

Standard Summary Project Fiche – IPA centralised programmes
(Regional / Horizontal programmes; centralised National programmes)

1 BASIC INFORMATION

1.1 CRIS Number:

1.2 Title: Municipal Support Programme (MSP) Serbia

1.3 ELARG Statistical code: 01.22

1.4 Location: Republic of Serbia

Implementing arrangements:

1.5 Contracting Authority (EC): EC Delegation in Serbia

1.6 Implementing Agency: N/A

1.7 Beneficiary (including details of project manager):

Financing:

1.8 Overall cost: 22M€

1.9 EU contribution: 22M€

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 is to contribute to improved governance and economic development in Serbia through support to all aspects of the decentralisation of responsibilities and competences from central to local level.

2.2 Project purpose:

The specific objective of this programme is to improve the capacities for good governance and municipal management at the local level, to improve local services to citizens and to enhance local economic development by strengthening local organisations, the Standing Conference of Towns and Municipalities and local-central government cooperation.

2.3 Link with AP/NPAA / EP/ SAA

Copenhagen criteria

“Membership requires that the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and the respect for and protection of minorities, the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union; the ability to take on the obligations of membership including adherence to the aims of political, economic & monetary union.” (extract from the pp13).

European Partnership, Medium term priorities:

“Adopt and implement decentralisation reform and ensure sufficient local capacities to deal with, among others, administrative and financial issues and forthcoming regional programmes.” (pp 14)

“Strengthen capacity (policy making and inter-ministerial coordination) of the public administration at government and local levels...” (pp 14)

“Adopt and implement decentralisation reform and ensure sufficient local capacities to deal with, among others, administrative and financial issues and forthcoming regional programmes.” (pp 14)

“Improve financial management at central and local government level.” (pp 16)

“Improve the capacity of local administration to provide services to their constituencies in an equitable and effective manner.” (pp 21)

SAP Report 2004

“In most municipalities, however, the civil service shows a general lack of professionalism in implementing transparent, non-politicised and ethnically balanced procedures in areas such as recruitment and procurement.” (, pp 54)

2.4 Link with MIPD¹

The MIPD section 2.2.1 contains among others the following main priorities and objectives that bear relevance to this programme:

1. **Improving the performance of Serbia’s public administration at all levels** (governmental, parliamentary, para-governmental and regulatory bodies/structures) to foster democratic governance and public service to all people in Serbia.
2. **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. Support municipal, inter-municipal and cross-border municipal projects and implementation of the Poverty Reduction Strategy at the local level.
3. **Improving budget and fiscal management**, enhancing control and collection capacity of the tax and customs administration, contribute to consolidating revenue collection for Serbia’s consolidated budget, make tax policy coherent at central and local levels and improve the management of expenditures.
4. Further support to the **Civil Society** in order to promote the creation of a genuine dialogue and partnership between the Serbian authorities and the Civil Society in the democratic stabilisation and the economic and social development of the country. Contributing to the consolidation of civil society through mainstreaming civil society issues in all programmes and supported also by other components of EC assistance. Promoting Civil Society in monitoring the effectiveness of government policies and programmes.

Several other sections of the MIP contain objectives that will be supported indirectly but strongly by this programme, which establishes complex cross-linkages.

Further, under “Strategic Choices”, the MIPD contains the following statement.

¹ Multi-Annual Indicative Planning Document

5. “IPA will target new strategic areas which demonstrate employment generation potential such as tourism and agricultural sector, economic links with the knowledge based and information technology society, targeting of strategic investment based on Serbia competitive advantages, as well as regional and cross border cooperation.”

Key elements here have a component that is close to the local government and regional levels in promoting good practice in Local Economic Development. Regional and cross-border cooperation is foreseen in the MSP Programme within the Exchange Programme component which emphasizes local development through exchange of experience with EU and other Serbian municipalities through the twinning concept.

It is also stated under “Strategic Choices”

6. “...the production of legislation is not a major problem in Serbia but the follow through in terms of implementation is resource intensive. This resource reality determines the strategic choices as well as timing of institutional building interventions. Such interventions will focus where there is administrative capacity and where a track record has been created under the CARDS programme e.g. employment support, regional development, urban development, agriculture and rural development, strategic infrastructure provision and education. Greater institutional building efforts to address weaknesses will be delivered in later periods of the programming period when there is evidence of greater resource commitment and absorption capacity.”

Advances should thus be sought wherever there is absorption capacity rather than focusing on the most disadvantaged areas. This will allow those municipalities who have the ability to forge ahead, creating centres of good practice that can be used as examples by others.

2.5 Link with National Development Plan (where applicable) n/a

2.6 Link with national/ sectoral plans

2.6.1 Link with National Investment Plan (NIP)

In September 2006, the Government of Serbia launched the National Investment Plan 2006 – 2012 (NIP), which has as its objectives: higher employment, sustainable economic development, increased competition and reduced poverty. The NIP provides for public investment of at least €1.2 billion a year (5% of GDP) in infrastructure, economic development, housing and public administration capacity building, with higher per capita allocations for less developed regions. The NIP is currently under suspension, but will probably be revived under the new government which has created a ministry to deal with it.

This programme will assist implementation of the NIP by enhancing municipalities’ capacity to identify, prioritise, develop and implement good projects.

2.6.2 Link with PAR

In October 2004, the Strategy of Public Administration Reform in the Republic of Serbia was drafted. The Strategy identified the following main objectives of the public administration reform:

- creation of a democratic state based on the rule of law, responsibility, transparency, cost-effectiveness and efficiency, and
- creation of a public administration directed towards the citizens, capable of offering high quality services to citizens and the private sector, against payment of reasonable costs.

As key reform areas were identified:

1. Decentralization (including enhancing capacity of local governments in the areas of organizational frameworks, management systems, knowledge and skills of staff, internal supervision and control mechanisms)
2. Fiscal decentralization (including financing of capital expenditure at the local level)
3. Building a professional civil service (including pay system reform, improving legal framework and improving the quality of staff)
4. Improving the managerial and organizational framework
5. Introducing Information Technology
6. Strengthening control mechanisms

Within the area of decentralisation/local government, the following activities are foreseen in the action plan for the implementation of public administration reform for 2004 -2008:

1. Analysis of the functioning of local governments
2. Modification of legislation in order to further transfer competences to the local level
3. Changing regulations within the framework of fiscal decentralization
4. Strengthening local capacities through training, organizational and managerial change, and increased use of information technology

2.6.3 Link with PRSP

The Serbian Poverty Reduction Strategy Paper was adopted in 2003 and describes the framework and priorities for poverty reduction. As main strategic priorities it identified the following: creation of new employment opportunities; more efficient social protection; improved position of pensioners and elderly; health care in support of poverty reduction; education in support of poverty reduction; housing aspects of poverty; environmental aspects of poverty reduction.

The major effect of the programme in terms of poverty reduction will lie in enhancing economic growth through improving local and regional capacities in Local Economic Development, addressing aspect 1 directly and the others more indirectly..

2.7 Key stakeholders

Key Serbian stakeholders in the local government area are:

- Municipalities
- Regional Development Agencies
- Standing Conference of Towns and Municipalities
- Ministry of Public Administration and Local Self Government (MPALSG)
- Deputy prime Minister's Office, including the PRS office and the EU integration office
- Ministry of Finance
- Ministry of Economy and Regional Development.

