Swiss Agency for Development and Cooperation

Report of the

External Evaluation of the

Municipal Support Programme Serbia

MSP Phase 3

May 2008 to April 2011

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Acronyms

AP	Action Plan
CBC	Cross-border Cooperation
EU/EC	European Union/European Commission
GoS	Government of Serbia
GTZ	Gesellschaft für Technische Zusammenarbeit
HRD	Human Resources Development
IMWG	Inter Municipal Working Group
IPA	Instrument of Pre-Accession
LSG	Local Self-Government
MDP	Municipal Development Plan
MPC	Municipal Planning Cycles
MSP	Municipal Support Programme
MSP Ltd.	MSP limited liability company
NIP	National Investment Plan
NUTS	Nomenclature des unités territoriales statistiques
PCM	Project Cycle Management
PDC	Project Development Centre
PIU	Project Implementation Unit
PRO	UNDP Programme of Municipal Development in South West Serbia
RDA	Regional Development Agency
SCTM	Standing Conference of Towns and Municipalities
SCO	Swiss Cooperation Office
SDC	Swiss Agency for Development and Cooperation
Sida	Swedish international development agency
UNDP	United Nations Development Programme

1   Introduction

11   Background and context

The Swiss Agency for Development and Cooperation (SDC) implements the Rule of Law and Democracy domain in Serbia since 2007. The domain aims at enhancing the provision of quality services by partner municipalities to their citizens and the inclusion of civil society and citizens in local decision-making. The related Sub-Domain Decentralisation and Local Governance concentrates on (i) vertical integration and advocacy for municipalities' interests at central level and (ii) institutionalisation of standard administrative procedures and governance mechanisms in municipalities.

Before Serbia started its transition after October 2000, most administrative powers were concentrated within the central government; only few competences were devolved to decentralised institutions. Since then, Serbia's transition process assigned more and more responsibilities to local self-governments (LSG) along the principle of subsidiarity, i.e. by bringing decision making closer to citizens. Recent key steps in this endeavour were the adoption of a substantial number of new laws, on Local Self Government, Local Self-Government Financing, Regional Development, Budget Systems, Territorial Organisation, Planning and Construction, Public Procurement, Environmental Protection, and Communal Police, etc.

While the new laws constitute a chance for further decentralization and empowerment of LSGs, their implementation remains a challenge. On the part of the 145 cities and municipalities, taking up new tasks and responsibilities demands increased capacities and capabilities, often not available in local administrations. The central government, on the other hand, is – from the municipalities' point to view – not effective enough in developing feasible implementing procedures and, in particular, making sufficient budgets available for the decentralised functions. These deficits are currently compounded by the economic crisis that strongly affects Serbia. In order to streamline expenditures, the central government has adopted measures to ensure public sector rationalisation. Of direct relevance to municipalities is the reduction of as much as 30% of budgetary transfers to municipalities in 2010, coupled with the requirement to downsize their number of employees.

It is within this challenging context that SDC's implements its present portfolio in the Sub-domain Decentralisation and Local Governance. The main collaboration is the Municipal Support Programme (MSP), which is implemented in selected municipalities in West-central Serbia since 2001. The programme is currently in its third phase (MSP 3) and is to end in April 2011. The grand total of the project budget for the three phases amounts to approximately CHF 17.7m.

In addition to MSP, SDC is engaged, in a co-financing arrangement with the EU, in a second collaboration, which was started as PRO Programme in Southwest Serbia, between 2006 and April 2010. Since May 2010, its successor programme, PROGRES – larger in financial volume and geographical coverage – is being implemented. The third collaboration, finally, consists of institutional support to the Standing Conference of Towns and Municipalities (SCTM) and seeks to strengthen the voice of municipalities and towns in setting the decentralisation agenda and making cooperation between the SCTM and relevant line ministries more efficient and binding.

12   MSP

Phase 1 and 2

Recognising the crucial role that local governments play in addressing challenges of recovery and transition in Serbia after the political changes of October 2000, SDC initiated a programme of "quick-start" municipal projects, as prelude to the Municipal Support Programme (MSP). The first phase of MSP lasted from November 2001 to April 2004, the second from May 2004 to April 2008.

The programme supported selected municipalities and cities in a range of topics: (i) modernisation of public administration and institutional development; (ii) strategic planning; (iii) financial management; (iv) spatial planning; (v) inter-municipal cooperation, (vi) project cycle management, and (vii) provided project co-funding.

Since 2002, three batches of municipalities and cities have been covered by MSP: The start was made with Cacak, Pozega, Uzice and Kraljevo as well as Nis, Novi Pazar and Kursumlija. The latter three were then dropped after phase 1. At the start of phase 2, Arilje and Cajetina were added in 2005, and in phase 3 also the municipality of Lucani.

Consequently, Cacak, Pozega, Uzice and Kraljevo belong to the first generation that have now received support for over 10 years, while Arilje and Cajetina belong to the second, and Lucani to the third generation, with corresponding differences in the duration of MSP support. At end of phase 2, MSP has made a comprehensive capitalisation of experiences' exercise for phase 1 and 2[1]

The following map illustrates the location and the different generations of the MSP partner municipalities and cities:

