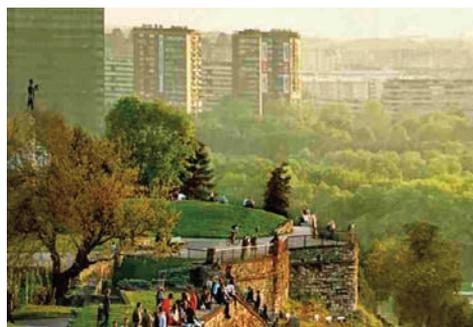


Slovak-Serbian EU Enlargement Fund

Collection of Selected Policy Papers



Bratislava, 2011



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First edition, Bratislava 2011
Pontis Foundation



The policy papers have been prepared with the assistance of the Pontis Foundation and the Centre for Democracy and supported by Slovak official development assistance program Slovak Aid through the Slovak-Serbian EU Enlargement Fund.

The opinions presented in the publication are of the authors exclusively, neither necessarily of the Pontis Foundation nor of those of the Center for Democracy and Slovak Aid.



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Slovak – Serbian EU Enlargement Fund

Serbia hopes to end 2011 as a candidate for membership of the EU, with a set date for starting negotiations on the membership. European integration is in Serbia seen as the main strategic aim at same time representing the key factor of its economic and social development. After the country being hit by the world wide economic crises, the integration in the European Union can be now considered a part of the economic revival and modernisation process. However, apart from financial sector and economic reform questions, other topics related to the European Union, the integration process itself and harmonisation of law remain solely discussed by the government. There is still a high need to involve non-state actors into a wider discussion about its European future. At the same time, think tanks and researchers themselves lack the necessary capacity and expertise to become a natural partner to the Serbian government when discussing the European integration and increasing public awareness about advantages and disadvantages of the EU membership.

The **Slovak - Serbian EU Enlargement Fund** aimed to **strengthen the public discussion about Serbia's integration** into the EU through the grant mechanism opened for young Serbian analysts and journalists. Apart from research and travel grants the Fund offered seminars on public policy, policy paper writing, dissemination, public outreach and communication with stakeholders. Experts cooperating with the Pontis Foundation maintained intensive contact with all grantees and provided professional and regular consultations to further strengthen their skills in public policy. Successful projects were selected by the Evaluation Board which was open to donors' participation.

Established in December 2009 through 2 calls for proposals the Fund supported 13 Serbian domestic experts, researchers and journalists of the younger generation (up to 35 years old) with the aim of rejuvenating and reviving the sector in its goal of disseminating arguments examining the benefits of EU membership for Serbia. The working methods of the Fund established a model of practical transfer of the Slovak EU accession know-how, making use of study trips to Slovakia in the form of travel grants which, along with the Fund as a whole, has the potential to be replicated around the Western Balkans. The Fund regranted approximately 46 000 Euro in its 18 months of existence.

Conference **Slovak - Serbian EU Enlargement Fund; its findings and recommendations from 2010 – 2011** was the closing event of the 18-month project *Supporting young independent researchers and journalists on the EU Agenda in Serbia*. The conference topic - public administration reform - focused on an issue inevitably connected with success of preparation of the country for the EU membership. It touched also other aspects, such as Serbia's European Integration process, social and employment issues, regional development and decentralisation. The conference was held in Belgrade on 19 May 2011.



Foreword

Today, Serbia is closer to the EU membership than ever before, seeing its path toward integration as a part of its own unique reform and modernization process. Involvement of non-state actors in a wider discussion about Serbia's European future is crucial as citizens of Serbia are more aware of not just advantages but also responsibilities connected with EU membership. Slovakia, therefore, has shared its own experience of originally sluggish, but later quite successful, progress toward EU membership. In 2009, the Pontis Foundation created the Slovak-Serbian EU Enlargement Fund to support young, independent researchers and journalists in their work in various fields of the EU agenda in Serbia, and in their interaction with their Slovak counterparts.



Building on its own experience, our foundation focused on civil society's role in enhancing the capacities of expert communities to participate in the development of public policy, increasing cooperation between experts and governmental representatives on key policy issues and – most significantly – assisting with effective communication to wider audiences. Through the grant assistance of SlovakAid, the Fund supported 13 projects implemented by Serbian domestic experts, researchers, and journalists of the younger generation (up to 35 years old), making use of study trips to Slovakia and producing policy papers on crucial issues, some of which we are sharing with you in this publication.

The results and recommendations of the researchers' work were widely discussed at the closing Slovak-Serbian EU Enlargement Fund conference, which was organized with the high-level participation of the Slovak Ministry of Foreign Affairs. State Secretary Milan Jezovica addressed the audience and touched on transition lessons from Slovakia that we would like to share with other Western Balkan countries with assistance of our Serbian partners, seen from their perspective and applied to their specific situations.

Lenka Surotchak
Director of the Pontis Foundation



Serbia is to finalize a tremendous amount of work in terms of fulfilling all priorities pertaining to EU association and with a view to open a path for the outset of accession negotiations in end-2011. This goal is achievable, but its realization will require significant efforts.

First of all, we need to embark on Europeanization of the society, disregarding pre-defined solutions and without the awareness of the facts. We are to adopt and implement key legislation that will modify the governance model in Serbia. Civil sector and media will thus have an important role in the process concerned, considering that they are the most important partners of the Government in detection of best models for successful reform implementation.



The support provided by the Slovak Republic in our country's EU accession process has been aimed at the abovementioned goals. Such support is of importance for both our countries. Its importance for Serbia is reflected in its benefit from useful experiences of a country that managed to quickly and successfully negotiate EU membership and whose EU membership has direct and tangible benefits for its citizens. In addition, I believe that it is also important for Slovakia to make a positive impact on European integration processes, not only in Serbia but in the entire West Balkans region, supporting the achievement of a wide consensus on the significance of this issue.

PhD Milica Delevic
Director of Serbian European
Integration Office



Absorption Capacity of Serbia for Use of EU Funds: Practical Lessons from Slovakia

Ivan Knezevic

Executive summary

Building administrative infrastructure in the pre-accession period is of very high importance for EU accession countries to efficiently manage pre-accession fund financial instruments and thus prepare for EU structural funds. Institutions and human resources dealing with programming, implementation and evaluation of EU funds in a particular country represent the key benchmark of absorption capacity of an individual state. They are the indicators of a country's readiness to spend the allocated EU funds fully and in an effective and efficient manner. The practical experience of EU Member States from the fifth enlargement (2004 and 2007), and particularly the experience of one country analysed here – Slovakia - in management of EU funds shows that this preparatory phase is of enormous importance for the creation of efficient and adequate capacities for absorption of EU funds in the country and for the future. It is of the utmost importance that a policy of strengthening administrative capacities for EU fund management is developed as a priority at the highest political level. The greatest challenges, as Slovak experience shows, can be observed within the public sector, in particular regarding professional and qualified staff, followed by inter-ministerial coordination, delays in projects and strategy preparations. In addition, preparedness of regional and local structures and civil society involvement in monitoring and securing transparency of fund allocations proved crucial. Research has shown that Serbia is already facing similar problems with CARDS and in the early stages of IPA use. The Serbian government must therefore show clear political support for the creation of necessary structures for management of EU funds in the country in order to avoid delays in preparation and secure efficient and transparent use of financial resources from the IPA components III, IV and V in the 2007-2013 budgetary period. If political and other conditions are met, Serbia should be administratively and institutionally prepared to use available EU funds, although this will depend to the greatest extent on available human resources and capacities at all levels and the appropriate involvement of all stakeholders.



1. Introduction

Since 2000, Serbia, as a potential candidate country for EU membership has been able to use EU financial pre-accession instruments for implementing political, economic, social and institutional reforms within the framework of the Stabilization and Association Process. In recent years a lot of effort has been invested in the creation of a national institutional structure able to efficiently coordinate reforms supported through EU funded projects. Serbia, as a potential candidate country, can currently use resources of 200 million EUR on average per year from the IPA pre-accession fund - about 0.7% of its national GDP. Taking into account the upper limit according to which each EU member state can receive resources from structural funds is equal to a maximum of 3.6% of its GDP, Serbia theoretically as an EU member state could, at current GDP levels, receive a maximum 1.2 billion EUR per year.

However, the experience in previous EU enlargements has been that many candidate countries, especially during the early post-accession years, have faced difficulties in absorbing EU funds from the EU budget. The major problems in using allocated EU funds have been lack of a coherent long-term strategy of national development at government level, lack of resources to co-finance projects, inefficient or in some cases absent horizontal and vertical coordination among ministries and different levels of governance in countries. Finally, a lack of skilled human resources engaged in management of EU funds in national, regional and local administrations has also been a problem. Therefore, this policy paper aims to provide practical recommendations for improvement of absorption capacities in Serbia in the future period of EU accession based on analysis of different aspects of absorption capacities in Slovakia related to the use of EU pre-accession funds.

2. Practical experiences related to absorption of pre-accession EU funds in Slovakia

2.1. Pre-accession period (1990-2003)

After becoming an independent state in 1993 the Slovak Republic began the challenging process of economic transition and institutional reforms. However, there were subsequent numerous problems and lack of experience and administrative capacities seriously hampered this process. Despite these initial problems related to transition and structural reforms Slovakia applied for EU membership in 1995. During nine years of reforms Slovakia managed to create administrative structures capable of implementing legislation harmonized with the *acquis* and fulfilled all necessary requirements for EU



membership in May 2004. The aforementioned reforms have been implemented with the support of EU pre-accession instruments for economic development (PHARE), environment and transport (ISPA) and agricultural and rural development (SAPARD).

In the period 1990-2007 the European Commission via the PHARE program committed 717.6 million EUR to Slovakia. By the end of 2007, 661.8 million EUR had been contracted and 656 million EUR paid. The absorption rate of PHARE funds in the period 1990-2006 in Slovakia was 91.42%¹ (Table 1 in the Annex). In the period 2000-2003, approval was given for 30 projects funded via the ISPA fund in the sectors of environment, transport and technical assistance with a total value of 637,451,738 million EUR in Slovakia. Total ISPA contribution was 362,145,739 million EUR. The absorption rate of ISPA funds in Slovakia in the period 2000-2003 was approximately 30% (Tables 2 and 3 in Annex).² By the end of 2006 approximately 60% of ISPA committed funds for Slovakia had been paid out.³ The total allocation for Slovakia in the period 2000-2004 from the SAPARD fund was 77 million EUR and 327 projects were completed by the end of 2004 i.e. one third of the total number of approved projects⁴. The absorption rate of SAPARD funds for Slovakia was 41.5% as of the end of 2004 (Table 4 in the Annex)⁵.

2.2 Main challenges in using pre-accession assistance in Slovakia

Various European Commission Evaluation Reports show that the PHARE financial instrument has been to a large extent effective in influencing change and modernization of infrastructure, practices and procedures in all sectors. PHARE implementation in Slovakia is considered to have been particularly successful in areas such as the environment and internal market. However, some sectors were problematic, such as cross border co-operation, agriculture, social affairs and human resources development. It is important to emphasize the significance of the Twinning type projects which were successfully used in many priority areas and helped Slovakia to prepare for the implementation of EU policies and laws.⁶

- 1 European Commission, Commission Staff Working Document Annexes to 2007 Annual Report on PHARE, Turkey Pre-Accession Instrument, CARDS and Transition Facility Country Sections & Additional Information Brussels, 2008
- 2 Mini ISPA report 2000-2003, European Commission DG REGIO, Brussels, February 2004
- 3 Report from the Commission Annual Report on the Cohesion Fund (2006) com(2007) 678 final, Brussels, 2007
- 4 Stanislav Buchta PhD, Regional aspects of SAPARD programme implementation in the Slovak Republic, AGRIC. ECON. – CZECH, 51, 2005 (12): 539–546
- 5 Commission Staff Working Document Annex to the SAPARD Annual Report – year 2004 {com(2005) 537 final}, Brussels, October 2005
- 6 Commission staff working document Annexes to 2004 report on PHARE {com(2005)701 final} Brussels, 2005



As in most candidate countries, the public sector in Slovakia has experienced major problems in recruiting and retaining highly qualified and motivated staff capable of managing EU funds effectively and efficiently. In addition, a huge administrative and human capacity problem was observed in regional and local public administration and among applicants. Relevant studies related to candidate countries' absorption capacities reveal that the best overall performance regarding available personnel was in Hungary and Estonia and the worst in Slovakia. Slovakia had planned to engage 424 people in the most important institutions responsible for managing and implementing Structural Funds, but there were only 189 present in 2003 (45% of the total planned staff). Taking into account the total amount of Structural and Cohesion funds allocated for Slovakia in the period 2004-2006 it appears the Slovak administrator had to successfully absorb on average 3.7 million EUR while in comparison the Hungarian administrator had 0.9 million EUR to manage and the Estonian 0.6 million EUR.⁷ A lack of human resources caused concern and drew criticism from the European Commission as to the adequate preparation of the Slovak Republic for EU Cohesion policy. The Slovak government reacted by launching intensive recruitment programmes in all relevant ministries and set aside additional financial resources to increase salaries of employees working with the EU agenda in order to prevent staff levels fluctuating.⁸ As a result the number of newly employed staff was even higher than the European Commission had recommended, but it was difficult to recruit staff with adequate knowledge, experience and background or to train them in a short period of time. All these problems which were related to the lack of administrative capacities posed a threat to efficient and sound implementation of the 2004-2006 programme.⁹ Additionally, weak administrative capacity for absorption of EU funds in Slovakia was caused by problems in inter-ministerial coordination, persistent lags in legislative adaptation while other problems delayed the preparation, coordination and adoption of necessary strategic and project documentation. For example, there were substantial difficulties regarding ISPA environment projects in Slovakia as, largely because of a lack of suitable projects, it took two years to start the projects.¹⁰

7 Andrej Horvat, Gunther Maier, Regional development, Absorption problems and EU Structural Funds; Some aspects regarding administrative absorption capacity in the Czech Republic, Estonia, Hungary, Slovakia and Slovenia

8 Vladimír Benc Readiness of the Slovak Republic for EU regional policy, Conference Almanac- Readiness of Candidate Countries for EU Regional Policy, Slovak Foreign Policy Association SFPA, 2003

9 Slovakia and Cohesion Policy, Karol Frank, Veronika Hvozdíková and Vladimír Kvetan, From Policy Takers to Policy Makers-Adapting EU Cohesion Policy to the Needs of the New Member States, Swedish Institute for European Policy Studies, September 2005

10 Slovakia and Cohesion Policy, Karol Frank, Veronika Hvozdíková and Vladimír Kvetan, From Policy Takers to Policy Makers-Adapting EU Cohesion Policy to the Needs of the New Member States, Swedish Institute for European Policy Studies, September 2005



Moreover, there was a serious case of mismanagement of European pre-accession assistance which came under scrutiny from the European Commission and OLAF in 2001. The problem was that procedures for selection of project proposals at the deputy prime minister's office responsible for the coordination of pre-accession PHARE funds were not transparent and efficient. This case raised huge public debate because without clear and efficient rules there was a risk that similar cases could very well occur again which would lead to the suspension and withdrawal of EU funds allocated for Slovakia. Additionally, the partnership principle in using EU funds in Slovakia was not adhered to sufficiently since there were complaints from some regions and NGOs that they did not have enough information on available pre-accession funds allocated to Slovakia and were consulted late-on when the programming process was almost finished¹¹. As a reaction to these developments, the NGO sector in Slovakia came up with an initiative to establish regulations which would ensure transparency of decision-making and prevent corruption in the use of Structural Funds in Slovakia. Furthermore, the Slovak NGO sector established an independent team for monitoring EU funds in order to ensure transparent EU fund administration and compliance with the partnership principle through adequate involvement of municipalities and NGOs in EU fund management in Slovakia.

