

Standard Summary Project Fiche – IPA centralised programmes

Project number 13: Municipal Infrastructure Support Programme - MISP

1. BASIC INFORMATION

- 1.1 CRIS Number:** 2008/020-406
- 1.2 Title:** **Municipal Infrastructure Support Programme - MISP**
- 1.3 ELARG Statistical code:** 01.22
- 1.4 Location:** Republic of Serbia

Implementing Arrangements:

- 1.5 Contracting Authority:** EC Delegation to the Republic of Serbia
- 1.6 Implementing Agency:** EC Delegation to the Republic of Serbia
- 1.7 Beneficiary** (including details of project manager):

Direct beneficiaries are the municipalities in Republic of Serbia.

The Project will be managed by Project Manager from the Ministry of Public Administration and Local Self-Government (MPALSG). National partners for project implementation are institutions which have responsibilities in concerned areas: Ministry of Public Administration and Local self Government; Ministry of Agriculture, Forestry and Water Management; Ministry of Environmental Protection; Ministry of Economy and Regional Development; Ministry of Infrastructure; Ministry of Finance; Office for National Investment Plan; Standing Conference of Towns and Municipalities (SCTM) and National IPA coordinator (NIPAC). These institutions will directly participate in the Project Steering Committee. Coordination of all stakeholders in project preparation and implementation will be the responsibility of the Ministry of Public Administration and Local self Government and National IPA Coordinator (NIPAC).

Financing:

- 1.8. Overall cost (VAT excluded):** **55.400.000 EUR**
- 1.9. EU contribution:** **45.400.000 EUR**
- 1.10 Final date for contracting:** 3 years after the signature of the Financing Agreement
- 1.11 Final date for execution of contracts:** 5 years after the signature of the Financing Agreement
- 1.12. Final date for disbursements:** 6 years after the signature of the Financing Agreement

2. OVERALL OBJECTIVE AND PROJECT PURPOSE

2.1 Overall Objective

The overall objective of the project is to strengthen capacity in Serbia, as required by candidates for EU Membership, to develop and implement policy reforms on the decentralisation of local government leading to improved local governance, better management of municipal infrastructure services, and the capacity of municipalities to programme and absorb EC investment funds for new and rehabilitated assets.

2.2 Project purpose

2.2.1 Component 1. Improved institutional and regulatory framework for municipal infrastructure services and support for PUC transformation

The purpose is to actively involve all levels of government in developing decentralisation policy issues in the field of municipal infrastructure services, improving the regulatory and institutional framework and aligning it with EU standards.

2.2.2 Component 2. Improved municipal infrastructure programming and project preparation

The purpose is to support municipalities (or their common functional associations, such as Regional Development Agencies) to enhance their capacity to plan and prepare adequate and mature infrastructure projects for implementation (project pipeline). Also, to reinforce national coordination mechanisms established in the previous period.

2.2.3 Component 3. Implementation of selected municipal infrastructure projects

Depending on the project pipeline and available projects at the appropriate time, selected municipal and/or inter-municipal infrastructure projects from all sectors for municipal development [environmental sector (e.g. water supplies, wastewater, solid waste, district heating etc), economic infrastructure (e.g. tourist attractions and other tourist infrastructure, urban renewal, brownfield regeneration, industrial parks, business service centres etc); and social infrastructure (e.g. sheltered housing and/or disabled access, education etc.)] will be implemented.

2.3 Link with AP/NPAA / EP/ SAA

AP/NPAA not applicable.

2.3.1 EP (European Partnership)

For a fuller description refer to Annex 4.

In the European Partnership under Democracy and the Rule of Law (Page L227/28), medium-term priorities are listed as: “*Promote Local Government* - adopt and implement decentralisation reform and ensure sufficient local capacities...”;

Under Sector Policies, Environment: “Adopt and start implementing a policy on the pollution of air....., water (waste water) and soil (solid waste), strengthen administrative capacity notably as regards planning, permitting, inspecting, monitoring as well as project management...”

The Serbian government plan for the implementation of EP priorities contains the following short-term Public Administration priorities:

- line 2.3.5: “Strengthen capacity (policymaking and inter-ministerial coordination) of the public administration at government and local levels.
- Line 2.3.8: Adopt and implement decentralisation reform ensuring viability of local governments.

This project will address all of these priorities by strengthening policymaking in the field of municipal service provision and by building local government project management capacity and the ability to deliver services in local government.

2.3.2 SAA

While not specifically mentioned in the decision, infrastructure management and improvement support the following short-term priority:

- Environment: *Strengthen the administrative capacity of bodies in charge of planning, permits, inspection and monitoring, and also project management, strengthen capacity at local level and ensure coordination between central and local levels.*

The project will also support the following medium-term priorities:

- Political criteria: *Continue full implementation of civil service and public administration laws, implement measures to develop human resources in the civil service, **strengthen the policy-making and coordination capacity of the public administration at government and local levels**, establish a centralised payroll system, implement the constitutional provisions relating to decentralisation and ensure the resources for local governments.*
- Economic criteria: **Improve the business environment to increase Greenfield foreign direct investment.**

2.4 Link with MIPD

For a fuller description refer to Annex 4.

The MIPD section 2.1, Strategic Choices, emphasizes “*progress in key reform areas such as local self-government*”, addressing “*the weak institutional capacity in key policy areas as well as the poor state of local infrastructure*” and creating “*a policy environment or policy delivery capacity to fully exploit national and EU co-funding.*”

It encourages investment in “*business related infrastructure provision*” and improving “*central/local government relations*”, stating further that “*Support should also be directed to building project pipelines for IPA funding in 2008 and 2009 but well linked with plans for future national investment programmes and IFI priorities...*”

This project will address the development of the project pipeline, together with local capacity to sustain it, and policy developments and local/central government cooperation to underpin the sustainability.

Section 2.2.1.1, Political Requirements, Main priorities and objectives, states among other things: “*Advancing on the reform of local self-government as part of the decentralisation process.... development planning and implementation capacities at central, regional and local level, more efficient spatial, cadastral, municipal planning, improving service delivery...*”. This project directly addresses this issue through capacity building.

Section 2.2.1.3, prescribes support for “*...more efficient spatial, cadastral and municipal planning and management. Support municipal, inter-municipal and cross-border municipal projects.*” The MISIP is directly linked to these priorities, and will consider supporting projects in all three of the latter categories.

Section 2.2.2.1, Socio-economic Requirements, Main priorities and objectives, the MIPD states: “*Enhancing the investment climate and support to small and medium sized enterprises through access to services. Further develop local/regional business support structures*” and “*Improving infrastructure in order to promote business related activities and public services...The areas of energy, transport, tourism, environment, health, information and communication technology, education, etc. have to be developed as cornerstones of future economic growth.*” The MISIP will also be open towards projects of such a business-infrastructure nature.

Under 2.2.3.1, European standards, Main priorities and objectives, it is stated: “*Environment: ... support to local infrastructure investments including environmental information systems, solid waste, regional land fields, water and sewage.*” The MISIP will also consider such projects for support.

2.5 Link with National Development Plan (where applicable)

Not applicable.

2.6 Link with national / sectoral plans

The Project is developed to link with the following key strategies and action plans in the municipal and environmental sectors:

- **Strategy of Public Administration Reform in the Republic of Serbia**, Ministry of Public Administration and Local Self-Government - Belgrade, (2004) stresses

importance of decentralisation process and basic principles for its implementation are high-lighted. The fundamental objective of the reform is to provide a high quality of services for the citizens through deconcentration of the state administration, delegation of power from the central toward the lower levels and the decentralisation as a form of relinquishing a part of power by passing it to the lower levels.

- **Strategy of Regional Development of Serbia** for the period 2007-2012 (adopted by the Government of Republic of Serbia in January 2007). The Strategy highlights the importance of stimulating the development of economic infrastructure: *“Infrastructure is one of the most important factors for maintaining sustainable economic and social development of the Republic of Serbia, and represents a key driver for regional development and utilization of comparative advantages of local areas”*. (Sections 2.12 and 2.4).
- **The Strategic Plan of the Standing Conference of Towns and Municipalities 2005 – 2008** adopted at the 36th General Assembly on December 3, 2007 for the period 2008-2010, aims to establish SCTM as the association of local authorities which recognizes its role and objectives and supports its membership led by the standards of good governance at the local level, in order to be in a position to serve local self-governments and the citizens in an efficient and competent way. It proclaims that the main task of the SCTM is to strengthen local self-government and to represent, protect and support its members and their interests at the national and international level. It also states that the most important priority at the national level is the process of decentralization and democratization and that at the international scene SCTM should become a well-known and recognized association which represents all the Serbian towns and municipalities. According to the Strategic plan four priority areas are:
 - Representing (advocating for) the interests of local self-governments in creating the environment which enables consistent decentralization (participation and influence in all the phases of enactment of legislation, regulations and national strategies relevant for the local authorities)
 - Developing sustainable system of support to the capacity building of the membership
 - Encouraging and supporting exchange, communication and cooperation among the SCTM members at the inter-municipal, national and international level
 - The SCTM Capacity Building

The project is also linked to a number of sectoral strategies and plans (see Annex 4).

3 DESCRIPTION OF PROJECT

3.1 Background and justification

The role of the Serbian government apparatus is changing from being the provider of economic and social services, as established under the previous central planning system, to that of setting up and maintaining an enabling framework for a decentralised market-oriented economy.

