



LSEE Papers on Decentralisation and Regional Policy

**THE POLITICAL ECONOMY OF DECENTRALISATION AND
REGIONAL POLICY IN SERBIA: CHOICES AND OUTCOMES**

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Research Paper Number 3, July 2011



The Joint LSEE-Ifri Research Programme on South Eastern Europe was made possible by generous support from the John S. Latsis Public Benefit Foundation

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The Political Economy of Decentralisation and Regional Policy in Serbia: Choices and Outcomes

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Abstract

The paper sets out the main elements of decentralisation and regional policy in Serbia and describes their implementation paths. It assesses the progress and outcomes of decentralisation in health, education, social services and local economic development, while in the sphere of regional policy, it examines the numerous measures and financial incentives being designed and implemented to improve regional cohesion across Serbia. The paper investigates the inter-relationship of these two competing policy paradigms, and points out that cross-sectoral coordination has been largely absent because the institutional setting has been intrinsically unstable and averse to cooperation, mostly for political reasons. Moreover, while delegation of responsibilities to local authorities has not been backed by adequate financial resources and little commitment to the process of decentralisation has been demonstrated, regional policy has seen significant financial commitment to its aims which have however been heavily politicised. The intended outcomes of decentralisation and regional policies, such as improved service delivery for the citizen and a better quality of life, have consequently often failed to materialise in practice. In conclusion, the paper identifies both positive and negative impacts of the decentralisation process, while it associates regional policy in Serbia with the emergence of a plethora of institutions with overlapping competencies in a struggle between political parties to seize as much political influence as possible. Finally, the paper offers some proposals for policy improvement in the context of EU pre-accession processes.

Introduction

A growing interest in decentralisation in transition countries has accompanied the process of democratisation and economic transformation that has taken place in these societies (Bardhan, 2002; Meurs, 2008). There have been several motives for decentralisation, the design of which has varied depending on the political interests involved. Firstly, decentralisation of public authority has been carried out in some countries in order to ensure a better fit between local governance and local preferences, especially in countries with heterogeneous preferences due to cultural, religious and ethnic divisions. Secondly, decentralisation has been an element of the process of marketisation in transition economies, contributing to a weakening role of the central state in economic and social affairs. Thirdly, decentralisation has been associated with democratisation, widening the scope of political participation from central to local level. Whatever the reason, decentralisation is almost always the outcome of political choices and the interplay of political and economic interests of the decision making elites.

While for some services, the matching of local preferences may be best achieved by local authorities, for other services which have larger scale economies the central government may be the more effective provider. For these reasons responsibility for different service functions is usually shared between different levels of government. However, decentralisation may fail to improve the delivery of public services if not accompanied by effective fiscal decentralisation. Due to both political interests and to fiscal constraints of the central government, administrative decentralisation has often not been accompanied by fiscal decentralisation, thus reducing the capacity of local administrations to achieve the main aims of decentralisation.

In addition, an intermediate level of government at the regional level is often involved, giving a further layer of complexity to the relations between central and sub-national units of government. Often the interests which motivate the policies of decentralisation may be quite different to those which motivate the establishment of regional levels of government. In South East Europe (SEE), the latter has been stimulated by the preparation of the countries for entry into the EU regional policy framework, an important element of the pre-accession process, and has thus been an element of the wider Europeanisation of regional policy in these countries (Bache, 2011). New 'statistical' regions have been created at an intermediate level in several countries, for the purpose of monitoring the use and effectiveness of EU regional cohesion funds, although in most cases their role in the administrative structure has not been defined. It should be noted that this regionalisation process is quite distinct from the earlier process of decentralisation which mainly emphasised the transfer of responsibilities for public services from the central to the municipal level.

This paper aims to assess some of the social and economic impacts of decentralisation and regional policy in Serbia, and to investigate the relationships between the two processes. It provides a political economy analysis of the interests and driving forces which have been behind their introduction, as well as their inter-relationship as competing policy paradigms, while also identifying potential areas of complementarity. The study is based on literature review and qualitative research interviews. It concludes with a commentary on the adopted policies and some proposals for policy improvement in the context of EU pre-accession processes. The next section sets out the policy framework for decentralisation and regional policy in Serbia, and in section 3 a brief review of some of the relevant literature is presented. Section 4 discusses the outcomes of the decentralisation process based on the findings of our qualitative field research, while section 5 analyses the outcomes of regional policy. In section 6 we analyse the interaction of the two policies. Our conclusions are presented in the final section.

The evolution of policy on decentralisation and regional development

Over the past decade, the Serbian government has demonstrated strong commitment to policies of decentralisation, which is intended to result in better service delivery at the local level, a reduction of regional disparities and greater social cohesion. From 2002, the process of decentralisation resumed¹ with the passing of a Law on Local Self-Government in line with the European Charter of Local Self-government². Since then, many strategic documents have highlighted the large geographic disparities in citizens' access to public services and opportunities for local economic development, including the Poverty Reduction Strategy paper of 2003³, the National Economic Development Strategy 2006-2012⁴, and the Regional Development Strategy 2007-2012⁵. These documents have identified underdevelopment as a multidimensional problem, and have advocated cross-sectoral coordination between policies, which is supposed to bring decision making closer to the citizen and result in greater regional cohesion and better quality of life in all parts of Serbia. In the context of Serbia's accession to the EU, one of the most important and current strategic documents has been the Stabilisation and Association Agreement (SAA), which was signed between the EU and Serbia in

¹ Within the former Yugoslavia public administration under the umbrella of the ideology of 'self-management' had been quite extensively decentralised (Bartlett 1985). With the break-up of the country in 1991-2, this system was replaced with more centralised arrangements designed to consolidate state power in each of the newly created successor states. This happened in Serbia as well (within FR Yugoslavia composed of Serbia and Montenegro) under the Milošević regime.

² The European Charter of Local Self-government was adopted by the Council of Europe, to which Serbia gained accession in 2003.

³ <http://www.prsp.gov.rs/download/2.%20PRSP%20-%20Main%20text.pdf>

⁴ <http://www.prsp.gov.rs/download/SKUPSTINA-NSPRS.pdf>

⁵ http://www.decentralizacijarsrbije.net/uploads/file/strategija_regionalnog_razvoja.pdf

2008. The SAA provided a framework for the development of Serbia's National Programme for EU Integration (NPI), which identifies the reduction of regional socio-economic disparities as a high national priority. A National Investment Plan (NIP), set up as part of the 2006 pre-election campaign, allocates funds from privatisation to municipalities for investment in local infrastructure.

Following the creation of this wide-ranging strategic framework, several laws have been adopted over the last five years which have delegated many responsibilities to local authorities. Legislation on financing local self-government was adopted in 2006⁶, while legislation on territorial reorganisation⁷, and local elections was adopted in December 2007. New programmes were developed to enhance the performance and efficiency of local government, in particular in dealing with citizens' requests. The new Law on local elections exempts minority parties from the legal threshold of 5% normally required for political parties to enter local assemblies, a provision which was applied in the May 2008 local elections. The law also sets the scene for joint implementation of decentralisation and regional development policies by central and local authorities. However, the cross-sectoral coordination advocated within the strategic framework has been largely absent because the institutional setting has been intrinsically unstable and averse to cooperation, mostly for political reasons. Moreover, the rather insignificant budgetary allocations to decentralisation suggest a lack of policy commitment, while the wide discrepancy between words and actions raises doubts about the real priorities of the Serbian government. The intended outcomes of these reform processes, such as improved service delivery for the citizen and a better quality of life, have consequently often failed to materialise in practice.