2.3 Early post-accession period (2004 – 2006)

On the basis of the decisions of the Copenhagen European Council of December 2002, 1.1 billion EUR was allocated to Slovakia from EU Structural Funds and some 0.6 billion EUR from the Cohesion Fund. Implementation of Structural and Cohesion funds has been carried out under the sole responsibility of Slovak authorities applying national procurement rules since October 2004.

In terms of the absorption of the 2004-2006 funds, Slovakia was not particularly efficient in the first two years. By the end of 2006 cumulative execution rates were 36.3% of the total budget available. At the same time, for example, Estonia, Slovenia and Hungary reached rates of 51.4%, 51.4% and 49.7% respectively. The average execution rate for the 10 new EU member states by the end of 2006 was 39.3%.¹²

However, by the end of 2008 - the fifth year of implementation of 2004-2006 programmes - Slovakia had reached a cumulative execution rate of 93.4% while the 10 new EU member states had an average cumulative execution rate of

11 European Commission (2003c, Annex); Annex to the Communication on the Implementation of Commitments undertaken by the Acceding Countries in the Context of Accession Negotiations on Chapter 21 – Regional Policy and Co-ordination of Structural Instruments; Commission Staff Working Study, COM(2003) 828, Brussels, 16 July, 2003

12 European Commission Directorate-General Budget, Analysis of the budgetary implementation of the Structural Funds in 2006, Brussels, May 2007



94.8% - one percentage point below the 10 new EU member states' average execution rate. In addition to this it should be noted that in 2007 and 2008, 15 out of 25 EU countries registered N+2 de-commitments but only one of them was an EU-10 country: Slovakia. In Slovakia's case only one Objective 3 program was affected by an N+2 de-commitment of 8 million EUR in 2007 and 2008. Moreover, Slovakia has had N+2 de-commitments higher than the EU-25 average of 0.68 %.¹³

In its first year after accession, Slovakia continued to implement both pre-accession and post-accession assistance to address the remaining needs related to institution building for the implementation of the acquis, in line with the Extended Decentralized Implementation System (EDIS). As already outlined, institutional and administrative capacities were suboptimal during the pre-accession period and apparently deficient for simultaneous implementation of two different EU financial instruments (pre-accession and Structural Funds) in the first years of Slovak EU membership.

Finally, one very specific characteristic of the Slovakian experience of EU funds use was unprepared regional structures in the EU funds management system. This led to many deficiencies in vertical coordination between managing structures and final beneficiaries. Like other Central and Eastern European countries, Slovakia was a centralized country. As part of administrative reforms, Slovakia decided to introduce self-governing regions (VUC - higher territorial unit) in 2001. However, the delay in implementing the fiscal decentralization reform caused problems connected to the preparation of regional structures for regional development management. It should be stated that in 1998 Slovakia introduced a statistical system of regional classification levels known as NUTS. The introduction of NUTS classification as a formal requirement was sufficient for implementing EU Structural funds in Slovakia. Although administrative regionalization of the country was not necessary for the use of Structural funds, Slovakia has significantly transferred competencies and responsibilities for implementing regional policy to newly established self-governing regions. On the other hand, self governing regions lacked experience of programming and planning at regional and local levels and, moreover, there was a shortage of time to build up administrative capacities to participate efficiently in the creation of national programming documents and implementation of Structural funds.

¹³ For the programming period 2000-2006 N+2 de-commitments are regulated by article 31.2 of Council Regulation (EC) N° 1260/1999, known as the N+2 rule. The implementing rules are set in Commission Communication C(2002) 1942, as amended by Commission Communication C(2003)2982



3. Capacities of Republic of Serbia for absorption of pre-accession EU funds

3.1 Lessons learned from programming and implementing EU funds in the 2000 – 2006 period

The EU gave substantial support to the Republic of Serbia via the CARDS program between 2000 and 2006. During this period, EU assistance to the Western Balkans amounted to 4.2 billion EUR, of which 1.390,6 billion EUR was committed to the Republic of Serbia. The absorption rate of CARDS funds in Serbia was 85.73% while the ratio between contracted and committed financial allocation was 97.35%. The absorption rate for Serbia is below the average for all Western Balkan countries (87.30 %). Taking into account that implementation of some contracted projects is in progress, it can be expected that there will be higher absorption rates of CARDS funds in Serbia. Sectors with the highest share of total disbursed CARDS funds were the energy sector, which received 31% of all allocated CARDS funds in Serbia, local and municipal government development (10%), economic growth/enterprise development and border management (each 8%) and transport and health (7% and 6%, respectively). All other sectors received 5% or less.¹⁴ Detailed data related to the CARDS funds by country is in Table 5 in the Annex.¹⁵

It is important to emphasize that these high absorption rates have been achieved largely due to the involvement of the European Agency for Reconstruction (EAR) in managing assistance in the region (Serbia, Montenegro, Macedonia and Kosovo under UN 1244). EAR started its operations in 2002 and took over responsibility for the implementation of CARDS in the aforementioned countries. Meanwhile, the Serbian government established a Development and Aid Co-ordination Unit (DACU) within the Ministry of International Economic Relations (MIER) in November 2000. DACU played an important role in helping line ministries prepare and implement priority projects and coordinate donors' assistance. Following changes in the Serbian government in May 2007, DACU was incorporated within the Ministry of Finance as the Department for EU Funds and Development Assistance.

According to evaluation reports related to the implementation of CARDS funds in Serbia the absorption capacity for CARDS funding and pre-conditions for implementing the projects varied across sectors and were rated as moderately satisfactory.¹⁶ However, the initial years of CARDS programming

14 PARTICIP GmbH: Retrospective evaluation of CARDS programmes in the Republic of Serbia, Final Evaluation Report September 2009

15 Commission Staff Working Document Annexes To 2007 Annual Report On PHARE, Turkey Pre-Accession Instrument, CARDS and Transition Facility Country Sections & Additional Information, COM (2008) 880 Final, Brussels, 22.12.2008

16 PARTICIP GmbH: Retrospective evaluation of CARDS programmes in the Republic of Serbia, Final Evaluation Report September 2009



were characterized by inadequate planning and preparation with strategic documents forming a basis for project development very often not in place, thus creating problems during project implementation. Additionally, this situation led to over ambitious project objectives, relatively short project implementation periods and an insufficient beneficiary absorption capacity. Moreover, the political situation in Serbia during this period of CARDS implementation severely slowed down projects' implementation. Horizontal communication between public institutions in Serbia as well as intra-institutional coordination developed weakly. The high turnover of staff for various reasons as well as the frequent change of key project stakeholders within the administration contributed to severe delays in the implementation of some projects.¹⁷

3.2 Challenges of programming and implementing the Instrument for Pre-accession Assistance (IPA) 2007-2013

In 2007, the EU introduced a new financial instrument for the pre-accession process for the period 2007-2013. During this budgetary period pre-accession funding is channeled through a single, unified instrument, the Instrument for Pre-accession Assistance (IPA), designed to deliver focused support to both candidate and potential candidate countries. As a potential candidate country the Republic of Serbia is able to use IPA components I and II. According to the IPA Framework Regulation, IPA components III, IV and V are available only to EU candidate countries which have established a certified Decentralized Implementation System (DIS) for EU funds.¹⁸ According to the 2010-2012 Multi-Annual Indicative Financial Framework (MIFF) the allocation for the Republic of Serbia is around 1.2 billion EUR for the period 2007-2012. Taking into account the annual average allocation it can be assumed that the total allocation will be approximately 1.4 billion EUR for the period 2007-2013.¹⁹

17 European Agency for Reconstruction, Evaluation (EU/11/052/07) Institutional Capacity Building support (Serbia), June 2008

18 IPA consists of 5 components: IPA I - Institution Building and Transition Assistance: involves institution building measures and associated investment, as well as transition and stabilisation measures still necessary in the Western Balkans. It is delivered through annual national and multi-beneficiary programmes; IPA II - Cross-Border Cooperation: supports cross-border cooperation at borders between candidate/potential candidate countries and between them and EU countries. It may also fund participation of beneficiary countries in Structural Funds' trans-national co-operation programmes and Sea Basins programmes under the ENPI as appropriate; IPA III - Regional Development: finances investments and related technical assistance in the areas of transport, environment and regional competitiveness; IPA IV - Human Resources Development: is designed to strengthen human capital and help combat exclusion similar to the ESF in Member States; IPA V - Rural Development [referred to as IPARD]: serves to emulate post-accession Rural Development programmes by financing rural development-type measures, similar in nature to these programmes, though smaller in scale.

19 Communication from the Commission to the Council and the European Parliament Instrument for Pre-Accession Assistance (IPA) Multi-Annual Indicative Financial Framework for 2010-2012, Brussels, 5 November 2008



IPA is being implemented by the EU Delegation in Belgrade, which has also taken over responsibility for ongoing CARDS assistance from the European Agency for Reconstruction, which ceased to exist on December 31, 2008. Moreover, the Serbian government is more actively participating in the programming of IPA funds in Serbia. The EU aims to transfer the management of IPA funds to national authorities under the Decentralized Implementation System (DIS) once the Serbian government develops the necessary capacity to assume this responsibility.

In 2008 the Serbian government adopted the Strategy for Preparation of DIS Accreditation in the Republic of Serbia (DIS Road map). The DIS Road map for the Republic of Serbia is complementary to the IPA Implementing Regulation and sets out the stages leading to the submission to the EC of the accreditation request for the conferral of management powers with ex-ante control. According to the DIS road map, the deadline for achieving DIS accreditation is December 2011. The establishment of institutional structures, with the exception of the Audit Authority, and key appointments of a national IPA coordinator (NIPAC), strategic coordinator for regional development and human resources development components (SCO), competent accrediting officer (CAO), national authorizing officer (NAO) and national fund (NF), were carried out as required by the DIS Road map. However, several issues were identified that might cause problems in meeting set deadlines for DIS accreditation.

Firstly, without clear unconditional political support for the creation of DIS structures, Serbia will lose the possibility to use funds from IPA components III, IV and V in the budgetary period 2007-2013. This is under the assumption that Serbia acquires the status of EU candidate country in the meantime. However, the government and all ministries must individually provide clear political support to all DIS stakeholders and show an understanding of the crucial role that they play in the successful management of EU funds in Serbia. Taking into account that several other structures such as the National Investment Plan (NIP) and network of regional development agencies were created in the last few years there is a persistent danger of creating unnecessary parallel structures for the management of budgetary and EU funds in Serbia. This situation constantly jeopardizes efficient use of EU funds in Serbia and slows down the efficient establishment of DIS structures.

Secondly, there is an issue related to the recruitment of adequate personnel for efficient functioning of DIS structure. This problem is related to current civil service salary scales that are low for the type of high quality staff urgently required for adequate functioning of DIS institutions. Moreover, current restrictions on the employment of civil servants due to Serbian government obligations in the framework of an IMF financial arrangement could be a serious obstacle to progress towards meeting the set deadline for



DIS accreditation. Therefore, it is of the utmost importance that the government provides competitive remuneration levels as well as an attractive career path for civil servants dealing with the management of EU funds in the country. Additionally, it is necessary to establish the recruitment and training mechanism of staff engaged in various DIS institutions as quickly as possible to provide the necessary numbers and quality of required personnel.

One of the obligations that Serbia assumed under the Stabilization and Association Agreement is to submit data on the level of GDP per capita to the European Commission, harmonized at the NUTS II level over a period of four years. The existence of NUTS classification is the first condition for the use of EU Structural Funds following Serbia's EU accession; however, it is not that important for the use of pre-accession funds.²⁰ The recently adopted and amended Law on Regional Development envisaged the introduction of statistical regions in Serbia according to the EU's NUTS classification. The introduction of statistical regions equivalent to the NUTS classification was designed to help identification and policy targeting of economic problems at local and regional levels. However, it is still uncertain whether EUROSTAT will approve the suggested statistical regions as they are defined in the aforementioned law. But if Serbia eventually decides to establish administrative regions on its territory as well as statistical regions, it should be noted that due to lack of administrative capacities newly established administrative structures will not be capable of efficiently managing EU funds at regional level for a certain period of time.

Moreover, the Serbian government's experience in the initial years of using IPA funds and during preparation for IPA components III and IV showed that technical documentation for large investment projects at local level were not completed in a number of cases. In order to develop a pipeline of potential projects, line ministries must be very proactive in cooperation with relevant stakeholders at local, regional and national level and improve inter-sector cooperation with other line ministries during the programming and implementation of IPA funded projects.

One of the major challenges related to the efficient use of EU funds in Serbia is a lack of evaluation culture and consequently domestic evaluation expertise. The Serbian government should therefore actively encourage the development of local, independent evaluation expertise wherever it is lacking, or at least not in accordance with international quality standards. It would be very useful if the government, as an initial step in building domestic evaluation and monitoring capacities, outsourced evaluation of specific national, regional and local policies to domestic research institutions.

Moreover, it is important to emphasize that to date there has not been a single case of misuse of EU funds recorded in Serbia. However, the risk of corrupt

²⁰ Ognjen Miric, *The Regional Policy of the European Union as an Engine of Economic Development*, European Movement in Serbia, Belgrade, 2009



behavior increases as management powers over EU funds are conferred to national authorities. DIS structures dealing with procurement and contracting necessary for project implementation are especially exposed to various pressures from interested stakeholders.