3 DESCRIPTION OF PROJECT

3.1 Background and justification:

3.1.1 Current state of affairs in the relevant sector

Serbia (excluding Kosovo) has a population of approximately 7.5 million people and currently 163 local government units. A large part of the population lives in small towns and

villages. Many municipalities are small: only 12 municipalities outside Belgrade have over 100,000 inhabitants and 50 have populations of under 20,000. The smallest has just 3,300 inhabitants. Movement towards the cities has accelerated in recent years, the population of all but the largest towns is slowly but steadily decreasing.

Serbia's first law on local government dates back to 1836, providing a framework for some level of decentralisation. Municipalities had a strong role in the former Yugoslav Federation but it was seriously reduced by the Milosevic government, which centralised the administration, brought municipal property under state ownership, limited the tasks of municipalities and caused serious economic decline in all parts of the country.

Since the democratic changes in 2000 the government of Serbia has launched an administrative reform programme including decentralisation of responsibilities and financial resources to municipal level and development of a regional policy. The Law on Local Self-Government from 2002, the establishment of a Ministry of Public Administration and Local Self-Government in 2002 and Strategy for Public Administration Reform approved by the government in November 2004 are steps in local government development. In 2006, the government passed a new law supporting fiscal decentralisation.

Capacity however remains weak, especially at the municipal level.

3.1.2 Key challenges

Progress must occur at both republic and municipal levels. Finding national consensus on the direction of decentralisation, on fiscal reform, on the equalisation system of municipalities, on the division of duties between republic and municipalities and on improving relevant legislation are key steps to success.

Decentralisation

Decentralisation policies have been followed in many EU countries in recent decades. They are promoted because the demand for local services varies in different places. Local government is closer to the people to be served and can be more responsive to their needs. Through a process of political education, decentralisation teaches local populations about the role in democracy of practices such as selecting representatives, opening political debates, and participating in the design and implementation of policies, plans and budgets. Decentralisation also facilitates training in political leadership and the enhancement of accountability.

Decentralisation demands a process of building financial, managerial and institutional capacities of local institutions. Experience in many countries has shown that local capacity has to be developed considerably and with sustained effort in order to deal with decentralised responsibilities.

Apart from intervention at the local level, collective support mechanisms are important. Regional institutions require development, and the links between local and central government need revising and strengthening. In this context the Standing Conference of Towns and Municipalities is a key actor, whose capacity to represent local government and coordinate support should be continuously developed.

Good local governance: Planning and Municipal management

Planning refers to how decisions are made, who is involved in making them, and the framework for decision-making. It embraces government, local and central, civil society and its organizations, the private sector and individual citizens.

Strategic planning has a central importance. This means not only the production of good strategic plans, but also their implementation. Some municipalities have been assisted to produce good plans but lack the ability to put them into effect.

Local Economic Development planning is the second major area to be addressed.

Municipal management concerns how decisions are put into action. It focuses on the institutional, financial and action-planning systems to achieve development objectives and to manage development. Governance and management are closely linked, as good governance provides the necessary framework for cities and towns to be managed more equitably and effectively. ***Management is about the provision of services.***

Characteristics of good governance systems include being:

- accountable transparent, participatory; legitimate and acceptable to the people, commanding respect and trust and strengthening indigenous mechanisms
- able to mobilise resources for social purposes, promoting equity, equality and gender balance
- operating by the rule of law, tolerating and accepting diverse perspectives
- service-oriented, enabling and facilitative, regulatory rather than controlling
- efficient and effective in the use of resources, sustainable.

Governance is not about government alone. There are three main groups involved, the public sector; civil society; and the private sector including especially the media. Many institutions and individuals within these three areas can be involved. Promoting good governance requires support and activities to create and develop capacities in all three sectors at the local level and facilitate interaction and cooperation between them, and also between central and local levels.

Interventions are required at the institutional, organisational and individual levels

Institutional level

- fostering changes in the legal framework, government regulations and procedures
- reforming systems of coordination between organisations, especially between governmental and non governmental organisations
- supporting the emergence and development of institutional mechanisms which, according to local culture and traditions, could facilitate the governance of the city, including the creation and development of institutional networks in governance-related areas
- cultivating new norms and values (promoting good governance) so as to change the incentive structure for individuals and organisations. Advocacy activities, dissemination of information on key policy issues and encouraging active debate and involvement of local media are important elements in this area.

Organisational. Good governance can be supported mainly by the modernisation and strengthening of governmental agencies and structures. Support is needed to build policy, planning and regulatory capability. Key areas for intervention are financial management (including, result-oriented budgeting, accounting and auditing procedures and investment planning), human resources management, and communication and information technology.

The establishment of the Citizens Advisory Centre (CAC) is also an important step in this transformation. Often poorly understood, when done correctly it assists a municipality to completely revise and modernise its institutional structure and HR policies and practice. In Serbia, a number of municipalities have established such centres, some more successfully than others. Best practice from these municipalities should be used to continue the process for the majority that remain.

An organisational re-evaluation can be made sustainable by introducing the practice of performance assessment and review. Such practices are new to Serbia, but there is a wealth of experience to draw upon in old and new EU member states.

Civil society and private sector organisations may also require support especially in learning to work with new partners. They are especially valuable when they represent disadvantaged groups, play a constructive role in the general governance of communities or cities, facilitate citizens’ participation and empowerment, or improve accountability, transparency, human rights observation, the operation of the rule of the law, social integration and the fostering of a conducive environment for local economic development.

Individual, or human resources Skills must be enhanced by the training and education of key actors in the process of local governance. Public organisations, may be strengthened by the design and implementation of staff development and training programmes aimed at improving competence and capacities of different branches and agencies of government. Training and advocacy activities must be addressed not only to appointed but also to elected officials, and mainly to senior and managerial staff. Civil society, media and business leaders must also be attracted to training activities together with governmental representatives, to facilitate communication between different sectors. In recognition of the importance of youth and the negative effects if the recent isolation, connections between young people in Serbia and the EU are in need of strengthening so that future generations of officials approach their duties with open minds.

In the municipal administration, the whole municipal organisation, including elected bodies, administration, municipal enterprises and service institutions, requires capacity development. This includes a need to develop the municipal organisation and competence for citizen service provision and a new approach to strategic management. Proper management includes clarity of municipal development strategy, various forms of development planning, result oriented budgeting and monitoring of implementation. This means a transfer from centralised service provision towards a needs-based and participation-oriented service culture.

This has been described as a 21st century approach to local government, as illustrated in the table below.

20th Century	21st Century
Local governments respond to central government	Local governments respond to citizens
LG are direct providers of local services	Is the purchaser of local services
Focus on in-house provision	Organizes/coordinates
Has input controls	Recognizes that results matter
Depends on Central Directives	Is autonomous in taxing, spending
Is fiscally irresponsible	Is fiscally prudent; costs less
Is exclusive with elite capture	Is inclusive and participatory

Relations to central government

Key central government organs such as the Ministry of Public Administration and Local Self Government (MPALSG), Ministry of Economy and Regional Development, Ministry of Finance and others also have a need of enhanced capacity. After years of stagnation, a broadening of perspectives is needed – the disastrous heritage of isolation has yet to be effectively counteracted. Providing elected and employed officials with opportunities to study at first hand the many alternative concepts and methods applied in the EU and to establish fruitful contacts with peers in both old and new EU member states is a high priority. Likewise, the use of EU experts to assist in legislative drafting would help avoid pitfalls already identified in other transition states.

Financing of local development

Financing public infrastructure and other capital-intensive projects requires new mechanisms. Municipalities have traditionally been financed by central government but must now find their own capital. Debt financing is a potentially effective option but lacks the mechanisms available to Western municipalities.

Recent legislation enables the issue of bonds, but a functioning bond market has yet to emerge. The mechanisms, new to Serbia, should rapidly be clarified and brought to the attention of all concerned – municipalities, investors, those who mediate or regulate and the public. Potential investors are available in the form of pension funds, investment funds, insurance companies and banks for this normally highly secure investment. Developing this mechanism is a high priority.

