p>but with the crisis the obligation to form the environmental fund was changed, as well as the obligation to use these funds for environmental projects.</p>   | <p>ensure its mandatory nature, because the allocation of funds from the environmental fund to environmental protection projects has not been adhered to.</p>   |
| <p><b>There are instruments, stations and laboratories for measuring situations in different areas (water, soil, air, etc). There are good data bases, but these data are most often completely invisible to citizens.</b></p> | <p>Citizens have no awareness of environmental pollution, problems, results or necessity to improve the condition and some forms of behaviour.</p>   | <p>Citizens must be objectively and reliably informed about the quality of the environment. Local authorities should provide reliable, clear and unambiguous data about the quality of the environment and effects to human health and wildlife.<br/>Raise environmental awareness of all stakeholders (government, CSOs, public).</p>    |
| <p><b>The issues of environmental protection require cooperation of different sectors but also different LSUs. This practice has only partially been developed.</b></p>  | <p>The majority of local authorities do not cooperate but there are good practice examples. Therefore there is cooperation on the issues of the development of regional waste management plan, quality control and the prevention of water pollution (Novi Kneževac) or noise control (Šabac).</p> | <p>Raise awareness about the integrative nature of this policy, about the necessity of cooperation between different areas, as well as cooperation of a number of LSUs and cooperation of local authorities with the national or with neighbours (cross-border cooperation programmes).</p>   |
| <p><b>Local authorities should have a service and a commission in order to give consents regarding environmental impact assessments.</b></p>   | <p>Šabac, Kraljevo and Ub indicate that the job of inspection oversight in the area of waste water quality and environmental protection inspection oversight should be entrusted with the local self-government.</p>   | <p>Local authorities should slowly take over the activities of environmental protection <i>inspection oversight</i> as well as in the area of waste water quality. This job ensures raising environmental awareness, culture, as well as the capacities (knowledge, experts, technical equipment and resources) for good performance.</p> |

## 2.9. Culture

In the area of culture, the Law on Cultural Affairs (2008) was adopted, which decentralised culture. The Ministry of Culture is *in charge of* national institutions, whereas ***towns and municipalities are in charge of local cultural institutions***. The question of coordination, creating cultural development strategies (everyone is developing their own strategies), as well as building capacities of institutions and sustainability of numerous cultural programmes and institutions (especially at times of crisis) remain an issue.

Public institutions are financed according to an old mechanism (key) and it is very difficult for a new institution to gain financial support as public institution. There is also often the dissatisfaction of institutions with the distribution of resources and the part they are getting themselves. Therefore, some institutions have ***the status of holders of public powers*** with the right to issue permits, so in addition to government subsidies they also have “own” income sources (for example, Institutes for the Protection of Cultural Monuments). Other institutions have only modest government funding and are often on the verge of existence. For a while now there is talk about moving to project funding model, but this task is being postponed.

In general, the entire system needs work on raising education and culture of citizens and changing cultural patterns brought upon by the last two decades (authoritarian values, coarseness, kitsch). It is very important to change funding and redistribution models, which have numerous irregularities and imbalances and move to project financing. All these processes need to involve main actors, institutions, civil society and citizens.

In the coming period, reform in this area should be considered towards strengthening accountability of the local self-governments to meet the citizens’ needs, creating service packages adequate to concrete beneficiary needs, then to ensure better quality inter-sectoral coordination (especially with education, information sharing, economic development, sports

and recreation), better selection of human resources, more efficient and economic service management in the area.

Some of the more important issues awaiting the reform of this area are: reducing inequalities between different kinds of cultural institutions, inequalities between local authorities related to support provided to this area, ensuring higher level of independence of cultural institutions, creating subsidies (competition through programme financing) to raise their capacities and quality of work, to increase the quality and sustainability of the programme, etc. It is important in the future of this area to ensure continuous and better analyses of citizens' needs and cooperation with citizens in creating programmes. Private sector should become part of the network of cultural services, and the government should treat them as part of this network. It is very important to further strengthen the system of oversight and control in all institutions (develop monitoring of results achieved) as well as transfer inspections to the local level.

| Status   | Examples  | Recommendations   |
|--|---|---|
| <p><b>The capacity of the network of cultural institutions is sometimes insufficiently developed. Private institutions do not see themselves as part of a joint network, although they can offer good cultural contents.</b></p> | <p>In smaller environments there are large deficits, lack of human resources and funding. Even in large environments (Belgrade), some institutions are said to be poorly adapted to the requirements of modern production.</p>  | <p>Follow citizens' needs when building the network, but also build them too (repress coarseness, kitsch). The private sector should become part of the network of cultural services. Support competition as instrument for improving supply.</p> |
| <p><b>Public institutions are financed in accordance with a mechanism (key) from long ago, so there are great imbalances between the funding regime and the position of these institutions.</b></p>                              | <p>Institutions with <i>the status of holders of public powers</i> gain profit by issuing permits and in addition receive government subsidies (Institute for the Protection of Cultural Monuments). Other institutions (cultural centres) have only modest income from the government and are often barely surviving. Funding does not rely on assessing the quality</p> | <p>Funding reform should be directed towards programme funding and this system should also include quality of work and satisfaction with services as indicators.</p>  |