4. Conclusions and recommendations

Taking into account the objectives, instruments and precisely defined mechanisms for management of EU funds, it is not difficult to conclude that the success of their management depends exclusively on the capacities of the candidate countries to take the opportunities that the EU funds provide. Slovakia's practical experiences in the process of preparation for management of EU funds show that in spite of a relatively long preparatory period significant difficulties were still encountered in the initial years of EU membership (2004-2006). This illustrates that the preparatory phase of a candidate country is of enormous importance for the creation of efficient capacities for absorption of EU funds in the country. Moreover, it is of utmost importance that a policy for strengthening administrative capacities for using EU funds is quickly adopted at the highest political levels. Additionally, Slovakia's experiences show that efficient absorption of structural funds depends largely on the success of reforms of administration at national level reflected in a strengthening of administration to define efficient frameworks for managing long-term sector policies, enhancing inter-ministerial coordination, qualitative defining of national development programmes and improving human resource capacities to implement them. The key to success was timely recruitment and adequate salaries of staff engaged in administrative structures assigned for EU funds management. Here it is important to note that continuity in personnel is very important as it enables the administration to build up a knowledge curve and helps new staff reach certain levels of knowledge as soon as possible.

Slovak practical experiences are of extreme importance for the ongoing process of creating administrative structures in Serbia for management of EU funds. Clear and unconditional political support from the Serbian government and all line ministries individually for all DIS stakeholders and understanding the crucial role they play in the successful management of EU funds in Serbia is fundamental. Moreover, due to the constant danger that each new government could change the role of institutions dealing with preparations for management of EU funds, it is important to note that creating unnecessary parallel structures for management of budgetary and EU funds in Serbia constantly endangers the efficient use of EU funds and delays the efficient establishment of DIS structures. Therefore, without clear political support to the



creation of DIS structures, Serbia could delay its preparation for efficient and transparent use of EU funds and lose the possibility to use financial resources from the IPA components III, IV and V in the 2007-2013 budgetary period.

Moreover, the current restrictions on employment of civil servants due to Serbian government obligations as part of an IMF financial arrangement could be a serious obstacle to progress towards meeting the set deadline for DIS accreditation (December 2011). Therefore, it is of utmost importance that the Serbian government takes steps necessary to create competitive remuneration levels and define an attractive career path for civil servants involved in EU accession and IPA management activities. Additionally, a recruitment and training mechanism for staff for various bodies should be set up as quickly as possible to provide the necessary number and quality of required personnel. EU funds management experience in Slovakia shows the necessity for the adequate involvement of NGOs and other relevant stakeholders in monitoring structures in order to reaffirm the transparent use of EU funds and prevent corruption. Although there has been no recorded case of misuse of EU funds in Serbia, Slovakia's experience is extremely important because with the conferral of management powers over EU funds to national authorities the risk of corrupt behavior in administration rises.

Moreover, experience in Slovakia and Serbia in initial years of IPA fund use and during preparation for IPA components III and IV showed that technical documentation for large investment projects at local level was not completed in a number of cases. Therefore, in the process of Serbian European Integration the capacities of the above-mentioned key partners must be built up as they do not always dispose information in a timely fashion due to their condition. Therefore, national administration has an obligation to enhance their capacities so they can be included adequately in the country's EU funds management system. Strong and capable partners can exert influence on national administration to define higher quality development policies, improve planning and programming processes, and define and prepare better and higher quality projects.

Furthermore, in the process of meeting all necessary conditions for successful absorption of EU funds in Serbia the Serbian government must meet obligations assumed under the Stabilization and Association Agreement to introduce NUTS classification and submit data on the level of GDP per capita to the European Commission over a period of four years. Finally, it is of utmost importance that the Serbian government makes sufficient efforts to overcome one of the major challenges in establishing efficient administrative capacities - a lack of evaluation and impact assessment culture. The Serbian government must therefore actively encourage development of local, independent evaluation expertise found in the private or NGO sector.

ANNEX

Table 1. PHARE FUNDS BY COUNTRY 1990 – 2007 in € million

Partner country	Commitments (in EUR million)	Contracts (in EUR million)	Payments (in EUR million)	Contracts /Commit ments	Payments /Commit ments	Payments /Contracts
Bulgaria	2,359.60	1,786.30	1,522.90	75.70	64.54	85.25
Czech Republic	917.2	836.4	824.2	91.19	89.86	98.54
Croatia	144.6	61.4	9.6	42.46	6.64	15.64
Cyprus (*)	338	101.8	71.7	30.12	21.21	70.43
Czechoslovakia	230.5	231.8	228.9	100.56	99.31	98.75
East Germany	34.5	28.9	28.9	83.77	83.77	100.00
Estonia	346.8	311.3	307.8	89.76	88.75	98.88
Hungary	1,480.10	1,376.80	1,356.50	93.02	91.65	98.53
Latvia	423.6	381.2	376.8	89.99	88.95	98.85
Lithuania	810.3	760.9	743.7	93.90	91.78	97.74
Malta	57.1	46.4	41.6	81.26	72.85	89.66
Multi-country programmes	3,357.00	2,829.40	2,178.20	84.28	64.89	76.98
Poland	3,996.00	3,657.50	3,607.40	91.53	90.28	98.63
Romania	3,670.00	2,942.80	2,344.40	80.19	63.88	79.67
Slovakia	717.6	661.8	656	92.22	91.42	99.12
Slovenia	360.3	326.7	321.5	90.67	89.23	98.41
Turkey	1,861.90	1,219.60	922.7	65.50	49.56	75.66
Total	21,105.30	17,561.00	15,542.70	83.21	73.64	88.51

Source: European Commission, Commission Staff Working Document Annexes to 2007 Annual Report on PHARE, Turkey Pre-Accession Instrument, CARDS and Transition Facility Country Sections & Additional Information Brussels, 2008

Table 2. ISPA FUNDS BY COUNTRY 2000-2003 in €

Country	No. of Projects	Total ISPA Contribution 2000-03	Commitments 2000-03	Payments 2000-03	% Paym/Comm
Bulgaria	23	614,987,930	427,996,647	61,320,339	14.3%
Czech Republic	27	506,363,960	292,949,325	90,040,157	30.7%
Estonia	26	180,360,637	119,353,016	33,274,334	27.9%
Hungary	37	656,089,655	368,861,516	114,401,401	31.0%
Latvia	25	310,241,258	194,900,872	50,657,171	26.00%
Lithuania	31	283,139,399	217,005,484	71,195,935	32.80%
Poland	70	2,587,295,972	1,454,286,240	376,213,808	25.90%
Romania	38	1,442,993,221	1,002,173,553	136,354,966	13.60%
Slovakia	30	362,145,739	195,299,550	58,740,465	30.10%
Slovenia	17	86,548,637	67,126,052	22,014,156	32.80%

Source: Own calculation based on The Mini ISPA report 2000-2003, European Commission DG REGIO, Brussels, February 2004

Table 3. ISPA PROJECTS APPROVED FOR SLOVAKIA IN 2000-2003 in €

Sector	No. of Projects	Total Eligible Cost	Total ISPA Contribution 2000-03	%	Commitments 2000-03	%	Payments 2000-03	% Paym/Comm
Environment								
Environment	23	318,222,738	186,956,539	51.6 %	96,344,180	49.3 %	13,489,135	14.0%
Transport								
Transport	6	317,779,000	173,739,200	48.0 %	97,505,307	49.9 %	44,091,330	45.2%
EDIS								
EDIS	1	1,450,000	1,450,000	0.40 %	1,450,000	0.80 %	1,160,000	80.00%
TOTAL	30	637,451,738	362,145,739	100%	195,299,550	100%	58,740,465	30.10%

Source: Commission Staff Working Document Annex to the SAPARD Annual Report – year 2004 {com(2005) 537 final}, Brussels, October 2005

Table 4. SAPARD FUNDS PER COUNTRY 2000-2003

Country	Commitments	Payments from the Commission			in % of available funds	RAL*
	Total AFAs 2000-2003	Total payments made as of 31.12.2003.	Payments made in 2004	Payments made since start		
1	2	3	4	5=3+4	6=5/2	7=2-5
Czech Republic	92 787 704	40 244 716	38 571 066	78 815 782	84.9	13 971 922
Estonia	51 043 119	26 656 148	19 865 374	46 521 522	91.1	4 521 597
Hungary	160 039 127	9 482 800	26 189 720	35 672 520	22.3	124 366 607
Lithuania	125 448 234	35 555 028	52 155 143	87 710 171	69.9	37 738 063
Latvia	91 883 502	29 289 588	38 112 006	67 401 594	73.4	24 481 908
Poland	709 409 786	163 638 979	171 223 384	334 862 363	47.2	374 547 423
Slovenia	26 650 758	7 222 230	11 737 745	18 959 975	71.1	7 690 783
Slovakia	76 915 845	9 376 760	22 524 598	31 901 358	41.5	45 014 487
<i>Total</i>	<i>1 334 178 075</i>	<i>321 466 249</i>	<i>380 379 036</i>	<i>701 845 285</i>	<i>52.66</i>	<i>632 332 789</i>

Source: Commission Staff Working Document Annex to the SAPARD Annual Report – year 2004 {com(2005) 537 final}, Brussels, October 2005

Table 5. CARDS FUNDS BY COUNTRY 2000 – 2007 in € million

Partner country	Commitments (1)	Contracts (2)	Payments (3)	Contracts /Commitments	Payments/Commitments	Payments/Contracts
Albania	292.30	245.20	183.40	83.89	62.74	74.80
Bosnia & Hercegovina	481.8	460.2	411.6	95.52	85.43	89.44
Croatia	196.1	180	172.4	91.79		95.78
Former Yugoslav Republic of Macedonia	299.2	287.6	264.1	96.12	88.27	91.83
Kosovo	1030.3	1025.3	977.8	99.51	94.90	95.37
Montenegro	90.4	126.8	122.1	140.27	135.07	96.29
Serbia	1390.6	1353.8	1192.2	97.35	85.73	88.06
Regional Programme	456.50	421.40	375.40	92.31	82.23	89.08
Total	4237.1	4100.2	3699.1	96.77	87.30	90.22

Source: European Commission, Commission Staff Working Document Annexes to 2007 Annual Report on PHARE, Turkey Pre-Accession Instrument, CARDS and Transition Facility Country Sections & Additional Information Brussels, 2008

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Attracting and Directing Foreign Direct Investments: The Example of Slovakia in EU Enlargement and how Serbia can Benefit from It

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Executive summary

Foreign Direct Investments, together with EU accession funds, were one of the main factors behind Slovakia “catching up” with more advanced Central European countries (H, CZ, PL) during EU enlargement. The aim of this paper is to give practical guidelines for economic policy in Serbia for creating good environmental conditions for attracting and directing Foreign Direct Investments (FDIs) based on Slovakia’s positive experiences. Guidelines presented in the policy paper are based on research into Slovakia’s experiences.

This research was focused on fiscal measures introduced by Slovakia’s government in attracting FDI and legislation regarding FDI and hiring policies. The research also covered the reasons and logic behind the measures, as well as conditions necessary for the measures to be a success. This Policy Paper can be used by government institutions such as the Ministry of Economy & Regional Development, Ministry of Finance, strategy and policy-makers in the field of fiscal policy and local self-governments in Serbia and other countries in the Western Balkans.

1. Introduction

On its path to the EU, Serbia is facing major problems with its budget deficit, high unemployment, low productivity - which is just 42% of the EU average, low growth rate, high trade deficit and an overall uncompetitive economy. It has been proved that, among the new EU member states, countries with the highest FDIs have been those with the highest growth rates. FDI contributed to lowering unemployment, increasing productivity, increasing exports and creating a competitive economy. Slovakia is a good example. FDIs in Slovakia accounted for much of the growth in the period 2000-2008. FDI inflow in Slovakia cumulatively reached \$39.4 billion in 2008¹. Because of its fast growth Slovakia is now considered the „economic tiger” of the region.

1 U.S. Department of State (<http://www.state.gov/r/pa/ei/bgn/3430.htm>)



Unemployment in Slovakia peaked at 19.2%² in 2001 and fell to 9.6% in 2008³. Among the biggest employers in Slovakia are large international companies such as Volkswagen (Bratislava), Peugeot (Trnava), Kia Motors (Žilina), US Steel, Samsung Electronics, Sony and Whirlpool.

In the period 2001 - 2008 the average FDI in Serbia was \$2 billion⁴ but this did not produce the positive results which had been expected. So, in 2004 the six biggest foreign investors in Serbia (Philip Morris, Lukoil, Holcim, British American Tobacco, Lafarge AG, and Titan) had imports that were 15% larger than exports⁵.

Slovakia has managed to direct FDI to areas strategically important for its economy and has constantly lowered its trade deficit so that it was just 2.69%⁶ in 2008, compared to 108%⁷ in Serbia.

Serbia has competitive advantages similar to Slovakia's when it joined the EU: a relatively cheap and skilled workforce, as well as a good geo-economic position. Slovakia has already passed through the transition period and problems that Serbia is now facing. That is why it is very useful to have an insight into Slovakia's experience in attracting FDI and learn how to make best use of it and avoid its possible downsides so as to improve productivity in Serbia and the overall competitiveness of the economy.

2. Terms and methodology

Foreign direct investment (FDI) is investment of foreign capital and know-how into domestic facilities, equipment and organizations. It does not include investments in securities.

Foreign direct investments are considered more useful for the country than investments in equity capital because the latter is potentially "hot money" that could leave the country as soon as problems appear, while FDIs are more permanent, whether the situation in the country is good or bad.

Direct investment includes an initial transaction between two entities and all subsequent transactions between them and among branches regardless of whether they are registered as legal entities or not⁸.

2 News of the Month, International Center for Economic Growth, February 2006, page 14.

3 Slovak Ministry of Finance, <http://www.finance.gov.sk>

4 World Investment Report (WIR) 2008.

5 Mr. Marija Petrovic-Randjelovic, *Ekonomске teme*, br.17, Niš, 2006., str. 127-136

6 Slovak Ministry of Finance, <http://www.finance.gov.sk>

7 Serbian Ministry of Finance, <http://www.mfin.sr.gov.yu/>

8 Fifth Edition of the IMF's Balance of Payments Manual (BPM5), <http://www.imf.org/external/np/sta/bop/bopman5.htm>



The research was carried out in two parts. The first part of the research focused on analyzing secondary data and existing publications on the subject of FDI in Slovakia, measures that Slovakia has introduced to attract and direct FDI and its impact. Following analysis of collected secondary data, researchers made a list of information needed to be collected in field research. The second part of the research was field research. This field research was conducted in Slovakia, and included interviews with researchers at the University of Economics in Bratislava and representatives of the Structural Policy Department of the Financial Policy Institute at the Slovak Ministry of Finance. The field research focused on the reasons behind each measure used to attract and direct FDIs and conditions that influenced its success or failure.