In order to carry out their expanded functions, local self-governments require sufficient funds. Consequently, the financial capacity of local self-governments has been strengthened since 2001 in comparison to the 1990's. They have become more reliant on own sources of revenues and in charge not only of financing current expenditures, but also of investment in infrastructure, attraction of investors and local economic development.

A major milestone was the adoption of the 2006 Law on Financing Local Self-Government⁸, which determined the own revenue sources for local self-governments and established transparent criteria for transfers from the central government, something which had previously been conducted arbitrarily, and often based on political affiliations⁹. Under this law, municipalities derive their

⁶ The Local Self Government Finance Law took effect in January 2007 (Official Gazette of Republic of Serbia, No. 62/2006).

⁷ The Law on Territorial Organisation of Serbia (Official Gazette of the Republic of Serbia 129/07)

⁸ Official Gazette, no. 62/06, Government of Serbia

⁹ The Law came into effect on 1 January 2007

revenues from four principal sources: (i) local taxes imposed at locally-determined rates, (ii) shared taxes, imposed at centrally determined rates and shared - in whole or in part - with the municipality in which they are collected, (iii) non-earmarked intergovernmental transfers, and (iv) earmarked intergovernmental transfers.

The biggest innovation of this Law was the concession of the property tax to local authorities. Although the property tax is yet to be reformed, as a result of this concession own revenues increased on average from 20 per cent of all revenues in 2004 to 38 per cent in 2008, albeit with significant differences between the poorer and richer municipalities whose dependence on transfers varies between 10 and 70 per cent of their budgets (SCTM, 2009). The largest increases in taxes came from the fact that local self-governments expanded their database on property and thus managed to increase the pool of tax units.

However, the implementation of this fiscal decentralisation has not proceeded smoothly. A proposed Law on Public Property, intended to replace the 1995 law which took property away from local self-governments and extensively discussed over the past five years, has still not entered parliamentary procedure. Some stakeholders find it difficult to conceive of effective decentralisation without having local property owned by the towns and municipalities, which is also linked to the contentious issue of restitution. Local administrations face lengthy procedures to obtain permission from the central government to lease land to foreign investors, or to make any other change in the use of public property. Often, the Ministry does not even reply to requests for changes in the use of local state property, and when they do reply the requests are often refused.¹⁰

Regional policy

More recently, the Serbian government has introduced a regional policy perspective into the local socio-economic development efforts, leading to the adoption in July 2009 of the Law on Regional Development¹¹. The Law defines the names of regions, regulates the method of defining the districts which constitute a region, the method of defining local government units which constitute a district, development indicators, the classification of regions and local government units, the nature of development planning documents, the subjects of regional development, and the measures, incentives and financial resources for the implementation of regional development policy.

The Law on Regional Development was adopted following two years of public debate. It envisaged establishment of a complex and diluted set of new institutions which lacked clearly defined

¹⁰ Interview with the Office of the National Council for Decentralisation, July 2010

¹¹ Official Gazette, no. 51/09, Government of Serbia

competencies (Knežević, Jeremić, and Avlijaš, 2009), but which are expected to administer funds directed towards regional development, including EU funds. The institutions envisaged by this law included, but were not limited to, the National Council for Regional Development, the National Agency for Regional Development, Regional Development Councils, Regional Development Agencies and Regional Associations. Local self-governments, which are the only existing sub-national units of government, were not recognised by this Law as pivotal stakeholders. In this sense, this Law can be characterised as creating a parallel system for the absorption of EU funds and the management of state aid in addition to the system created by the part of government in charge of the EU accession agenda.

The Law on Regional Development spurred much public discussion on whether regionalisation, and the establishment of a middle tier of sub-national government, was a necessary step in EU accession. This occurred since this Law made the Statistical Office of the Republic of Serbia responsible for the introduction of the Nomenclature of Units for Territorial Statistics, also known as the NUTS regions, which are statistical units at which regional policy is to be planned, executed and monitored for the purpose of assessing and reporting on the effectiveness of the use of EU cohesion funds. The law introduced seven NUTS2 regions in Serbia, but an amendment to the law introduced in April 2010 reduced the number to five through the joining together of two regions in the east of the country, and two in the west which had previously divided the Sandžak area¹². The change was made following protests from the Bosniyak ethnic minority political parties based in Novi Pazar. The introduction of NUTS regions was highly contentious as it was understood by many in the policy making community as the first step towards the regionalisation of the country, even though regionalisation is in reality not necessary for EU accession, as many EU countries remain unitary to this day.

It is unclear whether the EU or the Serbian institutional setting should take the blame for this miscommunication over Serbia's responsibilities in the process of EU accession. The EU has certainly contributed to the confusion by helping to set up and support regional development agencies (RDAs) during the past decade, thus creating an impression that these agencies were necessary institutions and that they would be in charge of EU cohesion funds when the time comes. However, since regionalisation is a politically contentious topic in Serbia, following two decades of secessions of republics and provinces, as well as the perpetual turmoil related to the maintenance of the country's territorial integrity, the regionalisation discourse can lead to significant gains for the domestic political elites. Thus, we can argue that some domestic politicians have had much to gain by spinning

¹² The five NUTS 2 regions are Vojvodina, Belgrade, Šumadija and Western Serbia, Southern and Eastern Serbia, Kosovo and Metohija.

the discourse of EU accession towards regionalisation, and that the “miscommunication” with the EU fulfilled a political purpose.

As a result of these processes, the concepts of regional policy and regionalisation have started to be used interchangeably in Serbia, both within the media as well as the policy making community. It has also been perceived by many stakeholders as a necessary step for the reduction of regional disparities, and even a panacea for regional development. As a response to the most recent regionalisation debates the government established a National Council on Decentralisation in 2009 as a policy body with 17 members including Ministers, Mayors and other politicians. Its mission is to come up with a strategy for the administrative decentralisation and territorial reorganisation of Serbia, although this is in fact a misnomer as its agenda is to produce a strategy for the political regionalisation of Serbia. As a result of this initiative, further linguistic confusion was added to the regional policy discourse, as the terms decentralisation, regionalisation and regional policy have begun to be used interchangeably. Finally, the former Minister of Economy and Regional Development, and leader of the G17+ political party, Mladjan Dinkić, responded to the new trend of regionalisation by founding a new political party, United Regions of Serbia, in June 2010 with the central aim of its agenda being regionalisation, which it claims to be a necessary step for EU integration.