Furthering common municipal interests – the strength of association

Serbia's 163 local governments can contribute not only to development in their respective geographical areas but also collectively to the republic as a whole. At present Serbia has only one body through which to coordinate such efforts, the Standing Conference of Towns and Municipalities (SCTM), an association of which all local governments are members. Through the 1990's this body had little influence, but it has developed rapidly in recent years. It is, however, still a long way from realising its full potential, and must be supported in continuing its progress. The SCTM must therefore play a central role in organising assistance and in collecting and disseminating best practices.

Committees under the SCTM work on many areas of interest to local government, yet they have no tradition for producing proposals for draft legislation or papers defining the LG position on national issues. These committees should be supported to become producers of targeted documents that can assist central government in legislative drafting.

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

The activities are designed to contain cross-linkages, complementary and supplementary elements. This is essential to address the complex problems of real life in which progress cannot proceed in a linear and pre-determined fashion, but requires constant feedback, revision, learning and innovation. This can only be achieved by including important elements of bottom-up development in which the beneficiary institutions gain experience in taking their own development decisions and learning from experience – including mistakes.

Good governance and management is the basis for economic development but depends partly on revenue, which in turn depends on economic activity and investment. In a modern society,

a fine balance must be struck between types and levels of taxation (which provide funds for development and service spending) and the assurance of an investment-friendly environment (which requires light taxes and administrative burdens). Understanding the market economy and private investment is a core requirement to striking this balance, but cannot be done without listening to the experience of others: Western Europe itself is in the middle of a massive best-practice debate on this issue². Taking advantage of the experience of both ‘old’ and ‘new’ EU member states is essential.

Component 1 is designed to improve the basis on which services are provided by enhancing the credibility and effectiveness of political and professional planning, and addressing the pernicious effects of more than a decade of isolation. It also addresses the translation of improved governance into better services, with broader financing opportunities. Component 2 supports component 1 in this, providing a mechanism for demand-driven projects in the municipalities. Component 3 adds the inter-municipal dimension of the SCTM, with support to the running of the grants scheme, and to the sector committees to help them become legislative drafting bodies.

The combination of good planning and awareness-building among citizens with improved service delivery through financial and other management is a virtuous circle of incremental development initiatives:

The impact of the programme will thus be seen in:

- enhanced credibility of local government
- greater openness to the EU and its best practices
- better management of public funds
- improved investment environment
- increased economic growth
- increased tax revenues that can be used to improve social inclusion

Parts of this will be achieved through the programme objectives, other parts through the processes employed.

3.3 Results and measurable indicators

Component 1: Good governance - planning and service delivery.

Component 2: Grant scheme for projects and skills transfer (Exchange III)

Component 3: Direct award to the Standing Conference

3.3.1 Results related to component 1 – Good governance

1. Municipalities’ capacity to make and implement strategic plans improved
2. Municipalities’ capacity to make and implement LED plans improved
3. Enhanced inclusion of citizens, civil society and the media in the planning process
4. Understanding of the overall needs in the LG sector improved
5. New CACs created and existing ones improved
6. Municipalities conducted in-depth analysis of structural, MIS and HRD requirements
7. Performance assessment introduced
8. Assessments benchmarked against comparable bodies

² e.g. the recent French presidential election campaign.

9. Financial management capacity improved
10. Municipalities take own initiatives to demand training
11. MPALSG officials attitudes broadened through experience with EU counterparts
12. EU expertise used in legislative drafting
13. Municipal bonds used to finance projects
14. Municipal bond market functioning

Measurable indicators for reviewing progress include:

- Number of municipalities assisted in making and implementing strategic plans
- Number of municipalities assisted in making and implementing LED plans
- Quality of the plans and resulting actions
- Increased number of local stakeholders actively involved in planning
- Regular meetings take place between stakeholders
- Number of media productions broadcast and TV viewing figures
- Attitudes of citizens
- No. of new and improved CACs
- No. and quality of analyses performed
- No. of municipalities using performance assessment measures in practice
- No. of municipalities registered and active CAF users
- Quality of financial management
- No. of local tax administrations functioning
- No. of municipalities planning for programmatic budgeting
- No. of municipalities taking initiative to request trainings and no. of trainings requested
- No. of study tours and EU contacts made
- No. and output of EU experts engaged
- No. of bonds issued
- No. of bonds traded
- No. and type of projects financed by bonds

3.3.2 Results related to component 3 - Grant scheme for projects and skills transfer (Exchange III)

15. Human resource capacities and skills in local authorities have been significantly enhanced through a series of exchange projects with EU partner municipalities and/or Serbian partner municipalities and local NGOs.
16. Municipal management and delivery of services to citizens in Serbian municipalities have made significant improvements in the direction of existing EU standards through implemented projects
17. Municipalities' capacity to identify, formulate and implement projects improved

Measurable indicators for reviewing progress include:

- Municipalities trained in and advised on project development, procurement, reporting and (financial) project management in line with EU procedures.

- No. of municipalities trained in and advised on project development, procurement, reporting and (financial) project management in line with EU procedures.
- No. of projects provided with grants successfully finalized in line with EU procedures
- No. of best practice manuals disseminated and seminars/workshops held

3.3.3 Results related to component 3 – Direct award to the SCTM

Measurable indicators for reviewing progress include:

18. Grant funds successfully distributed through Calls for Proposals
19. Grant management capacities in the SCTM increased
20. Best practices collected and distributed
21. Service delivery capacity of SCTM significantly strengthened through advisory services to the inter-municipal and cross-border municipal projects carried out by members
22. Sector committees producing position papers and contributing to legislative drafting

Measurable indicators for reviewing progress include:

- Calls for proposals successfully carried out
- Number of projects provided with grants and successfully implemented by the municipalities
- No. of position papers written
- Incorporation of contents of papers into legislation

3.4 Activities:

Component 1: Good governance - planning and service delivery.

Component 2: Grant scheme for projects and skills transfer (Exchange III)

Component 3: Direct award to the Standing Conference

3.4.1 Component 1: Good governance- planning and service delivery

- **Activity 1: Strategic planning and implementation of the strategic plan.** A number of municipalities have developed strategic plans but lack expertise in implementing them in practice, others have yet to begin work on the planning process. Projects identified in strategic plans will be financed under a grant scheme, but a dedicated grant fund will apply to the planning process itself, in recognition of its central importance.

Support to the creation and implementation of the strategic plan is to be provided in terms of TA and training.

- **Activity 2: Developing LED plans and departments in municipalities.** Municipalities are to be assisted in developing specific departments (even if with only one employee) dedicated to the issue. This includes training (also partly for wider staff) on understanding private investment and investors and the role of municipal and regional bodies; assistance in developing LED plans and more specialised training for LED department staff; streamlining permitting procedures; creating a one-stop business support centre. Border municipalities will be encouraged and assisted in including cross-border elements in planning.

Support is to be provided in terms of Technical Assistance (TA) and training. Equipment and training for implementing parts of the LED strategies will be provided under a grant scheme.

- **Activity 3: Citizen participation and public awareness.** This activity effectively addresses participation issues on a large scale while reducing isolation and changing awareness of the EU in middle-Serbia from being the perceived diplomatic finger-wagging exercise to a vast, bubbling world of new ideas and ways to assure the better life.

