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## **Social Policy Reform: Financing Social Services - Practical Lessons from Slovakia -**

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**Belgrade, February 2011**

This policy paper has been prepared with the assistance of the Pontis Foundation and the Centre for Democracy and supported by the Slovak Aid through Slovak-Serbian EU Enlargement Fund. The aim of the fund is to provide direct support for Serbian domestic experts, journalists and researchers from the young generation with the aim of rejuvenating and reviving the sector in its goal of disseminating arguments examining the benefits of EU membership for Serbia. The opinions presented in the paper are of the author exclusively, neither necessarily of the Pontis Foundation nor of those of the Center for Democracy and Slovak Aid.



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## **EXECUTIVE SUMMARY**

Financing of community-based social services in Europe has become problematic in recent years due to a number of factors, including population ageing, which increases demand for these services, and growing fiscal constraints, which reduce their supply. Concurrently, Central and Eastern European countries have implemented a series of costly, market-oriented economic and social reforms, making the issue of financing social services even more challenging. This paper explores social policy reforms in two countries, Slovakia and Serbia, providing policy implications for Serbia from good practices and lessons learnt from Slovakia. It concludes that both countries have experienced similar sources of contention regarding the issue. Access to public sources of finance for delivery of social services and government resistance to change were cited as the most common barriers to reform in both countries. Furthermore, there is a general consensus amongst stakeholders that improving the quality of social services does not depend exclusively on the availability of financial resources but is largely linked to negative attitudes towards reform. This paper suggests that even when a country joins the European Union, its reform progress depends mostly on domestic factors and the ability of social care providers to develop initiatives, which allow them to obtain EU funds.

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# Social Policy Reform: Financing Social Services - Practical Lessons from Slovakia

## 1. Introduction

Development of sustainable financing mechanisms for community-based social services<sup>1</sup> has become a major concern around Europe as the gap between demand for, and supply of, these services widens. The widening of this gap has been influenced by a number of factors, including population ageing, which has increased demand for these services, and growing fiscal constraints, which have affected the availability of public resources for their financing.

The countries of Central and Eastern Europe (CEE) have, while being subject to these adverse demographic<sup>2</sup> and economic factors, implemented costly and painstaking market-oriented economic and social reforms. Social service delivery reforms have been based on the principles of: i) decentralisation, which is aimed at moving competencies and responsibilities to local government so as decision-making is as close to the citizen as possible, ii) deinstitutionalisation, which substitutes institutional care with community level support mechanisms and enables users to stay in their local communities, and iii) diversification, which introduces non-state actors (such as NGOs) into the provision of social services (Bosnjak & Stubbs, 2006). These reforms have been aimed mainly at improving the quality of social care services, to create sustainable mechanisms for their financing, and to increase social inclusion. These reforms have implied that CEE countries have had to finance parallel social care services, e.g. finance institutional care while at the same time building community support mechanisms supposed to reduce the number of clients in residential care once they become operational (USAID, 2005).

This paper discusses Slovakian experiences with financing social services, with a focus on care for the disabled and elderly. Slovakia joined the EU in 2004 and as Serbia is not yet an official candidate, is ahead of Serbia in many EU-oriented reform processes. The research presented in this paper examines policy implications for Serbia of good practices and lessons learnt in Slovakian social services reform to provide useful input for ongoing policy dialogue in Serbia as the new Draft Law on Social Welfare is debated in the Serbian Parliament. The methodology used in this research combined desk research with fieldwork. While desk research was based on primary and secondary literature sources from both Slovakia and Serbia, fieldwork consisted of conducting semi-structured interviews with relevant stakeholders from the government and non-governmental sectors in Serbia and Slovakia.

The paper is structured as follows: section 2 discusses the process of social services reform in Serbia, with particular focus on its financing, section 3 presents the findings of research on social services financing in Slovakia, while section 4 offers policy implications for Serbia of Slovak experiences.

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<sup>1</sup> Such as care of the disabled and elderly, which is the focus of this paper.

<sup>2</sup> Countries of the former Yugoslavia have had an additional demographic disability burden because of their recent conflicts.

## 2. Social Services Reform in Serbia

Serbia has been reforming social service delivery over the past decade through developing community-based care and reducing the state's role in provision of social services. The main expected outcome of these reforms, which have taken place under the guidance of the international donor community, is improvement of the quality of social care services for users/dependents. At the same time, the reforms aim to, through concurrent processes of decentralisation and deinstitutionalisation, restructure expenditures on social services from centralised and mostly institutional support to active community-based support in such a way that users of social care would receive adequate care while not being excluded from their communities and "locked away" in residential institutions<sup>3</sup>.