The above described discourse can be characterised as a struggle between various members of the minority government over control of EU regional and cohesion funds. Within the EU as a whole only 36.9 per cent of all EU cohesion funds are managed by sub-national institutions, which mostly occurs in countries with very strong and accountable regional governments such as Germany, Italy and Spain (Mirić, 2009). Furthermore, the Instrument for Pre-Accession Assistance (IPA), a programme which assists Serbia in its process of EU integration, is being implemented as an exercise in the absorption of EU cohesion funds, channelled through the Ministry of Finance. Nevertheless, although the IPA funds will be managed entirely by the central government, regional levels of government will not be outside this process as they will be the most important recipients of these funds.

Concurrently, the process of accreditation of the Decentralised Implementation System (DIS) of EU funds is also taking place in the Ministry of Finance, which is supposed to result in the decentralised management of EU funds, i.e. the passing of responsibility over funds management from the EU delegation to the Serbian Ministry of Finance. The fact that the word “decentralised” has found its way into this process as well has again led to some confusion on whether these funds will be administered by sub-national units of government, although that will certainly not be the case.

In conclusion, regional policy in Serbia during the 2000's has been entirely driven by the central government while local self-governments, as the only existing sub-national units of government, have played only a marginal role in the process whose pace has often been dictated by local political affiliations with the central government. The institutional setting, characterised by a power struggle between the different members of the minority government (one side being in charge of the EU accession agenda, and the other in charge of regional policy), has created a complex environment for the implementation of regional policy and a set of parallel institutions which are "expected" to administer EU funds. Furthermore, the recent introduction of regionalisation into the regional policy discourse points to the enormous significance of political economy in any process to which substantial financial resources are being allocated (or are expected to be allocated).

Donor Efforts

Various multilateral and bilateral donors, in addition to the relevant government ministries¹³, have had a hand in developing or lobbying for policies related to decentralisation and regional development. Some of the donor funded projects have aimed to improve capacities of local authorities to implement development projects and attract investment, as well as to improve co-operation among neighbouring municipalities in an attempt to bring about a "natural clustering of regions".¹⁴ Other donor initiatives have been directed at the strengthening of the central government's capacities to participate in and administer the funds for regional and local development.

The Standing Conference of Towns and Municipalities (SCTM) is the national association of local authorities in Serbia and as such, the most relevant representative of local stakeholders. Its scope of work includes implementation of projects of local relevance with foreign donors, and training of local administrations for improved service delivery. It has been active in representing and protecting local self-government interests in the decentralisation discourse, both within the sphere of fiscal decentralisation as well as administrative decentralisation.

A European Union financed Exchange programme is being implemented through SCTM in Serbia since 2006 through three phases, of which the current one ends in March 2013¹⁵. The programme's aims have been to strengthen capacities of local self-governments and to further implement the

¹³ The Ministry for Economy and Regional Development has overseen the regional development policy; while the Ministry of Public Administration and Local Self-Government has been in charge of decentralisation policies

¹⁴ Interview with European Movement in Serbia, October 2010

¹⁵ Exchange 1 was financed from EU's CARDS programme, while Exchange 2 and 3 have been financed from IPA funds.

decentralisation process in accordance with EU standards. It consists of support for municipal financial management, building capacities of the SCTM to train municipalities, as well as a grant scheme which supports innovative local level initiatives directed at improving quality of life in local communities.

More generally, the EU supported Serbia through the CARDS programme during the years from 2000 to 2006 with funding of €1.39 billion, implemented by the European Agency for Reconstruction (EAR). Local and municipal government development received 10% of the total funds, while the rest was allocated to the energy sector, economic growth and enterprise development, border management, transport, and health, through various projects which also supported institutions and structures such as SCTM and the RDAs. In 2007, the EU introduced a new financial assistance programme known as the Instrument for Pre-accession Assistance (IPA) for the period 2007-2013. As a potential candidate country, Serbia is able to use IPA components I and II (institution building and cross-border cooperation), and will be eligible for its other components, including regional development, once Serbia becomes a Candidate Country (Knežević, 2010). The EU's role in Serbia has involved and required both the strengthening of local authorities as well as the central government, particularly due to the need for central authorities to programme and administer EU funds.

The World Bank has also played a significant role in decentralisation and regional development policies. Its project on "Delivery of Improved Local Services" (DILS) of a US\$46.4 million loan was launched in the spring of 2009 and it will last until 2012. The goal of the project is to pass competencies to local authorities in the spheres of education, health and social protection, but the responsible counterparts are in fact Ministry of Health, Ministry of Education and Ministry of Labour and Social Policy. The health project is the most advanced and is about to apply per capita financing in primary health care services, while the least advanced is education.¹⁶ The World Bank is also concurrently implementing the "Bor Regional Development Project" (2007- 2012) with the Ministry of Economy and Regional Development as its main counterpart. This US\$43 million loan-based project provides financing and technical assistance to the Government of Serbia to reverse the decline of the county of Bor through the privatisation of the traditional mining industry and the diversification of the local economy. The project has two main objectives: (i) tackling urgent environmental and social legacy issues arising from mining sector restructuring; and (ii) fostering new sources of economic growth and job creation in the region. However, because of the lack of sustainable local initiatives and absence of central government assistance to local self-governments,

¹⁶ Interview with official of the World Bank, Belgrade, July 2010

which could improve the quality of local project proposals, absorption of project funds by local stakeholders has been very unsatisfactory to this date.

While the World Bank administers their projects through the central government and has focused on strengthening linkages between local and central government (which is understandable since they provide loans whose borrower is the central government), the USAID, which has also been one of the largest and most influential donors in Serbia since 2000, completely circumvents the central government and works directly with municipalities.

USAID has directed around US\$78 million to local economic development (LED) in Serbia since 2001. Its first programme, the Serbian Local Government Reform Program (SLGRP), targeted 84 municipalities throughout Serbia between 2001 and 2006 assisting them to become more effective, efficient, transparent, and accountable to their citizens. SLGRP targeted municipal management to improve the capacity in areas such as information technology, financial management, communal enterprise management and public procurement. The programme also worked at the national level to support the SCTM and policy reform, particularly in the area of administrative decentralisation.

USAID's Municipal Economic Growth Activity (MEGA) project, which lasted from 2005 until 2010, established LED Offices in 32 municipalities to promote investment and support the local economy. The choice of locations was based on development potential and favourable political conditions, and consequently with the exception of the southern municipalities bordering Kosovo their focus has not been on the most deprived areas. They have sought to strengthen the capacities of the SCTM, and to improve the fiscal and financial capacities of municipalities. The MEGA project established the National Alliance for Local Economic Development (NALED) in 2006, whose mission has been to promote dialogue between local and central government, institutions and the private sector and thus create an enabling environment for the business community, increased investments and enhanced economic development.¹⁷ USAID is continuing its activities in Serbia with a new project called Sustainable Local Development, which is being launched in 2011 and will continue until 2015, with an aim to further strengthen the fiscal and administrative capacities of a selection of Serbian municipalities in order to support local economic development.