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|   | of work.  |  |
| <b>The selection of directors of public cultural institutions is conducted by the municipality and approved by the line ministry.</b> | In the process of selection of director, instead of professional, political criteria are applied (party affiliation), so the director is more focused on the political dimension of work and the areas of governance and management are usually very much weakened. | The selection of director should be left over to the cultural institution itself, without the need for approval from the ministry. Commit seriously to modernizing management and raising managerial capacities of these institutions. |
| <b>The issue of a different concept and mode of operations in cultural institutions is rarely raised.</b>                             | Cultural institutions abroad become motors of social development, offering interesting content and responding to people's needs to learn and experience something new (economy of experience). Example: science park, carnivals, design street and town, etc.       | In the coming period it is important to build the network, focus on citizens' needs, project financing and quality of content (introduce creativity). Improve cooperation of culture with other sectors: economy, tourism, education.  |

## 2.10. Sports and recreation

Sports and recreation fall within the ***original jurisdiction of local authorities*** and should add to the quality of life of citizens. Active citizen participation (especially youth) in sports and recreational activities significantly prevents diseases and improves the quality of health.

In Serbia, this area also suffers from obsolete or insufficiently modernised management practices. Institutions in this area (sports centres) are managed in an old-fashioned way, without monitoring the effects or results of work. This is also a result of automatic funding of public institutions, according to a formula and without monitoring the effects of the work. Introducing programmatic budgets should include monitoring of the quality of offer to the citizens as indicators of successful performance of the institution and employees.

In Serbia, especially on the level of local authorities, there has been a drop in the quality of offer of sports contents, especially aimed at youth, so meeting these needs is largely left over to the market, which makes the services inaccessible to poorer groups. National and local authorities have been trying recently to diversify these contents and make them more accessible to all citizens, but the crisis has seriously limited the reach of these actions.

The area of sports and recreation is objectively directed to the areas of culture, tourism and economic development, but also education, information sharing, etc. but a more elaborate or deeper link in practice is made only after the implementation of projects, while the system does not encourage this mode of work. Therefore the ministries on the national or secretariats on the local authority level, do not have developed systems of project cooperation (management guided by mission, strategy and results), but are done in an obsolete, self-sufficient way, largely isolated from citizens' needs.

This area has high entrepreneurial and development potentials and can be very well combined with a number of other areas: culture, tourism, economic development, health (healthy life styles), education (with sports as important component in personality development) and there is high potential in this area to improve the mode of operations and the implementation of multi-disciplinary projects.

### **Proposal**

The relations of hierarchy but also partocracy principles result in the institutions (sports centres) being managed in an obsolete way, without monitoring the effects and results of performance, so these processes should be reformed. It is very important to move to a partnership approach and demand from public institutions in this area to examine citizens' needs (all age and other groups) and create programmes to respond to these needs.

The existing mode of funding public institutions according to formula, in which the quality of offer to citizens is not considered as indicator, should be changed to largely project-based

funding, which will make public institutions raise the quality of their services, but also, simultaneously, give room to private institutions or civil society organisations to offer their own projects and contents for funding. In this way a whole network would be strengthened, better quality services provided and satisfaction of citizens with this type of services raised.

In addition, the public sector (government, local authorities) but also public institutions in the area, could in this way contribute to better selection of human resources, more efficient and economic management and improved quality of services in the area. Special emphasis should be placed on extremely favourable opportunity to connect these services with services in the field of education, economic development, tourism, information) and to implement multi-sectoral and development projects.

| Status   | Examples   | Recommendations  |
|--|--|--|
| <b>The capacities of the network of institutions are sometimes not developed enough. Private institutions are not seen as part of a unique network although they can offer good contents.</b>      | In smaller environments there are large deficits, lack of human resources and funding. Citizens often indicate weak offer of space for sports and recreation (Ub) as well as the need to repair and reconstruct the existing (Kraljevo). | Monitor citizens' needs when building the network but also their own skills (encourage healthy life styles, recreation, sports). The private sector should become part of the network, but the national and local authorities need to ensure availability of programmes to all social strata. Encourage competition. |
| <b>Public institutions are financed according to a mechanism (key) that was set long ago, which is why there are imbalances between the funding regime and the position of these institutions.</b> | The majority of areas state that funds for this area are often insufficient (Šid, Temerin), but the often problem is the way of distribution, so there is space for improvement in the area.   | Funding reform should go in the direction of programme financing and should be included in the system as an indicator of the quality of performance and client satisfaction with the services provided.  |
| <b>The selection of the director of public institutions in the field of sports and recreation is</b>   | In the selection process, instead of professional, political criteria are applied (party affiliation), so the director is  | The selection should be given over to the institution itself, without the need for approval from the ministry.   |

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|---|---|---|
| <b>conducted by the municipality and approved by the line ministry.</b>                                   | more focused on the political dimension of work and the areas of governance and management are usually very much weakened.  | Seriously commit to modernizing governance and managerial capacities of the institutions.   |
| <b>The issue of a different concept and mode of operations in cultural institutions is rarely raised.</b> | Abroad these institutions present an important factor in the network of creators of interesting content, which make these places attractive for citizens of other countries too (cross, cycling, sailing, swimming), which has an effect on tourism development and economy in general (economy of experience). | In the coming period it is important to build the network, focus on citizens' needs, project funding and quality of the content (introduce creativity). Improve the cooperation between sports and other sectors: economy, tourism, culture, education. |

### 2.11. Traffic

In the area of traffic, the modernisation processes have not gone too far, although some technological potential have been used, such as electronic payment of road tolls, modernisation of railway, water and air vessels, training of employees, etc.