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[1] MSP: Developing Capacities for Municipal Governance in Serbia; A Capitalisation of Experiences from the Municipal Support Programme; September 2008.
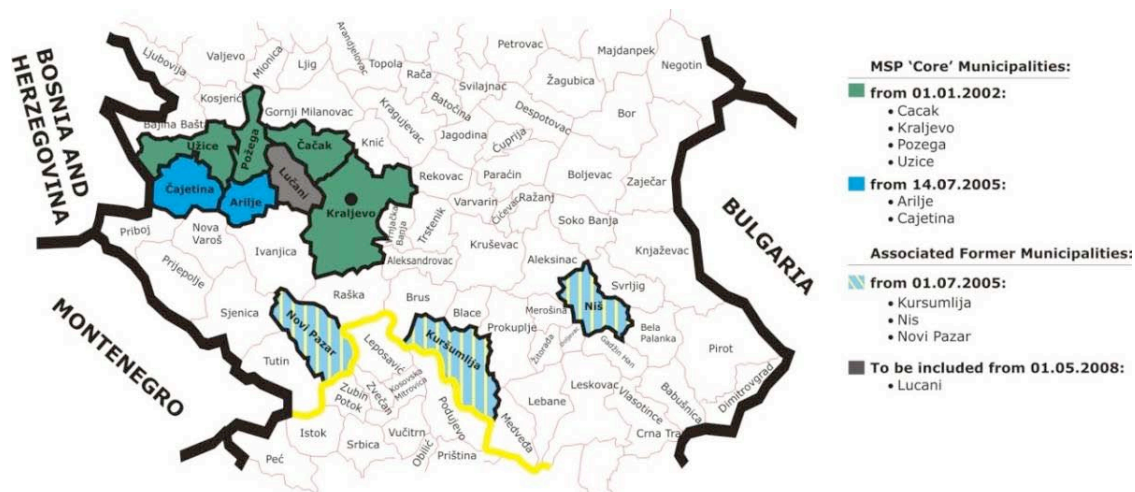
Phase 3

Based on the results of the first two phases, phase 3 of MSP was started in May 2008, following an external identification mission in late 2007, and based on a participatory planning process that included implementation partners and client municipalities. The total budget for phase 3 was CHF 4.39m.

The main change introduced – next to adding the municipality of Lucani – was related to the implementation modality. The former project implementation unit (PIU) was dismantled and the local staff requested to form a private company, registered as MSP Consulting Ltd., which was entrusted with the implementation of MSP phase 3. The tender for the related backstopping mandate was won by the Swiss non-profit organisation Intercooperation.

13   External Evaluation

Given the long duration of over 10 years and forthcoming closure of MSP, SDC has mandated an external evaluation in July 2010. The core task given to the evaluation was an assessment of programme implementation effectiveness and sustainability of achievements that have been supported, promoted and facilitated by MSP 3.

Sustainability of achievements was to be evaluated in terms of (i) tools, services, procedures and strengthened capacities and skills, as well as related to (ii) attitudinal change in the partner municipalities in general and in terms of principles of good governance in particular.

Effectiveness of achievements was to be assessed by (i) identifying concrete benefits of introduced and adopted tools, services and procedures at the level of municipal administrations in terms of improved efficiency, cost-effectiveness, clear division of labour, functional municipal management and service delivery, etc. In addition, (ii) evidence was to be sought for MSP experiences or best practices being used beyond the programme area, in particular by incorporation into national rules, norms or regulations.

Finally, with respect to the planned end of the programme in April 2011, the draft **exit strategy** document was to be critically assessed in terms of whether it addresses the right dimensions of sustainability and increases the chances of project-induced innovations remaining effective after the end of the programme. The detailed programme and TOR of the evaluation are provided in the annex.

2   MSP 3 in brief

Essentially, in phase 3 MSP continues to do what it was doing in phase 2: (i) support initiatives in capacity building (trainings, seminars, skills development), (ii) provide technical assistance (consultancy, coaching), and (iii) provide co-financing to municipal projects.

The main change as compared to phase 2 is – next to programme implementation by MSP Ltd. and adding the municipality of Lucani – the clear exit orientation of this last phase. In order to achieve this, more tasks are delegated to local partners and stakeholders and results should be sustainable by the end of the programme in 2011. To this end, the programme continued its successful strategy of foremost focusing on the middle management within municipal administrations in order to ensure continuity of programme implementation and partner commitment in case the political leadership should change.

In phase 3, the programme area consists of three cities (Kraljevo, Uzice and Cacak) as well as four smaller municipalities (Pozega, Arilje, Cajetina and Lucani). While MSP 3 thus covers a geographically compact area, it is still important to note that it overlaps district and region boundaries[2].

The following planning framework guides the implementation of phase 3 of MSP[3]:

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[2] Municipalities and cities are the basic units of local self-government in Serbia. They differ foremost in size, and cities have certain additional rights (related to communal police, hospital, etc.). Currently, Serbia counts 122 municipalities and 23 cities (the three largest cities are again subdivided in city-municipalities). The 25 Serbian districts are administrative units but mostly concerned with inspection tasks for line ministries; district heads are appointed by the central government. Regions are basically "statistical" planning units, recently introduced and strongly promoted by the EU; currently the country consists of seven EU system regions (Nomenclature des unités territoriales statistiques or NUTS 2), each with its Regional Development Agency (RDA).

[3] It has to be noted that minor differences exist, in particular related to the formulation of the vision as well as to the logframe, between the MSP 3 Programme Document, the Inception Report and SDC's Credit Proposal. As the MSP team has used the Inception Report as basis for implementation, this text is also utilised here.

Vision of MSP

Participating municipalities are recognised as "centres of excellence" for sustainable, autonomous, effective and accountable local government in the region, contributing therewith to better living conditions for their citizens.

Mission Statement of MSP

MSP supports capacity development and reform processes in municipal governance, assisting municipalities (a) to assume new roles, responsibilities and tasks of municipal management, and (b) to optimise their performance within the given context of scarce public resources and of poverty related issues.

Overall objective of MSP 3

MSP partner municipalities show high levels of efficiency, accountability and transparency, fully using and strengthening local autonomy and inter-municipal and regional cooperation in the legal and institutional framework.

Specific Objective 1: Accountable and transparent work of local self-governments, providing quality services to their citizens, based on the rule of law.