3. What determines FDI?

Decisions about where to invest are generally based on detailed calculations. The nature of this decision process is not thoroughly analyzed, but there have been some surveys among multinational companies that have cast some light on this question.

One thing is clear, and that is that FDIs, in principle, are very heterogeneous. Different motives for investing determine the importance of various investment factors⁹.

It is clear that different goals, needs and strategies lead companies to use different mechanisms for the evaluation of locations for investment. However, there are certain criteria that consistently appear in research: **access to consumers, a stable social and political environment, ease of operation, reliability and quality of physical infrastructure, ability to hire professionals in the field, ability to hire good managers, corruption, labour costs, crime and safety, rates of corporate tax, price of infrastructure services, etc.**

According to a UNCTAD report from 1998 the determinants of FDI are classified into three clearly separate groups: *a framework of state policies, economic determinants and benefits for business.*

A key determinant for a country's FDI inflow which can be influenced directly by government is the business climate or business environment. The business climate is composed of all government policies that affect business, such as tax policy, trade policy, labour policy, urban planning and building policies etc.

9 Gorg, Holger and Greenaway, David, (2003), "Much Ado About Nothing? Do domestic firms really benefit from foreign direct investment", Discussion Paper, Institute for the Study of Labor, pg. 112



4. Components of the business environment

Since the business climate or environment is the main factor which the government can influence regarding FDI, we need to be clear what the components of the business environment are, and what determines it.

The concept of the business environment is quite vague. There are numerous components of the business environment. One of the best international comparisons when it comes to the business environment is the “Doing Business” series of reports produced every year by the World Bank.

These reports provide information and a comparison of business regulations and their enforcement in 178 countries worldwide. The reports cover ten major areas: Starting a Business, Dealing with Construction Permits, Employing Workers, Registering Property, Getting Credit, Protecting Investors, Paying Taxes, Cross-border trading, Enforcing Contracts and Closing a Business.

5. The current situation in Serbia and recommendations for improvement

The following table shows the comparative assessment of the business environment, on the basis of the Doing Business report for 2010¹⁰. We will analyse each item and propose improvements.

Ease of...	Doing Business 2010 rank		
	Slovak Republic	Serbia	Difference
Doing Business rank	42	88	-46
Starting a Business	66	73	-7
Dealing with Building Permits	56	174	-118
Employing Workers	81	94	-13
Registering Property	11	105	-94
Getting Credit	15	4	11
Protecting Investors	109	73	36
Paying Taxes	119	136	-17
Cross-border Trading	113	69	44
Enforcing Contracts	61	97	-36
Closing a Business	39	102	-63

Source: <http://www.doingbusiness.org/economyrankings/>

All these factors (perhaps other than "getting credit" to some extent) are very relevant to foreign investors in making decisions about where to invest.

¹⁰ www.doingbusiness.org



5.1. Starting a business

In this area, the following specific problems and relevant policy options as solutions were identified:

1. A large number of procedures for starting a business. In Slovakia, the number of procedures is 6, while in Serbia it is 7. The problem is not the number of procedures but their complexity. Serbia has worked on this issue and established a "one stop shop" for all procedures for starting a company at a single location in the Serbian Business Registers Agency. Unfortunately this has not been entirely implemented. The "Guillotine of regulations" has the same goal. The number of procedures should be kept to a minimum to ensure easy registration of business, but also retain security.

2. High cost of starting a business. The cost of starting an enterprise in Serbia is 7.1% of income per capita, while in Slovakia it is just 2%.

5.2. Obtaining permits

In this area, the following specific problems and relevant policy options as solutions were identified:

1. A large number of procedures for obtaining a building permit. In Slovakia, the number of procedures is 13 while in Serbia it is 20. This is not a very big difference but when slow administration and lack of mandatory deadlines are taken into account it becomes clear that the procedure is very complicated and slow. The government can do two things to remove this obstacle: Firstly, reduce the number of procedures and thus speed up the process.

Secondly, a potentially more effective measure is establishing concrete deadlines for administrative bodies for when they must give an answer regarding the building permits, so that investors know exactly how long it will take to get a permit, or at least to get information from the state and/or local authorities.

2. High costs of obtaining building permits. In relation to average income per capita, the cost of obtaining building permits in Serbia is 1,907.5%, while in Slovakia it is just 13.6%. This is a drastic difference. If you are an investor, it is very likely that this figure will give you a negative image of the business climate in Serbia. We have previously seen that there is little difference in the number of procedures, then why is it so expensive to obtain building permits in Serbia? The cost of obtaining a building permit must be reduced or at least its payment must be prolonged in order to stimulate investments. The same measures would have a positive effect not just on FDIs but also on domestic investment which will further improve the overall business climate in Serbia.



5.3. Labour market

In this area, the following specific problems and relevant policy options as solutions were identified:

1. The problem of workforce hiring. It is more difficult to find appropriate workers in Serbia than in Slovakia. This is confirmed by the Difficulty of Hiring Index for Serbia, which is 78, while Slovakia is placed at 17 in the same index¹¹. This index refers primarily to the difficulty of hiring workers under a short term contract in Serbia. In Slovakia, a company can employ a worker for a certain time (short or medium term) to work on jobs that are within the core business of the company through a fixed-term contract for up to 36 months. We believe that Serbia, to increase labour market flexibility, should allow workers to be hired for short and medium terms for a company's core business activities and extend the period for fixed-term contracts from 12 to 36 months.

2. High severance pay for layoffs. When a company lays off a worker who was fully employed in Serbia the company must pay 25.3 weekly wages. Taking into account previous statements this can be seen as an even bigger problem by potential investors. Reducing severance pay would increase workforce mobility and make employment easier.

5.4. Registering Property

In this area, the following specific problems and relevant policy options as solutions were identified:

1. A large number of procedures. Six steps need to be taken to register property once a sales contract is signed in Serbia. In Slovakia it takes only three steps. We believe that this process can be improved by combining the procedure of contract registration, land register registration, the determination of tax and issuing orders for payment. This would simplify the process and an investor could more easily exercise right of ownership, as is the case in Slovakia.

2. Lengthy procedures. Here we meet with repeated problems from the past: a large number of procedures, a long wait for results and therefore a more expensive process. Here we propose the same solution as in Slovakia: reduce the number of procedures and time needed for these procedures, and lower property registration taxes.

¹¹ www.doingbusiness.org



5.5. Loans

In this area, Serbia is in a better position than Slovakia primarily because of the Credit Bureau and The Register of the National Bank of Serbia where at any moment anyone can see if a company is insolvent and for how long they have been insolvent. This example can be used by other countries in the region but it also shows that Serbia can be a leader in creating a good business environment for investment.

5.6. Investor Protection

In this area, the following specific problem and relevant policy options as solutions were identified:

1. Limited freedom of majority shareholders. In this area of investor protection, “Doing Business” gives Serbia a better rating than Slovakia, but Serbia could follow Slovakia’s example in giving greater freedom to majority shareholders, and regulating their responsibilities in more detail.

5.7. Paying taxes

In this area, the following specific problems and relevant policy options as solutions were identified:

1. The complexity of the tax system. The tax system in Serbia is very complex. There are a number of different tax rates, some even change in relation to the tax base (income tax). Slovakia has solved the problem in the following way: There is only one tax rate set at 19 %. Slovakia's tax system is primarily focused on indirect taxation and to a very small degree on direct taxation. It is also important to note that in the Slovak tax system there are almost no exceptions, or they are very rare. We believe that the same rule or intention should be present in Serbia’s tax system because large numbers of exceptions make the system more complicated and lead to more irregularities and corruption.

2. Double taxation. Serbia has a problem with double taxation, in some cases even triple taxation. Slovakia has solved this problem by abolishing dividend tax and taxes on inheritance, gifts and selling and buying real estate. We think that Serbia should follow this policy in order to improve the business climate and reduce double taxation to a minimum.



5.8. Cross-border trading

Cross-border trading is an obvious example of how certain areas can be regulated when it is in the interest of the state. The situation in Serbia regarding this issue is by all indications (Number of days, number of procedures, cost of transactions...) better than the current situation in Slovakia.

5.9. Protection of private property and enforcing contracts

In this area, the following specific problem and relevant policy options as solutions were identified:

1. A large number of procedures. To enforce a contract in Serbia, 36 procedures must be gone through. The number of procedures is very high and communication and the order in which procedures must be undertaken are very complicated. Here Serbia needs to follow the example of Slovakia and reduce the number of procedures and at the same time simplify the process by allowing some procedures to be performed ex officio.

5.10. The procedures for closing a business

In this area, the following specific problem and relevant policy options as solutions were identified:

1. Cost of closure. In Serbia, the bankruptcy procedure is very simple and easy to implement. It is twice as fast as in Slovakia. However, costs in Serbia are very high. When the investor decides where to invest he also takes into account the possibility that not everything will go as planned and that he might have to close the company. He is then faced with the fact that it will cost him almost one quarter of total company assets. This certainly discourages potential investors from investing in Serbia. It is recommended that the cost of closing a company be lowered. This allows for mobility of resources and for firms to easily move between industries and projects.

6. Conclusion

Commitment to increase Foreign Direct Investment inflow is essential for Serbia. Foreign capital should be encouraged to help reorganize those industries in Serbia that can be competitive in the world market. The best thing the Serbian government can do regarding FDI is to create a good business climate by improving all its components, especially those seen by investors as critical.



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Decentralisation in Serbia: From Inefficient State to Strong Local Self-Government

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Executive summary

This document provides a comprehensive insight into the most important aspects of the process of decentralisation: a description of problems that Serbia faces in the area, a review of feasible practical political options (with examples from comparative experiences) and a set of recommendations that should be taken into account in the conception of future strategies.

The current situation in the area is outlined, including how it is characterised by a lack of quality legal solutions, the overbearing role of the state, ambivalent attitude of political parties towards decentralisation and citizens' ignorance of the subject. The study clearly shows that Serbia stands at the beginning of an important process and that a series of issues must be resolved. Reforms should be all-encompassing and should, as well as legal changes, include an overall modernisation of local administration to make it more operative and efficient. Furthermore, recommendations are offered for the future strategists of Serbian decentralisation. There is no single model for such reform, even among European Union (EU) countries, but there is a prevailing trend of transferring competences from central to lower levels of power. The examples outlined in this document can prove to be of use for Serbia, but historic, political, social and economic specifics must also be taken into account in deciding on the best long term strategy to take.

The study concludes with a series of recommendations for practical policy in the area of decentralisation, formulated at two levels: the first providing general directions (in raising awareness of citizens) and a set of concrete recommendations to improve the process.

1. Introduction

The evolution of political systems in some European nations as well as the already established standards of the Council of Europe (CoE) and the European Union (EU) indicate that decentralisation, considered as a lever for democratisation "from bottom upwards" and as an interactive process, has been a key factor in democratic stabilisation in countries. The larger proportion of democratic nations in the world today consists of decentralised



units, and the process of delegating tasks, competences and finances to lower levels of power is omnipresent. Decentralisation has helped build democracy in nations with long democratic traditions, but also in those that are still in transition. It has become clear that economic growth, sustainable development and full democratic participation are more efficient under decentralised governance. New democracies formed in Europe in the past two decades have undergone decentralisation in various ways. The transformation of those nations into modern countries, based on the principle of *subsidiarity*, was stimulated by the EU, which asked them to reform territorial governance structures in return for access to structural funds. However, the experience of European nations also tells us that there is no unique and functional one size fits all decentralisation model that could be applied in a linear manner and models for decentralisation vary from nation to nation largely dependent on country specifics.

Serbia began "shy" decentralisation only after changes in 2000, when a large number of laws were adopted reforming its economic, social and political systems. The 2006 Constitution opened questions of de-concentration, devolution and delegation as processes to delegate competence, responsibilities and resources from central to local levels of power.¹ However, the system in Serbia remains to a large extent centralised.

The process of decentralisation represents a priority for all political parties, above all ruling parties. This is why the Office of the National Council for Decentralisation was created in 2006 with the aim of formulating strategy and obtaining the best possible results of such a process. Taking into account the political and social context of transition in Serbia, certain problems can be expected to arise in the process of decentralisation.

The idea and purpose of this policy paper is to offer recommendations for improving the process through a review of basic problems and issues related to decentralisation. Three methodology segments were used in the course of the project.

1. *Analysis of relevant legal solutions.* For decentralisation, examining legislation gives a clear picture of not just legal regulation but deficiencies that (frequently) lead to inefficient implementation of practical policy.
2. *Analysis of Serbian political parties' programmes.* This provided clear insight into concrete measures political parties intend to implement on decentralisation.

¹ Dr Djordjevic Snezana, European standards in the area of local self-government - range of reforms in Serbia, in "Decentralisation Within The Context Of The New Constitution Of Serbia And EU Integrations", Centre for Regionalism, Novi Sad, 2008.



3. Qualitative research through focus groups. Focus groups were established in three cities (Belgrade, Nis and Novi Sad), so citizens from different regions of Serbia could express their views on decentralisation and regionalisation.

The study also used expert literature published in Serbia, particularly that prepared by the Office of the National Council for Decentralisation. In this paper we deal with the issue of decentralisation and its future in Serbia, examining current problems and offering recommendations.

2. Problem description

2.1. Too strong state and weak local self-government

The most important political actors in Serbia agree that decentralisation is necessary. Practice, however, shows that very little has been done in the area. Problems with the implementation of decentralisation can be traced back to the Serbian Constitution. The Constitution did not create conditions for the implementation of a model of governance organisation that would lead to Serbia's full decentralisation.² It pays particular attention to decentralisation and state obligations towards regional development and provides, among others, for territorial (provincial) autonomy and local self-government, and the creation of new or abolition or merging of existing, autonomous provinces. But under the Constitution provinces do not have equal status.³ The Constitution guarantees citizens the right to local self-government and local authorities the right to ownership. However, there is a serious legal and constitutional deficiency in that there is no legislation governing local authority property, which brings its autonomy into question. Serbian cities and municipalities have no property and have not been awarded major competencies while the Constitution also effectively introduces a situation where a representative body elects an executive body, which means that local authorities are obliged to accept a "weak Mayor" model because he/she cannot be elected in direct elections⁴. Under the new Law on Local Self-government (2007), the "weak Mayor" model came back into practice. A precondition for decentralisation is the expansion of local authorities' competence and financial autonomy. However, in Serbia there is no developed network of levels of local self-government. There are municipalities

2 Dr Djordjevic Snezana, *Models of decentralisation in European Union countries*, Belgrade, 2011.

3 Dr Djordjevic Snezana, European standards in local self-government - range of reforms in Serbia, in "Decentralisation within the context of the new Constitution of Serbia and EU integration," Centre for Regionalism, Novi Sad, 2008.