This area of services suffers from weak quality management, both in public companies and in the ministry itself and local self-governments. Public companies are usually poorly organized, they have weak managerial potentials, and the selection of directors as well as the employment process is done according to party, family connections or personal selection criteria. This area is rather prone to corruption (there are infamous affairs related to abuse in road construction, as well as frauds in charging road tolls – road mafia).

Some activities in this area fall under **original powers** of local authorities (local traffic and traffic infrastructure) and local authorities have tried to introduce certain modernisation in their work. Public traffic companies are under the same regime as other public utility companies and suffer from chronically weak organisation, weak management quality, making them expensive,

inefficient and unprofitable. The process of improving work organisation and modernisation has only been completed here and there.

It is interesting, however, that this is one of the areas in which the private sector has gotten more involved in service provision than in others. Spontaneously, local authorities were forced to give, under certain conditions, the services that the public sector could not provide to private companies or individuals. This process was burdened by insufficient knowledge, weak managerial potentials, but also conflicts of interest as well as corruption. One of the well-known cases is the conflict around private coach station in Novi Sad, which was given permission for work by one city government and revoked by the other (change of party in power).

### **Proposal**

We should note that traffic is naturally closely connected with economy and economic development, but also with many other areas, and therefore authorities that would develop missions and identify priority areas for work, defining the role of each of the sectors in the process, would largely raise the scope and quality of results achieved. In this respect, traffic could present an important factor in raising the capacities of a number of services and also present an active and important part of multi-sectoral development projects.

After the Law on PUCs was adopted (2012), it is very important to be consistent in implementing these principles and modernising work. In the process of including private companies in this area, local authorities need to build capacities for setting standards in this area, create good quality contracts with private companies guaranteeing arrangements attractive enough for private companies and again guaranteeing that the citizens will receive good quality and affordable services.

It is of utmost importance for the local authorities to regulate this area well, to work transparently and make efforts to reduce and exclude corruption and other forms of pathology in this area. The Law on PPP as well as the Law on Public Procurement (autumn 2011), have

made way for modernisation and using some new development instruments that can give great results in the area of traffic.

| Status   | Examples  | Recommendations   |
|--|---|---|
| <b>The capacity of the traffic network is sometimes insufficient and so is the infrastructure. Private companies are included in the system.</b>   | In smaller environments there are visible weaknesses, weaker infrastructure, lack of human resources and funding. Citizens often indicate poor quality infrastructure, weak traffic safety and sometimes weak access to public services (high ticket prices). | Follow the needs of the citizens and the community when building the network. Private sector can be part of the network, and national and local authorities must ensure that the services are affordable to all social strata (subsidies). Encourage competition to improve service supply. |
| <b>Rigid legal solutions.</b>  | Rule: forbidden to place traffic signs on illegally built roads. On junctions of main and illegal roads, because the right of way is not marked, a number of people get killed.   | Soften the rules, put up signs, eliminate danger in traffic, find systemic solutions for illegal roads.   |
| <b>Public institutions are financed according to a mechanism (key) from long ago not taking into account the quality of performance of the institutions (quality control).</b>                   | In the majority of communities people indicate that financial resources for this area are insufficient because these are expensive services (Niš), but because of its importance it should be subsidized.   | Funding reform should go in the direction of programmatic funding and include quality of performance and client satisfaction with services as indicator.  |
| <b>The selection of the director of public traffic institutions is performed by the municipality, and as a rule, political criteria are applied instead of professional (party affiliation).</b> | This kind of selection results in the director being more focused on the political dimension of work, and the area of governance and management is usually very much weakened.  | The selection of directors should be left over to the institution itself and focus on the professional values of the candidates. Seriously commit to modernizing governance and managerial capacities of these institutions.  |
| <b>The question of different concept and modernisation of work is rarely raised in traffic institutions.</b>   | Traffic institutions can be an important factor in the network of offer of interesting content attractive for foreign citizens (old trains, boats and sailing, rafting, sightseeing from the air in planes  | In the future period it is important to build the network, focus on citizen needs, project funding and quality of content (introduce creativity). Improve cooperation with other sectors: economy,  |

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|  | or zeppelins), influencing the development of tourism and economy in general (economy of experience). | tourism, sports, recreation, culture, education. |
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**2.12. Energy**

The area of production, distribution and use of energy falls within activities important for life, economy and community development. The government has had monopoly in the production of electricity for a long time, while local authorities were mainly engaged in distribution (from transformers to users) and maintenance. The law allows for private companies to participate in electricity production, and to, under certain conditions, join the network.

The law and regulations transfer some important activities in electrical and thermal energy to local authorities, and for many of them local authorities are only building capacities in order to be able to perform them well:

- a. Data collection for energy balance sheet, planning energy needs in their area (local plan development) and harmonisation with strategy and programme as well as more detailed definition of activities in production, transport and delivery of thermal energy, with subsidies for privileged producers (Energy Law).
- b. Local authorities must establish a **tariff system** for distant heating services for real energy consumed, to notify the buyers of thermal energy about the date of validity and methodology of forming the price for heating services (Law on Efficient Energy Consumption).
- c. This law transfers the obligation to local authorities, in communities with population size over 20,000, to establish **energy management systems** (develop programmes and plans of energy efficiency) and implement measures, appoint **energy managers** and report on objectives achievement.