Currently, social services provision in Serbia is decentralised to the extent that local governments are providers of all rights-based non-residential care (e.g. day care for the elderly, children with learning difficulties, victims of violence), while the central government oversees all types of residential care (for orphans, disabled, elderly etc.). The wider process of decentralisation was initiated with the adoption of the 2002 Law on Local Self Government<sup>4</sup>, which identified 39 spheres of responsibilities for all local authorities, regardless of their size, population and level of development (Krizanic-Pavlovic, 2010). Since then, a number of laws have been adopted increasing local responsibilities within these 39 spheres. Therefore, within the social services sector, the role of local self governments in social service delivery has been increasing, as their financial responsibilities towards social services grow and community-based care takes primacy over residential care. It is also expected that consequently over time the NGO sector's role in social service provision will increase across Serbian municipalities (Matkovic, 2006).

Social service expenditures in Serbia have so far mostly focused on the most expensive type of care, institutional, leaving little room for financing development of non-residential alternatives at local level. Thus, central government support in financing development of new community-based social services has been virtually non-existent up to now and the gap has been mainly filled by donors<sup>5</sup> (e.g. the Slovakian government supported the development of home care for the elderly in Kovačica, a predominantly Slovakian municipality in Vojvodina, Serbia's northern province). The nature of most donor-based financing has been primarily developmental, i.e. they have sought to establish and develop services, while it is expected that the operational expenses of these services be covered from public sources (local or central government). The theory behind this approach is that once a service is established and its users experience its tangible benefits, the pressure of demand for this service will increase its chance of acquiring public finance, especially since every local self government in Serbia is legally and financially obliged to provide these services. However, since there are no mechanisms to effectively sanction non-delivery, in practice provision of these services remains at the discretion of local governments<sup>6</sup>.

Regarding financing mechanisms for public services, the model of fiscal decentralisation adopted in Serbia involves raising local governments' tax revenue collection capacities<sup>7</sup>, while criteria for transfers from central government are determined in relation to the volume of revenues a municipality is able to collect. The 2006 Law on Financing Local Self

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<sup>3</sup> Interview with Ministry of Labour and Social Affairs, 25/11/2010

<sup>4</sup> Government of Serbia, Official Gazette 9/02

<sup>5</sup> Interview with Ministry of Labour and Social Affairs, 25/11/2010

<sup>6</sup> *ibid.*

<sup>7</sup> Serbia does not have a regional tier of government, except for its northern autonomous province of Vojvodina, while there are 164 municipalities, of which 24 are cities.

Governments<sup>8</sup>, which regulates this model, was a milestone in this respect, although transfers to local self governments have remained insufficient compared to the new responsibilities they have continuously taken on through the concurrent process of decentralisation of competencies. Furthermore, the 2008-10 economic crisis severely impeded Serbia's fiscal capacities and led to substantial fiscal contraction. As part of austerity measures, transfers to local self governments were reduced in both 2009 and 2010 to their pre-2006 levels. These reductions have resulted in a further decrease of municipalities' abilities to finance their mandates in all 39 spheres of competencies prescribed by law, and not only in the delivery of social services (Avlijas & Uvalic, forthcoming).

In reality, local government expenditures on social services have so far usually consisted of one-off emergency in-cash or in-kind support to the most needy. The stigma of being poor and asking for support ensures that typically the most needy obtain these benefits. At the same time, education and health priorities have turned out to have a lot more leverage and negotiating power than social services regarding local government budgetary allocations, since they address the needs of a larger portion of the population, while social services are usually demanded by the most disempowered members of society. Therefore, even when there are resources available at local level (which is rare), they will typically not be allocated to social services<sup>9</sup>. This problem is prolific in smaller municipalities, with minuscule budgets, as well as those with low population density and dispersed settlements where it is relatively expensive for some users to access social services and their needs may therefore not be as visible. These types of municipalities could not afford to provide any social services to their citizens even before the crisis. Moreover, since central government budgets for social services were not cut during the crisis, primacy was again given to institutional care and passive support mechanisms of social care, indicating little sustainable commitment to prioritising community-based care.

In this sense, the system of social care in Serbia is reactive rather than preventive, forcing the needy, e.g. the elderly and disabled, to apply for residential care once they can no longer cope without community support (e.g. home help). As residential care is financed by central government, since it falls outside the realm of local government responsibility as defined by the existing Law on Social Welfare<sup>10</sup> (adopted in 1991, last amendment in 2005) and the 2002 Law on Local Self Government<sup>11</sup>, in practice users are moved from one government tap to another.