USAID's LED approach has been to increase the role of the market and contribute to financial independence of local authorities from the central government. It has, for example, lobbied for the introduction of market oriented financing mechanisms for municipalities such as issuing municipal bonds, and the return of property to municipalities so that they would be able to guarantee their

¹⁷ Interview, USAID in Serbia, September 2010

own credit lines to financial institutions. However, the fact that the USAID has been selecting the best performing municipalities to work with may have had an un-equalising effect on local economic development across municipalities. From that perspective, USAID projects have been in collision with the declared central government policy of “giving the most to the least developed areas”.

Finally, there have been other donor led initiatives, which have worked towards strengthening civil society organisations and grass roots movements in order to boost citizen participation and thus promote the principles of deliberative democracy (including USAID’s US\$200 million Community Revitalization through Democratic Action project).

Given this wide range of approaches by donor organisations, it appears that efforts by the EU and the World Bank aimed at raising central government capacities to implement regional and decentralisation policies may have undermined and counter-posed other concurrent efforts by USAID to directly strengthen local capacities and promote bottom-up local economic development. Furthermore, it is the decision of the central government whether to accept aid or to implement reforms (and in the case of World Bank loans, whether to borrow in order to implement them) and consequently the introduction by donor organisations of decentralisation and regional development policies onto the central government’s reform agenda has led to an increased role of the central government in these processes.

Review of previous research studies

As indicated above, decentralisation has been carried out in a number of transition countries in recent decades. Partly, this has been intended to accompany the process of marketisation, and to counteract the perceived influence of over-centralised state bureaucracies. A central aim of decentralisation has been to bring services closer to local people and their needs. According to the theory of fiscal federalism, decentralisation is preferred to central service delivery when tastes are heterogeneous as in the case of ethnically diverse societies, and when there are no ‘spillovers’ from one municipality to another (Oates 1972).

However, concerns have been raised that this theory is inappropriate for transition and developing countries in which the mechanisms of political accountability are not well developed, where corruption is prevalent, and where the ‘capture’ of local government by interest groups and local elites is a feature of the political culture (Bardhan and Mukherjee, 2000). In such cases decentralisation may lead to worse outcomes than the centralised system which it replaces, and the quality of local public services may worsen, rather than improve. Resources may be siphoned off into luxury consumption by the local elite, rather than invested in service improvement for the local

population. For these reasons, it is important that decentralisation is accompanied by measures that strengthen local accountability, minimise the risks of corruption, improve the transparency of local government, and ensure that local people participate in service delivery.

In the case of Serbia, few studies have been carried out to evaluate the impact of either decentralisation or regional policy as a whole on local economic growth or improved service delivery to citizens. Nevertheless, several sector specific studies have assessed the policy processes linked to decentralisation. These assessments have been particularly dominant within the spheres of fiscal decentralisation prior to the 2008-10 economic crisis (e.g. Davey, 2005; Meekel, 2008), as well as decentralisation of social policy (e.g. Matković, 2006; Bošnjak and Stubbs, 2006). They have mostly focused on how the implemented decentralisation policies have fared against general EU recommendations and good practices from EU member states.

For example, Meekel (2008) argues that although the fiscal position of local governments in Serbia has improved over the last decade, local governments still need to enhance their cooperation and coordination in order to share best practices in fiscal management. Research efforts since the economic crisis have focused on the impact of the crisis on local finances in Serbia. For example, Avlijaš (2010) and Avlijaš and Molnar (2010) assess how cuts in expenditures have been translated into reduced delivery of local services and reduced investment into local economic development. Nonetheless, the methodology of these investigations was limited to collecting local stakeholders' subjective impressions, which made it difficult to disentangle the general effect of the economic crisis on local fiscal capacities from the effect of the temporary fiscal re-centralisation local governments experienced due to central government austerity measures.

Moreover, since the crisis the Standing Conference of Towns and Municipalities (SCTM), has produced several reports and guidelines, which address issues within the sphere of fiscal decentralisation, but has mainly focused on identifying gaps within the legislative framework rather than on impact assessment of the adopted laws and policies (e.g. SCTM, 2009; Nikolić et al, 2009). Furthermore, USAID's MEGA programme has produced a number of gap assessments in order to advocate for the strengthening of fiscal capacities of the local authorities (e.g. Levitas, 2010). However, most of these efforts have been donor-driven (USAID and EU) in order to set up baselines for projects, rather than being based on academic efforts to evaluate the impact of implementation of specific decentralisation policies on the quality of locally delivered services or local economic development.

Research which has focused on decentralisation of social policy has pointed to the need to keep cash benefits centralised, while social services undergo a process of decentralisation (Matković, 2006). However, since the process of decentralising social services is still in its infancy, there have been few efforts to evaluate the impact of decentralised social services on the quality of life of their users. Bošnjak and Stubbs (2006) point to the need for greater integration of decentralisation of social policy with the concurrent processes of deinstitutionalisation and diversification of providers of social services.

When it comes to regional policy, literature has mostly focused on describing Serbia's progress with EU integration, within which Serbia's *de jure* progress on regional policy has also been assessed (e.g. Mirić, 2009). The influence of Serbia's membership of the Council of Europe in 2002 on the development of policies towards decentralisation and regionalisation has been outlined by Kocić (2008). However, there have been no attempts at evaluation or appraisal of public investment projects, which remain unaccountable to the general public to this day.

The outcomes of decentralisation: findings from field research

As identified in section 2 above, decentralisation has picked up momentum in Serbia over the last decade and in particular over the last five years. Efforts to decentralise have reversed the centralisation which occurred during the 1990's, which was in turn a response to the political instability and secession of the former Yugoslav republics. This more recent process of decentralisation has been undertaken under strong auspices of international donors who have worked on strengthening local self-governments (including USAID, DfID, the EU and many others) and, as we have pointed out above has been backed by relevant legislative and strategic frameworks. Namely, strategic documents adopted since 2001 have taken into account the need to bring services closer to the citizen, while the legislative framework in many spheres has been changing concurrently through the increasing delegation of responsibilities to local authorities. According to the World Bank, "[d]ecentralization of responsibility for the delivery of services is a central component of sector strategies in health, education, and social welfare prepared by State level ministries, as well as critical to the reform of local public administration" (World Bank, 2008).

These newly established responsibilities (or returned competencies, if we compare them to the 1980's) have been assigned to local authorities mainly within policy spheres such as health, education, social service provision and local economic development. In addition, local self-governments have not only become responsible for activities which were previously in the realm of central authorities, but also for some newly established competencies, implying that local self-

governments have taken on a very significant proportion of the total reform burden. Yet, sources of finance for both old and new competencies have failed to adequately match the growing needs of local self-governments, and this has particularly been the case since the onset of the 2008 economic crisis in Serbia. Existing levels of decentralisation are therefore at different stages in these four sectors which we examine further in this section: health, education, social services and local economic development.