- d. Local authorities have the right to issue **energy permits** for the construction of facilities for the production of thermal energy of 1MWr and more, and facilities for the production of bio-fuel with capacity of over 2,000 tons annually.
- e. Local authorities have received the commitment to establish **budget funds** and use them for the implementation of projects and activities related to efficient energy consumption.
- f. Determining the status of energy-protected buyers for households that have not accessed this right according to social protection regulations (Regulation on energy-protected buyer).

| Status  | Examples   | Recommendations   |
|---|--|---|
| <b>The capacities of the electrical network are insufficient and the system is facing problems (insufficient capacities).</b> | In smaller environments there are visible weaknesses, weak infrastructure, lack of professionals and funding for system maintenance. Citizens often mention weak quality of installations, voltage drop in the system, etc.  | Strengthen the network, ensure quality training for employees, further support private investments. Incorporate the private sector as part of the network, with national and local government ensuring affordability of these services to all social strata (subsidies). Encourage competition for better service supply. |
| <b>Variability of policy (measures) of incentives for the production of alternative (sustainable) energy forms.</b>           | The change of payment regimes for the value of green energy impulse, investors find themselves in a situation half way through construction where the investment becomes unprofitable (wind parks, solar plants, mini hydro-plants). These losses are huge because the projects are expensive. | Make a stable system of incentives for the production of green energy. Orientation to sustainable energy sources leading to environmental protection sources, improved quality of life, improved health and disease prevention.   |
| <b>Tariff system for distant heating is still not linked to real energy consumption, but all consumers pay the same.</b>      | The consumers of thermal energy pay the same whether they use the energy or not. This system on one hand is not rational because it enables energy waste (impossible to turn the heating off when it is not needed and lack of motivation to do so), and                                       | Local authorities should fulfil their commitment and establish a tariff system for heating services for real energy consumption. They should notify the buyers of thermal energy about the date of validity and methodology of forming the price of heating services.   |

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| on the other hand a system charging everyone the same is not fair. |
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### 2.13. Economy and economic services

EU countries have realized that the central government cannot encourage economic development because it is too far away from the citizens and they have transferred this activity to local authorities. Hence the local authorities invest great efforts to create investment-friendly environments beneficial for the citizens' lives in general. Local authorities provide adequate service packages (energy, water, heating, gas) and create investment friendly and attractive climate (business start-up, job creation, higher income and raising citizens' living standard). The government's job is to make a favourable legal environment.

Serbia ranks 86 among 183 countries as ***business-friendly country***<sup>3</sup> and it is under the regional average. In additions to conditions for doing business, other factors are compared individually and they are at different values for Serbia. Thus, approval of loans (40), property registration (41) and business start-up (42) are among the better factors of this business environment. Final group of factors are also indicators for improvement: cross-border trade (94<sup>th</sup> place), respecting agreements and resolving bankruptcy (both at 103<sup>rd</sup> place), payment of taxes (149) and the absolute favourite, building permit issuance (179<sup>th</sup> place).

The Law on Local Self-Government (2007) gave the local authorities in Serbia ***the power to support economic development as its original power***. In this respect, economy stakeholders become important. This job can be regularly performed only after the property is gained (adopted in 2011, valid until 2013)<sup>4</sup> and higher financial and fiscal capacities. Even with all this, Serbian government still has this illusion that they can support economic development better

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<sup>3</sup> For comparison, regional average is 73. Also, Slovakia is at 46<sup>th</sup> position, Hungary 54<sup>th</sup>, Bulgaria 66<sup>th</sup>, Romania 72<sup>nd</sup>, Greece 78<sup>th</sup>, with the regional average 78. Data for 2012, source International Finance Corporation.

<sup>4</sup> We can already see that the deadline is unrealistic and that the process will take longer.

than local authorities, which leads to wasting resources and poor results. Therefore, it is very important to keep raising the capacities of local authorities in the area.

It is very important to effectively implement the return of property to local authorities (the process is intolerably slow, there are bottlenecks in the system and the government monitors the process poorly). Another precondition is again, as with the 2006 law, to provide fiscal and financial autonomy for local authorities (original taxes, right to decide on the level of tax and tax collection), as well as raise the capacities of local authorities to use some new financial instruments (issue municipal bonds, establish running funds, as well as master the skills of financial and budget management). Local authorities should learn to know and use more complex economic development instruments, such as business incubator centres, business improvement zones, industrial, scientific and technological parks, as well as to establish public-private partnerships.

### **Proposal**

Local authorities feel there are powers that can be transferred onto them: powers in the area of trade, agriculture, forestry and water management should be transferred to the local level. Tourist inspection, adoption of regulations and inspection oversight, should also be performed by the local self-government. The problem preventing quality implementation of these activities is the lack of financial resources and insufficient number of employees (Opovo, Knić), but also the fact that overall some municipalities are underdeveloped.