In that respect, further reforms are required which make structural changes to the boundaries between the political system and the public administration, re-classify institutions along functional lines to EU Standards, and establish an accountable system governing the relationship between central and local institutions. These reforms have been supported by EC CARDS Programmes since 2001. This project should be seen as part of an ongoing series of MISP projects from CARDS to IPA, and should be seen as providing continuity in reform of the sector. In particular, MISP (IPA 2008) is a continuation of ongoing MISP project financed through CARDS 2006 (3 million EUR). Therefore, this project will rely on the experiences and results currently implemented CARDS project for all three components- institutional and regulatory framework, project preparation and implementation of the

projects. For this reason no specific references to infrastructural projects could be added at this stage since ongoing CARDS project is preparing relevant project documentation. The sequencing between two projects is well determined and overlapping is avoided. Above all, other investment programmes in municipal infrastructure have included the Municipal Support Programme in Eastern Serbia (2003-2007), Municipal Support Programme in North-East Serbia (2007-2010), Programme for municipal improvement and revival in South Serbia (2003-2008), Municipal Support Programme in South-West Serbia,(2006-2009), Municipal Infrastructure Agency Support Programme - MIASP (2003-2007). This is clearly elaborated in the project fiche in the section 3.7.1. This project is thus very important and visible as it directly targets municipalities and contributes to the overall social-economic local development.

The Government of the Republic of Serbia has defined five areas for which international assistance is sought: employment generation, the strengthening of institutional capacities, building, reconstruction and modernising the infrastructure, environmental protection and rural development.

The EC's Multi-Annual Indicative Planning Document (MIPD) 2007-9 establishes the corresponding macro-economic concerns that will be supported: reducing regional inequalities, tackling social deprivation, generating employment opportunities, providing essential urban development to halt the decline of social assets, rehabilitating economic infrastructure, providing basic education facilities, and supporting agricultural reform and rural development.

The condition of the assets of most municipal infrastructure is poor because of many years of deferred maintenance, itself a consequence of keeping average tariffs below average costs. Although the collapse of industry has reduced the potential pollution loads into the environment most urban centres are serious polluters because of inadequate facilities such as wastewater treatment plant, sanitary, sealed landfills etc. The requirements for investment to meet new demands or for rehabilitating old investments are much greater than the sources of funds and most investments may be considered as a priority.

One of the key goals of Republic of Serbia is the creation of strong, influential and independent local governments with adequate communal services and citizens' oriented approach. This objective can be achieved only if strong investments into municipal infrastructure are made. Consequently, it is expected that local governments will take charge of all local matters, designing and implementing policies and projects that will further stimulate local development.

Presently municipalities are faced with:

1. **Large investment backlogs as a result of underinvestment in the construction of new and maintenance of old infrastructure projects in the last 15 years.** Investment needs in municipal water supply and sewerage, environmental and district heating infrastructure are estimated at some Euro 3.8 billion whereas sizable funds will also be needed for municipal roads, economic and social municipal infrastructure. Currently, municipalities are spending Euro 500 million or on average 30 percent of their budgets on capital investments for all sectors.
2. **Limited financial funds in comparison with the infrastructure needs.** Traditional sources of investment such as transfers from central government and municipal budget revenues are not enough to bridge the investment gap.
3. **Limited (but improving) human capacities,** with significant regional disparities, in municipal budget and debt management and infrastructure project management.
4. **Inefficient public utility companies** with weak financial and operational performance partly due to lacking independence, tariff controls and outdated management concepts.
5. **A lack of understanding among citizens and public servants** of the significance of tariff policies, and alternative ways of conducting social policy.

To facilitate the development of municipal services, increase investments and stimulate economic development at the local level, central government and local authorities need to:

1. **Continue cooperation on the national level** that will work towards creating a better institutional and regulatory framework in the area of municipal infrastructure.
2. **Facilitate local governments to adopt municipal development strategies**, capital investment plans and corresponding programmatic budgets for the period of 3 to 5 years.
3. **Facilitate municipalities to identify development goals**, investment priorities, prepare adequate feasibility studies and bring projects to a mature phase.
4. **Facilitate the development and preparation of regional inter-municipal projects** that provide smaller and underdeveloped municipalities with essential infrastructure in a cost-effective manner. This would also have the added benefit of allowing such municipalities to access the credit market in the form of pooled financing.
5. **Work on finding the best financing and co-financing arrangements** for implementation of municipal infrastructure projects using the available funding from municipal budgets, NIP (National Investment Plan), IPA and IFIs (KfW, EBRD, EIB etc).
6. **Transform PUCs** and strengthen their financial and operational efficiency in order to make them to provide better services and become more viable borrowers.
7. **Redefine tariffs** based on a cost-recovery system, **re-design social policy** as appropriate and create understanding among citizens and officials of the implications for social policy and taxation.
8. Introduce serious **investment in municipal infrastructure projects**. Apart from the municipal revenues and central government transfers, other sources of funds may include: conditional grants by the EU through the IPA instrument, funds from the National Investment Plan while these still exist, and public-private partnerships. It is estimated that municipal loans will only be able to cover some 15% - 20% of the required investments in municipal infrastructure and that the rest could come from subsidies and EU funding.

A inter-ministerial Working group for development of local infrastructure was established in 2007, and as a part of wider Coordination body for development of local infrastructure (consisting, beside government institutions, of representatives of the donor community, international financial institutions and the Standing Conference of Towns and Municipalities – SCTM) represents a forum for discussion of issues and initiatives related to development of local infrastructure.

3.2 Assessment of project impact, catalytic effect, sustainability and cross border impact (where applicable)

Project Impact:

Component 1. will support the development of national policy, regulatory and institutional reforms involving both national and municipal levels, enhancing central-local cooperation.

Component 2 will improve the capacity of municipalities to develop a pipeline of infrastructure projects suitable for funding by grants, IFI and commercial loans and the municipalities' own means. It will assist the municipalities in implementing regulatory reforms, restructuring PUCs, enabling long-term programming and improving local capacities.

Component 3 will provide infrastructure investments in selected municipalities, improving environmental, social, and economic infrastructure.

The three Components will therefore address the development of the enabling environment for the municipal sector, establish the means for linking infrastructure programming and budgeting at the municipal and national levels, and build the capacity of local organizations and companies to provide a modern service.

In environmental infrastructure, almost no Serbian municipalities have waste treatment systems. Domestic and industrial waste is discharged untreated into surface watercourses. New wastewater treatment plants will be designed to EU standards, improving the aqueous environment. Regional water supply systems will be extended to meet their original design coverage and the component parts will be completed to meet EU health and environmental

protection needs. Regional sanitary landfill sites, besides providing an environmentally safe means of disposing of municipal solid waste, require the commitment of the involved municipalities for joint management and this will promote regional management principles and also regional economic development.

New and improved economic infrastructure will enable the creation of new jobs, promoting sustainable, regional economic development. The urban regeneration of old towns will revive depressed areas and enrich the local identity of the municipalities. Restored and improved tourist infrastructure such as ancient fortresses on the Danube will increase tourist potentials of surrounding municipalities, promote cross-border cooperation and enhance the provision of tourist-related services. All these projects will be implemented using compatible experiences from other EU member states.

Catalytic Effects

The main outcomes of the infrastructure investments in the selected municipalities will be improved environmental management and socio-economic development. Capital investment will use advanced technology providing a demonstration effect.

The sub-projects in the municipalities will provide the vehicle for promoting institutional and management reforms at the local level and give local managers experience in standard EU procurement practices.

In the long run, institutional and procedural changes together with tariff reforms and associated social policies will change the attitudes of citizens, officials and politicians to the concept of government. This will shift from government as a central, monolithic service provider to government as an enabling factor close to its citizens and accountable to them.

Sustainability

Policy development and regulatory reform will help establish a durable basis for continuation of the permanent investment process.

Local government is expected to take on an increasingly active role towards establishing an enabling framework that promotes local economic growth through the private sector and encourages job creation. It is also expected to take on a role that meets the real needs of local citizen groups through the development of social infrastructure.

This project will boost social-economic and institutional development, and will increase the absorption capacity of local institutions for EU funds in preparation for eventual membership. The management of municipal services will be improved through the clear separation of powers between the municipalities and the PUC Boards through Service Agreements that are presently being introduced in other municipal support programmes.

This project will represent a foundation for all future initiatives and projects related to the area of development of local infrastructure, which will derive from IPA programming processes in the coming years, in accordance with both national and EC strategic priorities for the approaching period.

3.3 Results and measurable indicators

Component 1. Improved institutional and regulatory framework for municipal infrastructure services and support for PUC transformation

- Result 1.1 Continued and enhanced cooperation between national and local bodies on the necessary legal, institutional, and fiscal reforms needed to further promote decentralised municipal infrastructure services;
- Result 1.2 New laws, regulations and procedures in the area of municipal infrastructure aligned with EU standards adopted and implemented, including reforms to administrative relationships between Municipalities and PUCs;
- Result 1.3 Inter-municipal cooperation on regional infrastructure services and the establishment of regional PUCs is increased;

Result 1.4 Action plan for the transformation of PUCs prepared under the previous CARDS MISIP is implemented;

Result 1.5 Technical, financial and personnel management of municipal departments and PUCs is enhanced through the introduction of modern management systems and procedures.

Measurable indicators for reviewing progress include:

- Agreements on the broad nature of reforms;
- No. of green and white papers prepared related to municipal infrastructure service development;
- No. and quality of laws, regulations and procedures
- No. and quality of inter-municipal cooperation agreements;
- Municipality-PUC service agreements;
- No. and quality of action plans prepared for organisational reform;
- Degree of progress in modernising PUC management;
- No. and quality of agreed performance targets for PUCs and municipal departments;
- No. and quality of updated technical systems and procedures implemented;
- Accrual accounting system established;
- No. and quality of HRM procedures and documents agreed.

Component 2. Improved municipal infrastructure programming and project preparation

Result 2.1 Enhanced capacities and capabilities of municipal and PUC staff for preparing infrastructure projects;

Result 2.2 Prioritised municipal infrastructure projects meeting identified sector needs are adequately prepared for funding, including finalised feasibility studies and updating of design and tender documents.