Specific Objective 2: Partner municipalities have developed and apply instruments for efficient and transparent financial and property management; they are capacitated to attract external investments and access funds.

Specific Objective 3: Municipalities are aware of all perspectives of regional development and conditions are improved for sustainable inter-municipal cooperation.

In addition, a fourth objective relates to the post-programme viability of the implementing company MSP Ltd. However, an assessment of this objective was not an explicit part of the TOR of the external evaluation.

Main activity lines

Related to the above specific objectives, MSP supports its partners in three programme areas: (i) municipal governance, (ii) municipal management as well as (iii) inter-municipal cooperation and regional development. The team works by facilitating cooperation and networking among relevant stakeholders, providing access to technical assistance and capacity building and supporting project cycle management at municipal level.

Financially important is the co-financing of projects in the municipalities. Projects eligible for support have to be grounded in strategic documents (municipal development plans, sector strategies, etc). The selection process is based on a set of criteria and follows the annual management cycle (programming and budgeting process); co-funding is limited to 40 to 60%. It is important to mention that MSP does reject many municipality projects that are proposed for funding, as they do not meet the criteria.

3   Municipal governance

31   New laws and their implementation

In 2007, the new Serbian Law on Local Self-Government (LSG) came into force, replacing the earlier law of 2002. Concomitantly, other laws relevant for the Serbian decentralisation process were introduced, the most important ones being the Laws on Budget System (2006), Territorial Organization (2007), Local Self-Government Financing, covering fiscal decentralization (2007), and recently the Laws on Planning and Construction and on Regional Development (2009).

The laws provide the legal framework for decentralisation, modernisation and performance improvement of Serbian LSGs by devolving a wide range of powers and duties to the local level. These include the authority to set own taxes and tariffs, access non-government sources of funding and responsibility for local economic development, etc. Unfortunately, the important power to manage their own property remains pending, as the Law on LSG Properties is still, despite many years of discussion, not approved yet.

In the past, Serbian municipalities simply had to wait for (often lower than expected) transfers from the central government. The funds were then used to fill current expenditure gaps, which often meant the largest chunk going to employee salaries. LSG administrations were only answerable to the municipal assembly and were usually not very professional. This fundamentally changed, in particular with the LSG Law in 2007. Administrations are now directly answerable to the municipal councils, which can put pressure for increasing management performance. Following a public announcement process, council and assembly jointly appoint the head of administration for five years, creating a powerful managerial position at the top of the municipal administration.

However, in the initial stages of applying the new laws it soon became clear that, first, certain articles were too vague or incomplete and required additional advice and procedural guidance from line ministries. Secondly, some of the decentralised duties were rather complex and required administrative re-organisation of LSGs for their implementation. Thirdly, by-laws were often delayed and technical support was lacking for translating the new laws and related responsibilities into local legal regulations.

Given this situation, MSP has been instrumental in supporting 'its' municipalities in the required change management tasks. As starting point, new model Statutes were developed for municipalities, in cooperation with the SCTM. Special attention was paid to the needs of the newly created cities (Cacak, Kraljevo and Uzice) by jointly developing a city Statute model. The newly adopted municipal Statues had the effect of increasing the responsibilities of municipal councillors and municipal administration as well giving new rights to the citizens.

The SCTM and MSP – foremost through the Inter-Municipal Working Groups, see chapter 51 – also cooperated successfully in providing crucial assistance to the central ministries in drafting the important laws on municipal finance, urban and spatial planning, property management, etc., as well as in developing the required normative documents, on accounting policy, external audit, sub-municipal level administration, etc.

The parallel reorganisation of municipal administrations created dedicated departments responsible for the core reform steps. Management processes had to be fundamentally changed and staff had to be trained in and coached on the new tasks. This intensive process lasted for the most part of Phase 3 of MSP.

Core elements of municipal reorganisation were in particular the creation of the Project Development Centres (PDC) but also of new units, like for instance for property management. Innovative management processes were introduced such as regular planning of yearly activities, transparent budgeting processes as well as compulsory monitoring of ongoing projects. New civic rights were initiated through mechanisms for involving the municipal population, like citizens' initiative, referenda, surveys, public opinion polls, public discussions, etc.

MSP has successfully cooperated with SCTM in these many efforts. Joint consultations were organised on the model Statutes through the IMWG for Legal Issues. The revised versions of the Statutes were the published and distributed to all municipalities and cities in Serbia through the SCTM. The exact range of their actual application in other municipalities, however, is not known for lack of a related database.

The effects of the reorganisations are especially notable in the increased capacities of the LSGs in dealing with their newly devolved tasks: this includes development planning, spatial planning, budgeting, local taxation, and communal service provision; all according to Article 20 of the 2007 Law on LSG. Today, all seven municipalities have been reorganised and perform their new tasks, albeit with different degrees of success. Uzice, and perhaps Cacak, stand out among the larger cities, while Kraljevo lags behind, certainly to a large extent due to its continuous and serious internal political standoff. Among the smaller municipalities, Arilje has been fully reorganised, while in the latecomer municipality Lucani, the process has only started in earnest.

Municipal leaders and managers confirmed that the new approach to municipal governance and management and the related division of labour have introduced the concept of goal-oriented management in municipal administrations; induced changes have been or are in the process of being institutionalised within the municipalities and can thus be expected to be sustainable also in the post-MSP period.

Unfortunately, no information is available on the impact of the MSP supported changes on citizens' perception and satisfaction levels with service provision. Therefore, some proxy indicators will have to suffice: reform steps resulted in directly visible and tangible improvements in service delivery, such as the decentralised issuing of citizens' documents in sub-municipal

offices (*Mesna zajednica*). Successful tapping into non-state funding sources has substantially increased the budgets available for municipal development and the related infrastructure improvements directly benefit the people (see chapter 45). Also, citizens can now participate in planning and budgeting decisions and local authorities are more responsive to the needs of its people (see chapter 32). It can thus safely be assumed that improved governance and management of the MSP municipalities has contributed to better service delivery and ultimately improved well-being of the municipal population.