Urban municipalities feel the municipality should also have the powers to establish and close commercial entities, ensure a larger budgetary frame so that the municipality could design and implement measures for encouraging development of commercial entities and employment through training, consultancies and subsidies.

| Status  | Examples   | Recommendations   |
|---|--|---|
| <b>Local authorities lack some instruments to implement good quality economic development activities.</b>   | Local authorities feel there are powers that can be transferred onto them: powers in the area of trade, agriculture, forestry and water management should be transferred to the local level. Tourist inspection, adoption of regulations and inspection oversight should also be performed by the local self-government. | Government should be a better partner to local authorities in the sense of support to develop the capacities and take overall necessary instruments for development. The role of SCTM as intermediary could be very useful. |
| <b>Impossible to attract investors.</b>   | LSG cannot attract investors at this moment because they are only users of public property. In order to attract investors they have to collect a lot of documents, submit them to the Property Directorate for approval, but the Directorate often stalls the process by asking for additional documents.                | It is necessary for the Directorate to respect the defined procedure and deadlines (documents listed) for application for approval.   |
| <b>The quality of administration is often an obstacle to economic development of the local community.</b>   | Too many laws, regulations, slow procedure, as well as silence of the administration leads to increased resource costs (time, money) making the local environment unattractive for investment or business in general.  | Reduce the number of laws (deregulation), improve the quality of laws, resolve the problem of silence of the administration.  |
| <b>Government investment funds are difficult to access for small and less developed LSGs, because of the criteria applied for awarding resources.</b> | The ministries ask for documents such as contract with the best bidder, which is impossible to provide at the moment of project proposal submission.   | Changes in procedure of awarding resources and adjusting the criteria to LSG specificities (take into account the degree of development of LSGs, population age, population density, etc).                                  |

### **3. ORGANISATION OF AUTHORITY, ADMINISTRATION AND FINANCES**

#### **3.1. Situation and powers**

The organization of authority and the instruments that can be used by local authorities to conduct public affairs, are an important factor which is dedicated great attention by modern democracies. In order for local authorities to be able to implement their original activities, as well as those transferred onto them, it is necessary for them to give organizational autonomy, but also to modernise administration.

The essence of democratic functioning is to focus on client needs, greater efficiency in resource utilisation, as well as the measurement of end results in relation to citizen satisfaction with the services provided. Transparency and availability of public data is an important and continuous principle of work. Statutes, budget, spatial plan, strategies, decisions and other documents must be available but also clear (friendly) in order for the citizens to be able to understand them and meaningfully participate in decision-making.

#### **3.2. The issues of the model of authority, bodies and organisational units**

The 2007 Law defined a monotype model of organization of authority (the model of weak mayor) replacing the 2002 legal solution with directly elected mayor. The town and municipality manager was demoted from a position of economic development driver (in the next phase there should have been established and coordinated an integrated management system in the municipality/town) to the position of mere assistant to the Mayor. In the system as it is now, the issue of management quality remains: head of administration is a lawyer monitoring the implementation of the law, which is inappropriate for the needs of modern local authorities.

| Status  | Examples   | Recommendations   |
|---|--|---|
| <b>Local authority organization model can be more efficient and better.</b>   | Directly elected mayor is a model enabling higher accountability, efficiency and work results because the link with the citizens is more direct.   | Enable local authorities to have the right to elect mayors directly.  |
| <b>The position of municipal, town manager is made pointless by existing legal solutions.</b>   | Town manager became one among several assistant. Assistants are redundant and bureaucratic burden to the system. Manager is necessary to local governments to strengthen the neglected function of integrated financial, budget, projects, human resources management.   | Legally expand the position of town (municipality) manager as person running the administration (assisting the mayor in project, financial and budget management).  |
| <b>Local head of administration is understood as controlling the letter of the law, and therefore must have legal background.</b>   | Administration management in the modern world <i>requires managerial skills</i> that these heads lack (law school does not provide this type of programme). It is very important to correct this mistake in the system, because administration led like this is bureaucratic, slow, inefficient and ineffective. | Ensure training programmes for heads of administration, open legal opportunity for the job to be performed by managers (people with different backgrounds: political science, economy, management, sociology, etc). |
| <b>Local authorities have a uniform organization model, whereas introducing several models and the right to choose the optimum one, would provide chances for more adequate organization and better effects in performance.</b> | For example, in the town of Upsala in Sweden, the process of service provision was introduced through a. units dealing with situation analysis, problem identification and objectives setting and b. special organizational units that implement these objectives.   | Local authorities should be given freedom to choose the organization model (secretariat) as well as concrete instruments and modes of operation.  |

***Modes of operation of national and the local authorities are obsolete:***

There is a relation of **hierarchy** between national and local authorities and a good part of the **powers** remains on the central level, both because of the interest to have more control and power at national level and because of inertia. In the process of transferring activities to the local governments, the principle of secured funding and rights to additional employment is often breached.