There are two components. The first is a production of a series of short, entertaining films showing how typical local-level problems of governance, management and service delivery are tackled in a variety of EU countries, old and new, and how EU membership has helped. The second organises round tables, talk shows, quizzes and competitions to be screened on local TV stations, involving local politicians, municipal staff and a TV audience (schools, citizens, NGOs and institutional representatives) as two competing teams in a best-practice debate. The films are used as a catalyst, bringing visual impressions of new possibilities. The shows can be at municipal level, but will often involve a region. Shows with broader than regional importance will be picked up by national TV.

Support is provided in terms of TA and production costs.

- **Activity 4: Local Government sector review.** While many have ideas and assumptions about the needs of municipalities in Serbia, no comprehensive data are available as a systematic basis for further programming. This activity will enhance planning capacity and strengthen central-local cooperation by engaging both SORS (Statistics Office of the Republic of Serbia) and municipalities in assessing the development needs of Serbian municipalities as a baseline study for the further design of programmes and GOS allocation of funds.
- **Activity 5: Assistance in creating Citizens Assistance Centres** where these do not yet exist, and improving the function of existing ones where problems are experienced. The creation of a CAC includes a thorough assessment and where necessary re-design of departmental structure, Municipal Information Systems and Human Resource Development.

Support is to be provided in terms of Technical Assistance (TA), updating manuals and training. In view of the quite extensive experience available in Serbia in the area of creating Citizen Assistance Centres, Technical Assistance will where possible be provided by Serbian experts, through exchange of experience and in-country study visits. Actual establishment of Citizen Assistance Centres (including IT and other items) will be made possible through grant schemes.

- **Activity 6: Introducing performance measurement through the Common Assessment Framework (CAF).** The CAF is a simple instrument/tool that allows benchmarking against similar municipalities across the EU and beyond. Serbian municipalities that have realised the importance of performance measurement for generating improvements can easily make use of this tool, which provides a simple but important introduction to concepts of quality management. The outputs of the Common Assessment Framework exercise will indicatively be Municipal Capacity Assessments (including action plan for improving capacity), and an introduction to Human Resource Management.

Support is to be provided in terms of TA and training.

- **Activity 7: Improving Financial Management.** The law on financing local government allows municipalities to perceive their own tax revenues; the law on the budgetary system requires municipalities to move to programmatic budgeting by 2009. Many municipalities

do not have the expertise needed for these and other important developments. Support will be provided to help finance departments in areas such as:

- setting up and running the municipal tax department
- planning as the basis of budgeting (in conjunction with strategic planning) as a first step towards results-based (programmatic) budgeting.
- control and audit (municipal audit and systems audit)
- Capital investment financing.

Support is to be provided in terms of TA, training and coaching.

- **Activity 8: Provision of demand-driven training.** Training inputs are provided in two ways: as an integral part of each TA assignment as appropriate, and through a demand-driven mechanism that accustoms municipalities to be responsible for their own development.

The latter training is provided on a straight demand-driven basis so local governments can learn from their own experience. Municipalities have widely varying administrative capacities and needs; rather than attempting to develop standard curricula, a bottom-up approach is to be applied in which municipalities are provided with training credits. With these they can shop around and contract their own capacity-building training. In this way only motivated municipalities will take part, and responsibility (and thus experience in decision-making) will lie with the local government itself.

Credits will be allotted after successful completion of strategic planning exercises or, where these are already completed, a further top-up intervention in the strategic planning and implementation component. These will in all cases contain training in the use of consultants.

- **Activity 9: Study visits and legislative drafting** - This activity will focus on study visits to EU member states for selected officials from the relevant ministries (among which the Ministry of PALSG, Ministry of Economy and Regional Development, Ministry of Finance), SCTM and municipalities. The study visits will especially focus on those EU member states that have recently undergone similar transitions to that affecting Serbia. It will also provide international experts to assist with legislative drafting. To the extent appropriate, the study visits will be linked to activity 12 (sector committee support), in order to support development of legislation and policy papers.
- **Activity 10: Improving municipal financing options - Developing the municipal bond market.** Flexible financing instruments are urgently required in Serbia, where municipalities at present can only take on debt through bank credits. Primary legislation is now in place for the use of bonds, but practice must be started and developed.

The project will bring together municipalities, regulatory and other bodies (Securities and Exchange Commission, Commission on Value Papers, Stock Exchange, Ministry of Finance, National Bank of Serbia, drafters of legislation) and potential investors (pension funds, insurance companies, investment funds and banks) in a working group to examine practical impediments, and run a pilot project with interested municipalities. At an appropriate stage a public awareness campaign will be made.

Support is to be provided in terms of TA, training and PR inputs.

3.4.2 Component 2: Grant scheme for projects and skills transfer (Exchange III)

- **Activity 11: Exchange III.** In order to make it possible for municipalities to implement projects identified within strategic plans, LED plans and the area of Citizen Assistance

Centres, a financing mechanism should be available to accompany the Technical Assistance provided. Municipalities that received grants in the Exchange I programme clearly indicated in an evaluation survey that grants are the main priority for them, and should be provided in combination with Technical Assistance. For this purpose, Exchange III will be established, that will be similar in set-up and approach to Exchange I: two Calls for Proposals, cooperation with an EU or Serbian municipality³ on a project basis.

Part of the fund will address support to strategic planning outlined under activity 1.

Another part of the fund will address support to LED planning outlined under activity 2.

A further part of the fund will be aimed at financing youth exchanges for Serbian secondary schools, clubs and cultural groups with EU counterparts.

Support is to be provided in terms of TA, if required⁴.

3.4.3 Component 3: Direct award to the Standing Conference

- **Activity 12: Direct award to SCTM.** This award will cover two activities in the SCTM: implementation of the 'Exchange' grant scheme, and enhancing the sector committee outputs.

Exchange implementation: This programme grant is specific to the Exchange project, so as not to overlap with operational grants provided under other (CARDS) projects. The purpose of the programme grant is to finance the costs of the SCTM necessary to manage and implement the Exchange grant scheme, in a manner similar to the Exchange I programme.

Sector committee support: The SCTM has at present a number of knowledgeable sector committees, but they lack the tradition of producing proposals for legislation. This activity will support the committees in becoming a generator of sector position papers and organizing high-level workshops/round tables on crucial issues in the area of local government whose input into legislative drafting will strengthen local-central government cooperation at a crucial point and improve the quality of legislation. A prerequisite for this activity to be successful is the reform of sector committees into output-producing committees.

3.5 Contracting arrangements:

It is expected that:

1. 1 service contract will be concluded following an open international tender process to support the implementation of component 1. The duration of the contract will be for a period of 3 years. The successful tenderer will start deployment one month after contract signature, the expected deployment date. The contract value will be 8 M€

3 In Exchange I, only cooperation with EU partner municipalities was possible. In view of the experience available within Serbia, Serbian municipalities should in Exchange III be given the opportunity to work together with another Serbian municipality (instead of an EU municipality) in implementing a project.

4 In principle, the SCTM should have all necessary experience, documents and staff (based on Exchange I). As it is not sure that all staff will be retained by the SCTM, limited technical assistance should be built in.

2. 12M€ will be made available for providing grants for municipal projects selected after Calls for Proposals by Exchange III. This fund will, as was the case under Exchange I, be managed by the SCTM.
3. A direct award of 2M€ will be provided to the SCTM for covering the costs of managing and implementing the Exchange III grant scheme and to enhance the sector committee outputs.

3.6 Conditionality and sequencing:

The project includes the following conditionalities:

- 1) Endorsement by all key stakeholders
- 2) Appointment of counterpart personnel by beneficiaries
- 3) Allocation of working space and facilities for technical assistance by beneficiaries
- 4) Arrangement by beneficiaries of any necessary legal procedures or permits
- 5) Participation by the beneficiaries in tender processes as per EU regulations
- 6) Organisation, selection and appointment of members of working groups, steering and coordination committees, seminars etc. by beneficiaries
- 7) Appointing the relevant staff by the beneficiaries to participate in training activities etc.
- 8) Availability of co-financing where required.