Measurable indicators for reviewing progress include:

- Training programmes;
- Number and quality of projects prepared by participating municipalities;
- List of projects mature for funding in the SLAP database.

Component 3. Implementation of selected municipal infrastructure projects

Result 3.1 Employer / Contracting Authority supported in Tendering and Municipal PIU staff trained in Employer's Duties;

Result 3.2 Priority Works Contracts successfully implemented and supervised.

Measurable indicators for reviewing progress include:

- Stage of document preparation compared with planned schedules;
- Stage of works in progress compared with planned schedules;
- Level of completion and achievement of operating design standards and levels.

3.4 Activities

The general list of activities for each of the project components is presented in Logical Framework Matrix (Annex 1).

Component 1. Improved institutional and regulatory framework for municipal infrastructure services and support for PUC transformation

In this project, all previous activities related to the transformation of PUCs will be taken a step further, and the relevant institutions assisted in bringing the preparatory work towards a

legislative conclusion and the implementation of new legislation through secondary legislation and institution building.

The speed of this process is dependent on many unpredictable factors, and this project will require an initial analysis of the stage of advancement that will inform the choice of activities most appropriate at the time. The following is thus indicative.

Activities may include conducting further seminars and round tables where appropriate, supporting the publication and debate among citizens of proposals, providing relevant expertise to assist in producing a white paper, supporting final legislative drafting, supporting the drafting of secondary legislation, and supporting its implementation in municipalities.

At the regional level, cooperation between municipalities and with Regional Development Agencies will be assisted including assistance to establishing regional PUCs. This will occur through provision of expertise and facilitation of common activities.

Technical assistance will be provided to municipalities to implement the PUC transformation action plan that is due to result from the current CARDS MISP.

Selected individual PUCs will be assisted through training, workshops and study tours and provision of expertise to introduce modern management systems and procedures.

A comprehensive communication strategy and a nationwide public information campaign will be designed and implemented on the subject of tariff policy, social policy and taxation. It will use all available media methods and local media outlets, targeting citizens and elected and appointed officials especially in local government.

An action plan for the following 3 years will be designed.

Component 2. Improved municipal infrastructure programming and project preparation

This component will build on activities of the CARDS MISP by using the identification and prioritisation procedures developed, the SLAP database and proven training designs. The first activity here will also be a status review followed by an appropriate choice of means.

Activities foreseen include revising and updating previous Training Needs Assessments, and designing and delivering training and coaching using specific projects as vehicles where possible.

The SLAP will be further developed so that the entire project pipeline from the least to the most mature projects is moved forward.

The SLAP criteria will be further developed and communicated so that the objective nature of the selection process, and thus the credibility of the programme is enhanced.

The established criteria will be used to select a number of mature infrastructure projects for possible implementation. Feasibility studies will be prepared for these projects (if not already done), and a further selection will be made on this basis. Project aims to provide continues support to preparation of Feasibility studies for local infrastructural projects which presents an important element of the overall programme. The design and tender documents for the selected projects will be developed to agreed standards

Component 3. Implementation of selected municipal infrastructure projects

The selected priority infrastructure investments will be procured and construction supervised. Expertise will be provided to support the employer throughout the procurement stage by assisting in launching tenders, providing clarifications, tender evaluations, contract awards and reporting according to EU standards.

In addition, national co-financing in the amount of 10 mil EUR will be provided for implementation of selected municipal infrastructure projects.

Supervision of contracts will be carried out in accordance with FIDIC conditions of contract and applicable law.

The employer will be assisted in carrying out administrative duties, such as processing of contractors' payment certificates and variation orders. Necessary reports will be produced.

Contracting Arrangement:

All task related to Institution Building will be carried out through a single TA contract.

Infrastructure works will be carried out through appropriate works and/or supply contracts.

3.5 Conditionality and sequencing:

Here again there is considerable dependence on the stage of advancement of the process initialised under CARDS MISP. A review should be made at the start of the project.

For Component 1, agreement by relevant ministries and municipalities on the purposes and outcomes of policy cooperation is a pre-requisite. Depending on possible changes in government composition this may have to be (re-)secured at the start.

Component 2 is less dependent on pre-requisites, being determined mostly by the interest of participating municipalities and their willingness to accept advice.

Component 3 is partly dependent on the successful conclusion of Component 2, but more on the success of pipeline activities under the current CARDS MISP, and the availability of co-financing where required.

Further pre-conditions are as follows (relations with project objective, components and results is presented in Logical Framework Matrix, Annex 1):

- Ministries committed to policy dialogue and longer term decentralisation reforms;
- Key staff are appointed to the Project;
- Continued political will to support decentralisation;
- Good co-operation and co-ordination of activities amongst all involved parties;
- Municipalities and their Assemblies are committed to the longer term transformation of the PUCs;
- Regional and inter-municipal cooperation is sustained;
- Incomplete transfer of assets to the municipalities does not prevent reforms to the management of the PUCs;
- PUC management accept the need for management development and the change of practices that are necessary;
- Investment prioritisation processes and projects accepted by national and local government;
- Municipalities respond to training and project development support;
- PUCs and municipalities have adequate staff for the Project;
- SLAP database updated
- Sufficient projects are available;
- No unforeseen property or other issues that hinder progress of works;
- Relevant municipal and utility specialists will be available in time and will contribute to the successful implementation of the Project;
- Contracts for execution of the construction works will be concluded in accordance with the procurement schedule;
- All land disputes settled;
- Site investigations are positive;
- Funding agreements are sustained;
- Land issues and funding agreements continue to hold.

Identified risks for project implementation are:

- Proces of decentralization of responsibilities from central to local level doesn't go with envisaged dynamics;
- Start or/and finish of construction works by the Works Contractors will be delayed due to unfavourable climatic conditions or otherwise;
- Unforeseeable physical conditions encountered by the Works Contractors;

- Lack of co-operation among involved parties;
- Changes in political and/or economic situation of Serbia;
- Unforeseen changes in EU, National or local investment policy, related legislation and procurement procedures;
- Unexpected changes in the Project scope of work;
- Unexpected problems in Project financing.

3.6 Linked activities

This project should be seen as part of an ongoing series of MISP projects from CARDS to IPA, and as providing continuity in reform of the sector. It is also linked to other EU-funded projects that have a similar long-term, cyclic nature.

3.6.1 Links with CARDS and IPA programmes

The CARDS programme has created a range of municipal support programmes since 2001. Early programmes were concerned with immediate management development, employment creation and civil society support to initialise reforms in the local government sector. Investment programmes in municipal infrastructure have included the Municipal Support Programme in Eastern Serbia (2003-2007), Municipal Support Programme in North-East Serbia (2007-2010), Programme for municipal improvement and revival in South Serbia (2003-2008), Municipal Support Programme in South-West Serbia,(2006-2009), Municipal Infrastructure Agency Support Programme - MIASP (2003-2007), Municipal Infrastructure Support Programme - MISP (2008-2010), Exchange I (2004-2007) and Exchange II (2008-2010).

The EU supported 15 municipalities of Eastern Serbia to deal with problems in infrastructure, public services, and economic development, as a part of the “Municipal Support Programme (MSP)” which aimed to assist the development of local government in Serbia. This programme improved the efficiency of service delivery in selected municipalities in eastern Serbia through the preparation of strategic action plans and the implementation of municipal priority infrastructure projects. With this Programme started also a process of introducing municipalities to the EU in general, the pre-accession process and challenges for the future.

The current MSP NE Serbia will improve management capacity and good governance in 30 municipalities. A number of priority investment projects to improve the economic competitiveness of the region will be selected and implemented.

CARDS has also been funding MIR I and II, a programme aimed at 13 municipalities of South Serbia. The main objective of this Programme is to contribute to the implementation of the Law on Local Self-Government by strengthening service delivery in selected municipalities and managing social/economic development at the local level.

The EU and the Swiss government are also funding a programme of Municipal development in South West Serbia (PRO2) aimed at economic and regional development of 8 municipalities by providing extensive TA and limited grant support for infrastructure projects.

The MIASP supported 14 municipalities in 3 regions and began development of the SLAP, that provides transparent project selection methodology. The following MISP (CARDS 2006, 3m€) supports PUC transformation policy and facilitates the development of an action plan for the transformation of PUCs in co-operation with the national stakeholders. MISP is also providing technical support to municipalities and PUCs to enhance capacity to prepare and prioritise infrastructure projects and make feasibility studies and design and tender documents for selected projects. It will improve the SLAP so that online data are available on potential candidate projects for co-financing from EU or other funds. By the end of its implementation period, MISP will prepare further infrastructure projects and develop documentation for funding through IPA 2008. This IPA MISP programme will continue seamlessly from the CARDS MISP.

Support to local development has also been provided through the CARDS EXCHANGE I programme (5,3m€). The programme’s specific aim was to match the best available local

government expertise in the EU with locally initiated demands for improvements and innovations from Serbian municipalities, providing Serbian local officials and staff with the opportunities to be exposed to current EU practices. It contained a fund of 3.3 m€ for financing municipal projects. Through two rounds of Calls for Proposals, Serbian municipalities were invited to apply for grants for capacity building projects, concentrating on exposure to EU practices, training, national events and small-scale investments. All Serbian municipalities could apply.

EXCHANGE II (5m€) is just starting and will provide technical assistance to municipalities to develop municipal strategic plans, develop municipal service packages and enhance municipalities' ability to formulate projects. It will be followed by EXCHANGE III under IPA 2007 that will continue the capacity building components and again provide a grants scheme through a municipal development fund.

This IPA MISP programme will coordinate closely with these projects.

3.6.2 Links to other programmes

KfW is presently procuring water supply & sewerage improvement through the Municipal Infrastructure Agency for 8 medium-sized municipalities. The programme will make immediate rehabilitation works and will construct new works/extensions and major rehabilitation works. These will include technical and financial management assistance.