**3.3. Original and transferred powers**

| <b>Status</b>   | <b>Examples</b>  | <b>Recommendations</b>  |
|---|--|---|
| <b>Lack of autonomy of LSUs / transfer of additional powers to LSU by central government.</b>                   | Clearing roads in conditions of snow (emergency situation) and problem of obsolete mechanization.<br>Municipalities are entrusted with first degree ruling of property legal rights to government land where municipality appears as user, but the municipality needs the approval of national bodies (Property Directorate or National Attorney General) for each intervention.   | Responsible central institutions should draw the roads so that LSU autonomy would be ensured completely, and roads classified. Use amendments to the Law on the Maximum Number of Employees to enable additional employment according to criteria and LSU needs, in accordance with additional powers transferred onto LSG. |
| <b>Transferred activities from the central to local authorities without the right to additional employment.</b> | The Law (2009) defines the maximum number of employees according to the size of the population in LSG. At the moment this was not an issue, but in the meantime LSG powers have increased through transfer of additional activities by central authorities (Law on the Protection of Personal Data, Law on Access to Information of Public Importance, Defence Law, Law on Fire Protection, Law on Registrars – the laws have defined additional activities and obligations to LSG. In order to make new employments, approval from the government is needed | The government needs to respect the principles of financial and professional support in cases of transferring activities to local authorities.  |

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|  | on proposal by Ministry of Finance.  |  |
| <b>Entrusting old or defining new powers of LSUs, without adequate financial resources, with limited employment and inadequate offer of qualification structure of candidates.</b> | Environmental protection affairs – legal obligation to establish budgetary fund which is not adequate solution for all LSUs, which especially affects small and less developed LSUs. This can also refer to other jobs such as local road maintenance, community policing.   | Establish criteria for implementing LSU powers in accordance with their specificities (population number, degree of development, size, administrative capacities, etc). One of the solutions can be optional performance of certain powers by the LSU in accordance with their needs (or even better introduce the subsidiarity principle).  |
| <b>Disparity of regulations related to construction, environmental protection, etc, which are related to activities entrusted with LSUs.</b>                                       | The laws regulating other areas (e.g. Veterinary Law requires issuance of use permit) there are regulations requiring bodies to issue permits that do not refer to the area specifically).   | Perform codification (unification) of legal regulations regulating an area, such as the case for example with the Building Code in the USA. Unifying all the necessary permits under one organisational unit / service centre (construction, energy).  |
| <b>Multiplied reporting by LSUs towards different central government bodies.</b>   | Reporting to the ministry in charge of trade, Ministry of Finance and Economy and Ministry of Regional Development and Local Self-Government on PC service costs, where the same data/reports are sent to all these ministries.  | Establish a unique reporting format by areas and a unified data base with access and exchange of data provided.  |
| <b>Normative framework adopted without insight in impossibility for implementation due to lack of human and financial resources or inadequate interpretation of the law.</b>       | <p>a. The government requires the use of all national minority languages without estimated need for professional translators; municipality is unable to implement this regulation.</p> <p>b. Veterinary Law requires that all LSUs have humane treatment of animals and build asylums. Government does not provide funds for these asylums. Asylum for dogs – high construction and maintenance costs. LSU does not control dogs marking and possibility to charge fines for abandoning dogs. On the other hand, fines go into the national budget while the municipality pays damages to citizens</p> | <p>a. This requirements should be revoked urgently, until financial and professional resources are provided. Possible solution: joint advertisement by several LSUs and offer to Association of Translators.</p> <p>b. Ensure sustainability by returning the funds from fines to municipalities and use them for asylum upkeep (expand the decision to other than dangerous dogs). Chip control must improve. LSUs should be obliged to take care of animals, by way of entering into contracts with private or public companies on the</p> |

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|  | caused by stray dogs. | territory of another municipality with conditions and capacities for animal care (asylum). |
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**Legal system and legal culture** in our country show a lot of rigidity. The legal system is not flexible. There is rigid adherence to norms also in situations when the functioning of the system itself is under threat. On the other hand, paradoxically, there is high tolerance to the violation of norms.

This problem is resolved (as in European countries) with more flexible norms and by transferring rights to local authorities for them to regulate some processes on their own (this would be excellent with active public participation, citizens, civil society organizations), with the strengthening of the rule of law.

**The government is obsolete (and local authorities follow in the same way):** this is a classic way that all developed countries abandoned in 1980s. They moved to the model of mission management, strategic planning, mission design, team work, coordination of different sectors with focus on resolving priority problems and achieving results. This mode of operation includes defining standards for all areas both on the national and local levels (adapted to local environment), continuous monitoring of the quality of performance and measuring results.

In each of the sector policies one can clearly see where the reform stopped and which powers should be decentralized, which functional capacities raised both in administration and finance.

| Status  | Examples  | Recommendations  |
|---|---|--|
| <b>Failure to comply with the Law on Labour Relations in Government Bodies.</b> | Re-hired employees in LSU, who had taken severance. | Enable persons who are close to retirement, to leave with certain reimbursement/severance pay. Eliminate the possibility for those persons who had taken severance to return to any position in the LSU – change the Law on Labour Relations |

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| <p><b>Local self-government employees are in an unfavourable position compared to other government employees.</b></p> | <p>Earnings coefficients are higher in towns. The difference in coefficients for the City of Belgrade, towns and municipalities. Is the employee in Belgrade more expert in relation to municipal employee? Some local self-governments do not comply with the regulation on coefficients and other income of employees in government bodies. High school education is equal to typists who have completed a course.</p> | <p>in Government Bodies.</p> <p>The amendments to the law on local administration and government is under preparation, defining and distinguishing civil servants and local civil servants in order to replace the existing law, 20 years old.</p> |
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### **3.4. Administrative and financial capacities**

#### **3.4.1. Administration**

Global Competitiveness Report 2012-2013 indicates the following factors with the highest negative impact on business: inefficient administration and corruption, and only then followed by access to sources of funding, regulations, etc.<sup>5</sup>

Serbia lacks continuous situation, problem and citizen needs analysis both on the national and local levels of authority, to inform local authority missions and to be used to determine priorities. Strategies developed are usually not used. The work is done based on free speculation of priorities, wherefore the changing of priorities and agenda is the usual modus operandi.