3.7 Linked activities

3.7.1 Links to other IPA programmes

This programme is closely linked to both the Regional Socio-Economic Development Initiatives programme (RSEDP) and Municipal Infrastructure Support programme (MISP). Several activities in this programme at the municipal level relate closely to supplementary and complementary activities in the RSEDP at regional level.

The RSEDP will follow the recently completed CARDS Programme that aimed to promote a collaborative culture between various actors in selected areas (South, Central and Banat districts), to enhance regional development policy, to stimulate development of entrepreneurship, and to support human resource development through support for the establishment of partnership structures, through technical assistance for the formulation of Regional Development Plans and through funding of selected local economic development initiatives under regional development fund grant scheme.

3.7.2 Links with CARDS programmes (ongoing and foreseen)

CARDS 2003/2005 Aug 2007 – April 2008 – (18.7 + 5 M€)

A continuation of the Municipal Support Programme (MSP ES) in Eastern Serbia provides support to the MPALSG, SCTM and 15 municipalities of Eastern Serbia. The project aims to promote effective decentralisation and participation, stimulate local economic development, contribute to the improvement of public services and improve municipal management. Through the 2005 budget 5M€ is provided for rehabilitation of roads in E. Serbia, which is expected to be finalised mid 2008.

CARDS 2003/2004/2006 Oct 2003 – Dec 2007 Ongoing (12.2+4 + 10 M€)

Municipal Infrastructure Agency Support programme (MIASP) Support to municipal projects linked to IFI-related investments. The support project provides TA to the Municipal

Infrastructure Agency (MIA) established on the republican level to enable municipalities and local public utility companies to access financial resources for creditworthy infrastructure projects. The project also provides complementary grant finance for infrastructure projects linked to the IFI investments.

In addition, through 2006 environmental sector budget further 10 million allocation is provided for development of the municipal environmental programme in partnership with EBRD and SIDA in the area of solid waste management.

CARDS 2003 / 2005 Dec 2005 – Dec 2007 Ongoing (6.5 + 6.5 M€)

Municipal Improvement and Revival (MIR) phase 2. Project aims to provide further support to confidence building measures in line with the government's efforts to achieve durable political stability and social and economic recovery of Southern Serbia. Phase 1 has been successfully finalised, implemented 145 municipal projects and covered 11 municipalities of Peinja and Jablanica districts. MIR 2 covering 13 municipalities is implemented by UNDP in partnership with Austrian, Swedish, Norwegian and Serbian government, and divided into the following project components: Regional Cooperation for Development; Municipal Strategic Planning for Development; Improved Municipal Management and Improved Delivery of Municipal Administrative Services.

CARDS 2003 March 2006 – Dec 2007 ongoing (2.2 M€)

Municipal Development in South West Serbia (Sandzak region) is implemented in partnership with Swiss government (SDC) and UNDP covering 6 municipalities of Serbian Sandzak region. The project aims to Improve municipal capacity to plan and implement selected priority projects based on sustainable development plans and EU funding requirements, Creation of inter-municipal and area based development partnerships for sustainable socio-economic growth and to better exploit future EU funding support in South West Serbia

CARDS 2004 May 2007- Dec 2009 ongoing (4.9 M€)

Municipal Development in South West Serbia 2nd phase is implemented in partnership with Swiss government (SDC) and UNDP covering 8 municipalities of South West Serbia. The programme builds on already ongoing PRO1 (the contract end date is 31 December 2007) and will aim to further develop capacities of local stakeholders and local governments so that municipalities in South West Serbia, individually and jointly, plan and take strategic action to achieve the sustainable economic and social development of the region and to fulfil their obligations to citizens. The project will focus mainly on the implementation of the outcomes of the PRO 1 as well as on the Establishment of the Regional Development Agency.

CARDS 2003 Oct 2003 – Oct 2007 Ongoing (2.6M€)

A technical assistance support project to assist the City of Belgrade in the development of a Public Private Partnership (PPP) project for water and waste water treatment in Belgrade. The project is implemented in partnership with IFC and EBRD.

CARDS 2004 / 2006 Oct 2004 – Dec 2007 Ongoing (5 + 5M€)

EXCHANGE programme for local governments in Serbia, implemented in partnership with the Standing conference for towns and municipalities (SCTM) and VNG Dutch association of municipalities. Through this project Serbian municipalities can request assistance from counterpart municipalities in EU-member states for good local governance activities and municipal technical areas. 49 projects were financed under two Calls for proposals. The 2006 EXCHANGE allocation aims to provide further support to strengthen the capacity of the SCTM and municipalities through a grant agreement and a technical assistance.

CARDS 2005 July 2006 – July 2008 Ongoing (1.5M€)

Project Strengthening LSG in Serbia implemented in partnership with Council of Europe aims to facilitate the implementation of the National Work Programme for Better Local Government in Serbia in the field of legal framework for decentralisation and capacity building for local government.

CARDS 2005 / 2006 June 2007- June 2010 Ongoing (6.7 + 13M€)

Municipal Support Programme North East Serbia (MSP NE), covering 31 municipalities of 3 Banat districts, Branicevo and Podunavski districts. The programme aims to support Regional Development Agency, municipal capacity enhancement, municipal development planning, municipal services and infrastructure and local economic development. Further 2006 budget allocation of 13 million is provided for implementation of up to three larger infrastructure projects of regional importance.

The programme will also bear possible relevance to a number of ongoing CBC activities under the Neighbourhood Programme.

3.7.3 World bank programme ‘Delivery of Integrated Local Services’ project

Due to begin in November 2007, this project focuses on Education, health and social protection at the local level. By the time this IPA gets underway, the WB project should be making interesting progress. As the WB works through partnerships with central level government, the IPA can complement it by supporting advances from a local perspective.

3.7.4 USAID programmes

USAID’s SLGRP programme focused on financial management and citizen participation in local government. It assisted the establishment of some 30 CACs. The complementary CRDA programme financed small-scale infrastructure projects, building capacity in local communities.

Started in October 2005, the MEGA programme assists LED and enhances opportunities for cooperation between the public and private sectors to create a business friendly environment. Project components are:

- Supporting National Level LED Policy Advocacy
- Providing LED assistance and training to local governments
- Facilitating private sector growth through the creation of various local facilities such as industrial/science/technology/export/staging/tourism parks, business improvement districts (BIDs) and business incubators (BIs)
- Building municipal capacity in areas such as: strategic planning; formulation and implementation of business regeneration; retention and attraction programs; promotion and marketing; more “investor friendly” processes, and linking businesses to financial institutions

The programme works with the SCTM, the National Alliance for Local Economic Development and the municipalities of Indjija, Kragujevac, Krusevac, Loznica, Novi Beograd, Prokuplje, Subotica, Užice, Vranje, and Zrenjanin.

With the support of USAID, the Standing Conference has established a Committee on Local Economic Development which serves to provide relevant mechanisms to municipalities. For example, it has recently approved a Methodology for Establishing Municipal Offices for Local Economic Development.

3.7.5 Other donor programmes

Several donors operate municipal support programmes in Serbia, which must be examined for complementarities before each specific activity is launched.