In health care, efforts to decentralise are reflected in local self-governments becoming founders of primary health centres since the adoption of the 2005 Health Protection Law¹⁸. As such, local self-governments have become fully responsible for the maintenance of the physical infrastructure and equipment of the health centres, as well as communal expenses such as heating, electricity and water, while staff salaries and medicines continues to be financed by the National Health Insurance Fund. Staffing needs as such are therefore determined centrally, while medication funding is based on refunds which the primary health care centres receive from the National Health Insurance Fund for their expenditures on drugs. Although local self-governments are responsible for the maintenance of health centres, the poorest local self-governments continue to be supported by the central government to ensure standard service delivery in primary health care. In addition, the municipalities are gradually taking over the management of the primary health centres, a process which should be finalised over the next two years.¹⁹

Although Ministry of Health officials claim that this Law has given local self-governments an opportunity to decide on financing priorities in primary healthcare and to participate in health policy design, they also emphasise that local self-governments and primary health centres have not used this chance to influence policy²⁰. On the other hand, the local level claims that this decentralisation was a strategic move of central authorities to get rid of expensive financial obligations related to investment in physical infrastructure and medical equipment, and that by passing this responsibility onto local self-governments without providing them with adequate sources of finance, no real decentralisation in decision making took place²¹. This is a particularly pertinent argument in the light of the fact that other ongoing reforms in health care have increased the costs of primary health care centres by obliging them to conform to national standards, which often do not take into account local level circumstances. Such practice is especially observable when specific items are prescribed as national standards, based on limited nationally set criteria such as population, without accounting

¹⁸ Official Gazette, no. 107/05, Government of Serbia

¹⁹ Interview, World Bank, Belgrade, July 2010

²⁰ Interview, Ministry of Health, Belgrade, September 2010

²¹ Interview, Primary Health Care Centres in Kovačica and Svilajnac, Serbia, September 2010

for population density, or the geographical size of a municipality. For example, the municipality of Kovačica received a state allowance for only one ambulance crew based on its number of inhabitants; but since one crew cannot be on duty non-stop, it is forced to finance an additional crew from its own resources²².

Finally, although local self-governments became 'founders' of primary health care centres in 2005, the property which was taken away from local self-governments during the 1990's has still not been returned to local self-governments.²³ Thus, while the municipalities are the founders of the primary health care centres and in charge of their maintenance, the central government still owns the physical assets. Finally, further steps towards decentralisation in health finance have been announced from 2012²⁴.

Turning to education policy, the overall reform process has been politically neglected and as such, has progressed only slowly over the past decade. Strong teachers' trade unions have represented a significant obstacle to reforms, which would entail significant rationalisation of the inefficient school network, in the context of an ageing and shrinking population. Before the 1990's, the educational system was completely decentralised, and local self-governments were in charge of teachers' wages as well as school maintenance. The aim of the ongoing reforms, expected to take place over the next five years, seems to be the return to that system.²⁵ Since 2003²⁶, local self-governments have been in charge of school infrastructure, heating, communal expenses, and repairs, much as they are in charge of primary health care centres. They are also responsible for financing teachers' professional development, although this rarely takes place. As with health care, the municipalities do not pay the salaries of teachers or other staff, which constitutes the bulk of spending in the sector. Staffing patterns are also set by the line ministries (World Bank, 2008). Municipalities are responsible for provision and financing of pre-school services. Primary and secondary school directors are appointed by school boards, consisting of representatives of the municipality, teachers and parents. However, even though municipalities have a seat on a school's board, they often do not take an active part in the proceedings.²⁷ Since 2006, schools receive funds via municipalities from earmarked budgets of the Ministry of Education and from own funds. The earmarked funds are based on historical

²² Interview, Primary Health Centre, Kovačica, September 2010

²³ A founder (osnivač in Serbian) is not an owner of the property in question, since public property has still not been returned from the state to local self-governments, following the earlier transfer to state ownership under the Milošević regime. However, the founders are responsible for the maintenance and management of these public social assets.

²⁴ Interview, Ministry of Health, Belgrade, September 2010

²⁵ Interview, World Bank, Belgrade, July 2010

²⁶ Law on Primary Schools, 62/03 and Law on Secondary Schools, 64/03

²⁷ Interview, World Bank, Belgrade, July 2010

precedent, and therefore vary little from year to year.²⁸ Stakeholders at the central level believe that there is much inertia in this sector at the local level, which is reflected in the fact that even when the 2006 Law on Financing Local Self-Government was adopted, which opened up new sources of local finance, schools continued to copy the previous year's budget, adjusted only for inflation and allowing little space for the introduction of innovative practices²⁹. Moreover, since staff wages account for over 80% of total national expenditures on education, there is realistically very little room for policy manoeuvre for local self-governments if they cannot administer this most important item of educational expenditure. One area in which local self-governments do potentially have some room for manoeuvre is in the allocation of awards and bonuses for teachers, since they are responsible for their payment. The total value of these awards and bonuses is determined by the general collective agreement signed between the teachers' unions and the central government. However, in several cases since the onset of the economic crisis and consequent freeze of public sector wages³⁰ trade unions have threatened to take local self-governments to court if they do not pay out these awards. Therefore in practice, local self-governments do not have any real choice other than to fulfil the agreement and pay the awards. Finally, wages for pre-school staff are a responsibility of local self-governments. With the adoption of the Law on Pre-school Education³¹ in the first half of 2010, all children older than six months have the right to pre-school education, raising the need for employment of pre-school teachers and nurses. This is by far the largest item of local self-government expenditures on education, and as such, it leaves little fiscal space for any local input on education policy.

In social services, decentralisation of local planning for social service provision has taken place over the past decade, and local self-governments have become providers of social care. While the central government is in charge of financing residential care for people with disabilities, orphans and other vulnerable groups, the local self-governments are in charge of day care centres and other non-residential types of services. However, since the entire trend of social policy reform goes towards deinstitutionalisation, through a move from full time care of vulnerable groups (such as orphans, people with disabilities etc.) towards a focus on community and family based care, and diversification, with accreditation of NGOs as providers of services (Bošnjak and Stubbs, 2006), the responsibilities of local self-government in the sphere of social service provision are increasing over time. In the future, the role of local self-government in the finance and administering of social care will become more significant than its role as a provider of care, which will be contracted out to the

²⁸ *ibid.*

²⁹ *ibid.*

³⁰ Interview, Standing Conference of Towns and Municipalities, July 2010

³¹ Official Gazette, no. 18/10, Government of Serbia

private and not-for-profit sectors. Parallel with this development, a Social Innovation Fund (SIF) has been set up by the Ministry of Labour and Social Welfare to support innovative community-based services for vulnerable groups, including children-at-risk, the disabled, the elderly and Roma people. The aim of the SIF has been to support the shift of social care from residential institutions to community-based services such as home care and day care centres, which are currently not very well developed, particularly in the context of growing involvement of local governments and NGOs (World Bank, 2008). However, the decentralisation of responsibilities for the delivery of these services is likely to be very limited, and to move at a slower pace than decentralisation in the other sectors.

Although social service delivery is decentralised, the biggest problem has been how to finance these services. Currently, residential homes for orphans and for people with disabilities are financed from the central level, while local community services such as day care for elderly, young people with learning difficulties and victims of violence are financed from the local level. DFID, Norwegian Aid, the EU have all supported this process, while IPA funds are being used to develop service delivery at the local level.³²

A new Law on Social Welfare, which was expected in autumn 2010, but which is still not in parliamentary procedure, will ensure an earmarked budget line to finance social services, especially for expensive services such as housing for people with disability.