Since residential care is a more expensive and less humane alternative, central government has recognised the need for deinstitutionalisation and development of community-based services<sup>12</sup>. But there remain interests involved in maintaining and financing social care institutions as units of concentrated power and interests (e.g. as a source of municipality employment).

The new Draft Law on Social Welfare being discussed by the Serbian Parliament hopes to introduce specific earmarked budget lines at central government level for the development of social services at community level. It also envisages allocation of additional funds to less developed municipalities (as defined by the Act on Underdeveloped Municipalities) for

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<sup>8</sup> Government of Serbia, Official Gazette 62/06

<sup>9</sup> Interview with Social Work Centre, municipality of Kovacica, 07/12/2010

<sup>10</sup> Government of Serbia, Official Gazettes: 36/91, 79/91, 33/93, 53/93, 67/93, 46/94, 48/94, 52/96, 29/01, 84/04 and 115/05

<sup>11</sup> Government of Serbia, Official Gazette 9/02

<sup>12</sup> Interview with Ministry of Labour and Social Affairs, 25/11/2010

provision of services, which are normally financed from local resources. However, challenges remain in establishing sustainable public budget lines to finance the current expenditures of these newly established community-based support services.

### **3. Social Services Reform in Slovakia**

Decentralisation of social services in Slovakia started in 2002-04 as part of a wider effort to delegate responsibilities from national to sub-national tiers of government. Fiscal decentralisation, which consisted of building mechanisms ensuring sources of finance for newly delegated responsibilities, followed in 2005.

Sub-national government in Slovakia consists of eight self-governing regions, established in 2002<sup>13</sup>, and 2,934 municipalities. The municipalities are fragmented and their size varies greatly while they all have the same competencies<sup>14</sup>. This administrative and territorial structure has influenced Slovakia's fiscal decentralisation model based on a personal income tax (PIT) transfer formula. The formula was determined through objective criteria supposed to reflect the financial needs of municipalities and regions, as they are linked to the specific competencies and responsibilities of municipalities and regions (Niznansky, 2005). The criteria for allocating resources to municipalities are as follows:

- i. Number of inhabitants with permanent residence in its territory adjusted by a coefficient of altitude above sea level;
- ii. Number of inhabitants with permanent residence in its territory adjusted by size coefficient;
- iii. Number of pupils in elementary art schools and school facilities;
- iv. Number of municipality inhabitants aged 62 or more.

By using these criteria, the central government has ensured that, for example, municipalities' school or age-related per capita expenditures are recognised by the central government<sup>15</sup>.

Objective criteria for determining the level of transfers to regions represent an extended version of the criteria for financing municipalities, since regional competencies go beyond those of municipalities:

- i. Number of inhabitants with permanent residence in its territory;
- ii. Number of inhabitants aged 15-18 with permanent residence in its territory (because of secondary schools);
- iii. Number of region's inhabitants aged 62 or above;
- iv. Population density;
- v. Length of class II and III roads within region's property;
- vi. Region area<sup>16</sup>.

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<sup>13</sup> Although regions were established in 1996, they were initially just administrative regions, but in 2002 became "higher territorial-administrative units". Prior to 2002, governing bodies were appointed by the central government, but have since been formed via direct regional elections.

<sup>14</sup> 1,163 of them have less than 500 inhabitants and 763 of them between 500 and 1,000

<sup>15</sup> The municipality altitude coefficient is related to longer winters and greater heating expenditures in mountainous areas.

<sup>16</sup> Coefficients of size have been designed to allocate more resources to larger towns since they have additional expenditures such as transport, roads etc.

Once the above objective criteria were determined and PIT-based transfers allocated, all social services began being financed from regional and local budgets only<sup>17</sup>. Numerous stakeholders have questioned whether these criteria are objective, though, and whether they adequately reflect the financing needs of sub-national tiers of government. For example, Ministry of Employment, Social Affairs and Family representatives believe these criteria should be changed because in determining social services financing needs only taking into account the number of elderly people cannot be described as objective criteria<sup>18</sup>. Slovak Association of Towns and Municipalities (ZMOS) representatives claim that during the fiscal decentralisation model design process communities were not fully aware of what expenditures their newly acquired competencies would require<sup>19</sup>. Finally, due to fiscal pressures on sub-national levels of government to deliver social services amid falling revenues during the 2008-10 economic crisis, the Ministry of Employment, Social Affairs and Family signed a Memorandum of Understanding with the Ministry of Finance to support local expenditures on social services in 2009 and 2010<sup>20</sup>.