3.8 Lessons learned

The strategic approach defined in the MIPD (see § 10 of section 2.2 above) of advancing wherever there is absorption capacity is both sensible and practical. In order to address the needs of the weakest municipalities, two approaches can be followed. The first could focus specifically on the most disadvantaged areas, the second on assisting more advanced areas to make further progress, and use these as examples of good practice for others to follow. This latter approach, in line with the MIPD, promises the most rapid path to economic growth while at the same time addressing the danger of increasing disparities.

The first part of this two-step approach is to support those willing and able to make progress in the most effective ways. The second, achieving a cascade effect, requires efforts to find effective mechanisms. One is through the continuing development of the SCTM as a vehicle for sharing experience between municipalities and regions. Another concerns the use of civil society and development of the consultancy market.

In today's Serbia the NGO sector is growing rapidly, though it is still characterised by a lack of management capacity. This lack will only be addressed by initiatives to give NGOs greater responsibility and clear roles in issues of good governance and service delivery.

Successful programmes have been run using practitioners from the more advanced municipalities as training consultants in less developed ones. In order to optimise the use of such mechanisms, the local consultancy market is in need of being developed. It would be useful to make sure that wherever international experts are used, their intervention is grounded in the use of Serbian expertise, so that knowledge transfer not only passes from international consultant to beneficiary organisation, but also from international to local consultant. In this way, a growing pool of more mobile national expertise will be developed that can help distribute the benefits of new practices throughout the country.

On the subject of citizens' participation, many projects have used workshops and round tables that are good for their participants but fail to reach a broader audience. Even town hall meetings are only occasional events for most citizens. A more comprehensive method is use of the local media as a tool for wider presentation of any current issue, especially in the scope of local government work. Media programmes and campaigns reach a far wider target group than closed group work and can achieve better results, while reinforcing the media as one of the main pillars of democracy.

Using media in interesting, innovative ways (new programmes – debates, quizzes, competitions, public participation) can involve otherwise uninterested community members and motivate a much wider range of municipal employees in an interaction with viewers to produce the desired results: participation in the decision-making process and raising awareness in a wide variety of fields, especially in support of cross-cutting issues such as gender and environment and involvement of civil society. This will enable more direct communication of plans and assure feedback, enhancing the credibility of local government. It will thus assist municipalities in the design and implementation of Local and Regional Economic Development and other plans, improving efficiency and service-oriented management.

Local TV stations in Serbia have a program schedule devoted to local government work, and offering them a well-directed programme can help them. Local media will also become more deeply involved in new, European streams of thought and journalists develop better knowledge of many subjects of immediate importance. Producing similar programmes on different local TV stations can also enable changes and arouse competition between TV stations or towns. Specific TV formats can be chosen and adapted to local TV's technical and human capacities, but can also improve them. Introducing new formats can be a challenge for creative teams and provide the opportunity for local TV stations to show their influence and professionalism.

4 INDICATIVE BUDGET (AMOUNTS IN M€⁵)

Activities	TOTAL COST	SOURCES OF FUNDING										
		EU CONTRIBUTION				NATIONAL PUBLIC CONTRIBUTION					PRIVATE	
		Total	% *	IB	INV	Total	% *	Central	Regional	IFIs	Total	% *
<u>Activity 1</u>												
<u>contract 1.1</u>	8	8	<u>100</u>									
<u>contract 1.2</u>	12	12	<u>100</u>					1.0				
<u>contract 1.3</u>	2	2	<u>100</u>									
<u>TOTAL</u>	22	22	<u>100</u>					<u>1.0</u>				

⁵ The Call for Proposal Grant Scheme will have 10% co-funding

5 INDICATIVE IMPLEMENTATION SCHEDULE

Contracts	Start of Tendering	Signature of contract	Project Completion
Contract 1.1	T + 1 Q	T + 2Q	T + 12 Q
Contract 1.2	T + 1 Q	T + 2Q	T + 12 Q
Contract 1.3	T + 1 Q	T + 2Q	T + 12 Q

6 CROSS CUTTING ISSUES

6.1 Equal Opportunity

There will be no discrimination on grounds of health status, race, sex, sexual orientation, mother tongue, religion, political or other opinion, national or social origin, birth or other status. Equal opportunities for all will be ensured during implementation. EU and National laws and regulations will be followed strictly. Equal opportunity for men and women to participate in the project will be measured by recording the experts and consultants employed.

6.2 Environment

Environmental considerations will be addressed throughout project implementation. Training activities will ensure that environmental issues mainstream across PCM and especially when considering grant proposals where environmental impact assessments will accompany proposals as appropriate. The beneficiary will be assisted to implement an internal environmental assessment system to determine where improvements can be made in environmental matters.

6.3 Minorities

The programme will be designed with local stakeholders to create employment opportunities for minority and vulnerable groups. Assessment of challenges facing vulnerable groups will be undertaken. Activities such as training for service providers to design and deliver demand-driven training courses particularly for vulnerable groups will be part of the programme. Manuals will feature sections on addressing the needs of minorities and vulnerable groups. A supporting evaluation mechanism to assess the impact of these measures will be enforced.

ANNEXES

ANNEX 1: LOGICAL FRAMEWORK MATRIX

LOGFRAME PLANNING MATRIX FOR Project Fiche		Programme name and number	
		Contracting period expires 5 years after the signature of the Financing Agreement	Disbursement period expires 6 years after the signature of the Financing Agreement
		Total budget : 22 M€	IPA budget: 22 M€
Overall objective	Objectively verifiable indicators	Sources of Verification	
To contribute to improved governance and economic development in Serbia through support to a broad range of aspects of the decentralisation of responsibilities and competences from central to local level.	<ul style="list-style-type: none"> ▪ Effective decentralisation measures implemented ▪ Citizen satisfaction ratings ▪ Quality of relevant legislation ▪ Economic growth rate 	<ul style="list-style-type: none"> ▪ Reports ▪ National opinion surveys ▪ Official statistical documents ▪ Living standards and measurement surveys (LSMS) ▪ Income and expenditure surveys ▪ Poverty assessment reports 	
Specific project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions
To improve the capacities for good governance and municipal management at the local level, to improve local services to citizens, to enhance local economic development, to strengthen the SCTM and to enhance central-local government cooperation.	<ul style="list-style-type: none"> ▪ Quality of local governance and management improved ▪ Citizen satisfaction ratings ▪ Local economic growth rates ▪ No. of businesses registered ▪ Investment in assisted municipalities ▪ Average salaries in assisted municipalities ▪ Number of unemployed in assisted municipalities ▪ SCTM involved in legislative drafting ▪ enhanced cooperation between 	<ul style="list-style-type: none"> ▪ Progress Reports ▪ Local opinion surveys ▪ Official central statistical documents ▪ Local government statistics ▪ Serbian Business Registers Agency ▪ Legislation adopted ▪ M/E reports 	<ul style="list-style-type: none"> ▪ Overall political stability maintained ▪ Relations with the EU do not deteriorate ▪ Municipalities willingly participate ▪ Local media and other potential civil society beneficiaries willingly participate ▪ SCTM has sufficient capacity