32   Citizen participation and transparency

Based on the 2007 LSG Law, which provides for citizens' initiatives and the right to take part in LSG activities – as well as in line with the MSP objective of "accountable and transparent work of local self-governments, providing quality services to their citizens, based on rule of law" – the programme has achieved good results in supporting its LSG partners in strengthening citizens' participation and increasing transparency of the administration's work.

Today, one way or other, the MSP partner municipalities are pro-actively involving citizens in their affairs. In the municipalities visited, modalities and mechanisms include a website, opinion surveys, public budget discussions, as well as direct involvement of citizens via the *Mesna zajednica* (decentralised sub-municipal offices) and *Rezijski odbori* (ad hoc committees to deal with current issues). These mechanisms have been functional over several years now and have clearly contributed to bringing LSGs closer to their citizens. Participation by citizens seems to be accepted by all and as such is already a well-rooted outreach mechanism in the municipalities.

Important improvements have been introduced in the field of transparency. Each municipality has an informative and up-dated web portal with relevant information that was not available before. Again based on the provisions of the 2007 LSG Law, most partner municipalities regularly publish their budgetary figures and planning initiatives on their websites and in local newspapers.

A crucial innovation was making the budgeting process transparent, which is in stark contrast to the past, when LSG budgets chiefly consisted of central transfers and several vague budget lines. Today in most municipalities, the budgeting cycle includes citizens' recommendations and reviews, and traceable budget expenditure lines allow for monitoring by interested citizens. This fundamental change not only enabled LSGs to take command of their development but also prepared their administrations for the important deadline in 2014, set by the Law on the Budget System, when all Serbian LSGs will have to apply programme-based budgeting. Naturally, this overall systemic change increases the potential sustainability of the innovations introduced in the MSP municipalities.

It can thus be concluded that both normative and institutional anchors have effectively been established for participatory mechanisms and regular budget resources have been secured for

their realisation. In addition, the mission could ascertain, in the many discussions held, a general mentality and attitudinal change within the local authorities; a telling example being the participatory and needs based budgeting process in Uzice, where the responsible administrators convincingly argued that this would constitute a totally new way of managing their city's finances.

33 Human resource development (HRD)

The profound changes described above result in a potentially much more robust and capable LSG administration than before. MSP, with its wide range of capacity building and 'system-building' activities, came at the right moment to ensure that the mentality of leaders and staff could also change.

Although HRD takes time, improving staff and cadre quality within local administrations is essential. However, the way of operating and managing an entire municipal administration cannot be changed over night. The core challenge is the continuous efforts needed to convince and take aboard the bulk of staff. The required change management demanded a gradual and participatory approach with intensive coaching.

As said above, usually a Project Development Centre (PDC) has been set up within the administration, operating under a regular budget head, which has become the closest partner for MSP activities. Leaders and staff in the PDCs visited are clearly motivated and qualified. Over the years, they profited from the targeted consultancy and training and the participation in elaborating normative, strategic and action documents. It is in the PDCs, where change is most visible and tangible. Unfortunately, the PDCs are often overburdened, as additional tasks are heaped on them due to their superior skills compared to other departments. Not surprisingly, cases of 'brain drain' were reported of qualified staff leaving for other jobs – often in better paying development projects.

Also, it is evident that administrations are large and sometimes quite slow 'machineries', especially in case of the bigger cities. The existing departments and their staff could either be either roped in by the PDC 'champions' or, in one way or other, were also resisting change, as it brought new dynamics and, in particular, new responsibilities (and thus usually more work). Given the time at its disposition, the mission is not in a position to give a final answer on the level of penetration that the new way of doing things has reached in the seven municipalities. As said above, smaller municipalities seem easier targets, as their staff levels are lower, but the cases of Uzice and Cacak also show that success is possible in larger administrations.

Many informants confirmed that the MSP municipalities and their best staff have become a source for practical solutions across of the country. A direct effect of MSP efforts in HRD was the gradual development of something that is best described as an elite group of LSG professional practitioners, who have become so knowledgeable and skilled that their advice is in demand from line ministries as well as other municipalities. Best examples are members of the IMWGs

Finance and Spatial Planning, whose knowhow is sought by the Ministries of Finance, Environmental Protection and Spatial Planning, and Economy and Regional Development. This can clearly be attributed to MSP coordinating and facilitating the IMWGs, as well as to the quality and need-tailored training and long-term coaching delivered to the partner municipalities.

Placing administration and public services in the hands of professional employees, managed by professional managers, led by political appointees, and, in addition, allowing citizens to state their needs, has been defined as a turning point for most of the MSP partner municipalities. Among the four municipalities visited, this has certainly been true for Cacak, Uzice and Arilje. In Kraljevo, basic systemic and mental changes have also been introduced but, again, the political unrest continues to block many advances.