GTZ's Project "Modernisation of Municipal Services" has been providing support in the form of both TA and limited financing of needs of small and medium municipalities (up to 40,000 inhabitants) in Serbia for municipal infrastructure development.

The **USAID**-funded Serbian Local Government Reform Programme supported 70 municipalities since 2001 to improve municipal management and capacity in the following areas: Citizen Participation, Information Technology, Financial Management, Communal Enterprise Management and Public Procurement. It also worked at the national level to support the institutional development of the Standing Conference of Towns and Municipalities and to support policy reform, specifically in the area of government decentralization. This programme is presently being extended to support local economic development initiatives as well as to co-finance some business-related infrastructure in the municipalities with an aim to create new jobs, establish new businesses, attract investments, and establish public-private partnerships.

IFIs: The European Investment Bank, the European Bank for reconstruction and Development and the World Bank are the largest potential lending institutions for the financing of large municipal infrastructure projects.

National Investment Plan: In 2006 the Serbian Government established the National Investment Plan. The NIP will finance programmes and projects addressing the following issues: increased employment, sustainable economic growth, implementing a balanced regional development strategy (economic revival of underdeveloped regions), boosting competitiveness and implementing the Poverty Reduction Strategy. The four sources of investment for the NIP are: privatisation surplus, budget surplus, credit from IFIs and EU IPA funds 2007-2011. The NIP for 2006-07 – foresees a total investment € 1.68 billion, out of which €1.38 billion from privatisation revenues and budget surplus, the rest from loans and grants by donors and IFIs. The government of Serbia has projected that the EU contribution to the financing of regional projects from NIP is to be 250 mill € in 2007 and 500 mill € annually in the following years. Through the funding from NIP the Ministry of Economy and Regional Development in 2007-8 implemented more than 250 municipal infrastructure projects worth more than 105 million euros. The projects include development of: industrial zones, business incubators, urban regeneration, heating, sewage systems, landfills, local roads, water treatment and waste water treatment plants etc. The NIP funding is used to fund both project documentation as well as infrastructure works. However, the NIP funding only scratches the tip of the ice-berg as far as the municipal needs are concerned.

Environmental Protection Fund: since being established in 2005, the fund had financed projects such as regional landfills, closure and remediation of existing waste dumps, and

required technical documentation for these projects. The Fund allocated 9.5 m€ in 2006, and 11.5 m€ in 2007.

3.7 Lessons learned

Sector and administrative reform strategies established under CARDS programmes have not in many instances been taken up by Government and the respective ministries. MIPD 2007-9 concludes that Serbian Authorities must have increased ownership.

Good coordination between stakeholders at the national level has been a crucial step forward. Establishing a coordination body to agree on inter-ministerial priorities, taking into account local needs and available funding has been one of the major successes of the Serbian stakeholders.

Active involvement of the municipalities in the identification of problems and prioritization of needs is a condition *sine qua non* of any success on the local level. Equally important has been raising awareness among local governments that it is their responsibility to maintain and be good-guardians of local infrastructure. In addition, local strategic plans proved to be a valuable asset to the municipalities in assessing their needs and planning the next steps.

Inter-municipal cooperation is becoming central to development of municipal infrastructure services in all areas (environmental, economic and social). In particular, economies of scale are especially relevant to smaller municipalities that lack the human capacities to prepare projects for financing. More inter-municipal projects would benefit not only the bigger municipalities who would manage them, but also the smaller ones who would be their beneficiaries.

Importance of co-financing municipal infrastructure is another key issue. On one hand, there is a huge need for investment in municipal infrastructure, and on the other, limited financial resources. Prudent selection of the projects and identifying the best financing mechanisms has proved to be one of the main conditions of success.

Experience shows that lack of complete infrastructure projects for funding and **adequately prepared project documentation, feasibility studies and tender documents** to EU standards is a major problem for financing local infrastructure. Providing technical support to municipalities and PUCs to prepare such documents is important for local socio-economic development.

Elaboration of lessons learned from the MISP (CARDS 2006) will be crucial to implementation of IPA MISP, since it represents a continuation of the activities financed through the CARDS programme.

4 INDICATIVE BUDGET (AMOUNTS IN €)

			TOTAL EXP.RE	SOURCES OF FUNDING								
				IPA COMMUNITY CONTRIBUTION		NATIONAL CONTRIBUTION					PRIVATE CONTRIBUTION	
ACTIVITIES	IB (1)	INV (1)	EUR (a)=(b)+(c)+(d)	EUR (b)	%(2)	Total EUR (c)=(x)+(y)+(z)	% (2)	Central EUR (x)	Regional/ Local EUR (y)	IFIs EUR (z)	EUR (d)	% (2)
Activity 1												
contract 1.1	X		10,000,000	10,000,000	100							–
contract 1.2		X	35,400,000	35,400,000	100							–
contract 1.3		X	10,000,000			10,000,000	100	10,000,000				
TOTAL IB			10,000,000	10,000,000	100							
TOTAL INV			45,400,000	35,400,000	78	10,000,000	22					
TOTAL PROJECT			55,400,000	45,400,000	81	10,000,000	19					

NOTE: DO NOT MIX IB AND INV IN THE SAME ACTIVITY ROW. USE SEPARATE ROW

Amounts net of VAT

- (1) In the Activity row use "X" to identify whether IB or INV
- (2) Expressed in % of the **Total** Expenditure (column (a))

5 INDICATIVE IMPLEMENTATION SCHEDULE

Contracts	Start of Tendering	Signature of contract	Project Completion
Contract # 1	T + 2Q	T + 5 Q	T + 19Q
Contract # 2	T + 7Q	T + 9Q	T + 19 Q

6 CROSS CUTTING ISSUES

Mainstreaming will be approached by ensuring that the internal policies, strategies, structures, regulatory or operating procedures of the beneficiary agency with respect to the Project activities approximate to and promote the relevant principles outlined below.

6.1 Equal Opportunity

Equal opportunities and non-discrimination - the Project will support the mainstreaming of women, minority and vulnerable groups in central-local programming. Furthermore these groups' concerns (including the rights of the child, disabled persons and elderly people) and social inclusion will be reflected when relevant in the activities programmed under the project, in particular when it concerns public services, legislative matters and socio-economic development, and also to foster social tolerance and conditions for reconciliation.

The design of all training programmes for municipal staff will respect these issues. Poverty issues will be addressed through the design of tariff and social policies which will consider more efficient ways of addressing social equity when bringing tariffs to a level that addresses cost recovery, economic efficiency and administrative adequacy.

Civil society concepts are a central theme in the transition of societies from central-planning to market-oriented, decentralised political entities. Ensuring that the interests of citizen groups are actively considered with respect to the European development agenda will be a key item in the implementation of municipal projects. This will be accomplished through citizen representatives serving in the municipal institutions supported by the Project.

These initiatives and approaches will be kept at the forefront of the project's dialogue processes with central government.

6.2 Environment

Environmental considerations will be duly reflected in all project activities in addition to specific actions dedicated to environmental sustainability, in particular concerning environmental impact assessments during project preparation and implementation. Training activities for management support programmes and infrastructure hand-over stages will include specific components to address environmental issues within the beneficiaries' mandates, and assisting the beneficiary conduct an environmental audit of their internal areas related to the Project

6.3 Minorities

Minorities and vulnerable groups are always the first to suffer from corruption and poverty. The general improvement targeted in the socio-economic environment will be especially beneficial for such groups. Furthermore, good governance will be fostered through introduction of transparent evaluation and control mechanisms in municipal management and in public awareness campaigns involving the wider public as a way to contribute to the fight against corruption and to enhance civic responsibility.

ANNEXES

- I - Log frame Matrix in Standard Format;
- II - Amounts contracted and Disbursed per Quarter over the full duration of Programme;
- III - Institutional Framework – legal responsibilities and statutes;
- IV - Reference to laws, regulations and strategic documents;
- V - Details per EU funded contract (*) where applicable;
- VI - Current state of Infrastructure in Serbia.

ANNEX I: LOGICAL FRAMEWORK MATRIX

Logical Framework Matrix for Project Fiche	Municipal Infrastructure Support Programme	
	Contracting period expires 3 years after the signature of the Financing Agreement	Disbursement period expires 6 years after the signature of the Financing Agreement
	Total budget : EUR 55.4 million	IPA budget : EUR 45.4 million

Overall objective	Objectively verifiable indicators	Sources of Verification	
To strengthen capacity in Serbia, as required by candidates for EU Membership, to develop and implement policy reforms on the decentralisation of local government leading to improved local governance, better management of municipal infrastructure services, and the capacity of municipalities to programme and absorb EC investment funds for new and rehabilitated assets	<ul style="list-style-type: none"> - Improvements to municipal infrastructure services - Environmental health indicators - Citizen satisfaction with improved technical and social services, - Private sector satisfaction with improved economic support services - No. and quality of projects being prepared by municipalities 	<ul style="list-style-type: none"> - Statistical data on infrastructure service levels and standards - PUC and Municipality Annual Reports - Ministry of Health reports - Surveys of citizens businesses and health personnel - Project reports 	
Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions
Component 1. Improved institutional and regulatory framework for municipal infrastructure services and support for PUC transformation	<ul style="list-style-type: none"> - Number and quality of Green and White Papers on key policy issues concerning decentralised municipal services - Number and quality of agreed elements of decentralisation strategy - No. and quality of changes to PUC status, tariffs, etc. 	<ul style="list-style-type: none"> - Minutes of inter-ministerial meetings - Drafted and/or published papers - Decentralisation strategy and action Plan - Municipal assembly proceedings - PUC reports - Surveys of local officials. 	<ul style="list-style-type: none"> - Ministries committed to policy dialogue and longer term decentralisation reforms - Key staff are appointed to the Project
Component 2. Improved municipal infrastructure programming and project preparation	<ul style="list-style-type: none"> - No. and quality of projects in the funding pipeline. 	<ul style="list-style-type: none"> - SLAP database. 	<ul style="list-style-type: none"> - Investment prioritisation processes and projects accepted by national and local government - Municipalities respond to training and project development support