The new Law on Social Welfare is therefore expected to introduce three types of earmarked funds:

1. Fiscal transfers to the least developed municipalities (as defined by the Act on Underdeveloped Municipalities adopted by the Government each year and based on objective socio-economic criteria)
2. Fiscal transfers for services for children without parental care to local level
3. Fiscal transfers for innovative services from the central level, such as those for disabled children in schools. These require matching grants from the municipal government.

There is unlikely to be any accompanying decentralisation of social assistance payments. In the words of local experts “social assistance cash transfers are not decentralised. The social assistance is a national scheme with the same level of benefits throughout the country. Decentralisation here is not advisable as the differences between municipalities are too great.³³” However, local self governments have been able to spare up to the maximum of 5% of their budgets towards social assistance, and primarily towards emergency cash and in kind expenditures, while donors have

³² Interview, Ministry of Labour and Social Policy, July 2010

³³ Interview, UNICEF, July 2010

stepped in to fill the gap in development of new community based services such as home help for the disabled and elderly.

Fiscal decentralisation

Although the 2006 Law on Financing Local Self-Government led to greater fiscal independence of local authorities, many issues remain unresolved. Primarily, many of the central sources of funding to the local level such as the National Investment Plan (NIP) resources remain difficult to trace, since there are no clear criteria for their allocations. This aspect of central government transfers will be further discussed in the section on regionalisation policy.

The most important outstanding issues which would increase fiscal independence of local authorities are the return of property to them (via proposed Law on Public Property, which has been tenaciously delayed for years now), the price liberalisation of communal services, the development of an adequate legislative framework for municipal borrowing, and the creation of municipal capital markets. All of these processes have been stalled due to the alleged precaution of the central government and its concern about the country's macroeconomic stability. However, the fact that municipal property in other former Yugoslav republics has never been taken away from them (which never caused macroeconomic instability in those countries) points in the direction of the unwillingness of central authorities to really commit themselves to increasing fiscal capacities of the local level. Furthermore, the pricing policy of the majority of public utilities provided at the local level in Serbia is under central government control, due to concern that management of pricing policy by local authorities would make it difficult to control inflation. Yet, evidence from recent research (Randjelović and Minić, 2010) suggests that price liberalisation of communal services would have barely any impact on inflation, implying that giving a freer hand to local authorities in running their own enterprises would not threaten macroeconomic stability of the country.

Since the onset of the global economic crisis in Serbia at the end of 2008, the progress of fiscal decentralisation in Serbia has been further impeded. The provisions for fiscal decentralisation emanating from the 2006 Law on Financing Local Self-Government have been reversed by the Ministry of Finance under pressures for fiscal retrenchment imposed through the precautionary stand-by arrangement with the IMF. Transfers to local self-governments were actually cut by 15 billion dinars in 2009 and 2010 (which reduced their revenues to pre-2006 levels). Furthermore, Article 3 of the Law, which stipulates that all responsibilities passed onto the local level need to be matched by adequate financing, is continually being broken so local self-governments are left with unfunded mandates. To make matters worse, there are no indications that transfers will be returned

to pre-crisis levels any time soon, revealing the weak negotiating power of local self-governments, and the superfluous role of the Commission for Financing Local Self-governments, which was established under the 2006 Law to supervise inter-governmental fiscal relations.

Due to these cuts, local self-governments have returned to their previous roles of merely administering current expenditures, while investment has stalled. Moreover, they have been forced to increase some taxes, such as the land use fee, which has predominantly affected businesses, imposing an additional burden for them in times of crisis (Levitas, 2010). The central government has intervened by attempting to scrutinise and control local expenditures, and by imposing limits on numbers of employees in local administrations in order to free resources for capital investment. An initial assessment of this endeavour to redirect resources from public employment to capital investment has revealed its limited effect and its failure to achieve financial savings due to, among other issues, the strict Labour Code under which substantial severance payments needed to be made to those made redundant (Avlijaš, 2010). Moreover, without concurrent efforts to stimulate the labour market, these measures have merely served to move expenditures from one budget heading to another, from wage expenditures to pensions, unemployment benefits and social assistance (Avlijaš and Uvalić, 2011). Moreover, fiscal imbalances caused by the financial crisis and further exacerbated by reductions in transfers have led to chains of illiquidity in the economy, due to the arrears which the public sector has accumulated towards the private sector which may take years to resolve, making the policy detrimental for local economic development.

The economic crisis has uncovered how weak and arbitrary the process of fiscal decentralisation has been so far, and the extent to which the negotiating power of local self-governments is weaker than that of other large budget beneficiaries (such as the army, police, teachers and health workers) who saw no cuts in their respective budgets in times of crisis (apart from temporary budget freezes). Thus, the established interests of the stronger public services have dominated in times of scarce resources.

Nevertheless, fiscal pressure may lead to greater innovation in financing public services at the local level. It may however also lead to greater regional disparities, since some local self-governments will be better able to cope with fiscal pressures and be more innovative than others.

In conclusion, decentralisation has taken place in many sectors regardless of the absence of sources of finance. This suggests that decentralisation has been a convenient instrument for central government to pass reforms in accordance with the agenda of external donors without having to be concerned about their implementation, responsibility for which it has passed to the local level. The

actual practice of decentralisation appears to contradict the central government discourse on the lack of local capacity to implement reforms when it comes to providing them with more financial independence, since the government continues to pass laws which increase the unfunded responsibilities of the local level in completely new realms and spheres of competence. In sum, the Serbian government has conducted a series of costly reforms, while neglecting to monitor performance, i.e. the quality of service provision at the local level. The image that emerges is one of an elusive process of decentralisation, which has become a purpose in itself, and which suits the central government since it rids it of many, primarily financial, responsibilities, while reformers do not keep in mind the final aim of decentralisation, which is improved quality of life in the community.

The outcomes of regional policy

The reduction of regional disparities has been a significant policy issue in Serbia for many decades, with numerous measures and financial incentives being designed to improve regional cohesion. Following the years of economic devastation during the 1990's, regional inequalities increased in the 2000's, with the ratio of GDP per capita in Belgrade versus the poorest county reaching 1:16 in 2009 (Republic Development Bureau, 2010). Migration from less prosperous regions to the capital city Belgrade has been a consequence of these regional disparities, leading to the depopulation of many peripheral areas, and increasing pressure of social infrastructure in the capital. The Office of the National Council for Decentralisation expects that decentralisation will improve the allocation of labour and resources throughout the country, and boost economic growth and development.³⁴ At the same time, the last decade has seen the re-emergence of a regional policy discourse closely aligned to the EU accession agenda and its cohesion policy.