4 Municipal management

41 MSP approach to municipal development

The following graph illustrates the ideal-type of the result-oriented and need-tailored approach promoted by MSP that integrates strategic, project and human resources development and domains. The three horizontal arrows illustrate the main levels of MSP support to partner LSGs.
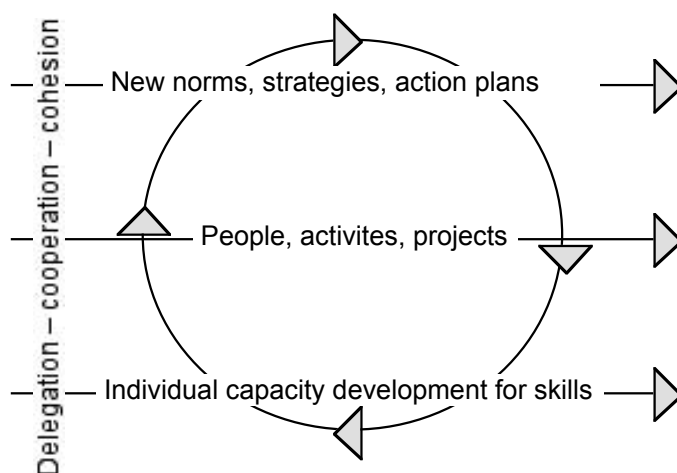
The top arrow denotes the targeted and carefully tailored assistance through facilitation of a participatory strategising and planning process, involving the municipal leadership, administration and citizen representatives. This has yielded, for the first time, a set of strategic and planning documents, along with the required organisational framework.

The bottom arrow depicts the targeted training and coaching of municipal professionals to acquire necessary skills and knowledge for their role in a 'new' municipal administration, now empowered with new sources of funding and entrusted with new roles to fulfil citizens' needs.

The middle arrow illustrates the way LSGs and their professionals employ their new skills and knowledge – guided by the strategic and planning frameworks – to tap into new sources of funding to realise the projects specified by the plans.

The circle, finally, represents the new style of management that promotes delegation, cooperation and cohesion, through joint action by the different actors in a LSG.

Again, as said above, this fundamental change has not been completed to the same extent in all municipalities. Among the four municipalities visited, Arilje and Uzice were clearly ahead, Lucani is at the beginning but on track; progress in Kraljevo is visible but politically slowed down for the last many years.

42   Development planning and implementation

Decentralization of a number of powers and duties from the central level, as well as increased management and administrative portfolios, but also more financial freedom, contributed to a need for normative, strategic and action planning documents for all LSGs.

MSP had developed, already in phase 2, a comprehensive set of inter-linked development plans with different time frames. As mentioned, the start was made with adjusting the local legal framework and organisational set-up through the model Statutes and their application. In parallel, the LSGs were supported in drafting long-term municipal development plans (MDP). Based on this plan, long-term sectoral development plans or strategies were drafted. In addition, the municipalities were supported in the elaboration of Action Plans (AP), which consolidate activities from different sectoral strategies, as crucial step for actual implementation of the strategic documents. The APs basically consist of prioritised projects, to be funded by own revenues but, more importantly, for which external funding is sought.

Based on these strategic documents, the last step is the formulation of Annual Programmes and Annual Budgets – ideally in a transparent manner by involving the citizens through the participatory mechanisms described above.

While the 'good' municipalities have developed and actually utilise the full range of these strategic and operational documents (foremost Arilje and Uzice), others have only compiled the most important ones, like the MDP, along with selected sectoral plans, which they use as basis for their Annual Programmes. A recent and ongoing initiative by MSP is to introduce a monitoring system for plan implementation that should check whether single projects actually confirm with the overall strategic orientation and priorities of the municipality.

43   Local Tax Administration (LTA)

One of the key success stories of MSP, acknowledged also on national level, is the establishment of local tax administrations (LTA). The 2006 Law on LSG Finance enabled LSGs, as part of fiscal decentralisation, to collect their own taxes.

In the seven MSP municipalities, the required surveying, accounting and billing systems had to be developed and infrastructure had to be built from scratch. Today, all seven municipalities successfully operate their new systems. The table below provides the local tax collection rates for 2008 and 2009.

Local Tax Authority collection rates (source: MSP data)

	2008			2009		
	Realized (RSD m)	% of total budget	% of plan	Realized (RSD m)	% of total budget	% of plan
Arilje	20.1	6.9%	81.2%	14.1	5.3%	77.2%
Cacak	125.2	6%	98.4%	136.5	7%	97.2%
Cajetina	46.2	7.3%	89.1%	88.6	12.3%	84.3%
Kraljevo	119.9	6.3%	100.4%	99.5	6.1%	78.0%
Lucani	61.3	20.4%	93.1%	81.5	25.5%	90.3%
Pozega	27.3	7.9%	96.1%	35.9	9.2%	118.3%
Uzice	167.5	11.25%	83.9%	175.3	13.2%	86.8%

The table shows that, despite slight variations between the two years, collection rates are high, mostly over 80%, and that local taxes already constitute an important and (mostly) growing part of the municipal budgets.

A clear MSP success story was – in collaboration with an SCTM-GTZ pilot project – to support Uzice and the two neighbouring municipalities Arilje and Pozega in building up a fully IT-based LTA system, comprising of both hard- and software components. The IMWG on financial management and fiscal decentralization (FM/FD) played an important role in this.

Today the first Serbian multi-municipal IT-based local tax administration system is successfully in operation. The three municipalities jointly agreed upon the legal frame, received trainings from the central tax authorities, defined software specifications, and created the database and

property register and are now successfully operating the system. Two additional MSP municipalities plan to join and other municipalities outside the MSP programme area are also interested (Ivanjica, Nova Varos, and Kosjeric).

In addition, the IMWG on strategic and spatial planning (SSP) and the IMWG-FM/FD successfully lobbied with the central government to abolish the practice of LSGs having to pay (substantial) fees for accessing the central cadastre database. The impact of this MSP success is since felt across the entire country.

As can be expected, deficits in local tax and revenue generation continue to exist. Important laws that will impact municipal finances are still pending, for instance on public-private partnerships and on LSG properties; others still have ambiguities, like the one on regional development. Municipalities complain that those powers and duties, which result in additional expenditure, have been quickly decentralised, but others that would allow them to create additional revenue, like property management, are being delayed. These misbalances, together with unclear legislation and institutional gaps on the meso level, are the main current challenges for LSGs to further increasing their locally generated resources.