<p>Component 3. Implementation of selected municipal infrastructure projects</p>	<ul style="list-style-type: none"> - No. and value of projects identified and selected, - Stage of preparation of tender documentation, - Works progress in relation to schedule, - No. and quality of finalised projects. 	<ul style="list-style-type: none"> - Progress reports, - Works schedules, - Completion and handover reports. 	<ul style="list-style-type: none"> - Sufficient projects are available - No unforeseen property or other issues that hinder progress of works, - Relevant municipal and utility specialists will be available in time and will contribute to the successful implementation of the Project; - Contracts for execution of the construction works will be concluded in accordance with the procurement schedule
Results	Objectively verifiable indicators	Sources of Verification	Assumptions
<p>Component 1. Improved institutional and regulatory framework for municipal infrastructure services and support for PUC transformation</p>			
<p>Result 1.1 Continued and enhanced cooperation between national and local bodies on the necessary legal, institutional, and fiscal reforms needed to further promote decentralised municipal infrastructure services</p>	<ul style="list-style-type: none"> - No. and quality of agreements on the broad nature of reforms - No. and quality of green and white papers prepared on municipal infrastructure service development 	<ul style="list-style-type: none"> - Government reports, - Papers, - Progress reports. 	<ul style="list-style-type: none"> - Continued political will to support decentralisation - Good co-operation and co-ordination of activities amongst all involved parties
<p>Result 1.2 New laws, regulations and procedures in the area of municipal infrastructure aligned with EU standards adopted, including reforms to administrative relationships between Municipalities and PUCs</p>	<ul style="list-style-type: none"> - No. and quality of laws, regulations and procedures, - Agreements on municipality-PUC service relationships. 	<ul style="list-style-type: none"> - Laws, regulations and procedures, - MoU on Performance Benchmarks. 	<ul style="list-style-type: none"> - Municipalities and their Assemblies are committed to the longer term transformation of the PUCs
<p>Result 1.3 Inter-municipal cooperation on regional infrastructure services and the establishment of regional PUCs is increased</p>	<ul style="list-style-type: none"> - No. and quality of inter-municipal cooperation agreements. 	<ul style="list-style-type: none"> - Reports and minutes of meetings between municipalities. 	<ul style="list-style-type: none"> - Regional and inter-municipal cooperation is sustained
<p>Result 1.4 Action plan for the transformation of PUCs prepared under the</p>	<ul style="list-style-type: none"> - Degree of implementation of Action Plan, 	<ul style="list-style-type: none"> - Reports and Minutes of meetings 	<ul style="list-style-type: none"> - Incomplete transfer of assets to the municipalities does not

	previous CARDS MISP is implemented.	<ul style="list-style-type: none"> - Establishment of performance targets 	<ul style="list-style-type: none"> - Consultants reports - PUC and Municipality reports 	prevent reforms to the management of the PUCs
Result 1.5	Technical, financial and personnel management of municipal departments and PUCs is enhanced through the introduction of modern management systems and procedures.	<ul style="list-style-type: none"> - Degree of progress in modernising PUC management - No. and quality of agreed performance targets for PUCs and municipal departments - No. and quality of updated technical systems and procedures implemented - Accrual accounting system established - No. and quality of HRM procedures and documents agreed. 	<ul style="list-style-type: none"> - Reports and Minutes of meetings - Consultants reports, - Periodical reports of relevant national institutions - PUC and Municipality reports - Financial and other audit Reports 	<ul style="list-style-type: none"> - PUC management accept the need for management development and the change of practices that are necessary
Component 2. Improved Municipal Infrastructure Programming				
Result 2.1	Enhanced capacities and capabilities of municipal and PUC staff for preparing infrastructure projects	<ul style="list-style-type: none"> - Training programmes, - Number and quality of projects prepared by participating municipalities. 	<ul style="list-style-type: none"> - Training reports - PUC/Municipality Reports 	<ul style="list-style-type: none"> - PUCs and municipalities have adequate staff for the Project
Result 2.2	Prioritised municipal infrastructure projects meeting identified sector needs are adequately prepared for funding, including finalised feasibility studies and updating of design and tender documents	<ul style="list-style-type: none"> - No., quality and funding maturity of projects in the SLAP 	<ul style="list-style-type: none"> - SLAP database - Minutes of meetings of the Interministerial coordination body 	<ul style="list-style-type: none"> - SLAP database updated
Component 3. Implementation of infrastructure projects				
Result 3.1	Employer / Contracting Authority supported in Tendering and Municipal PIU staff trained in Employer's Duties	<ul style="list-style-type: none"> - Stage of document preparation compared with planned schedules - No. of staff effectively trained 	<ul style="list-style-type: none"> - Consultants' reports. 	<ul style="list-style-type: none"> - All land disputes settled - Site investigations are positive - Funding agreements are sustained

Result 3.2	Priority Works Contracts successfully implemented and supervised	<ul style="list-style-type: none"> - Stage of works in progress compared with planned schedules, - Level of completion and achievement of operating design standards and levels. 	<ul style="list-style-type: none"> - Consultants' reports - Contractors and Engineers final reports, - PUC/Municipality reports. 	<ul style="list-style-type: none"> - Land issues and funding agreements continue to hold
Activities		Means	Costs	Assumptions
Component 1. Improved institutional and regulatory framework for municipal infrastructure services and support for PUC transformation <ul style="list-style-type: none"> - Continue to develop options for the future development of the PUCs including policy options, strategy and draft legal and regulatory framework, - Support to the publication and debate among citizens of proposals, providing relevant expertise to assist in producing a white paper, supporting final legislative drafting, supporting the drafting of secondary legislation, and supporting its implementation in municipalities, - Facilitate cooperation between municipalities and with Regional Development Agencies including assistance to establishing regional PUCs, - Provide TA to municipalities to implement the PUC transformation action plan that is due to result from the current CARDS MISP, - Assist selected individual PUCs through training, workshops and study tours and provision of expertise to introduce modern management systems and procedures, - Design and implement a nationwide public information campaign on the subject of tariff policy, social policy and taxation, - Assist in preparing an action plan for the following 3 years. 		<ul style="list-style-type: none"> - 1 Technical assistance contract - Works contracts. 	<ul style="list-style-type: none"> - EUR 10 million - EUR 35.4 million - EUR 10 million (national co-financing) 	
Component 2. Improved municipal infrastructure programming and project				

<p>preparation</p> <ul style="list-style-type: none"> - Perform status review followed by an appropriate choice of means, - Revise and update previous Training Needs Assessments, design and deliver training and coaching using specific projects as vehicles where possible, - Further develop the SLAP so that the entire project pipeline from the least to the most mature projects is moved forward, - Use established criteria to select a number of mature infrastructure projects for possible implementation. Prepared feasibility studies will be for these projects (if not already done), perform a further selection on this basis, - Develop design and tender documents for the selected projects to agreed standards. 			
<p>Component 3. Implementation of selected municipal infrastructure projects</p> <ul style="list-style-type: none"> - Assist in procurement and supervise construction of selected priority infrastructure investments. - Provide expertise to support the employer throughout the procurement stage by assisting in launching tenders, providing clarifications, tender evaluations, contract awards and reporting according to EU standards. - Carry out supervision of contracts. - Assist the employer in carrying out administrative duties, such as processing of contractors' payment certificates and variation orders. - Produce appropriate reports. 			

ANNEX II: AMOUNTS (IN M€) CONTRACTED AND DISBURSED BY QUARTER FOR THE PROJECT (IPA CONTRIBUTION ONLY)

Contracted	QR1	QR2	QR3	QR4	QR5	QR6	QR7	QR8	QR9	QR10	QR11	QR12	QR13	QR14	QR15	QR16	QR17	QR18	QR19	QR20	Total	
Contract 1.1					10.00																	10.00
Contract 1.2									35.40													35.40
Cumulated					10.00				45.40													45.40
Disbursed																						
Contract 1.1					1.25		1.25		1.25		1.25		1.25		1.25		1.25		1.25			10.00
Contract 1.2									6.00		6.00		6.00		6.00		6.00		5.40			35.40
Cumulated					1.25		2.50		9.75		17.00		24.25		31.50		38.75		45.40			45.40

ANNEX III: INSTITUTIONAL FRAMEWORK – LEGAL RESPONSIBILITIES AND STATUTES

Serbian municipalities are amongst largest in Europe and differ greatly in size, from those with one thousand inhabitants up to those with more than three hundred thousand inhabitants, as well as those occupying 3 km² to those occupying above 1,500 km². Searching for the ideal size of a municipality is a process of balancing the policy objectives of maintaining the democratic character of a particular local community and achieving economies of scale in service provision. The discourse on the proper implementation of the Law 9/2002 is still in its early stages.

Operational and fiscal decentralisation have been launched by the Law on Local Self Government (2002) and the Law on Financing Local Government (2006). The longer term transition process towards the EU Charter on Local Government includes structural reforms and changes to political systems that allow more effective leadership of the sector and a role for civil society at national and municipal levels. But to date, there is no coherent programming and annual budgeting system for local government that reflects both municipal concerns and national-level concerns about macro-economic stability, regional balance and social equity issues.

Municipalities operate under the overall responsibility of the Ministry of Public Administration and Local Self-Government. They are responsible for the provision, operation, maintenance and investment for their water supply and sanitation services. Operation and maintenance of municipal water supply and wastewater systems is delegated to local Public Utility Companies (PUCs). PUC's are state-owned companies, founded and managed by the Municipalities. The Public Utility Companies are responsible to the Municipalities for their performance.