Secretariats as government units do not work as teams, there is a lack of continuous coordination, but rather everyone is doing their own work. The Government Coordination Body

<sup>5</sup> See: <http://www.weforum.org/issues/global-competitiveness>

is developing its capacities but slowly and without a number of functions it would have in a differently set system. Ministries are still primarily doing work in their areas in relative isolation, without connecting into functional wholes, determining priority goals or measuring achievements.

In the administration itself (both on the national and local level) team work is not developed, the quality of work is not monitored (scope, efficiency, effectiveness, productiveness), value, identification of error and their correction. In short, all important factors of modern government system are lacking.

In order to perform good quality work and provide good quality services, local authorities need to constantly raise their capacities. The research of local self-governments in Serbia (2009, 2011, 2013) has shown that in the system, ***the basis for employment*** does not correspond to the needs, but other motives and criteria do (social, family relations, friendship, party, etc).<sup>6</sup>

In Serbia there is a limited number of employees in the local administration, but not as result of modernised government but as a technical measure directed only at reducing the number of employees. The issues of quality of expertise, knowledge and skills are not addressed, and modernisation (team work, citizen needs analyses, design of sustainable programmes and projects, measuring effects, results, evaluation and adequate rewarding of results, as well as satisfaction with services) is postponed indefinitely.

Any rational administration follows the ***head-tail proportion***, which is the proportion between the number of employees on service provision (head) and the number of employees preparing the services (tail). The analyses in Serbia up to date have shown that the tail is too big and that the head is often not 'user-friendly' (to the needs of the citizens, community).

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<sup>6</sup> See: Study of the capacities of local authorities in administration, economic development and informational technologies (Đorđević S, Milenković D, Prokopijević M), 2009; Functional Analysis (Kec A, Rakić V, Rihter K, Frakasini E), 2011; and Study on the implementation of subsidiarity principle in Serbia (Đorđević S, Milenković D, Prokopijević M), 2013.

| Status  | Examples   | Recommendations   |
|---|--|---|
| <p><b>Artificial limits to the number of employees in local administration without including evaluation factors.</b></p>  | <p>In December 2009, the Law on the Maximum Number of Employees was adopted. The Law defines the maximum number of employees according to the size of the population in LSG. At the moment this was not an issue, but in the meantime LSG powers have increased through transfer of additional activities by central authorities (Law on the Protection of Personal Data, Law on Access to Information of Public Importance, Defence Law, Law on Fire Protection, Law on Registrars) – the laws have defined additional activities and obligations for LSG. In order to make new employments, approval from the government is needed on proposal by the Ministry of Finance.</p> | <p>Setting the number of employees in the local administration should be left over to the local authorities. Designate % of the budget on the central level that can be used for salaries and the local self-government can decide on the number of employees and their salaries.</p> |
| <p><b>Employment does not follow the system of merit but goes through party, family, friendship connections.</b></p>  | <p>In the local self-government the professional principle as well as quality evaluation of performance has not been implemented.</p>  | <p>Introduce the principle of employment and advancement by merit. Develop instruments for measurement.</p>   |
| <p><b>Local administration is divided in secretariats, which work in relative isolation. A joint mission with determined priorities is not created, there is no team work or concrete results measured.</b></p> | <p>Symbolized by rats as symbols of damage and problems: it can be caught only by a multi-sectoral team rather than be chased by each sector individually or nobody (which is more often the case here). In the end we must know that the rat has been caught.</p>   | <p>Develop team work, introduce methods for monitoring the quality of work and measuring effects, individual contributions and final results evaluation.</p>  |

### 3.4.2. Monitoring and awarding work

Neither individual nor team work results are measured, nor is success awarded or failures identified or corrected. Payment is performed according to pay grades, promotion is automatic after a number of years in the service. Salaries in the public sector are, as a rule, quite low, which is highly non-stimulating and many see this work as a stop towards better paid jobs. In Serbia, there is no systematic vertical or horizontal mobility of employees a. from which individuals would benefit by gaining knowledge and skills from different areas and b. administration would benefit by good quality and creative employees.

The work is often bureaucratic, directed at some formal demands, and often the essence of the work eludes. Very rarely is the quality of services measured, citizens and clients are very rarely asked about their satisfaction, if they have suggestions, some other needs, etc. Employees are unmotivated and often do not see the purpose of their work.

The presentation of the World Economic Forum related to institutions (pillar 1) indicate in Serbia the inappropriate effect of ***favouritism in decisions of government officials*** (too much space for volunteerism), which can be avoided in well-organised administrations.