	MPALSG and municipalities		▪ MPALSG participates
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Results	Objectively verifiable indicators	Sources of Verification	Assumptions
Results related to component 1 – Good governance: Planning and service delivery			
<p>1. Municipalities' capacity to make and implement strategic plans improved</p> <p>2. Municipalities' capacity to make and implement LED plans improved</p> <p>3. Enhanced inclusion of citizens, civil society and the media in the planning process</p> <p>4. Understanding of the overall needs in the LG sector improved</p>	<ul style="list-style-type: none"> ▪ Number of municipalities assisted in making and implementing strategic plans ▪ Number of municipalities assisted in making and implementing LED plans ▪ Quality of the plans and resulting actions ▪ Increased number of local stakeholders actively involved in planning ▪ Regular meetings take place between stakeholders ▪ Number of media productions broadcast and TV viewing figures ▪ Attitudes of citizens ▪ Sector overview produced and disseminated 	<ul style="list-style-type: none"> ▪ Project Progress and M/E reports ▪ National media statistics ▪ Local government statistics ▪ Planning committee minutes ▪ National media statistics ▪ Local citizen surveys 	<ul style="list-style-type: none"> ▪ Municipalities willingly participate ▪ Local media and other potential civil society stakeholders willingly participate
<p>5. New CACs created and existing ones improved</p> <p>6. Municipalities conducted in-depth analysis of structural, MIS and HRD requirements</p> <p>7. Performance assessment introduced</p> <p>8. Assessments benchmarked against comparable bodies</p> <p>9. Financial management capacity improved</p> <p>10. Municipalities take own initiatives to demand training</p> <p>11. MPALSG officials attitudes broadened through experience with EU counterparts</p>	<ul style="list-style-type: none"> ▪ No. of new and improved CACs ▪ No. and quality of analyses performed ▪ No. of municipalities using performance assessment measures in practice ▪ No. of municipalities registered and active CAF users ▪ Quality of financial management ▪ No. of local tax administrations functioning ▪ No. of municipalities planning for programmatic budgeting ▪ No. of municipalities taking initiative to request trainings and no. of trainings requested ▪ No. of study tours and EU contacts made 	<ul style="list-style-type: none"> ▪ Project Progress and M/E reports ▪ Municipal analysis reports ▪ Municipal CAF reports and benchmarking results ▪ Municipal management reviews ▪ Assessments of financial and other training results ▪ Study tour reports ▪ Experts reports 	<ul style="list-style-type: none"> ▪ Municipalities willingly participate ▪ MPALSG willing to cooperate

12. EU expertise used in legislative drafting	<ul style="list-style-type: none"> ▪ No. and output of EU experts engaged 		
13. Municipal bonds used to finance projects 14. Municipal bond market functioning	<ul style="list-style-type: none"> ▪ No. of bonds issued ▪ No. of bonds traded 	<ul style="list-style-type: none"> ▪ Project and M/E reports ▪ Municipal financial reports ▪ Stock market figures 	<ul style="list-style-type: none"> ▪ All key stakeholders cooperate

Results	Objectively verifiable indicators	Sources of Verification	Assumptions
Results related to component 2 - Grant scheme for projects and skills transfer (Exchange III)			
<p>15. Human resource capacities and skills in local authorities have been significantly enhanced through a series of exchange projects with EU partner municipalities and/or Serbian partner municipalities and local NGOs.</p> <p>16. Municipal management and delivery of services to citizens in Serbian municipalities have made significant improvements in the direction of existing EU standards for these municipal services through implemented projects</p> <p>17. Municipalities' capacity to identify, formulate and implement projects improved</p> <p>18. Strategic and LED plans produced</p> <p>19. Youth exchanges carried out</p>	<ul style="list-style-type: none"> ▪ Calls for proposals successfully carried out ▪ Number of projects provided with grants and successfully implemented by the municipalities ▪ Municipalities trained in and advised on project development, procurement, reporting and (financial) project management in line with EU procedures. ▪ No. of municipalities trained in and advised on project development, procurement, reporting and (financial) project management in line with EU procedures. ▪ No. and quality of plans ▪ No. of exchange projects / no. of days Serbian youths travelling abroad / no. of days EU youths staying in Serbia 	<ul style="list-style-type: none"> ▪ Project Progress and M/E reports ▪ Municipal analysis reports ▪ Assessments of training results 	<ul style="list-style-type: none"> ▪ Municipalities can provide sufficient and sufficiently good-quality projects. ▪ SCTM has capacity to implement grants scheme.
Results related to component 3 – Direct award to SCTM			
<p>20. Grant funds distributed successfully through Calls for Proposals</p> <p>21. Grant management capacities in the SCTM increased</p> <p>22. Best practices collected and distributed</p> <p>23. The service delivery capacity of the SCTM is significantly strengthened through advisory services to the inter-</p>	<ul style="list-style-type: none"> ▪ No. of projects provided with grants successfully finalized in line with EU procedures ▪ No. of best practice manuals disseminated and seminars/workshops held ▪ No. of position papers written ▪ Incorporation of contents of papers into legislation 	<ul style="list-style-type: none"> ▪ Project Progress and M/E reports ▪ SCTM manuals inventory ▪ Sector committee minutes ▪ Content of legislation 	<ul style="list-style-type: none"> ▪ SCTM has capacity to implement grants scheme. ▪ Sector committees have capacity and are willing to alter their role ▪

municipal and cross-border municipal projects carried out by members 24. Sector committees regularly producing position papers and contributing to legislative drafting			
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Activities	Means	Costs	Assumptions
Activities related to component 1 – Good governance: Planning and service delivery			
Activity 1: Strategic planning and implementation	TA, training and coaching	10 M€	<ul style="list-style-type: none"> ▪ Sufficient and sufficiently educated municipal officials exist to receive training. ▪ Politicians and officials understand the need for planning.
Activity 2: Developing LED departments and plans in municipalities.	TA, training and coaching		<ul style="list-style-type: none"> ▪ Municipalities prepared to re-think structures and staffing. ▪ Sufficient and sufficiently educated municipal officials exist to receive training.
Activity 3: Citizen participation and public communication.	TA and production costs		<ul style="list-style-type: none"> ▪ Municipal officials cooperate with media and include stakeholders in planning processes
Activity 4: Local government sector review	TA		<ul style="list-style-type: none"> ▪ SORS or alternative body willing to cooperate ▪ Municipalities understand the importance of responding to surveys. ▪ Municipalities have the capacity to respond.
Activity 5: Assistance to Citizens Assistance Centres	TA, training and coaching		<ul style="list-style-type: none"> ▪ Sufficient municipalities prepared to re-think structures and staffing.
Activity 6: Introducing performance measurement through the CAF.	TA, training and coaching		<ul style="list-style-type: none"> ▪ Sufficient municipalities understand the importance of performance measurement.
Activity 7: Improving Financial Management.	TA, training and coaching		<ul style="list-style-type: none"> ▪ Sufficient and sufficiently educated municipal officials to receive training.
Activity 8: Provision of demand-driven training.	TA, training and coaching		<ul style="list-style-type: none"> ▪ Municipalities understand the use of consultants. ▪ Municipalities understand the value of the offer and provide counterparts. ▪ Training providers are available.
Activity 9: Study visits and legislative drafting support	Travel costs and TA		<ul style="list-style-type: none"> ▪ Political will exists to make use of grant.
Activity 10: Improving municipal financing options	TA, training and PR inputs		<ul style="list-style-type: none"> ▪ Central government and institutions are willing to develop their roles. ▪ Institutional investors are prepared to cooperate.

Activities related to component 2 - Grant scheme for projects and skills transfer (Exchange III)			
Activity 9: Exchange III Grants scheme	Grants	8 M€	<ul style="list-style-type: none"> ▪ Municipalities can provide sufficient and sufficiently good-quality projects.
Activities related to component 3 – Direct award to SCTM			
Activity 10: Direct award to SCTM for the Exchange grant scheme implementation and in support of the sector committees	Grant	2 M€	<ul style="list-style-type: none"> ▪ SCTM can engage quality staff to administer the programme ▪ Sector committees have the necessary skills.