The Ministry of Public Administration and Local Self Government has the overall responsibility of initiating laws concerning local government. Several other Ministries are responsible for regulations and policy development in infrastructure, such as the legal aspects of construction, environmental issues, quality standards and other standards.

The Ministry of Agriculture, Forestry and Water Management is responsible for the water sector as a whole. The Directorate for Water acts as the ministry's representative. The Ministry of Environment Protection give their approval on planned projects. The Directorate for Water under the Ministry of Agriculture and Water Management has overall responsibility for water management issues at the national level. The EAR supports the strengthening the capacity of the Directorate of Water to implement corresponding EU Framework Directives. The responsibility for environmental issues lies within the the Ministry of Environmental Protection.

In May 2007, the Government created the Ministry of Economy and Regional Development (formerly the Ministry of Economy). The MinERD will have the responsibility for implementing activities necessary for the effective coordination, administration and management of integrated regional development as well as the support of economic infrastructure.

One of the most important stakeholders is the Standing Conference of Towns and Municipalities (SCTM), which is the national association of local authorities in Serbia. It was founded in 1953, following the traditions of international associations of local authorities throughout the world. The SCTM is an organisation dedicated to the promotion and development of local self-government, standing for their interests and for co-operation among local authorities

Municipalities are responsible for a wide range of infrastructure services including water, wastewater, district heating, solid waste, and public transport. Funds for these derive from local revenues and subsidies from central government. The law provides for cooperation with other local government units in fields of mutual interest. One of the key goals of the Republic of Serbia is the creation of strong, influential and independent local governments with adequate communal services and a citizen-oriented approach. This objective can be achieved only if strong investment into municipal infrastructure is made. This includes all sectors for municipal

development such as the environmental sector (e.g. water supplies, wastewater, solid waste, district heating etc), economic infrastructure (e.g. tourist attractions and other tourist infrastructure, urban renewal, brownfield regeneration, industrial parks, business service centres etc); and social infrastructure (e.g. sheltered housing and/or disabled access, education etc.).

The present condition of the assets of most municipal infrastructure is poor because of many years of deferred maintenance, itself a consequence of keeping tariffs below costs. Public Utility Companies (PUCs) find themselves in a situation of deteriorating assets and low service delivery standards. Any investments made are usually financed from the municipal budget whose planning horizon does not extend beyond the next year. PUCs frequently do not have the expertise to plan and manage their investments, revenues, costs and operations. Low collection rates erode the utilities' financial capacity to finance improvements in service delivery and new investments. A traditional rules-based culture, instead of a customer-oriented and responsive attitude, reinforces a public perception of low service quality and makes tariff adjustments difficult to implement.

One of the major barriers to the success of PUC transformation lies in the legacy of using tariffs to conduct social policy. This is a sensitive issue. Citizens pay fully for the services now rendered (indeed, *too* much owing to inefficiency), the payment level is just hidden because a part is collected through general taxation. But few, even among responsible officials, understand this. Making costs transparent can easily come to look like increasing them, with resulting unpopularity for those that approve such a move. This applies even more to local politicians than it does to PUC managers. They will understandably be reluctant at first to be seen to support such a move.

Fortunately, the decentralisation of taxation provides an opportunity that has yet to be exploited. If public awareness can be sufficiently raised, politicians can promise to reduce taxes by the same amount that they remove distorting subsidies. Given the right analysis, they can present citizens with a picture not of increasing costs, but of a shifting payment method that will soon deliver *reduced* costs. It will take time to convince local politicians, and even longer to educate the public, but this essential issue should form part of public awareness efforts at the heart of this programme.

There are a number of possible approaches to reform of social policy. The use of "lifeline tariffs" can be effective (e.g. a basic consumption level at lower than cost price), and evidence suggests¹ that they do not lead to major overall tariff increases. However, there are other mechanisms for social policy at the municipal rather than PUC level. Targeting poor households directly through social security is a more efficient way of helping the poor, since all tariff subsidies imply transfers from poor non-users to rich users. A well-publicised upgrading of social policy can help counter the political cost of rising tariffs.

There is a need to continue the policy dialogue to promote critical discussions between central and local levels on how to programme the decentralisation effort to make the best use of EU and other funds, and implement agreements already facilitated by earlier MISP projects. It should assist in establishing a coherent programming and annual budgeting system for local government.

At the same time municipalities must expand their role in planning, designing and financing their infrastructure requirements in order to attract private investment and create new employment opportunities. Municipal officials must acquire such expertise for their region to become attractive to international and national private investors.

¹ See for example "The price of water", 1999. OECD Social statistics 2001. UNDP: Human Development Report, 2001, which shows the cost of a lifeline water tariff in OECD countries to amount to no more than a 0.2 – 1.2 % general tariff increase. While the situation for DH would be somewhat different, the example is useful.

Re-training and re-orientation of staff in the municipalities and service organisations at local level may be accomplished in conjunction with the introduction of new management systems and procedures, combined in mutual support with infrastructure investment programmes.

The lack of properly prepared projects must be addressed by supporting the authorities on both national and local level in establishing procedures for identification and prioritisation that could eventually become part of the national programming & budgeting system. This will allow a pipeline of projects to be made available for IPA funding in the coming years.

Under CARDS projects, a project pipeline named SLAP (System of Long-listed Advanced Infrastructure Projects) has been developed. Projects have been entered in this electronic data base and rated through a grading system. SLAP provides a transparent system where municipalities are aware of the level of maturity of their projects and the areas they need to improve. Only projects which fulfil the criteria are selected for funding. SLAP, managed by the SCTM, requires further support and development.

Recent progress on the national level related to the improvement of municipal infrastructure

Progress in Legislation and Regulatory Reforms

The municipal sector in Serbia is subject to Government policies to decentralise responsibilities and authorities through the new **Law on Local Self Government** adopted at the end of 2007, and set of the other new laws referring to system of local self-government adopted at the same time. Following the decision of the National Assembly of Serbia to allow the formation of 24 cities in Serbia including Belgrade (there were only 5 before), the **Law on Territorial Organisation** and the **Law on Capital City** were amended. The reason for the extending number of cities is a basis for decentralisation of authority.

The municipal sector in Serbia is now subject to Government policies to decentralise responsibilities and authorities through the **Law on Local Self Government (2002)** and set of new laws referring to system of local self-government adopted at the end of 2007. In addition, following the decision of the National Assembly of Serbia to allow the formation of 24 cities in Serbia including Belgrade (there were only 5 before), the **Law on Territorial Organisation** and the **Law on Capital City** were adopted at the end of 2007. The reason for the extending number of cities is a basis for decentralisation of authority.

The longer term transition process towards the **EU Charter on Local Self- Government, ratified** by National Assembly in July 2007, includes structural reforms and changes to the political systems that allow a more effective leadership of the sector and an effective role for civil society at national and municipal levels. This transition is part of wider market-oriented changes to the Serbian economy which are proving in practice to be socially costly and difficult.

The Law on Environment Protection adopted in 2004 has given new responsibilities to local governments in the field of environment. Municipalities are responsible for managing the funds from implementation of “polluter pays principle” and for adoption and implementation of LEAPs, and local and regional waste management strategies, as well as for the infrastructure project management.

With respect to local government capacity development financial support provided through CARDS focuses on GRoS decentralisation strategy of decentralising responsibilities and financial resources to improve local well being, developing a more balanced regional economic development policy from the local level, and building the management capabilities of local government. This programme needs to establish a support to continuation and to propose additional new initiatives in the field of development of local self – government infrastructure.

In, addition, the proposed policy dialogue will promote critical discussions on how to programme the decentralisation effort to make the best use of IPA funds and encourage the

Municipalities to take part in the reforms being proposed for the sector. The capital investment grants will provide a vehicle for institutional and administrative reforms.

Institutional Progress

In this respect, stakeholders at national level had, in June 2007, established the **Interministerial Coordination Body on Infrastructure Projects**. The Coordination body comprises of the representatives of several key ministries (Ministry of Public Administration and Local Self Government, Ministry of Environmental Protection, Ministry of Economy and Regional Development; Ministry of Agriculture, Forestry & Water Management, Ministry of Infrastructure, Office for NIP), as well as Standing Conference of Towns and Municipalities (association of municipalities), donor organizations and IFIs (KwF, EBRD etc). At the first meeting it was agreed that the Ministry of Environment Protection would be the moderator of the Coordination Body until the end of 2008.

Furthermore, the Government of Serbia has taken additional steps towards introducing a second tier between municipalities and national government. The Ministry of Economy and Regional Development was established in May 2007. MinERD has responsibility to implement activities necessary for the effective coordination administration and management of integrated regional development and to support economic infrastructure.

Progress related to infrastructure planning and financing

National government is also working towards establishment of a coherent programming and annual budgeting system that will reflect municipal, regional and national-level concerns on macro-economic stability, regional balance, and social equity issues.

PUC transformation is recognized as one of priorities of the Ministry of Economy and Regional Development. The **expert Working Group on PUC transformation** (comprising of EU and WB experts, as well as representatives from relevant ministries, PUCs and municipalities) has been created. The Working Group (chaired by the Ministry of Economy and Regional Development) is expected to produce a **Strategy on PUC transformation by September 2008**. The PUC Strategy should define some regulatory framework adjustments are needed in order to create a policy that would support better management of PUCs as well as provision of municipal services on the local level. This project will support further implementation of this Strategy.

Development of economic infrastructure is planned and managed by Ministry of Economy in cooperation with the municipalities (through their Local Economic Development units where they exist) and Regional Development Agencies. Municipalities articulate local interests and needs and where possible, provide some co-financing, whereas the Ministry lays-down general rules, provides funding from the central budget and monitors implementation of projects.

On the local level, in the last few years, many municipalities have prepared and adopted their **Local Strategic Plans** and sometimes even **Capital Investment Plans**. This on-the-ground driven strategic planning of both needs and resources available has resulted in clear concepts of what community sees as priority in area of municipal infrastructure as well.