4 *Ibidem* (2008), p. 112



and towns, but there are also regions which are not de facto levels of local self-government. Statistical regions were created last year to enable use of European regional funds. Regions are therefore not a separate level of organisation of local authority, but represent an instrument for financing and implementing projects⁵. It is also worth noting that Serbia has Europe's largest regional differences.⁶

Serbian decentralisation problems are seen most clearly when examining competences and tasks of local self-governments. Municipalities and towns were granted some competences in the area of education, but schools cannot elect their headmasters as this is done by municipalities, most frequently by a decision of a political party and not according to professional criteria (and after the approval of the relevant minister). Salaries for employees in schools come from the state and not from the municipality. There are similar situations in health care, social care, and urban planning and construction. These are just some examples of why reforms are needed that will substantially support and enable decentralisation.

2.2. Views of political parties on decentralisation

Programmes of political parties clearly indicate that there is a declarative agreement where the necessity of decentralisation is concerned. But problems occur with concrete strategy, its elaboration and implementation of ideas.

In all major political parties' programmes - the Democratic Party (DS), Serbian Progressive Party (SNS), G17 Plus, Socialist Party of Serbia (SPS), Democratic Party of Serbia (DSS), Serbian Radical Party (SRS) and Liberal-Democratic Party (LDP) - decentralisation is addressed.

The DS emphasises the need for stronger connections between state bodies and citizens. "The closer the decision making bodies are to citizens, the greater the possibility of control, and the chance that decisions will meet the needs of citizens. Decentralisation of power motivates people to participate in public affairs, as well as their responsibility for the implementation of decisions", reads the party's programme.⁷

5 Regional administration of the state presents a particular form of institutional organisation of a state, which is characterised by the division of power between different levels of state organisation. The latest change to the Law on Statistical Regions, where Serbia is divided into five regions according to the NUTS classification, occurred in 2010. Although it could be said that the statistical regions are the first step towards regionalisation, this has yet to be achieved fully.

6 MA Vucetic Dejan, Nis and decentralisation, experiences of decentralisation in the world and in Serbia, NDK conference, Niska Banja, March 2007. Available at: www.decentra-lizacijarsrbije.net

7 The programme of the Democratic Party, Political Institutions for 21st century Serbia. Available at: www.ds.org.rs



G17 Plus (member of the URS) says that the party supports a balance between state administration and local self-government and the development of all areas of the Republic of Serbia.⁸

The SPS⁹ emphasises more efficient state functions by de-concentrating power. In its Basic programme goals the biggest opposition party in Serbia (SNS) says that regional development and the decentralisation of Serbia are a precondition of its further development. However, it says decentralisation does not mean provision of territorial autonomy, but only broader rights and competences of local self-governments.¹⁰

2.3. Citizens and decentralisation: from misunderstanding to support

Citizens lack information on the process of decentralisation and thus cannot see substantial differences where regionalisation is concerned. Decentralisation and regionalisation of Serbia frequently go "hand in hand" and are often a subject of public debate, but neither politicians nor citizens are sufficiently aware of the difference between the two. Politicians talk of decentralisation (mainly in election campaigns), while citizens living in provincial Serbia see decentralisation as an opportunity for prosperity – their own and of their town.

Decentralisation has negative connotations, a remnant from the last century when just mentioning the idea could be considered dangerous for the wider state. After the changes in 2000, the idea shed its burden of the past and became part of the Serbian everyday political scene. This, however, does not mean that the idea has been without political controversy and certain events have led to discourse connected to it being abandoned temporarily. Three events which caused this were Montenegrin independence (2006), Kosovo's declaration of independence (2008), and confirmation of the Statute of the Autonomous Province of Vojvodina in the National Assembly in 2009. This tells us at least two things: 1) decentralisation is still not a subject of serious and strategic consideration within the institutions of government, and 2) it remains a highly politicised issue.

Public opinion surveys have shown that a third of the population has no firm opinion on decentralisation and regionalisation. When undecided interviewees are removed from the analysis the conclusion is that those who are able to form a view mostly support the processes of decentralisation and regionali-

8 The programme of G17 Plus, State programme: Sovereign Serbia in the European Union, Decentralisation. Available at: www.g17plus.rs

9 The programme of the Socialist Party of Serbia, Social and Political System, Available at: www.sps.org.rs

10 Serbian Progressive Party, Ten basic principles of progressives' activities. Available at: www.srpskanaprednastranka.org



sation rather than not. This is the foundation upon which a serious policy of regional development can be built.¹¹

There are two basic factors that define attitudes towards decentralisation. One comprises political orientation (decentralisation and regionalisation still represent predominantly political issues in Serbia; support is mostly divided along political party lines); the second is where a person lives, as life in regions that traditionally have political, economic and cultural specifics of their own stimulate views towards decentralisation.

Research has shown that citizens lack sufficient knowledge about the very idea of decentralisation and know even less about what the process should comprise in the practical sense.¹² One of their primary associations (where decentralisation is concerned) is with money, or the possibility of local authorities alone deciding its distribution. Another association of decentralisation is the possibility of strengthening relations between citizens and local institutions, which is very important to many people. This is why raising awareness among citizens about the importance of decentralisation is extremely important and one in which the state, third sector and media can all play a large role.

3. Feasible practical-political options

3.1. Types of decentralisation

Decentralisation has many aspects. It has a political dimension that deals with the strengthening of local governance autonomy, more active citizen participation in the decision making process, and raising of the democratic capacity of power. Administrative decentralisation comprises state modernisation, more precise definition of each level of authority individually, and establishes partnership instead of the prevailing hierarchical relationship. Fiscal decentralisation is crucial for decentralisation, particularly for devolution - this means that local authorities have constant, secure and predictable financing resources and that local authorities define basic tax rates, collect taxes and make other financial decisions. Economic decentralisation is extremely important in that it prevents the state directing the economy and distributing resources in monopolistic ways.¹³

Experience of European nations with regionalisation and decentralisation has shown this process has never been fully completed but remains in

11 Public opinion research, *ReSOURCE*, CeSID, May 2009

12 Reports from focus groups, (Belgrade, Nis and Novi Sad), CeSID, Belgrade, December 2010/January 2011

13 Dr Djordjevic Snezana, *Models of decentralisation in European Union countries*, Belgrade, 2011



constant institutional adaptation, mainly towards broader decentralisation. Decentralisation is carried out through levels of local authority, i.e. municipality, town, county and region. Statistical standards have been adopted in Europe facilitating the introduction of standards and harmonisation of all levels of power. The NUTS classification is as follows: NUTS 1 - state, NUTS 2 - regions, NUTS 3 - counties, NUTS 4 - larger municipalities and NUTS 5 - small municipalities and settlements. For NUTS 2, there is a range of between 800,000 and 3 million inhabitants and for NUTS 3 from 150,000 to 800,000 inhabitants.¹⁴ At the moment, Serbia has NUTS 1, NUTS 3 and NUTS 4. Reforms (fiscal, property and administrative) should see municipalities in Serbia divided into two levels. One would comprise larger municipalities consisting of a smaller urban centre with several rural areas and these larger municipalities would deal with problems of population, urban planning, and issues in village-town relations, economic and social development, and development stimulation. Such municipalities would have local self-government, legal subjectivity and income resources, and populations of between 10,000 and 100,000.¹⁵ Smaller municipalities would also need to be formed. They would deal with minor community problems, creation of smaller regulation plans (local urban planning) and solution of day to day citizen needs. Their population would be less than 10,000, and, if needed could pool capacity with neighbouring municipalities. This would create conditions for the development and creation of NUTS 3. Finally, counties would be integrated into so-called macro-regions, or NUTS 2, where they could either be autonomous or opt for recognition as statistically planned, with an option of obtaining future autonomy. Macro-regions would thus have executive, partially legislative and judicial power if autonomous, but under state administration if statistically planned. They would have a population of between 800,000 and 3 million people.¹⁶

3.2. Models of decentralisation

Decentralisation in EU nations can be divided into different models.¹⁷ One is that of *federal* states such as Switzerland, Germany, Austria and Belgium. Regions perform federal state functions, taking on broadened capacities and some state tasks. The state, federal units, counties and municipalities function in partnership, via the principle of subsidiarity.

14 MA Vucetic Dejan, *Nis and decentralisation, experiences of decentralisation in the world and in Serbia*, NDK conference, Niska Banja, March 2007. Available at: www.decentralizacijaserbije.net

15 *Ibidem* (2007), *Experiences of decentralisation in the world and in Serbia*

16 *Ibidem* (2007), *Experiences of Decentralisation in the world and in Serbia*

17 Dr Djordjevic Snezana, *Models of decentralisation in European Union countries*, Belgrade, March 2010.



Another model is *the strong regional state*, exemplified by Spain and Italy. The strengthening of regions in Italy (established in the 1948 Constitution) had led to their extreme power over time. In Spain and Italy, regions have legislative competences and decision-making powers at central level via a second house of parliament or other forms of consultations and negotiations.¹⁸

The third model is the *weak regional state* where regions within states have different levels of strength. Counties are administrative, self-governing regions have been introduced and regional elections take place. There are several modalities in this model: Scotland (stronger regions), France and Poland (moderately strong regions), Slovakia and the Czech Republic (weaker regions), and Hungary and Romania (statistical, administrative regions).¹⁹ Hungary has introduced regions but their substance remains unfinished and insufficiently clear. This is because there has been no clear division of competence between municipalities, towns, regions and statistical NUTS 2 regions. This has led to sharp criticism from the CoE and the EU as a whole.²⁰ The remaining model is unitary states – consisting of decentralised states, moderately decentralised and weakly decentralised states. Examples of decentralised states are Sweden and the Netherlands, which have very strong counties and municipalities. Municipalities, counties and the state interact in partnership, not hierarchy. Moderately decentralised states include Croatia and Slovenia, which have self-governing counties, while weakly decentralised states (with counties or without them) include Bulgaria, Cyprus and Malta.

According to expert opinion²¹, the federal model is unrealistic for Serbia in the long term, while the regional state could be achievable in the long-term. The third and fourth models (with all their modalities) could be implemented as phases or alternatives within decentralisation in Serbia, but it must be remembered democratic culture and procedures would substantially condition the effects of this process.²²

18 Dr Skenderovic Cuk Nadija, *Regionalisation and Euro-regional cooperation - overview of modern European trends in "Decentralisation within the context of the new Constitution of Serbia and the EU integrations"*, Centre for Regionalism, Novi Sad, 2008

19 Dr Djordjevic Snezana, *Models of decentralisation in European Union countries*, Belgrade, March 2010.

20 Dr Skenderovic Cuk Nadija, *Regionalisation and Euro-regional cooperation - overview of modern European trends in "Decentralisation within the context of the new Constitution of Serbia and EU integrations"*, Centre for Regionalism, Novi Sad, 2008

21 Dr Djordjevic Snezana, *Models of decentralisation in European Union countries*, Belgrade, March 2010.

22 *Ibidem* (2010), Possible options for Serbia



4. Conclusion and recommendations

The current situation regarding decentralisation is characterised by a number of important elements.

- 1) State competences remain too great;
- 2) The attitude of the state toward local authorities is hierarchical and not one of partnership;
- 3) Regions exist only statistically, not autonomously;
- 4) Counties are without real competence, while municipalities remain financially and politically dependant on central authority.

These facts suggest the process is at its very start.

The basic purpose of this policy paper is to help speed up the process, and we are therefore offering a set of recommendations which could be of use for all decision makers.

We have divided the recommendations into two parts:

A. General recommendations: The research clearly leads to the conclusion that Serbians are not sufficiently informed about decentralisation and we therefore make the following recommendations:

- Citizens' awareness of the importance of decentralisation needs to be raised;
- Political party elites in general should be more committed to the issue, which should also be introduced into public debate;
- The opinions of civil society representatives already active in the field and who have presented different modalities of possible decentralisation must be taken into account;
- The public should be included in decision making, public debates;
- The ratio between the cost of the decentralization process and possible benefits should be calculated;
- Prepare communication strategy (public debates, conferences, campaign in the field, etc.) with the aim of making the proposed strategy for decentralisation (once it is prepared) more available to citizens.

B. Strategic recommendations:

- Implement substantial reform of local self-administration via adoption of strategically important laws;
- Raise local administration capacities, and enable them to carry out subsequent reforms, with a priority on modernisation to make administration more efficient;
- Restitution of property to local authorities. This is one of the first concrete steps towards the implementation of decentralisation²³;

²³ Decentralisation, No 2, Conclusions of the national conference on decentralisation, periodical of the Office of the National Council for Decentralisation, March 2010



- Move competence for immediately dealing with citizens from central to local government. This will allow citizens to solve problems among themselves at the local level, and is also the firmest guarantee such tasks will be carried out efficiently.²⁴
- Promote and introduce the principle of subsidiarity to bring about a change in the relationship between all levels of authority, changing the relationship from the current hierarchical to one of partnership;²⁵
- Reform the Law on Election of Councillors to strengthen the connection between citizens and their elected representatives. Current processes substantially breach the principle of democracy, as well as citizens' opportunities to elect the individuals they believe will properly perform certain functions;²⁶
- Provide for direct Mayoral elections as this reinforces the link between citizens and the "first man" of the city and provides additional legitimacy to his/her function.

²⁴ *Ibidem* (2010), p 24

²⁵ *Ibidem* (2010), p 24

²⁶ More details on suggested solutions in: CeSID, Recommendations for changes to electoral legislation in Serbia, OSCE Mission in Serbia, 2008.



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Self-governing regions and decentralization: Slovak experience and opportunities in Serbia

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Executive summary

This policy proposal paper will analyze regionalization in Slovakia and potential models for regionalization of Serbia based on the application of the Slovak model. In this context, regional decentralization is studied as part of the process of regionalization as a whole. Relevant pointers have been established as to the success of regions' functioning and regional development, along with the advantages and disadvantages of the Slovak model. By replicating several important aspects of the Slovak model in Serbia, three possible options have been found and the advantages and disadvantages of each of them are identified. We conclude by proposing the most suitable option with recommendations of Slovak experiences that should be applied, as well as experiences that should be avoided.