ANNEX 2: AMOUNTS (IN M€) CONTRACTED AND DISBURSED BY QUARTER FOR THE PROJECT

Contracted	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10	Q11
Contract 1.1		8.0									
Contract 1.2			10.0								
Contract 1.3		2.0									
Cumulated		10	20								
Disbursed											
Contract 1.1		4,800,000	480,000	480,000	480,000	480,000	480,000	800,000			
Contract ⁶ 1.2								10,000,000			
Contract		1,600,000						400,000			

⁶ As a call for proposals grant scheme a disbursement schedule is not possible.

1.3											
Cumulated		6,400,000	6,880,000	7,360,000	7,840,000	8,320,000	8,800,000	20,000,000			

ANNEX 3: - REFERENCE TO LAWS, REGULATIONS AND STRATEGY DOCUMENTS

Reference list of relevant laws and regulations

Legislation

Law on Budget System, 2002

Law on Local Government Finance, 2006

Law on Local Self-Government, 2002

Law on Property Owned by the Republic of Serbia

Law on Public Procurement

Law on Public Revenue and Expenditures

Strategic documents

Annual Action Programme for 2005 for Community Assistance to Serbia, EU

Federal Republic of Yugoslavia Country Strategy Paper 2002-2006, EU Commission

Multi-Annual Indicative Planning Document (MIPD) for the Republic of Serbia 2007-2009

National Investment Plan of Serbia 2006 - 2007

National Strategy of Republic of Serbia for EU Accession, Serbian European Integration Office, June 2005

Plan for the Implementation of Priorities Contained in the European Partnership, April 2006

Poverty Reduction Strategy for Serbia, Government of Serbia, 2003

Revised Action Plan for the Implementation of Priorities Contained in the European Partnership, February 2007

Serbia – Stabilization and Association Report 2004

Serbia 2005 European Partnership, EU, January 2006

Serbia 2006 progress report, EU, December 2006

Strategy of Public Administration Reform in the Republic of Serbia, 2004

For the following references, please see section 2.3 – 2.6

Reference to AP /NPAA / EP / SAA

Reference to MIPD

Reference to National Development Plan

Reference to national / sectoral investment plans

ANNEX 4 - LED, CAPITAL INVESTMENT FINANCING AND TARIFF POLICY

Administrative reform is expected to enable municipalities to increase their contribution to local economic development (LED). However, understanding of the mechanisms of LED, and even of markets and the market economy is often weak.

Municipalities face the challenge of providing an enabling and business-friendly environment. In this, they and the regional structures have a subordinate role compared with the large national issues that impact economic growth (de-regulation, simpler administrative burdens for companies, cheaper credit, lighter taxes etc.). However, this does not mean their role is insignificant. Municipalities can influence a number of LED levers:

- Local availability of finance (e.g. information on availability of credit lines and advice on how to access them)
- Administrative environment for SMEs (single focus for business in the administration; reducing turnaround times for permits and other procedures; simplifying administrative requirements; minimising local taxes; business support services through e.g. a local business association; promotion of innovation through awards, grants, publicity; promoting the region / municipality as business-friendly; coordinating the marketing of local produce, especially from small producers, creating a local brand)
- Local infrastructure for economic growth (cheap land, business parks and rentable space; good public utilities and transport; good property records, database, administration, use of GIS; promotion of sites to investors; business incubators)
- HRD and training (job matching services; vocational training; counselling; career guidance)

Many of these issues can best be addressed in cooperation with other municipalities in a regional forum. Regional cooperation between municipalities can also enhance the local lobby at national level to push for national reforms promoting economic development. These issues are to be addressed by the parallel programme RSEDP.

Capital investment financing

The lack of good infrastructure is one of the major stumbling-blocks for economic development in Serbian municipalities. A parallel programme (MISP) directly addresses key infrastructure needs and the capacity of municipalities to deal with them. There are however a number of issues in this field more directly related to good municipal management.

Financing public infrastructure is a matter of special concern. New financing mechanisms are required. Municipalities have several options: financing from the budget, financing through debt or attracting private or semi-private financing.

Financing from the budget is sometimes perceived as the most prudent form, but with current budget levels decades will pass before it becomes possible to make any significant improvements. More immediate financing carries costs, but also generates income through several mechanisms:

- extended services generate increased revenues from consumers
- construction companies and their employees pay taxes

- invested funds re-circulate in the economy through salaries that generate consumer spending and new private investment
- the rise in employment diminishes social security spending and increases consumer confidence, generating a more rapid circulation of funds in the economy.

Given careful policymaking, the resulting improvement to public finances will enable lower taxation rates, improving the business environment in a virtuous circle.

Debt financing is possible through bank credits or the issue of bonds. Bank credits are available commercially in Serbia at present though the banking market is far from fully-developed resulting in high interest rates. In certain cases International Financial Institutions (IFIs) provide loans. A more flexible common means used in the West is the issue of municipal bonds. These can be with or without interest payments, meaning a smaller or larger part of the cost is deferred until their maturity.

Recent legislation enables the issue of bonds, but as yet a functioning bond market has yet to emerge. The mechanisms, new to Serbia, should rapidly be clarified and brought to the attention of all concerned – municipalities, investors and those who mediate or regulate. Potential investors are available in the form of pension funds, investment funds, insurance companies and banks for this normally highly secure investment. Development of this mechanism is a high priority.

Private capital can be harnessed through direct investment or through Public-Private Partnerships (PPPs).

Fully private financing takes the form of concessions to operate infrastructure through a variety of means such as BOT schemes. The law on concessions requires that these are dealt with at ministerial level, which may make them unattractive for some municipalities.

PPP schemes tend to have four principal roles:

- to provide additional capital
- to provide alternative management and implementation skills
- to provide value added to the consumer and the public at large
- to provide better identification of needs and optimal use of resources.

However, while PPPs can present a number of advantages, they can be complex to design, implement and manage. They should be considered if they will achieve additional value compared with other approaches, if there is an effective implementation structure and if the objectives of all parties can be aligned within the partnership.

In terms of municipal organisation, Public Utility Companies (PUCs) have traditionally been responsible for the operation and maintenance of municipal infrastructure, whereas capital investment has been the responsibility of a directorate of the municipality. It is thus the directorate that has had to raise funds for investment. It would be useful for municipalities individually and collectively to reconsider this arrangement. Shifting infrastructure development into the PUC itself could bring a number of advantages such as encouraging more economic and less political considerations, improving efficiency, enabling PPPs and joint-ventures, and eventually allowing the option of privatisation.

Tariffs and the efficient allocation of capital

Another of the major questions to be answered by local government is that of tariff policy. Public services have traditionally been heavily subsidised in the name of social equality.

Tariffs charged for e.g. water have been far below cost-recovery levels. This has encouraged over-consumption and waste and led to inflated supply targets. Secondly, the actual 'social equality value' in this subsidisation is questionable. Poor non-users (such as rural inhabitants using wells or Belgraders not connected to the City heating) must through their taxes subsidise rich urban users. Furthermore, the exaggerated supply required as a result of disrespect for the service leads to over- and mis-investment. The resulting inefficient allocation of capital makes everyone in society poorer.

The rational answer would be to set tariffs at full cost-recovery. Experience from other countries shows that it is possible to design tariff and non-tariff policies to ensure in other, more efficient ways that even the poorest can afford the service, without the perverse results. Apart from allowing more efficient allocation of capital, transparent tariffs are one enabling factor for equity financing of infrastructure. PPPs will require a project to be financially feasible, i.e. profitable, a situation that will only occur when tariffs can be set flexibly.

Given, however, the ingrained use of subsidy, it would be politically daring to suggest such changes without a substantial change in public awareness. Educating the public should be a priority. This issue is fundamental, not only to effective infrastructure development and capital financial management, but more generally to the reform of citizens' perceptions of social cohesion.