Moreover, municipalities are been called to play a bigger role in planning, designing and financing their infrastructure requirements in order to attract private investment and create new employment opportunities.

At the same time municipalities must expand their role in planning, designing and financing their infrastructure requirements in order to attract private investment and create new employment opportunities. Municipal officials must acquire such expertise for their region to become attractive to international and national private investors.

Presently, the Ministry of Public Administration and Local-self government is working closely with European Agency of Reconstruction (EAR) on preparation of strategy on training of employees in the municipalities. Re-training and re-orientation of staff in the municipalities and

service organisations at local level may be accomplished in conjunction with the introduction of new management systems and procedures, combined in mutual support with infrastructure investment programmes.

The lack of properly prepared projects must be addressed by supporting the authorities on both national and local level in establishing procedures for identification and prioritisation that could eventually become part of the national programming & budgeting system. This will allow a pipeline of projects to be made available for IPA funding in the coming years.

ANNEX IV: REFERENCE TO LAWS, REGULATIONS AND STRATEGIC DOCUMENTS:

Summary of relevant laws & regulations:

- The Constitution of the Republic of Serbia.
- The Law on Public Administration, 2005
- The Law on Civil Servants. 2006
- The Law on Public Revenues and Public Expenditures.
- The Budgetary System Law.
- The Law on Budget of the Republic of Serbia for 2005.
- The Law on securities` market and other financial instruments.
- The Law on Tax Procedure and Tax Administration.
- The Law on Communal Activities (Official Gazette 16/97, 42/98).
- The Law on Public Companies and Performance of Activities of General Interest.
- The Law on Commercial Corporations (with respect to earlier Law on Enterprises).
- The Law on Water.
- The Law on Solid Waste Management.
- The Law on Environmental Protection.
- The Law on Assets in the Ownership of the Republic of Serbia.
- The Law on Privatization.
- The Law on Concessions.
- The Law on Planning and Construction.
- The Law on Foreign Investments.
- The Law on Financing of the Local Self-Government, 2006
- The Law on Local Self-Government, 2007,
- The Law on Territorial Organisation, 2007
- The Law on Local Elections, 2007
- The Law on Capital City, 2007
- The Law on Public Companies and performing of activities of Common Interest (unofficial translation)
- The Law on changes and Amendments on the Law of Ministries, Art 7 extension art 28a with MIA, Belgrade 2003
- The Law on Free Zones, 2006
- The Law on Strategic Assessment Influence on environment
- The Law on Assessment on Environment
- The Energy Law, Official Gazette RS No 44/2004

Reference to AP / NPAA

These apply only to Candidate Countries and are not applicable to Serbia, which is a Potential Candidate Country

Reference to European Partnership

In the European Partnership the Medium-term priorities list, under Democracy and the Rule of Law (Page L227/28):

Promote Local Government

In Serbia: adopt and implement decentralisation reform and ensure sufficient local capacities to deal with, among others, administrative and financial issues and forthcoming regional programmes.

Under Sector Policies, Environment:

In Serbia: Adopt and start implementing a policy on the pollution of air....., water (waste water) and soil (solid waste), strengthen administrative capacity notably as regards planning, permitting, inspecting, monitoring as well as project management...

The Serbian government plan for the implementation of EP priorities contains the following lines:

Public Administration, short-term priorities:

- line 2.3.5: “Strengthen capacity (policymaking and inter-ministerial coordination) of the public administration at government and local levels.
- Line 2.3.8: Adopt and implement decentralisation reform ensuring viability of local governments.

This project will address all of these priorities by strengthening policymaking in the field of municipal service provision and by building local government project management capacity and the ability to deliver services in local government.

Reference to SAA

The SAA with Serbia was initialled on November 7, 2007.

Council Decision on priorities for the SAA

While not specifically mentioned in the decision, infrastructure management and improvement support the following short-term priority.

Environment:

– *Strengthen the administrative capacity of bodies in charge of planning, permits, inspection and monitoring, **and also project management, strengthen capacity at local level and ensure coordination between central and local levels.***

The project will also support the following medium-term priorities:

Political criteria:

*Continue full implementation of civil service and public administration laws, implement measures to develop human resources in the civil service, **strengthen the policy-making and coordination capacity of the public administration at government and local levels, establish a centralised payroll system, implement the constitutional provisions relating to decentralisation and ensure the resources for local governments.***

Economic criteria:

Improve the business environment to increase Greenfield foreign direct investment.

Reference to MIPD

The MIPD section 2.1, Strategic choices, states among other things:

*“.....Moreover, **progress in key reform areas such as local self-government and the judiciary, fight against corruption and organised crime has to be stepped up.***

“Other issues have also to be considered such as high unemployment and low purchasing power, the weak institutional capacity in key policy areas as well as the poor state of local infrastructure. The education system does not adequately serve the competitive needs of the Serbian economy. A major weakness facing Serbia is that government has not yet been able to create a policy environment or policy delivery capacity to fully exploit national and EU co-funding.”

.....

“Success areas under CARDS such as education provision (labour productivity), business related infrastructure provision, local development partnerships, SME support, employment promotion should attract more IPA support. Public administration reform support for 2007/8 should tackle key areas particularly national financial planning, inter-ministerial policy coordination and central/local government relations.

Support should also be directed to building project pipelines for IPA funding in 2008 and 2009 but well linked with plans for future national investment programmes and IFI priorities...”

This project will address the development of the project pipeline, together with local capacity to sustain it, and policy developments and local/central government cooperation to underpin the sustainability.

Of particular relevance for regional and local development are the EC priorities, objectives and results presented in the MIPD under IPA Component 1 – Transition Assistance and Institution Building (Chapter 2.2 of MIPD).

Section 2.2.1.1, Political Requirements, Main priorities and objectives, states among other things:

“Advancing on the reform of local self-government as part of the decentralisation process. Support regional development policy and balanced territorial development by strengthening fiscal decentralisation, development planning and implementation capacities at central, regional and local level, more efficient spatial, cadastral, municipal planning, improving service delivery and introduction of statistical nomenclature of territory.”

This project directly addresses this issue through capacity building.

Section 2.2.1.3, Programmes to be implemented in pursuit of these objectives, states:

“Support regional development policy and balanced territorial development by introduction of NUTS classification, strengthening development planning and implementation capacities at central and regional level, more efficient spatial, cadastral and municipal planning and management. Support municipal, inter-municipal and cross-border municipal projects.”

The MISP is directly linked to these priorities, and will consider supporting projects in all three of the latter categories.

Under 2.2.2.1, Socio-economic Requirements, Main priorities and objectives, the MIPD states;

“Enhancing the investment climate and support to small and medium sized enterprises through access to services. Further develop local/regional business support structures (clusters, incubators, business/technology parks, etc.) in order to promote business, research and innovation related activities and public services.”

and

“Improving infrastructures in order to promote business related activities and public services and to facilitate economic and cultural links within Europe. The areas of energy, transport, tourism, environment, health, information and communication technology,

education, etc. have to be developed as cornerstones of future economic growth. Specific action instruments for flood prevention and management will be incorporated notably with regard to the regional dimension of the problem.”

The MISP will also be open towards projects of such a business-infrastructure nature.

Under 2.2.3.1, European standards, Main priorities and objectives, we see:

“Environment: Support to the approximation and implementation of Environmental legislation and related strategies; support to environmental authorities at all levels in terms of project preparation, management, planning, permitting, inspecting, and monitoring; support to local infrastructure investments including environmental information systems, solid waste, regional land fields, water and sewage.”

The MISP will also consider such projects for support.

Reference to National/ Sectoral Investment Plans and other strategic documents

- **Strategy of Public Administration Reform in the Republic of Serbia**, Ministry of Public Administration and Local Self-Government - Belgrade (2004) stresses that importance of decentralisation process and basic principles for its implementation are highlighted. The fundamental objective of the reform is to provide a high quality of services for the citizens through deconcentration of the state administration, delegation of power from the central toward the lower levels and the decentralisation as a form of relinquishing a part of power by passing it to the lower levels.
- **Strategy of Regional Development of Serbia** for the period 2007-2012 (adopted by the Government of Republic of Serbia in January 2007). The Strategy highlights the importance of stimulating the development of economic infrastructure: “Infrastructure is one of the most important factors for maintaining sustainable economic and social development of the Republic of Serbia, and represents a key driver for regional development and utilization of comparative advantages of local areas”. (Sections 2.12 and 2.4).
- **National Strategy for Tourism** (May 31, 2006) by Ministry of Trade, Tourism and Services – now tourism is in jurisdiction of the Ministry of Economy and Regional Development.
- **National Economic Development Strategy of the Republic of Serbia 2006-2012** (2006) by the Ministry of Economy – now Ministry of Economy and Regional Development.
- **The Strategic Plan of the Standing Conference of Towns and Municipalities 2005 – 2008** adopted at the 36th General Assembly on December 3, 2007 for the period 2008-2010, aims to establish SCTM as the association of local authorities which recognizes its role and objectives and supports its membership led by the standards of good governance at the local level, in order to be in a position to serve local self-governments and the citizens in an efficient and competent way. It proclaims that the main task of the SCTM is to strengthen local self-government and to represent, protect and support its members and their interests at the national and international level. It also states that the most important priority at the national level is the process of decentralization and democratization and that at the international scene SCTM should become a well-known and recognized association which represents all the Serbian towns and municipalities. According to the Strategic plan four priority areas are:
 - Representing (advocating for) the interests of local self-governments in creating the environment which enables consistent decentralization (participation and influence in all the phases of enactment of legislation, regulations and national strategies relevant for the local authorities)
 - Developing sustainable system of support to the capacity building of the membership