In terms of division of responsibilities between the two sub-national tiers of government, regional governments are in charge of providing social services for the severely disabled (disability degrees 5 and 6), while municipalities are in charge of providing services for the elderly (except those with disability degrees 5 or 6). Local governments are legally obliged to provide home care so anyone in need who does not receive it can theoretically take the local authorities to court. However, in reality this does not happen as there is a weak rule of law in Slovakia and those in need of services are mostly marginalised and disempowered members of society. In practice, if there is substantial pressure from the user and his/her family, a municipality pays another municipality to accept him/her into a seniors' home. Most municipalities struggle to introduce home-based services as they pay larger municipalities to accommodate their elderly citizens in need.

Some projects have been focused on promoting inter-municipal cooperation in social service delivery, but this has proved futile in the longer run because of the unwillingness of municipalities to cooperate in this sphere<sup>21</sup>. However, cooperation seems to be working in other sectors, such as construction. It is typically bottom up demand that leads to the establishment of common offices in some spheres, which have specific requirements that cannot be met by every village (e.g. architects or engineers to issue construction permits)<sup>22</sup>. This corroborates commonly cited arguments (see section on Serbia) that users of social services do not have enough negotiating power and leverage to "force" their authorities to deliver. Moreover, almost every village wants to have an institution for elderly people since it provides employment opportunities. The Association of Towns and Municipalities (ZMOS) is currently lobbying to make municipalities responsible only for home care and day care centres, and in cases where these cannot be provided force them to pay regions for institutional care. They believe this will improve cooperation as municipalities will have more incentive to collaborate if none of them are responsible for running institutions they are trying to preserve for their political, and sometimes financial, benefit<sup>23</sup>. As a more radical solution, the Ministry of Employment, Social Affairs and Family wants to merge some

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<sup>17</sup> With the exception of 85 institutions for the elderly and disabled which by law should have been financed at local level but in practice could not be.

<sup>18</sup> Interview with Ministry of Employment, Social Affairs and Family, 11/01/2011

<sup>19</sup> Interview with ZMOS (Association of Towns and Municipalities), 13/01/2011

<sup>20</sup> Interview with Ministry of Employment, Social Affairs and Family, 11/01/2011

<sup>21</sup> Interview with NGO SOCIA, 11/01/2011

<sup>22</sup> Interviews with NGO SOCIA, 11/01/2011 and ZMOS (Association of Towns and Municipalities), 13/01/2011

<sup>23</sup> Interview with ZMOS (Association of Towns and Municipalities), 13/01/2011

smaller municipalities to make it feasible for them to finance their competencies in delivery of social services.

Deinstitutionalisation has been a very slow process and has met with a lot of resistance. This is corroborated by evidence of better and more diversified care services in areas with few government institutions as care providers. This is the case in the Trnava region, where greater demand for NGO work and community-based services is accompanied by a low incidence of public social care institutions<sup>24</sup>. Many stakeholders believe it is very expensive to have community care services. However, it is in fact less costly as staff can focus on clients, while in institutions 60% of hired staff work in administration, while infrastructure maintenance costs are also incurred<sup>25</sup>.

Not all regions have experienced resistance to deinstitutionalisation, but since regions have more financial resources at their disposal than local authorities there is antagonism between the two tiers of sub-national government. Such attitudes are further exacerbated because each side believes the other has enough or more than enough resources at their disposal<sup>26</sup>. Finally, sanctions for non-delivery are almost non-existent so many local self governments simply do not provide community-based social services to their citizens<sup>27</sup>.

In terms of diversification of social services providers, Slovakia has around 250 non-governmental organisations (NGOs) providing care for around one fifth of total social services users. Government institutions assist the rest<sup>28</sup>.

A dominant issue in stakeholder discussions is non-state actors' access to public sources of finance. There has been a push by the NGO sector to establish a system of financing social services in which money follows the client, i.e. the client gets to choose which provider he wants and then has the state pay for it<sup>29</sup>. A new Law on Social Services, due to come into effect in March 2011, will allow equal access to public finance for all providers. Most stakeholders remain sceptical about its effectiveness, though. The Ministry of Employment, Social Affairs and Family expressed concern about ensuring equal access to finance in practice, because of severe fiscal restrictions imposed following the crisis<sup>30</sup>. The NGO sector is also concerned local governments think less about the quality of services for end users than protecting state institutions and their interests<sup>31</sup>.

Finally, there are issues concerning the role of the European Union in social services reform. The European Union does not play an active role in guiding countries which receive the funds on how to spend them, i.e. does not bring in external expertise and supervision. Recipient countries are also unhappy they are expected to have capacities in place to absorb funding *ex ante*. Moreover, the money received from the EU is mostly to help prepare and start a service rather than run it. Other sustainable sources of finance need to be identified to finance current expenditures<sup>32</sup>.