44   Project Cycle Management

The key change brought by the 2007 LSG Law was the possibility to tap into third party sources for funding apart from central government transfers and local fee and tax collection (also in collaboration with other municipalities, even from other countries, as possible under EU IPA). This opened up a whole new world of opportunities but also brought to light capacity deficits across all LSGs to plan, acquire, and effectively implement new projects in their municipalities. MSP was therefore right on target when offering support in project cycle management (PCM).

PCM and related tools and skills were introduced in the seven client municipalities over the years. The approach was to gradually build up project planning and implementation capacities.

Since the beginning, MSP has organised virtually hundreds of training, covering over a dozen of PCM-related topics. Next to the training, the MSP co-financed projects (whether bridging, pilot or main) were, so to speak, the testing and learning ground for transferring PCM skills into practice. Basic EU application and project planning formats were introduced and used with the aim of gaining practical experience in using these forms.

Many of these MSP projects would merit closer attention, but are not discussed here for sake of brevity. A not exhaustive list of successful recent examples includes: administrative modernisation for better service delivery, spatial planning and GIS application, youth strategy, access to kindergarten for all, water supply surveillance and control, and in particular, the major MSP success in municipal road management through developing a tailor-made fully IT-based assessment and maintenance system.

45   3rd party financing

Obviously, one of the most important success indicators for MSP support to its municipalities is the increase in their capacities to win external funding. The basis for this has been laid and has been described above: first is the fact that municipalities have a complete set of the required documentation, from municipal development plans to action plans and finally to concrete project proposals. The second pre-condition is the mastering of project cycle management, mostly under the lead of the project development centres (PDC) in the municipalities.

The evaluation mission has requested the MSP team to compile the 3rd party funded project budgets of municipalities in phase 3, i.e. from 2008 until mid-2010. The chart below summarises the result of this effort. However, it has to be borne in mind that the data may not be complete as, for instance, Kraljevo was not in a position to confirm its figures in the short time available. Still, the mission is convinced that the pretty impressive picture is as close to the reality as possible.
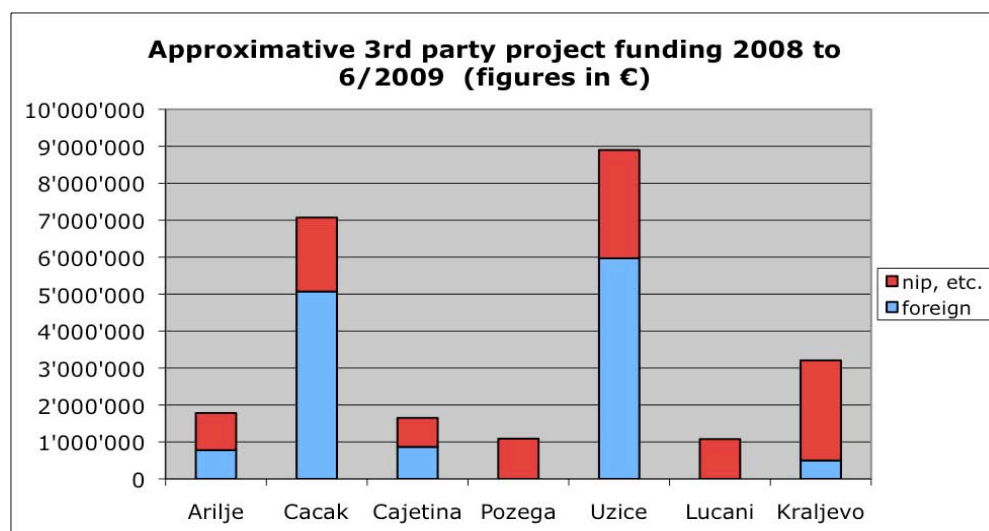
Source: preliminary data compiled by MSP from municipalities

From 2008 to June 2010, the seven municipalities succeeded in roping in projects of a total value of around € 25m. Of this, more than € 13m came from foreign, i.e. donor and project sources[4], and around € 11.5m from domestic funds (NIP and line ministries). Currently, the seven municipalities have projects in the pipeline of a total value of around € 5m.

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[4] EU funds, including IPA projects like CBC, Exchange II/III; USAID and its projects like MEGA; GTZ; UNDP; UNHabitat; Norway; Hellenic Aid; etc.

When discussing the extent of direct attribution of this success story to MSP's work, a distinction has to be made between foreign and domestic funding sources.

- For foreign project funding, the mission is convinced that the attribution rate is high and that most of these projects would not have come to the municipalities without the preparatory work supported by MSP (MSP projects as learning ground, complete sets of development plans and project proposals readily available, as well as mastering of PCM skills).

- Related to domestic funding, the attribution rate is probably lower. Political contacts are said to continue to play an important role in roping in central government funding. Still, key resource persons agreed that line ministry project funds would increasingly also require proper project proposals, following established standards.

A final remark has to be made on the fact that unfortunately no data on Serbian municipalities exist that would allow comparing 3rd party funding volumes with the MSP municipalities; preferably distinguishing between clients of other projects and municipalities without any outside project support. Only such comparisons would allow quantifying, in real terms, the direct impact of and attribution to MSP's support in this important field.

5 Inter-municipal cooperation

The specific objective related to inter-municipal cooperation reads as "municipalities are aware of all perspectives of regional development and conditions for sustainable inter-municipal cooperation are improved." It can be argued that the formulation of this specific objective is not very convincing and remains rather vague. Being aware of perspectives and having improved conditions does not per se produce tangible results. However, as will be shown below, MSP has achieved just that: it has produced concrete results, both in what can be termed the vertical (regional but also national) and horizontal (i.e. inter-municipal) dimensions of cooperation.