Although the Serbian strategic and legislative frameworks introduced since 2001 recognise regional policy as very important for both economic growth and the EU accession agenda, the period before 2007 was characterised by a plethora of predominantly unrelated measures directed at reducing inequalities across regions. Line ministries have been implementing measures within their relevant spheres of responsibility to stimulate economic activity and improve public service delivery across Serbia. These efforts have been coupled by the Serbian Development Fund's³⁵ affordable credit lines

³⁴ For evidence on the relationship between decentralisation and economic growth in transition economies see Rodriguez-Pose and Kroijer (2009) who find a positive relationship so long as local authorities have their own sources of tax revenue. Where tax revenue is simply transferred from central government to lower level the positive effect on growth vanishes.

³⁵ The Fund was established in 1992. It is a fully state owned institution, whose aims are to stimulate economic growth and equal regional development, promote competitiveness and exports as well as employment.

for businesses in underdeveloped areas, as well as by public investment schemes such as the National Investment Plan (NIP), which is a separate government budget line for regional development predominantly financed from privatisation receipts and administered by the Ministry for NIP. While all of these schemes had a common aim to reduce regional inequalities, their activities were rarely monitored or evaluated, and the criteria for allocation of funds remain obscure to this date.

Following the establishment of the Ministry for Economy and Regional Development in 2007, which was recognised by the government as a necessary step in the process of EU integration (and embraced by the government due to the political attractiveness of the concept of “equal regional development”), regional policy has gained more importance in Serbia, although this did not improve its outputs or outcomes.

The most significant instrument of regional policy in Serbia has been the National Investment Plan (NIP), which was launched at the end of 2006, with a budget of €600m to be invested in both national and local infrastructure projects. Since the onset of the economic crisis, the NIP has lost much of its initial financial strength, although it remains a significant actor in Serbian regional development policy, with an investment portfolio of €120m in 2009, and €250m in 2010, matched with credit lines from international development banks. In its first years of functioning, the NIP has been heavily criticised for its lack of transparency, undefined project selection criteria and high politicisation in the allocation of funds. With the adoption of the Law on Control of State Aid in 2009³⁶, this sphere has become more regulated, although there have been no attempts to assess the effectiveness of this law since it came into effect.

Credit lines and subsidies to enterprises in underdeveloped areas, as well as financial incentives to domestic and foreign investors are also significant instruments of regional policy in Serbia. Employment policy has also been strongly linked to these efforts, being part of the policy portfolio of the Ministry for Economy and Regional Development (the Ministry of Labour and Social Policy was in charge of employment policy until 2007). Since the beginning of 2010, the National Employment Service (NES), as the main implementer of employment policy through its active labour market policies has established closer political links with regional policy, as its newly appointed director is the former state secretary for regional development. One significant aspect of the employment policy, i.e. active labour market policies administered by the NES, has been the allocation of employment subsidies for enterprises. The criteria under which these subsidies are allocated remain

³⁶ Official Gazette, no. 51/09, Government of Serbia

obscure, while their sustainability seems to be of no concern to those involved in decision making³⁷. Finally, an increasing amount of resources is being allocated to employment subsidies as the crisis has dramatically impacted the labour market, with few concurrent efforts to improve the business environment in order to stimulate employment (e.g. competition policy has been very contentious and resilient to reform). It is of particular concern that direct cash subsidies for enterprises are the type of assistance which is very susceptible to rent seeking behaviour³⁸.

A network of nine Regional Development Agencies (RDAs) has been established at the level of districts, complementing the 13 local SME Agencies.³⁹ They have been established with donor (mainly EU) assistance in Banat, South Danube, and Leskovac for Southern Serbia, while an RDA has been established in Novi Pazar by the UNDP.⁴⁰ The RDAs are jointly owned by the municipalities in the districts which they are located (75%) and the private sector (25%). Their main funding, provided by the municipalities on an irregular basis, currently averages about €400,000 annually.⁴¹ The main functions of the RDAs are to develop project pipelines, to demonstrate how to use EU funding, and to coordinate activity between municipalities. The RDAs have succeeded in establishing a number of Industrial Parks, Agricultural Parks, and water supply projects which link municipalities together. However, there are no clear national objectives, and so the RDAs have to some extent become a “political football”.⁴²

The relationship between decentralisation and regional policy

The processes of decentralisation and regionalisation in Serbia have been quite divorced from each other throughout the 2000's. Although they have both been characterised by a top-down approach, decentralisation recognises local self-governments as significant stakeholders, since they are the only existing units of sub-national government, while regional policy has failed to acknowledge their pivotal role in regional development.

Decentralisation is further characterised by the fact that the delegation of responsibilities to local authorities has not been backed with financial resources, and in such a way no real commitment to the process has been demonstrated. A more recent trend in times of severe fiscal restrictions, mostly initiated by the donor and expert community, has been to introduce innovative practices for municipalities to collaborate with one another, in such a way potentially creating natural regions in

³⁷ Interview, National Employment Service, Belgrade, September 2010

³⁸ For example, see Andjelković and Golicin (2010) for evaluation of public works programme in Serbia.

³⁹ Interview, Regional Socio-Economic Development Programme 2, March 2010

⁴⁰ The exception is the RDA RARIS, which was established without donor assistance.

⁴¹ The RDAs employ between four and eight officers.

⁴² Interview, EU Municipal Support Programme, March 2010

the long run. In addition, the process of decentralisation has also led to increased competition between municipalities, not so much in terms of competition over tax revenues, but in terms of competition for outside investment using subsidies and business benefits as incentives⁴³. This has led to a race to the bottom, as local budgets have been distorted to attract investors. At the same time, municipalities have insufficient resources to fund their administrative responsibilities in the social sectors, and therefore much remains to be done in order to improve the financial capacities of local self-governments, and to increase their ability to raise their own tax revenues.

On the other hand, while regional policy has seen significant financial commitment to its aims, its aims have been heavily politicised. As such they have undermined local autonomy, since the most important criteria for accessing these regional development funds has remained political. In that sense, no real willingness has been shown to renounce central power over the management of financial resources.

Furthermore, while the global economic crisis has severely impeded the process of decentralisation by reducing the amount of funding at the disposal of local self-governments for implementing their newly acquired responsibilities, centrally managed state aid has increased, reflecting the lack of commitment of the central government to the process of decentralisation which by definition entails giving up control over some financial resources. Although this may be linked to objective concerns over the country's macroeconomic stability and the fiscal responsibility of local authorities, it is contradictory that over the same period the delegation of responsibilities to the local level has proceeded with little apparent concern over the financial ability of local authorities to fulfil their obligations to deliver services to their citizens.

The absence of a comprehensible institutional framework with a clear division of responsibilities between members of government points to the weaknesses of unstable minority governments in Serbia throughout the 2000's, and also explains the unwillingness to surrender central control over resources as elections approach. In a political economy context, the lack of a transparent institutional framework setting clear lines of accountability appears to be designed to maximise the room for the discretionary manoeuvre of the coalition partners. The political interests of central government coalition partners are protected by this arrangement, as the failures of decentralisation and regional policy can be easily blamed on coalition partners from other parties, and in this way

⁴³ This effect was observed in our interviews with municipal representatives in the municipalities of Svilajnac and Kovačica, two small municipalities close to Belgrade. The former was a more prosperous municipality which was able to offer a favourable package of incentives and infrastructure services in the local business park to attract foreign and domestic investors. In contrast the poorer municipality of Kovačica was unable to offer such incentives and had failed to attract much investment.

regional policy is often used as a political instrument. The end result is that power and resources are shared between coalition members behind closed doors, and there is little left to distribute to the local or regional level.