1. Introduction

Fundamental changes in governance are necessary if Serbia is to become a member of the EU and a country with stable democratic institutions, increased investment and equally distributed regional development. When compared to other European countries, Serbia is among the most centralized. Serbia is also characterized by low levels of democracy, a poor system of governance and high levels of corruption. Decentralization is therefore most certainly going to be an important aspect in the reform process.

A general consensus exists on the process of decentralization in Serbia. However, when it comes to regional decentralization or regionalization, the situation is much more complex. Opinion on regionalization in Serbia is divided and opinions on it are directly linked to the degree of knowledge about the process. On the basis of research conducted in Serbia, however, it can be concluded that there remains great ignorance of this subject.

As Serbia is now in a similar position as Slovakia was in the mid 90's (when it comes to the topicality of governing reforms and regionalization), it is important to establish how the process of regionalization proceeded in Slovakia, who supported it and who was against it, what options were



considered and why today's model was ultimately chosen (what factors influenced that decision)? It is also useful to establish whether there were any difficulties in carrying out regionalization and, most importantly, what results have been achieved (why was regionalization introduced and have set goals been reached)?

By applying the Slovak model of regionalization to find a model of regionalization for Serbia a number of options can be identified. This practical policy proposal paper points to three options and elaborates on their advantages and disadvantages. Finally, the most suitable model is proposed.

2. Problem description and identification of opportunities

The organization of territories, governance and authority as well as the distribution of political and economic power in Serbia does not meet the developmental and democratic needs of a modern society.

Firstly, Serbia is characterized by poor governance – something which is often cited as one of the main reasons for poverty in many parts of the world. Poor governance manifests itself in huge public spending, low quality of services and weak provision and securing of conditions for development. The quality of governance in Serbia can be discussed on the basis of public surveys on public services, comparing public spending and newly created value, and by examining reports from international and global organizations studying governance (such as the World Bank or Atlas Transformations – BTI index, etc).

Secondly, Serbia is characterized by extremely high-level corruption. This is clearly illustrated in Transparency International reports and European Commission progress reports on Serbia.

Thirdly, Serbia lacks democratic values, viewed as an opportunity for citizens to influence the shape of politics outside elections. In addition, there is plenty of so called territorial tension due to an asymmetrical system of government and tendency in the media to identify the capital city with the whole country. This leads to a feeling of discrimination among citizens in certain areas of the country. A very low standard of living and dissatisfaction connected with this territorial tension could pose a serious threat to the stability of the entire country and its society.

All of this has had some worrying consequences. Information on negative demographics, dying out of communities in the countryside, huge demographic pressure on Belgrade and Novi Sad, low income, monopolies and cartels, dysfunctional education system, weak infrastructure and high



unemployment rate best illustrates the current situation and the system's poor adjustment to the real needs of society.

The primary objective is to establish a functional governing system which should lead to democratic stabilization and optimal use of potentials for development. The question is, however, which are the most suitable instruments to achieve this? Practice, as well as science and research, show that the processes of decentralization and regionalization are generally helpful in promoting democracy by limiting the ground for systemic corruption and increasing the quality of governance. Democracy is also increased by bringing authority closer to the average citizen and citizens then have greater opportunity to control that authority. Even more importantly, it allows for easier representation of interests. As regional authorities are closer to real problems and more motivated than central administration, there is potential for development and an increase in the quality of governance. Finally, decentralization and regionalization would see political power broken into a greater number of political subjects which in turn lowers the chance of systemic corruption.

Hence, there is firm evidence that decentralization and regionalization can contribute to economic growth and a country's stability. These processes, however, are complex and determined by many variables which differ from state to state. Bearing in mind that the country's progress is the goal and that regionalization and decentralization are the instruments, a suitable arrangement must be chosen. In doing this, the experiences of other countries which have undergone or are going through this process can be of great significance.

In this sense the Slovak experience can be very instructive. Present-day issues in Serbia were in focus in Slovakia in the second half of the 90's and at the beginning of the 21st century. Ten years after the implementation of regional self-government, results in Slovakia have shown both the positive and negative aspects of the process.

Basically, all regions in Slovakia have become from 2 to 2.5 times richer during this period. In spite of that, however, there is a growing regional disparity between East and West. Without regionalization, this disparity would be even greater. By far the most developed region is the Bratislava self-governing region (the capital city, which has the country's best infrastructure and level of education, is part of an international corridor and a renowned regional brand), while the self-governing regions of Trnava, Trenčín and Žilina have accomplished the best results in their regional policies mainly because of their advantageous characteristics: they are regions which participate in the most important cross-border cooperation with the neighboring Czech Republic; regions with a developed transpor-



tation network, including the highway from Bratislava to Zilina, a good railway infrastructure, well-developed logistics centers and airports; high-grade universities and a larger number of people holding university degrees; cultural and historical links with the Czech Republic/Moravia, Vienna and Budapest; and the river Váh, most of its waters being navigable .

By replicating the Slovak model in Serbia (while taking some preexisting models in Serbia), a number of options are created. This includes the determining of regional responsibility, the status of regions, their size and the number of regions in proportion to the same parameters in Slovakia.

More precisely, the dimensions being replicated are:

1. The level (the size and number of regions); if the level is NUTS 3, a greater number of smaller regions is created and vice versa for NUTS 2
2. Responsibilities and status
3. The dominant role of the largest cities, emphasizing the size of a city according to its population and economic factors
4. Regional potentials along with existing capacities for development

This approach generated three possibilities:

The first option is use of the existing statistical regionalization of Serbia at NUTS 2 level and replicating the Slovak model. It is clear that regional potential for development, existing developmental capacities, size and physical characteristics are not being replicated here, but primarily responsibility and status.

The second option is the most “faithful” (has the largest number of replicated elements) replication of the Slovak model in terms of **the number of regions, size, level, status and responsibility, and the dominant role of the largest cities**. In this case there would be a greater number of smaller self-governing regions (11, without Kosovo) which would operate at NUTS 3 level, based on the EUROSTAT standard.

The third option is a model created by replicating the Slovak model in terms of **responsibility and status, regional potential for development and existing developmental capacities**. A model of 6 self-governing regions is created (without Kosovo) at NUTS 2 level.

Each option has its advantages and disadvantages which are to be elaborated upon. Finally, the most suitable option for Serbia will also be presented and explained.

Possible options

The elaboration of options will be based on knowledge and experience of successful functioning of regions and regional development gained through research. After processing information acquired in Slovakia several conclusions were reached:



- The main factor for success of regionalization is **high quality infrastructure** (above all transport infrastructure – highways which facilitate regional development) and **levels of education** (the number of people with a university degree from high-grade universities in the region, and high levels of investment in research and development).
- The problem of regional centralization has been identified, which means that the city as a regional center is making progress while other parts of the same region are significantly underdeveloped.
- The need to introduce LAU1 level and the importance of micro-regional development
- It has been determined that the borders of regions were created politically and that an economic and managerial approach is lacking
- In Slovakia, possible future modifications are being considered towards a far greater role of NUTS 2 and LAU 1 level
- A clear tendency has been observed to a more fiscal decentralization
- The importance of timely and systematic work with individuals with university education on a national level in partnership with regional and local self-governments can be used to define and support the execution of a regional operations plan (ROP) and accompanying system operations plan in different fields.

The First Option – Using the existing statistical regionalization at NUTS 2 level and replicating the responsibility and status of regions

This option proposes that Serbia be composed of 4 self-governing regions (without Kosovo). These regions are Vojvodina, Belgrade, Sumadija-West and Podunavlje-South. Since the regions could not make legal decisions (i.e. pass laws) they would indisputably be regions below the level of autonomous provinces/regions, according to European experience.

Starting with the premise in this research that there is a great need for educated human resources and corresponding transportation infrastructure to facilitate effective functioning of regional self-government and its development, it can be concluded that these regions would meet the conditions. Novi Sad, Nis, and Kragujevac are already university centers, have good infrastructure and are well-connected to key corridors. This means that the Slovak scenario in which some regions fall behind would be avoided. This model has some serious disadvantages, however. The first disadvantage is that regions are quite cumbersome and there is little possibility of creating precise development plans that could address issues from all parts of a region. Secondly, because of the size of the regions and the distance from university centers and highways, many towns and areas would still remain in the same environment and that would hardly contribute to any



development. There is therefore a danger of creating centralized regions or the risk of regional city centers growing while the rest of the region continues to struggle with poverty. In terms of democratic values, this option does not give good results as a gap in power between the regional authority and the common citizen is maintained. Finally, it is not rational to create large NUTS 2 regions that would use European funds. It is much more rational to have as many smaller NUTS 2 regions as possible, since the funding allocated to an EU member state would then be significantly greater.

The second option: Replicating the Slovak model in terms of the level of regions, size, responsibility, status and the dominant role of major cities (Subotica, Novi Sad, Sremska Mitrovica, Zrenjanin, Sabac, Belgrade, Smederevo, Cacak, Kragujevac, Nis and Leskovac)

Taking into consideration the aspects mentioned in the subtitle, Serbia would be divided into 11 self-governing regions (without Kosovo) at NUTS 3 level. This model bears most resemblance to the one introduced in Slovakia. However, taking into account the Slovak experience, there are several serious disadvantages to this.

Firstly, many regions would not have the necessary capacity for effective development. Secondly, the size of the region does not meet that of larger regional projects which are to be financed by the EU. In addition, Slovak experience indicates that there are huge problems when it comes to the coordination of self-governing areas so as to cover the NUTS 2 territory and access to EU funds. Given our political culture (a new cultural model and public political culture are needed) this would also be a problem.

Thirdly, this model is somewhat unreasonable since the representatives of Vojvodina would never agree on dividing the province into smaller self-governing regions.

The third option: Replicating the Slovak model approximately in terms of size, responsibility and status, as well as the regional potential for development and existing developmental capacities

The third model represents, apart from replicating responsibility and status, a replication based on the approximate size (new NUTS 2 regions are closer to larger NUTS 3 regions in Slovakia in terms of size) and regional potentials for development and present developmental capacities. This means that Serbia would be divided into a number and size of regions proportionate to sizes and capacities for regional development of regions in Slovakia (positive experiences of self-governing regions of Bratislava, Trnava, Trencin and

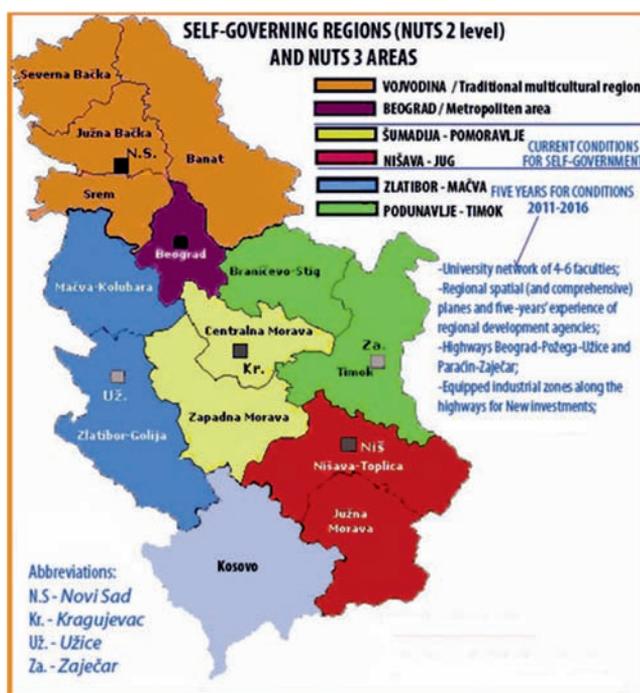


Zilina) and into two currently already dominant regions: Belgrade and Vojvodina. Besides the status and responsibility of regions (which are the same in all three proposals), the crucial factors in creating the regions in this instance are regional potential for development and existing developmental capacities. By applying this method, 6 self-governing regions would be created (not including Kosovo), and registered as NUTS 2 regions.

The advantages of this model are the optimal size of regions from the aspect of European projects and generally from the aspect of regional management and development planning.

However, similarly to the previous model, a major disadvantage of this approach is that two regions would not have enough developmental capacity: the west (Zlatibor-Macva) and east (Podunavlje-Timok) region. In this case, centers that should act as a backbone to regional potential and an apolycentric axis of development (Uzice and Zajecar) are neither strong university centers nor centers with good transportation infrastructure.

Bearing in mind the Slovak experience and their model, it is perfectly clear that these two regions would share the fate of the Presosvky region and that following the regionalization process a stagnation would ensue, in contrast to other regions with already well-established centers (Belgrade, Novi Sad, Kragujevac and Nis).



3. Conclusions and recommendations

It is first necessary to establish a foundation for state efficiency in relations between central and regional levels. Limits on the number of ministries (maximum 15), regional secretariats (maximum 14) (based on strategic regional policies), and number of employees should also be set to define standards for work in administration.



After the describing the models and elaborating their advantages and disadvantages, it is important to note which is most suitable i.e. closest to the ideal model. Some of the characteristics of the ideal model are: the corresponding size of the region, its borders based on economic and developmental resources and potential, suitability of infrastructure and high quality university centers, and decentralized regions (a good balance between regional and micro-regional development).

By applying these characteristics to the described models, the conclusion drawn is that the Third Option meets these conditions most closely, i.e. it has the fewest disadvantages. The disadvantages of this model are currently insufficient developmental capacities and connection potentials in the two mentioned regions. Namely, the regional centers of Uzice and Zajecar do not have adequate road infrastructure (no highway) and they are not suitable university centers. The remaining regions, all things considered, have satisfactory "starting positions." This ultimately leads to the following conclusion: from the three models **for Serbia the most adequate solution is the Third Option, however, the process** of regionalization would be carried out in two stages. During the first stage, responsibility would be transferred **from two to the four new regions**, with regional centers in Nis (Nisava-Jug self-governing region) and Kragujevac (Sumadija-Pomoravlje self-governing region). At the same time, the construction of the Belgrade-Pozega-Uzice and Paracin-Zajecar highways is necessary, along with support for construction of a network of high quality faculties (4 to 6) in these two cities (and other larger cities in the regions). Only after these conditions have been met, together with regional spatial (and comprehensive) planning with the work of a regional development agency and the positioning of industrial zones along these corridors (within 5 years) can regionalization be carried out in its entirety, and all the planned work could be then transferred to the Podunavsko-timocki and Zlatiborsko-macvanski regions as well. From a legal perspective, it would be necessary to amend the Constitution to enable regionalization (the self-governing region as a constitutional category). From a functional and organizational perspective, and because of the flexibility of the system, the regions should be defined by law (the law on self-governing regions). In addition, Vojvodina would be constitutionally defined as a traditional multicultural self-governing region while Belgrade would be defined as a metropolitan city-region.