51 Inter-Municipal Working Groups (IMWG)

The most evident and also most prominent innovations of MSP are clearly the five Inter-Municipal Working Groups (IMWG). Today, they are the main vehicles for cooperation among the municipalities but also play a crucial role in collaboration with the related line ministries.

The IMWGs can be split into (i) 'generic' groups: Legal Issues (LI), Financial Management/Fiscal Decentralisation (FM/FD) and Strategic and Spatial Planning (SSP); as well as (ii) 'specialised' groups: Roads and Solid Waste Management. The group members are directors and senior or middle management staff of the respective departments in the municipalities. Each group develops annual work plans and meets regularly to work on specific issues.

The IMWGs are unique bodies in the country and highly appreciated and praised by municipalities, but also by the central government, SCTM and donors. The mission met with the IMWG-FM/FD and the IMWG-SSP and can confirm that members are very motivated and qualified – not the least due to the good HRD process supported by MSP. The most important results produced by and through the IMWGs are the following:

- As the products resulting from the groups' work relate to practical and tangible current LSG problems, they are also being utilised in practice. A significant number of templates and models for basic municipal regulations and procedures, as well as related training modules, were disseminated to other municipalities, mostly through the SCTM but also individually to municipalities that demanded the products directly. These include models for local legal frame, youth centres, LTA, inter-municipal cooperation, MDP/AP methodology, citizens' requests, as well as a range of training modules, etc.

- Members of IMWGs have developed into national level experts in their specific fields, and are acknowledged discussion partners in the process of drafting national laws, especially for the laws on LSG finance, spatial planning as well as regional development, and have been made members of the related national SCTM commissions. Also, their peers in other municipalities contact many members informally for concrete and practical advice.

- Others have copied the IMWG concept, like the GTZ Municipal Development Project in the Danube Region, the Kraljevo and Zlatibor RDAs, the USAID MEGA project, but also LSGs in the South Backa district of Vojvodina. The copying of the concept can be seen as particularly significant success indicator as, more often than not, projects revert to 'reinventing the wheel' and are generally rather reluctant to learn from others.

The core issue – fully understood by the groups and MSP – is the fact that IMWGs currently remain 'exotic animals' that thrive because the MSP project umbrella protects them. The core challenge is clearly to find an institutional anchor for their sustainable existence in a post-MSP future.

In a certain way, IMWGs are burdened by an original MSP design 'flaw', in that the programme area – and thus IMWG membership – is not congruent with district (and RDA) areas but overlaps their borders. This certainly reduces the possibility of anchoring the current groups within the 'standard' Serbian administrative system.

Many discussions on their future have already been held by the groups themselves and with MSP and the municipalities but, so far, no concrete solutions have been developed. More detailed negotiations will be required to concretise the different options for different groups.

For the IMWG Roads, an option seems to be to convert into a local branch of the National Association for Roads. However, details have not been fixed yet on legal status, exact function and tasks and, in particular, funding. The IMWG Solid Waste Management is discussing to link,

in one way or other, with the planned regional waste management system organisation, which receives support from Sida. However, no details have been negotiated yet.

For the three 'generic' groups FM/FD, LI and SSP, the currently most realistic option seems to be remaining more or less as they are, based on a special arrangement between the seven member municipalities. This may open at least a medium term perspective. The basis could be the already drafted Agreement on Inter-Municipal Cooperation, which has been put on hold at the end of Phase 2 (apparently requested by SDC in order to not compete with the RDAs). Provided the municipalities would be ready to fund a common secretariat (with a lower than the current MSP budget of € 20'000 per year for this task), MSP Ltd. may be able to continue to provide this service. The IMWGs proposed to the evaluation mission that SDC should promote this option with the municipalities.

52   "Meso-level mess"

The title of this chapter quotes a statement that was made to the mission more than once. It refers to the existing gap or missing administrative level between the central government and the 145 municipalities and cities, as well as to the fact that no clear and viable direction in developing this level is currently visible.

As matter of fact, 25 administrative districts do exist but perform mostly inspection functions for central level line ministries and the government is apparently not interested in developing them; also, districts do not seem to be on the screen of the EU (its lowest NUTS 3 units are composed of several districts).

Strongly pushed by the EU, the Regional Development Agencies (RDA) have, to some respect, been planned as way out, but it is currently very doubtful whether they will play any meaningful role, at least in the near future. In the municipalities visited, ownership of RDAs was not discernible, despite the fact that the municipalities contribute to 'their' RDA's funding. Lucani, for instance, decided not to join the RDA after discussing with its MSP partners, as the municipalities see no tangible results and feel that they got little, if any, value for their money so far.

In principle, the RDAs have been conceived and are perceived as channels for EU IPA funds but not as part of an evolving Serbian decentralised administrative structure. The situation is aggravated by fundamental differences in opinion between EU and GoS on the exact role and function of the RDAs. For the EU, they should be independent entities, while the government wants to take control and plans a registration and accreditation process under a central government entity, yet it has no plans to provide funding to RDAs.

In addition, current capacities are very weak in the two RDAs visited. Their functioning is mostly dependent on a substantial number of in-house and external consultants. The EU provides core funding until mid 2011, afterwards the financial future is unclear. Equally unclear is their final

role: are RDAs to assist municipalities to access EU IPA funds, or are they themselves to tap into these funds for their own survival, or both? Related to that is the observation that many 'intermediaries' are in the business of spending the comparatively limited IPA budget that is actually reserved for municipalities (in 2009, the total of this IPA share was only € 20m). How much of this amount was actually spend in the municipalities, on activities with tangible results, is not known.