The ranking of availability of training for employees in Serbia in the period 2007 – 2012 went from 63 to 125 in ranking, as well as the scope of training from 122 to 138.

| Status  | Examples  | Recommendations  |
|---|---|--|
| <b>Rude and slow administration, lack of results-based assessment and evaluation, the issue of silence of the administration.</b> | Good indicator are long work procedures, a large number of neglected cases, many problems are not essentially resolved. The practice of systematic measurement of work effects (Indija is an excellent example) is rare. Quality of work of both administration and public companies and institutions is monitored. | Introduce evaluation of results achieved, in addition to the classic systems of assessment and evaluation.<br>Also it is necessary to introduce methods of <i>independent assessment (secret client method)</i> , because experience shows that heads of administration avoid this |

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|   | In state administration, even though there are legal monitoring requirements, heads avoid this type of work.   | type of work.  |
| <b>There is no vertical or horizontal mobility which makes the profession interesting, dynamic and provides space for learning.</b> | Vertical mobility (from the municipality to the town or province) is often through party or friendship rewards. Horizontal mobility (from one type of jobs to another) is rare. People often spend their entire working years in one institution doing one type of work. | Finalise merit system (both in the national and the local governments) also introduce the systems of vertical and horizontal mobility as a logical and important part. |

### 3.4.3. Financial capacities

In Serbia budgets are not created publicly, transparently, nor are the civil society and the citizens involved in this process (there is no legal obligation to have public budget hearings). Obsolete budget development is usual for both the central and the local authorities.

Budgets are difficult to read: they are structured by lines, not understandable to citizens, the execution of the budget is often not transparent, money is spent for purposes other than those defined (moved from one line to another), which is more often mentioned by the national level Auditor. Money is often wasted.

On the local level, budgets are created on the level of the entire government and it is not specified for which type of activities the money is used. This issue needs to be resolved soon because planning resources is a precondition for decision-making about the scope and manner of activity implementation.

There are plans to move to project budgeting, include the public more in budget design (public hearings) and make the document more understandable to the citizens. This is essential for increasing accountability in utilization of resources and provision of greater system functionality as a whole.

Systemically, it is important to return *financial and fiscal autonomy to local authorities* (by European standards).

| Status  | Examples  | Recommendations   |
|---|---|---|
| <b>Local authorities have lost an important part of their fiscal and financial autonomy with the crisis.</b>  | With the crisis (2009), the solutions of the Law on Financing Local Self-Government were put ad acta. Formulas guaranteeing safe and predictable income were changed into arbitrary. Based on this, local authorities do not know how many funds they will get, so they cannot plan their work.   | Return financial and fiscal autonomy to local authorities. Reinstatement of the solutions from the 2006 Law on Financing Local Self-Government as a good one. Enrich by-laws.   |
| <b>Property tax – data bases of tax payers are not updated.</b>   | Adequate tax calculation has not been performed and not harmonized with the real situation in the field, which leads to reduced income from property tax.   | LSGs have different software for data bases (calculations and solutions are different, formulas different) – employees in LSU to be trained.  |
| <b>Inefficient tax collection on certain types of public revenues.</b>  | Collecting taxes on inheritance, gifts and transfer of absolute rights is under jurisdiction of the National Tax Administration (under the Law on Property Taxes), and these taxes are given over to the LSU according to the provisions of the Law on Financing local Self-Government Units.   | Leave tax collection to the National Tax Administration, find a modality of payment directly into the local tax administration (directly to LSG) and require the tax institution to submit a copy to the LSU.   |
| <b>Local taxes – municipalities have no benefits from natural resources they manage, because the taxes for use of natural resources (under the new law) go to the national government. Unrealistic basis for legal entity property tax calculation.</b> | The amount of local taxes and fees are determined by the law, the municipality can reduce the amount but cannot increase it above the maximum defined. The government determines the amount of revenues generated locally (communal tax). Natural resources – 5% on the use of mineral resources is not paid to municipalities. Basis for calculation of property tax is based on book value, which is as a rule, much lower than market value. | Increase transfers to municipalities proportionally, because of reduced revenues because of reduced communal taxes. Introduce control system in order for public companies to start paying the taxes to LSUs for the use of mineral resources (quarries, mines – the tax amounts to 5%). Public companies using municipal natural resources are exempted from legal limitations when setting the taxes. |

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|   |  | Basis for property tax calculation for legal entities should be at market value. Determine who sets the real market value and how.   |
| <b>Transfer funds – criteria for transfer funds are not harmonised.</b>         | Municipalities with high birth rates do not agree with the current way of determining the level of transfer, because the number of classes is taken into account rather than number of students.   | The criteria should be extended. In case of less developed municipalities with positive birth rate trend, the criterion of total number of students should be used, rather than the number of classes/schools.           |
| <b>Unclear/unknown criteria for state transfers.</b>                            | Criteria for determining development level of a municipality are unrealistic. Brus: the category of devastated municipalities should also be introduced in the law (under 50% of national average) with special support measures.  | Determine based on which criteria (formula) are transfer funds determined and defined by the national government and in this way increase transparency in determining transfer funds.                                    |
| <b>Unlawful conduct of LSU.</b>   | Municipalities and towns spend funds for other than their designated purpose.  | Increase government control over spending funds for other purposes through greater engagement of budget inspectors; introduce regular semi-annual control; in accordance with the above, amend the Law on Budget System. |
| <b>Outstanding obligations of the government toward local self-governments.</b> | There are outstanding obligations of the government for implemented development projects for which there are properly signed contracts with the ministry. Municipalities are often sued by the contractors, whereas there is no practice of municipalities suing the ministries. | Adherence to contracts by ministries.  |



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