Even with all these conditions met, however, there is still one threat to strong regional development - the centralization of regions. Thus, it is of utmost importance to anticipate decentralization (in a more narrow sense) or the active implementation of LAU 1 and LAU 2 levels –of municipalities in Serbia



(micro-regional communities) and smaller community units (with the administrative encumbrance of two employees per 1,000 people, LAU 1 and LAU 2 levels combined, while the office at LAU 2 level would have two employees).



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

Sonja Avlijas

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.

1. Introduction

Development of sustainable financing mechanisms for community-based social services¹ 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 and growing fiscal constraints which have affected the availability of public resources for these services.

The countries of Central and Eastern Europe (CEE) have, while being subject to these adverse demographic² and economic factors, implemented costly

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

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



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 Slovak 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, Slovakia 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 Slovak 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.

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 institutions³.

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 Government⁴, 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 selfgovernments 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 role of NGO sector 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 donors⁵ (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

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

4 Government of Serbia, Official Gazette 9/02

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



are no mechanisms to effectively sanction non-delivery, in practice provision of these services remains at the discretion of local governments⁶.

Regarding financing mechanisms for public services, the model of fiscal decentralisation adopted in Serbia involves raising local governments' tax revenue collection capacities⁷, 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 Governments⁸, 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 the local level (which is rare), they will typically not be allocated to social services⁹. 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.

6 *ibid.*

7 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.

8 Government of Serbia, Official Gazette 62/06

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



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 Welfare¹⁰ (adopted in 1991, last amendment in 2005) and the 2002 Law on Local Self Government¹¹, 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 services¹². 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 National 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 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 2002¹³, and 2,934 municipalities. The municipalities are fragmented and their size varies greatly while they all have the same

10 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

11 Government of Serbia, Official Gazette 9/02

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

13 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.



competencies¹⁴. 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 government¹⁵.

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.¹⁶

Once the above objective criteria were determined and PIT-based transfers allocated, all social services began being financed from regional and local budgets only¹⁷. 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

¹⁴ 1,163 of them have less than 500 inhabitants and 763 of them between 500 and 1,000

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

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

¹⁷ 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.



into account the number of elderly people cannot be described as objective criteria¹⁸. 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 require¹⁹. 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 2010²⁰.

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.²¹ 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)²². 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

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

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

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

21 Interview with NGO SOCIA, 11/01/2011

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



them to pay regions for institutional care. They believe this will improve cooperation as municipalities will have more incentive to collaborate if some of them are responsible for running institutions they are trying to preserve for their political, and sometimes financial, benefit²³. As a more radical solution, the Ministry of Employment, Social Affairs and Family wants to merge some 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 institutions²⁴. 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 incurred²⁵.

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 disposal²⁶. Finally, sanctions for non-delivery are almost non-existent so many local self governments simply do not provide community-based social services to their citizens²⁷.

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 rest²⁸.

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 it²⁹. 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,

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

24 Interview with NGO SOCIA, 11/01/2011

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

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

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

28 Interview with NGO SOCIA, 11/01/2011

29 If the price exceeds that in state institutions, the client pays the difference



because of severe fiscal restrictions imposed following the crisis³⁰. The NGO sector is also concerned local governments think less about the quality of services for end users than protecting state institutions and their interests³¹.

Finally, there are issues concerning the role of the European Union in social services reform. Donor countries are unhappy the European Union does not play an active role in guiding it on how to spend the resources, i.e. does not bring in external expertise and supervision. Recipient countries are 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 expenditures³².

As a recipient country, Slovakia established an EU funds absorption system that was very bureaucratic and inflexible because of experiences with low transparency and mismanagement 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 services³³.

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).

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

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

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

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



4. Policy Implications for Serbia

Much like in Serbia, reforms in the social services sector based on the principles of decentralisation, deinstitutionalisation and diversification of social care are being implemented in Slovakia. 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 in both countries. This implies that even when a country joins the European Union, its reform progress depends mostly on domestic factors.

Slovak experiences in social services reform show how complex it is to dovetail various stakeholders' agendas, especially in times of scarce resources. There is a general consensus among stakeholders that the quality of social services does not exclusively depend on the availability of financial resources and that negative attitudes towards reform are often a significant obstacle. 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. Moreover, 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.

Slovak experience also suggests that when there are more tiers of government overseeing aspects of the same policy it is crucial their roles be clearly defined (without exceptions, which make the system seem unjust to those who do not receive the benefits of exceptions) to avoid responsibilities being palmed off to others. Meanwhile, determining which municipalities get additional central government support for social service delivery should not be based solely on simplified indicators of a locality's economic circumstances but on realistic needs assessments.

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. It is therefore 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. 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 funds³⁴. 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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³⁴ DIS Road Map was initiated in 2008, while the deadline for DIS accreditation by the EU is December 2011.



Zero (Ø) Waste Implementation of Waste Management Policy in Serbia: Practical Lessons from Slovakia

Vlatka Tadic

EXECUTIVE SUMMARY

Main international and domestic strategic documents highlight the progress in the waste management policy of Serbia as evident, but stress the necessity for future improvement in this area. In a process of designing policy solutions, we should keep in mind that the goal is not to process and store the waste, but to avoid its negative impact on the environment. This is best achieved by preventing the generation of waste. Therefore, the planned measures should be to improve rather than to exacerbate the situation.

If we take into account the trend that is spreading within European countries and their local governments, we can see that the choice between prevention of generation of waste, reuse and recycling on one hand, and the landfilling and incineration of waste on the other is actually unfair. Landfill should be last act in the process of waste management and with that most experts generally agree, and some experts are still debating the thesis that the burning of waste in general should not be viewed as part of waste management. Local authorities in cities around the world and Europe are pledging to do everything possible to avoid landfilling and burning, determined to adopt the zero point of waste (Zero Waste) as a policy for managing waste. Many cities in the world, applying zero waste policy are successfully moving towards goal of recycling more than 50% of its waste. Although Serbia is certainly still far from these figures, it is necessary to familiarize our communities with the concept of Zero (Ø) Waste because it is a vision that should be followed, and it is in line with sustainable development. Achieving the goal of Ø waste requires a change in attitude towards waste. This Policy brief is based on the Slovak experience, providing the policy recommendations for introduction of Ø waste system in Serbia. It examines possible policy approaches in establishing waste management system on the local level and calls for creation of communication strategy for raising awareness in waste management. It advocates for creation of all precondition to enable ecological activism on the local level and application of contemporary tools in this process (such as Pay as You Throw principle). It finally calls for changing of infrastructure and involvement of citizens as undisputable and inevitable precondition for implementation of the Ø waste policy.



1. Introduction

1.1. Understanding Ø Waste - Changing Approach towards Waste

Ø Waste – it is about looking at waste as a valuable resource that can be used to create new products, even generate energy. The idea is to use the rubbish we generate more productively so that nothing that can be reused goes to waste. In that light, there is a need for better understanding primarily of a hierarchy in waste management.

Why, instead of longer-term, and environmentally friendly solutions for the environment which we are all part of, always come up short, but less viable solutions? The issue that has been raised here is whether incineration and land filling or a model of minimization and reuse of waste. Zero Waste solution is therefore an option that we suggest.

Waste management in an environmentally responsible manner is based on a hierarchy of measures that are first trying to minimize the amount of waste generated. It seeks towards the maximum use or recycling waste that has emerged. The waste that could not have been stopped of being generated or used at the very end of the process can be treated or disposed, but in the least harmful way to human health and the environment.

In the short term, the simplest is to dispose or incinerate waste if we are talking about organization and technology, but rather to make the system more acceptable to manufacture and separated collection systems. Zero Waste concepts focus on the prevention of waste at the point of its production as well on the modalities of reuse of waste and the least harmful modalities of its treatment. These are much cheaper and in the same time more environmentally friendly ways of waste management that are in full compliance with contemporary European standards and legislative framework. Prevention, reuse, recycling, composting, anaerobic digestion, mechanical biological treatments are much more acceptable from incineration and disposal to landfills.

By waste incineration, the volume of waste is reduced, instead of being put off to the landfill.

However, following negative effects of burning / incineration are beyond any dispute:

- Concentrate on the toxicity of residues resulting from incineration,
- A by-product of a wide range of chemicals released into the atmosphere,
- Carcinogenic substances such as dioxins and furans,
- Ash and residues after cleaning the filter after burning is one-third the amount of incinerated waste, and with the plant for thermal waste treatment, it is well to built a site for hazardous (toxic) waste disposal, and
- Burning of materials made from non-renewable sources.



Many European countries are trying to reduce the amount of waste that is deposited, resulting in a need for increasing the share of recycling waste in the total amount of waste generated. The primary goal is to stop the disposal of untreated waste to sanitary landfills for municipal waste, or worse, the unmanaged landfills, especially when it comes to biodegradable waste that is a major cause in the process of decay because of lack of oxygen within the waste. Local and regional authorities should play very important role in this process, providing strategic framework for waste management, namely establishing a clear policy determination towards creating of a system based on a prevention of generation of 5 waste, reuse of waste and recycling and not on the system, which inevitably leads towards disposal to landfills or incineration.

Involvement of citizens in the whole waste management system is of crucial importance, and thus actually achieves two objectives. The first is that the quantities of waste are minimised, reused and recycled. If this is not possible, the citizens' role is to dispose waste in a friendly way and on the other hand, in the same time to develop and raise awareness of the importance of proper waste management within the process. These are just some of the necessary solutions in this particular area of environmental policy. \emptyset waste, being the most environmentally accurate approach in waste management, implies that the producer of waste is involved in its care, therefore, the creator of the problems are involved in its solution.

2. Problem description

2.1. Waste Management System in Serbia

High-costs, low levels of service and inadequate care for the environment are consequences of the poor organisation of waste management in Serbia. The existing legislation defines local municipalities as the entities responsible for managing communal waste.

Waste and waste management have been recognised as a major public issue. However, people generally tend to consider waste as somebody else's problem, so solutions are expected from the government, its agencies, local authorities, industry, etc. The need for cooperation in solving the problems of waste disposal is only recognised in moments of crisis and public concern. The National Waste Management Strategy (NWMS) provides guidance on the implementation of waste legislation. It establishes systems for the management of specific waste streams. However, waste management plans at regional and local levels have to be developed and proved in practice.



Action plan for achieving goals promoted in NWMS does not deal exhaustively with activities on minimisation of waste at its source or its reuse, although they are two most favourable concepts within the hierarchy of waste management!

Incineration and landfills are integral in some Regional and Local Waste Management Plans, but should not be central part of waste management system in Serbia.

The long-term objective, 2015-2019, of NWMS is to re-use or recycle 25 % of the total volume of packaging material waste – glass, paper, carton, metal and plastic.

Waste prevention will start with a public awareness campaign. This is not a good approach!

Together with public awareness campaign (which should be organised in systematic way), we need environmentally and economically sustainable system where resources are kept in the production cycle – we need Ø waste!

3. Policy options

This policy brief examines the policy options for establishing of Ø waste concept in Serbia based on the experiences from Slovakia. Following this rationale of the policy brief, the experience in establishing of this system in Slovakia (Palarikovo municipality sample) will be presented as a favourable policy option. Status quo of existing waste management policy framework in Serbia is another policy option to be presented in this brief.

3.1. Ø Waste strategy of Palarikovo municipality in Slovakia

Palarikovo is the first municipality in Slovakia that adopted Ø waste conception and it is being successfully implemented. The municipality is trying to do everything to decrease the amount of waste for disposal. This is the example of organized best practice activity on local level in the field of waste prevention and reusing.

Optimization steps in waste management

The municipality had to start solving the issue of wastes in 1999, when its municipal landfill was closed down due to stricter legislation. At that time, the municipality could choose either the possibility of transporting the waste to another landfill, connected with higher payments both for the transport and for the fees for landfilling, or to start composting and recycling the waste. In



addition to that, the new legislation set a number of other obligations of municipalities, which had to be solved, too.

The first step the municipality did was an analysis of the existing situation. It determined composition of municipal waste in the municipality. Approximately 30%, by volume, was represented by biological waste, 25% by PET-bottles, 15% by paper, 5% by glass, and further 5% by other plastics. The municipality also found that, in spite of 17 years of education of the public, the local people practically do not use the local collection point for secondary raw material. Thanks to this analysis, the municipality concluded that preservation of the existing system of deposition of waste to a landfill would be several times more expensive for it than before. Further, it realized that if it wanted people to separate more waste, it would have to create a system of collection showing the maximum possible comfort. However, simultaneously, such a system had to be feasible from an economic point of view.

Implementation of the project started in 2000 through intensive education of the public concerning reduction of biologically decomposable municipal waste - promotion of domestic composting. Regularly, two times a year, the inhabitants obtain, in their households, leaflets on domestic composting with the possibility to use the municipal composting places.

Education of the public is ensured also by means of local media - press, radio. The citizens association (Environmental Association of Palarikovo) produces, free, composting tanks for the interested persons and it supplies them to households together with information leaflets.

In order to support composting, the municipality bought also a chipper, and in the time of thinning out of trees, it ensured chipping of branches for the inhabitants.

Since 2002, an integrated system of separated waste collection has been implemented in the municipality. The system started by collection of four basic components - glass, paper, plastic packaging - PET-bottles and multilayer combined materials. At present, about 18 kinds of collected components form part of the system. However, only raw materials marketable based on contracts concluded in advance are separately collected. Until 2004, the municipality introduced gradually separation of paper and cardboard, tetrapak, glass, various types of plastics, metal packaging, textiles, electronic scrap, tires, batteries, cables, highvolume waste, hazardous waste, and small building waste.

PAYT (pays as you throw) principle as an economic stimulation

Economic stimulation of the inhabitants is important. In 2000 to 2003, people paid a lump sum fee 7.4 € for people who do not separate waste, and 4.7 €



for people who do separate. Now, when 99 % of inhabitants have participated in the system, the PAYT (pays as you throw) principle has been applied. The waste producers pay only for mixed municipal waste that is disposed of through landfilling. They do not pay for the separated commodities. The fee for removal of one dustbin of a volume of 110 litres is 1.08 €. The municipality uses a sack system for collection of the separated materials. At present, the wastes are collected once in two months. Simultaneously with the sacks, electrical waste and 7 high-volume waste is collected. The municipality gets the sacks at a low price (in the beginning, it got the sacks free, now it pays 0.025 € per one sack), and it started the whole system with minimum investments. The separated raw materials from the sacks are clean and may be more easily processed. The system is beneficial also for the inhabitants who do not have to carry the wastes anywhere. In the time of collection, they put the sacks in front of their house.