- Encouraging and supporting exchange, communication and cooperation among the SCTM members at the inter-municipal, national and international level
- The SCTM Capacity Building
- **Strategy for Development and Encouraging Foreign Investments**
- **Local Development Plans adopted by Local Governments /Municipalities across Serbia**
- **National Employment Strategy 2005-2010**
- **PRSP Strategy and Implementation Reports**
- **The National Waste Management Strategy** incl. the program of harmonization with the EU, Ministry for Protection of natural resources and environment, Belgrade (2003)
- **National Investment Plan** (2006)
- **Study “Local Credit Market for Municipal Infrastructure”** by Royal Haskoning for EAR funded project Municipal Infrastructure Agency Support Programme (August 23, 2007)
- **The European Charter on Local Self-Government** of European Council.
- **Governmental Memorandum to the Budget Law 2006** dated December 10th, 2005
- **Report Logo East Twinning Framework** Serbia, Improvement of the internal management of local governments in Serbia 2006 – 2007.
- **Regional waste management Plan**, SCTM Regional Plan tool 11
- **Establishment of Waste Transfer stations**, SCTM Green Paper Tool 10.
- **National Environmental Strategy of the Republic of Serbia**, Ministry of Science and Environment protection (2006).
- **National Environment Action Plan** – EAR and Ministry of Science and Environmental Protection, 27 November 2006. (Unofficial draft)
- **Water Resources Development Master Plan**, Information from Ministry, Directorate of Water, Serbia 2001.
- **Program of construction, rehabilitation and maintenance of water management facilities** in 2006 -Ministry of Agriculture, Forestry and Water-Directorate for Water
- **Sector Review paper on the Water Supply and Waste Water sector**, Royal Haskoning - May 2006
- **Global Serbian Wastewater Study**, EAR – 2005
- **EBRD Initial and Final Report** Serbia and Montenegro: Institutional Support for the Water Utilities in Kragujevac, Nis and Novi Sad, Belgrade- May 2005 and May 2006.
- **Tariff concept for Nis and Novi Sad** by Dr. Fromme International Consulting 2002
- **Study on the Improvement of Commercial Performance of Public Municipal Enterprises** for Water Supply and Sewerage as well as District Heating in Novi Sad, Niš and Belgrade by Stone & Webster Consultants – December 2001.
- **Aide Memoire 0406 Final** (World bank water sector)
- **Energy Sector Development Strategy of the Republic of Serbia** by 2015, Ministry of Mining and Energy, Belgrade, May 2005.
- **GTZ brochure on PPP project** in field of solid waste management with Trojon & Fischer EKO, 2006.

ANNEX V: DETAILS PER EU-FUNDED CONTRACT (*) WHERE APPLICABLE:

5.1 TA Contracts

Contract # and Name	Description	Cost Estimates (EUR m)
<p>Contract # 1: institutional and regulatory framework on municipal infrastructure services, improved municipal infrastructure programming, procurement and construction supervision of priority infrastructure works</p>	<p>TA for Contract 1 will comprise a long term service contract to provide the services required by Components 1 and, 2, and 3. 3.1 and 3.2. This Contract will carry out activities to enhance the policy dialogue regarding the future legal, institutional and financial frameworks of municipal infrastructure services for all of the 169 municipalities in Serbia, develop investment programming procedures and prepare a project pipeline with prioritised investments for IPA 2008 and 2009. Contract activities will take place at national level, at a regional and general municipal level, and detailed work will take place in the selected municipalities. TA for Procurement and Construction Supervision of Priority Infrastructure Works will comprise a long term service contract. The contract will carry out the necessary activities to review and ensure accuracy of the Feasibility Studies carried out for IPA 2007 earlier and to bring those up-to-date. Additional site investigations will be carried out as may be necessary to guarantee accuracy of information to be provided to the tenders with the Tender Dossiers. Tender Documents will be prepared for Work and Service Contracts. The contract will carry out construction supervision of all Works contracts, listed below under Works Contracts. All Works contracts will be supervised by one team, i.e. a common Engineer will be nominated for all Works contracts. Due to geographical reasons the Engineer is expected to establish four independent supervision teams lead by four Resident Engineers, whose activities will be coordinated and managed by a Project Office, lead by the Consultant's Team Leader. The Project Office will also carry out design check activities and provide technical, contractual, administrative and QA support to the supervision teams. All payment certificates, variation orders, reports and the like will be verified and confirmed by the Project Office. During the Defects Notification Periods the Engineer's duties will be carried out from the Project Office, the work being mainly of administrative and financial nature.</p>	<p>10.0</p>

5.2. Works Contracts

Contract Name	Description	Cost Estimate (EUR m)
Works Contract ²	<p>The work contracts will include infrastructure investments in selected municipalities, improving environmental, social, and economic infrastructure.</p> <p>All investment projects will be supported by a feasibility study carried out under IPA 2007, which will include an indicative budget breakdown as well as an indication of the final beneficiary and ownership of the investment, including the future maintenance and running costs for sustainability.</p> <p>The work contracts will be selected in accordance with the rules and procedures of the Practical Guide to Contract Procedures Financed by the General Budget of the EC in the Context of External Actions – “PRAG”.</p> <p>The selection of the infrastructure projects will be done in close cooperation with the EC Delegation. Type of eligible projects may be: Vrbas-Kula Wastewater Treatment and Sewerage Project; Leskovac Water and Wastewater Project; Sremska Mitrovica Sanitary Landfill Project; Prokuplje Sanitary Landfill Project; Krusevac (Ćelije) Water and Wastewater Project; Nis Industrial Zone for Electronics industry; Urban renewal of Kragujevac; Business-innovation centers in Novi Sad; Golubac Fortress on Danube; Maglic Fortress in Kraljevo etc.</p>	35.4

² No. of Works contracts will depend on no. and nature of projects prepared and ready for implementation

ANNEX VI: CURRENT STATE OF INFRASTRUCTURE IN SERBIA

Municipal Infrastructure Investment Needs

The consequence of underinvestment in infrastructure has been presented by the EBRD transition indicators. According to the EBRD Transition Report from 2006, Serbia's overall infrastructure reform indicator is 2, (3- for roads and 2- for water and waste water). The road indicator was upgraded one point due to the privatization of 20 out of 25 road maintenance companies in 2005, and road charges above-cost-recovery levels. The water and waste water sector was downgraded due to the government control over tariffs to control inflation from 2005.

The table below shows that Serbia is significantly lagging behind its transition neighbours in terms of infrastructure development.

Table: Infrastructure Transition Scores

Country	Roads	Water and Waste Water	Overall Infrastructure
Serbia	3- ↑	2- ↓	2
Bulgaria	3-	3	3
Croatia	3	3+	3
Romania	3	3+	3+
Hungary	4-	4	4-

Source: EBRD Transition Report, 2006

Serbian authorities are fully aware that if Serbia is to reach the development level of EU member states, it has to invest more in infrastructure. The Serbian Government at the beginning of 2007 determined that in order to maintain annual GDP growth of 7 percent, it is necessary to increase the share of fixed investments in the GDP from 17.3 percent in 2005 to up to 25 percent in 2012. This would be possible if the fixed investment growth rate would be between 8 and 11 percent. The National Economic Development Strategy (NDS) envisages that in the period 2006-2012 it is necessary to invest EUR 53 billion in the Serbian economy, out of which one third or **EUR 18 billion should be invested in infrastructure in next 5 years** (traffic, energy, telecommunications, water supply, etc). The rest should be invested by the private sector. Out of total investments of EUR 53 billion, 1.9 percent or EUR 1 billion should be invested in the water sector and 4 percent or EUR 2.1 billion in environmental projects. These figures are especially important having in mind that only 77 percent of the population in Serbia have water supply, while just 46 percent have sewerage and 20 percent of waste water is treated in accordance with international standards. Another EUR 0.7 billion should be invested in district heating infrastructure. Infrastructure expenditures for local development should be financed through: foreign grants (primarily from IPA funds), own revenues, central government transfers, credit or issuing bonds, and public private partnerships.

In the area of **environmental infrastructure**, most municipalities in Serbia have inadequate wastewater treatment facilities and sewage is mostly discharged into open water courses with environmental damage depending on the degree of dilution offered by the recipient waters. Municipal solid waste sites are mostly local dumps with no groundwater protection and minimal sorting of the waste. Regional landfill facilities will be constructed to achieve economies of scale, use modern methods, and be shared between municipalities who will also share the costs. With regard to water supplies there are a number of regional water supply schemes serving several municipalities set up several decades ago but whose construction has remained incomplete through lack of funds.

Environmental services are provided by Public Utility Companies which provide water, wastewater, district heating and solid waste management services. The PUCs are in practice managed as Municipal Departments with limited management autonomy and their staffing and remuneration is subject to local political influence. Increasing management autonomy of the PUCs and internal control over their budgets is accepted as axiomatic for improved services, although the systems and procedures for this are still under discussion. For this the relationship between the Municipalities and the PUCs needs to be put on a more formal basis.

As far as **economic infrastructure** is concerned, the situation is even worse. In recent decades, municipalities have either invested very little or nothing into business-related infrastructure. Some old factories were closed down, turning whole towns in Serbia into devastated rust-belts. As a consequence, poverty and unemployment in municipalities across Serbia has risen to be among the highest in Europe. Serious investments in economic infrastructure are needed to bring more jobs and create better quality of life. Economic development will depend on vital investments into the development of industrial zones, brownfield regeneration, urban renewal and business incubators and business innovation centres.

Furthermore, Serbia is starting to focus more on its **tourist potentials**. More and more municipalities see tourism as their comparative advantage as an instrument for local economic development. Fortresses on the Danube, lakes in Bela Crkva or spa resorts in Sokobanja should attract additional tourists and revive municipalities. However, tourism infrastructure has also been neglected and needs serious improvement to establish municipalities on the tourist map.