The most recent institutional changes, following the 2008 elections, have led to an almost complete separation of responsibility for decentralisation and regional development policies, and to their division between the two dominant political parties, the Democratic Party (DS), the winner of the elections, and G17+, one of its main coalition partners in the minority government. Although the current Prime Minister and Minister of Finance⁴⁴ is not officially affiliated with any party, his seats “belong” to the DS according to the coalition government distribution of power, so his mandates are closely aligned with the DS agenda. The Ministry of Finance has been in charge of fiscal decentralisation and control of state aid, together with the whole process of the country’s accreditation for the future management of EU funds. The DS is also in charge of the Ministry of Public Administration and Local Self-government, which determines the administrative organisation of the government. The G17+ party was awarded the Ministry of Economy and Regional Development, which is in charge of, among other policies, regional development and employment policy and G17+ is also in charge of the Ministry for the National Investment Plan (NIP)⁴⁵, which administers the Government’s large budget line directed at regional development (portfolio of around €250 million in 2010).

What stems from this analysis is that the processes of decentralisation and regionalisation may have been divorced from each other over the past decade due to two possible explanations. The first explanation is the presence of real “obstacles to implementation”, such as the differing aims of the parties which have formed minority governments in the four elections since 2000, and the consequent lack of coordination between ministries which have implemented policies within their spheres of action without any attempt to align their policy aims with other complementary processes taking place in other parts of the government. The second explanation is the weak institutional framework which has been a conscious choice of the government, and which has enabled it to sustain the more obscure (and not so EU friendly) political aim of “status quo”, which makes it easier for politicians to capture the benefits of transition at the central level. This latter political economy explanation is in line with recent research into the political and pecuniary

⁴⁴ Mirko Cvetković has acted as both since the March 2011 government restructuring, which represented an attempt to reduce public expenditures.

⁴⁵ This Ministry has been merged with the Ministry for Economy and Regional Development during the March 2011 government restructuring.

incentives which motivate policy makers to design particular outcomes of decentralisation reforms in different countries (Eaton et al, 2010).⁴⁶

Conclusions

Decentralisation and regional policies have both re-gained momentum in Serbia over the past decade, following the demise of the centralised governance system developed in the 1990's. Since these revived policies have been evolving under strong EU auspices, extensive legislative and strategic frameworks have been developed to support them. However, despite the increased competencies and responsibilities of local self-governments, the central authorities have often failed to match these with increased sources of finance. This has become particularly visible since the global economic crisis hit Serbia. As a consequence, the intended final outcomes of decentralisation and regional policy, such as improved service delivery for the citizen, better quality of life in local communities, and reduced spatial disparities have often failed to materialise.

From that perspective, the process of decentralisation has been elusive in many dimensions, particularly as we observe that most resources continue to be held at the central level, which is reflected in the fact that public property in municipalities is still owned by the central government, and that in times of fiscal crisis the transfers to local governments have been disproportionately cut in comparison to budgetary allocations to central government stakeholders, such as police, army, education and health workers. At the same time, the responsibilities of local authorities keep increasing as the central government continues to adopt decentralisation laws, while it concurrently, and conveniently, blames local authorities for not delivering on them. As a consequence, two discourses have emerged at the central government level, which seem to be at odds with one another: i) local authorities suffer from a lack of financial capacity to implement reforms, and ii) local authorities are expected to effectively implement the numerous new laws which pass competencies to the local level in completely new policy areas. Concerns about improved service provision at the local level do not seem to play much of a role in either of these discourses.

Another insight of our research is the presence of competition between the municipalities for foreign (and domestic) investment in the industrial parks they have created. Some have been more successful in attracting investment than others, often with the support of international donors such as USAID, who have favoured richer municipalities. Since this has often depended on their political

⁴⁶ As Eaton et al. (2010) point out "decentralisation is a process, not a one-time act, and the trajectory of reform is heavily influenced by how the often-conflicting incentives of different actors are pursued...Even if the legal framework defines a strong form of decentralization...its provisions may be subverted for political reasons in the more detailed design decisions that follow..." (p.9)

access to central government finance for investment into infrastructure (and regional government finance in the case of Vojvodina province), this may widen pre-existing economic disparities, suggesting some negative impacts of the decentralisation process.

At the same time, it seems that decentralisation to local self-governments, along with inadequate sources of finance for their new local competencies, has led to some new creativity and innovations in the field of social service delivery which tends to improve local conditions and make services more responsive to local needs, suggesting that there have also been some positive effects of the process of decentralisation.

As a more recent process than decentralisation, regional policy in Serbia has been predominantly driven by the central government, while local self-governments have often been invisible in the process. Implementation of regional policy has been complicated by the introduction of the concept of regionalisation into the public discourse, which for a while was advertised as a compulsory element of the process of EU accession. Although EU regional policy expectations have been clarified over the past year as not requiring a mid-tier of government, regionalisation has in the meantime become a new political platform. Furthermore, as financial allocations from the National Investment Plan (NIP) - one of the main vehicles for the implementation of regional policy since 2006 - are not regulated, the NIP has often been portrayed as non-transparent and politicised. An additional problem has been that one side of the coalition government is in charge of the EU accession agenda, while the other is in charge of regional policy, with each expecting (and hoping) to become the treasuries for future EU funding for regional development. This has led to the emergence of a plethora of institutions with overlapping competencies in a struggle between political parties to seize as many financial resources as possible, while inter-ministerial cooperation has proved to be ineffective.

Based on the findings of our research, we emphasise the importance of independent evaluation of all state aid and development projects administered through instruments such as NIP, since without transparency, it is difficult to predict the fiscal capacities of local authorities, ensure fair competition between municipalities in the acquisition of financial resources, and their direct accountability to their constituency. In order to achieve this aim, reliability and availability of local level statistical data needs to become an important policy goal.

Finally, it is important to strengthen the negotiating power of local authorities and raise their visibility as the only existing units of sub-national government. Inter-municipal cooperation could be an important element of an effective regional policy, creating greater synergy and complementarity

between the two processes. Inter-municipal cooperation could also potentially lead to bottom-up “natural regionalisation”. This would be preferable to artificially creating another layer of the administration under the control of national and local political elites, which may in that way have an additional opportunity to capture decentralised local and regional resources for their own use.

Acknowledgements

An earlier version of this paper was presented at the LSEE/IFRI Conference “South-East Europe: Regional Co-operation, Institutional Change and the Challenge of European Integration” Brussels, 2nd December, 2010. We are grateful to Vassilis Monastiriotis for helpful comments and to Maja Savić for her able research assistance in the preparation of this paper. We are also grateful to the Latsis Public Benefit Foundation for providing financial support for this project.

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