Second Hand free or a Green line

A collection yard, where people can bring separated components of municipal waste, according to their needs, is under operation in the municipality. After the reconstruction of the collection yard is finished, a room of still functional things which people will be allowed to take free - small devices, white goods, furniture, etc. - will be present in its premises. In addition to that, the municipality introduced a green line for the inhabitants. Its services reside in that if somebody wants to get rid of something what somebody else could still use, the municipality mediates this offer to the other people. Through this, it meets the principle that the best way is to prevent waste production.

Thanks to the fact that 28 additional municipalities from the neighbourhood (50,000 inhabitants) joined Palarikovo, the municipality obtained a contribution for construction of a Regional Collection Yard from the Recycling Fund.

The whole recycling system is beneficial from an economic point of view and profitable for the municipality, which derives the highest income from recycling of PET-bottles. What is important is that the municipality manages the whole system itself. It also continually improves its system. For example, in order to reduce its costs, it began waste separation also in the cemetery. The municipality was the first municipality in Slovakia, which openly adopted the ØWaste system. It wants further to reduce its waste production. It carried out a new analysis of composition of the mixed waste and it found that biological waste forms 68% of its amount.

Thus, it wants to start activities promoting composting again. One of these



activities is mediation of sale of compost to the inhabitants. Thanks to purchase for the whole region, their price can be lowered considerably.

Everybody is involved

The local companies became involved in the waste management system, too. The original fears that the system would be a competitor to the company for Secondary Raw Materials proved to be erroneous. This company is engaged in the purchase of metals only. The separation takes place also in the post, elementary school, as well as nursery schools. Children take part in a competition in tetrapak collection.

Waste collection by Local and Delivery Systems

1. *Local system* - The waste is directly taken away from waste producers. The producers place the waste into plastic bags that have been given to them. Oversized waste can be placed outside next to the bags on the day of collection. The exact day of collection is announced by the local public address system and the households can place the separated waste in front of their houses. Based on condition the waste is separated; all of the abovementioned waste is then taken away. After transport to the waste collection point, the waste is final-sorted, processed according to the requests from the customer and temporary stored. Finally, it is transported to the recycling factory. Separated waste is being collected from the producers once per month.
2. *Delivery system* - This system is characterized by that the waste is delivered to the collection point directly by individual waste producers at their own expenses. The municipality has established the collection point. There, some types of waste can be handed over free of charge. Waste producers use this in alternative cases; they were not at home on the collection day or in case, or they have produced suddenly more waste than usual. This delivery system is used in case of biodegradable waste as well. This kind of waste can be delivered to the municipal composting plant located in the premises of local agricultural cooperative.

Disposal of biodegradable municipal waste

Biodegradable municipal waste is separated at the place of origin - directly in households, where home composting is established. For this purpose, the municipality runs information campaign aimed at increasing the rate of home and community composting. The aim is to maximize the rate of



self-composting households. Part of the campaign also included manufacture of wooden composting containers, leaflets, visiting the individual households, organization of lectures, etc. Municipality also offers a biodegradable waste shredder. For large amounts of biodegradable waste, the municipality offers assistance with the disposal. For multi dwelling units, the municipality provided communal composting containers made of wood or plastic. In case the capacity is insufficient and the containers are filled up, the waste is taken to the municipal composting plant.

Local charge for communal waste and small construction waste

For support of separated waste and home composting Palarikovo in 2005 had put in practice quantity collection of mixed MSW from all of waste producers. This charge is considered as more fair and it has shown that it is sufficiently incentive for waste producers to separate and compost their waste.

People in municipality are not charged for separated waste. They are charged only for amount of produced mixed waste, which has to be transported to the landfill. The tariff for one 110 litre waste bin used for collection of mixed municipal waste is 1,50 €. Tokens can be purchased continuously during working day at the cash desk of municipal office. If payer does not use all the tokens in given year, it can be used it in the following year.

There is also a rule, that if it is found out, that the payer does not implement quantity collection during the first quarter of the year, the municipality has the right to lay capitation fee. Waste is taken to the municipal composting plant.

The new policy in the implementation of the hierarchy of waste management!

The steps shown in this Policy Brief are proven to work in Palarikovo in Slovakia as well as in some other European countries and can be implemented with existing technology.

Therefore, prevention of waste and recycling should not be accepted as an addition to the current system of waste collection and disposal. Experiences from Western Europe have shown that the strategy of prevention of waste in Serbia can only be successful if we accept an integral system of waste management accompanied by a great effort to involve the public, which will represent a new and comprehensive system. That this is true tells the fact that we have to become aware, and that is a key component in any waste management program.



Public awareness and public participation, in addition to appropriate legislation, strong technical support and adequate funding are the pillars of proper waste management. So it is necessary to strengthen the human resources policy and raising public awareness with a heavy emphasis on the need to carry out these activities in parallel. It is required to educate all relevant actors at the same time. That would not happen if ignorance only one of the relevant factors in the enforcement of waste management is hampering the work of others in the same process. This is a necessary solution in this particular area of environmental policy.

Public participation - the key to success!

Communal waste management depends on the attitude and actions of the public. Public involvement and participation in waste management, in the earliest phase possible, will be effective in waste prevention and recycling. It is wrong assumption that the entire public is unqualified, given that the public every day experience is very important for the development of waste management system that can be functional. The public should be involved in all stages of development strategies, from planning sites for the construction to development of methods of collecting waste. It is necessary to maintain complete transparency in all negotiations and contracts with the private sector and enable public access to a specific time in which citizens can make comments and suggestions to any contract. Only by involving the public in all steps of the process, we can achieve a healthy atmosphere of cooperation between public and state sectors that are necessary for the proper functioning of the whole system.

3.2. Status quo in Serbia waste management policy

The challenge of developing sustainable waste management policy in Serbia represents a growing concern for the national government, local authorities, environmentalists, environmentally oriented CSOs, researchers and the communities at large. Numerous analyses show that one of the biggest ecological problems in Republic of Serbia is an inadequate waste management policy. Good management approach represents one of the main challenges for the local communities in establishing a sustainable system for all waste streams on the local level.

According to the projections made in strategic documents of Serbia, the quantities of waste will increase in the future. The current level of prevention, recycling and waste utilization of waste is insufficient. Although primary recycling in Serbia is regulated by law and provides for separation of paper,



glass and metal in specially marked containers, recycling is not functioning in practice.

The existing legislation in Serbia defines local municipalities as the entities responsible for managing most of the waste streams. In this process they face some serious obstacles. Systematically organised collection of household waste covers 60% of population. Rural areas are still inadequately included in this process in Serbia; waste disposal to landfill is the most preferable option in hierarchy of waste management. Waste is being disposed on landfills – most of them do not meet all the technical requirements for operation. Furthermore, 4 481 illegal dumping sites still exist in Serbia. There is no organized system of separate collection, sorting and recycling of waste. These striking facts clearly indicate that policy framework for reuse and prevention of generation of waste still needs to be established. Local communities in Serbia need to decouple use of natural resources and generation of waste from the rate of economic growth by introducing more sustainable production and consumption patterns. This process starts from us as individuals, from our homes, offices etc.

The National Waste Management Strategy provides guidance on the implementation of waste legislation. It establishes systems for the management of specific waste streams. Action plan for achieving goals promoted in Waste Management Strategy does not deal exhaustively with activities on minimisation of waste at its source or its reuse, although these are two most favourable concepts within the hierarchy of waste management! Disposal to landfills is still an integral part of Regional and Local Waste Management Plans, but should not be central part of waste management system in Serbia. In this process it is necessary, particularly at the local level, to develop applicable Local Waste Management Plans, based on real needs, involving all stakeholders in its development and implementation.

Public awareness of citizens about the need for rational and efficient waste management, as well as encouraging the population to have more responsible attitude towards waste and waste management in a sustainable manner still needs to be developed. The effective system for raising awareness about responsible management of waste (focusing on prevention of generation and reuse of waste) is of crucial importance in Serbia, but still does not exist in Serbia.



4. Conclusions and recommendations

Generation of waste should be prevented and its recycling and recovery encouraged so that harmful environmental impacts can be reduced. The shift must be made – from waste producing society towards waste preventing and recycling society.

On the one hand the waste is less generated, maximally reused (thus, less pressuring the economic growth of local communities) and on the other hand, it minimises the negative impact on environment and health of population.

The steps shown in this Policy Paper Brief are proven to work in Palarikovo in Slovakia as well as in some other European countries and can be implemented with existing technology.

Therefore, prevention of waste and recycling should not be accepted as an addition to the current system of waste collection and disposal. Experiences from Western Europe have shown that the strategy of prevention of waste in Serbia can only be successful if we accept an integral system of waste management accompanied by a great effort to involve the public, which will represent a new and comprehensive system. The fact is that we have to become ecologically aware and active, and that is a key component in any waste management program - public awareness and public participation, in addition to appropriate legislation, strong technical support and adequate funding. So it is necessary to strengthen the human resources policy and raising public awareness with a heavy emphasis on the need to carry out these activities in parallel. The requirement to educate all relevant actors at the same time is a necessary solution in this particular area of environmental policy.

4.1. Pursuing Ø Waste Policy in Serbia – Starting from Scratch (Policy Recommendations for Serbia)

How to achieve the goal of adopting Ø Waste as a policy option for future action in Serbia? How to achieve the goal of adopting a Zero Waste in our communities? Ø Waste programs are the fastest and most cost effective ways with which local governments can contribute to avoiding toxics releases from waste disposal practices. In addition we should take steps fight climate change, create green jobs and promote local sustainability.

On the basis of the description of the problem and presentation of the existing policy options here follows the list of policy recommendations regarding the implementation of Ø Waste in Serbia:



Examining possible policy approaches in establishing waste management system on the local level - Local municipalities in Serbia, within the process of analysis of particular waste streams should make cost & benefit analysis whether the management of different waste streams should predominantly depend on the disposal on the landfills as proposed by NWMS, or the funds envisaged for this should be reallocated to initiatives regarding prevention, separate collection and recycling. Landfills are for Serbian municipalities the most expensive and less favourable policy option for treatment of waste as it is demanding major capital investments, local population is often opposing to their establishment, and management of landfills represents a long term obligation. From the experience from Palarikovo we can conclude that each local municipality should, according to results of cost & benefit analysis, decide regular waste streaming based on landfills as rule or Ø waste including landfills as the least favourable option (not only in Ø waste, but in hierarchy of waste management as well itself).

Creation of communication strategy for raising awareness in waste management - According to the Analysis of measures and activities from the NWMS 2003 – 2008, the activities regarding raising awareness on waste management was not implemented! New NWMS is based on public awareness campaigns when it comes to raising awareness in waste management. This approach must be a result of policy on raising awareness on waste issues, based on communication strategy, which does not exist at any level in Serbia. Public awareness campaigns are desirable policy option, but must not be the only type of raising awareness activity. This communication strategy should promote the concept of Ø waste at national and local level. Local communities and businesses should adopt Ø waste as a goal and plan how to achieve it. The strategy should promote close cooperation between local authorities and the existing recycling industry and reuse business and support Ø waste procurement policies and programs.

Enable ecological activism on the local level - To be ecologically aware, does not necessary imply to be ecologically active! In some of the surveys conducted in Serbia, about 70% of population would do a primary separation of waste if they would have the necessary instruments and conditions. Local municipalities must pursue the goal established by the legal framework, which is to establish functional system for primary separation as well for effective and efficient recycling (proved to be as an effective way to motivate citizens' participation in the process). Ø waste is underpinned by a process of extensive primary selection that leads to more efficient reuse and recycling of waste.

Application of the PAYT principle - PAYT principle should be applied on the local level. By this, the local population is stimulated to conduct primary selection. This policy recommendation, however, implies the carefully



designed strategy for fighting illegal waste treatments which could emerge on the local level after the introduction of the PAYT principle (e.g. creation of new illegal dumpsites).

Local collection points - Local municipalities should develop local collection points where citizens and all interested parties can leave and collect second hand material, which is often treated as waste, although it can be reused.

Changing the infrastructure – The waste management infrastructure in Serbia must be designed to phase out waste following the waste hierarchy.

1) Waste Prevention – should be implemented in local and regional waste management plans. Prevention targets prove to be necessary to trigger action at national level. Industrial responsibility is a key in creating green jobs and designing waste out of the system:

- By designing long-lasting, easily maintainable and repairable products,
- By reducing packaging and redesigning those products that cannot be safely composted, reused and recycled. Education and training of professionals, policy makers and citizens is vital to advance in the paradigm shift and in progressively phasing out waste.

2) Separate Collection – source separation of at least organic, recyclable, reusable products and components and residual waste should be the minimum separation allowed.

Currently, examples in Europe show separate collection achieve recycling of 80 to 90% of the municipal waste. Kerbside collection is the most powerful tool to prevent any increase in waste and obtain clean separation of materials at source. Price incentives should be promoted as a key driver of behaviour. Excessive generation of waste should be penalised. Kerbside collection should be complemented with local reuse and recycling centres to let households and businesses deliver recyclables (and hazardous waste).

Disposal infrastructure such as landfills or incinerators should be phased out as recycling rates increase. Flexibility is vital in Ø waste, therefore contracts and waste plans should not inhibit increased recycling.

Engaging the community – Community education and participation is indispensable for the success of any ZeroWaste plan. Citizens should be invited to take active participation in the design of the waste management system and to monitor and provide feedback on its implementation. Public education campaigns to encourage public participation should be undertaken, and they need to be sustained over time.

Zero Waste maximizes recycling, minimizes waste, reduces consumption and ensures that products are made to be reused, repaired or recycled back into nature or the marketplace. Zero Waste challenges badly designed waste



management systems that "use too many resources to make too few people more productive." Secondly, it addresses, through job creation and civic participation, increasing wastage of human resources and erosion of democracy. It also helps communities achieve a local economy that operates efficiently, sustains good jobs, and provides a measure of self-sufficiency. Finally, it aims to eliminate rather than manage waste. This is way the only way to reduce waste in Serbia in most effective and efficient way in Serbia is Ø waste.

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First edition, Bratislava 2011

Pontis Foundation



The policy papers have been prepared with the assistance of the Pontis Foundation and the Centre for Democracy and supported by Slovak official development assistance program Slovak Aid through the Slovak-Serbian EU Enlargement Fund.