As a recipient country, Slovakia established an EU funds absorption system that was very bureaucratic and inflexible because of experiences with low transparency and

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<sup>24</sup> Interview with NGO SOCIA, 11/01/2011

<sup>25</sup> Interview with NGO Social Work Advisory Board, 12/01/2011

<sup>26</sup> Interview with Bratislava Self-Governing Region, Department of Social Services, 13/01/2011

<sup>27</sup> Interview with NGO Social Work Advisory Board, 12/01/2011

<sup>28</sup> Interview with NGO SOCIA, 11/01/2011

<sup>29</sup> If the price exceeds that in state institutions, the client pays the difference.

<sup>30</sup> Interview with Ministry of Employment, Social Affairs and Family, 11/01/2011

<sup>31</sup> Interview with NGO Social Work Advisory Board, 12/01/2011

<sup>32</sup> Interview with Bratislava Self-Governing Region, Department of Social Services, 13/01/2011

mismangement of EU funds during the pre-accession period. Current control and scrutiny is *ex ante*, because of high corruption risks, while in France, for example, it takes place *ex post*. According to civil society representatives, the donor-based financing system was much more efficient and effective before Slovakia joined the EU, because there were more donors and with more flexible project implementation procedures. The current system of applying for EU funds and its scrutiny take social workers' time away from their clients. Furthermore, once Slovakia embarked on its EU accession, the majority of other donors withdrew, making it more difficult to access funding for social services<sup>33</sup>.

However, during its pre-accession period, Slovakia faced significant problems in absorbing EU PHARE funds and some studies show that Slovakia was the worst performer of all candidate countries at the time in terms of available staff able to administer EU funds. During the early post-accession period (2004-2006), they only succeeded in executing 36.3% of total available EU funds, whereas neighbouring countries, such as Hungary and Slovenia, absorbed 49.7% and 51.4% respectively. This was additionally linked to the fact that Slovak sub-national tiers of government were completely unprepared for use of EU funds, causing problems in coordination between funds' administrators and their final beneficiaries (Knezevic, 2010, p.4-6).

#### **4. Policy Implications for Serbia**

Based on the research findings on social services financing in Serbia and Slovakia presented in this paper, we generate the following policy implications of the Slovak reform process for Serbia.

**Even when a country joins the European Union, its reform progress depends mostly on domestic factors.** Both countries have experienced similar sources of contention with access to public sources of finance for social services and resistance to change within the social care system being cited as the most common barriers to reform.

**The quality of social services does not exclusively depend on the availability of financial resources; negative attitudes towards reform are often as significant obstacle.** Slovak experiences in social services reform show how complex it is to dovetail various stakeholders' agendas, especially in times of scarce resources. Namely, the social services sector in Slovakia has been subject to numerous and frequent legal amendments over the past few years, which have led to confusion amongst social care providers and consequently their reduced accountability to citizens.

**Decentralisation of social services does not necessarily lead to improvement of social services' quality** and there is a genuine danger that the main aim of decentralisation in times of severe austerity may be the passing of responsibilities to lower levels of governments simply to reduce central government expenditures.

**When there are more tiers of government overseeing aspects of the same policy it is crucial their roles be clearly defined to avoid responsibilities being palmed off to others** (without exceptions, which make the system seem unjust to those who do not receive the benefits of exceptions). Meanwhile, determining which municipalities get additional central government support for social service delivery should not be based solely

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<sup>33</sup> Interview with NGO Social Work Advisory Board, 12/01/2011

on simplified indicators of a locality's economic circumstances but on realistic needs assessments.

**It is very important for Serbia to use the presence of other bilateral and multilateral donors over the next few years to establish and strengthen its non-governmental social services providers before it joins the European Union to ensure their ability to withstand demanding EU procedures.** Since Slovakia joined the EU, diversity of donor sources has fallen and procedures involved in obtaining European funds have become complex. EU funding functions in such a way that project implementers in recipient countries are expected to have the capacities to administer EU funds and devote their resources to improving the quality of services for end users - two aims which are often juxtaposed.

At the same time, **it is pivotal for Serbia to build an efficient national EU funds administration system**, including a functioning and responsive certified Decentralised Implementation System (DIS) for management of EU funds<sup>34</sup>. The use of EU funds depends on a country's capacity to use them as much as the entire process of reform depends on the country's willingness to implement them.

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<sup>34</sup> DIS Road Map was initiated in 2008, while the deadline for DIS accreditation by the EU is December 2011.

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