To cut a long story short: the current regionalisation process in Serbia is by and large EU driven and burdened with political (and interethnic) considerations, however, without that a convincing and commonly agreed concept is emerging. The central government, which has changed several times during the last decade, also does not seem to have a clear regional strategy (as shown by the delays and complications in drafting the regional plans related to the regional law) and consequently does not act consistently.

The observed "meso-level mess" naturally has reduced the potential systemic impact of MSP in terms of its third specific objective, and its related performance cannot be fairly assessed in such a situation. In any case, the municipalities would deserve better and, sooner or later, some sort of middle level structure will have to evolve in Serbia. SCTM probably could play a role in this, but currently concentrates rather on the centre level and its own projects. Only 15% of its annual budget derives from municipality fees; consequently, according to municipalities, it has less direct interests at municipal level (to quote one key informant: "SCTM is not in the trenches").

6   Summary assessment

This chapter first provides an overview assessment of MSP 3, according to the standard DAC criteria, followed by a discussion of additional important issues. The statements are foremost based on the mission's observations and discussions. To some extent, they also draw from the last outcome monitoring report of November 2009[5].

61   Relevance and ownership

The relevance of MSP is high and undisputed. Its objectives are, so to speak, right on target, as they address the most important gaps that municipalities currently face, especially related to good governance and effective management. Consequently, MSP products (e.g. models and systems), experiences (e.g. MDP and AP methodology), and expertise (e.g. IMWG members)

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[5] Ivana Damnjanovic, Vladimir Stankovic (November 2009): Outcome Monitoring of the Municipal Support Program, Report for MSP Consulting.

are in demand, both horizontally (by other municipalities and similar projects) as well as vertically (by line ministries and national associations).

Ownership can also be assessed as high. Activities are driven by LSG demand and (in Phase 3) direct technical support has been switched to coaching and mentoring; the length of cooperation with many municipalities is another contributing factor. Ownership is clearly highest with the upper and middle management, in particular with members of PDCs and IMWGs, that have, over the many years, received excellent tailored support, enabling them to develop into professional experts.

Ownership was visibly high with the political leadership in the municipalities visited. In any case, politics continue to play an important role. If leaders change, ownership is not guaranteed with successors and has to be built up again.

As mentioned, and as could be expected, ownership is certainly lowest with what could be termed the 'old system' and its adherents. In general, the size of the municipality or city did influence the depth of penetration that MSP could achieve with its programmes – in smaller administrations it is simply easier to make an impact.

Ownership was also less visible and discernible with the involved line ministries – with the exception of people in the Ministry of Finance who praised the work of the IMWG Finance. Somewhat surprisingly, the Ministry of Public Administration and Local Self Government was not brought into the picture, apparently due to low capacities and interest in the ministry.

While it is clear that a comparatively small programme like MSP can not command the same level of central ministries' attention like large EU or USAID projects, several persons still mentioned that the programme was 'undersold' due to lack of presence in centre.

62 Effectiveness

The effectiveness of MSP is assessed as high. In many ways MSP is a 'traditional', resource-intensive and hands-on project that could cooperate with (most of) its municipalities over a longer period of time. In the preceding chapters, it has become evident that the mission considers the project to be effective in that it has produced a substantial range of concrete and tangible results. The effectiveness in producing these results has been discussed throughout this report in some detail.

Looking at the overall performance of MSP, it is apparent that the seven partner municipalities are different today than they were before: they have developed in the direction of the MSP **vision** – some further than others – and the MSP **mission** has – certainly to a large extent – been accomplished.

Next to the systemic impact in developing plans, procedures and modules, and in fostering transparency and efficiency in municipal management and governance, the long-term investments in human capital and capacities have clearly paid off.

However, the MSP municipalities are but seven out of 145 in Serbia. While it is clear that MSP was effective in disseminating what was developed in the seven municipalities, only anecdotal evidence exists on the extent of up-scaling, replication and in particular actual adoption of MSP products in other Serbian municipalities.

63   Sustainability

Sustainability predictions are considered to be good. The municipal management-related products (MDPs and APs, LTA, the range of models, etc.) have been developed and are being used. The governance-related 'software' developments, foremost citizen participation and transparency have taken roots in the seven municipalities – whether they will continue to thrive will depend to a large extent also on the political developments in the country. The investments in human resources, finally, will continue to be bear fruit, in particular when young and ambitious trained staff will move up the promotion ladder. For the organisational and procedural changes introduced, it will be crucial that PDCs continue to function and municipalities will be able to further tap into 3rd party funding.

As mentioned, the fact that, from 2014 onwards, all Serbian municipalities must do programme-based budgeting will give the seven MSP municipalities a head start and can be expected to sustain an important part of MSP's initiatives – provided that crucial context variables like macroeconomic and political stability will not deteriorate.

The following core indicators might be used as litmus test for sustainability in terms of protecting the MSP legacy: the seven municipalities should manage, after 2011, to continue to (i) monitor adherence to strategic plans, (ii) increase own tax collection as well as 3rd party funding, (iii) retain the skilled and motivated staff, and (iv) regularly conduct need-based municipal staff training programmes.

64   Efficiency

Implementation of MSP is on track as per plan; few delays were reported, among others, two main projects had to be staggered due to over-budgeting under this budget head, which is directly managed by SDC.

MSP has been well endowed in human and financial resources for this last phase. In many ways, the past history as PIU is still noticeable and a fully private sector set-up would have had to cut back, for instance, in administrative support and office space.

The MSP team has managed close steering of processes and supervision of external consultants. The substantial resources allowed the team to do many tasks themselves, which has effected on the quality and intensity of support that the municipalities received.

Whether the same results would have been achieved with a leaner budget is difficult to assess; the same applies to the impact on implementation efficiency by the current team frictions (see below in chapter 67).

65   Cross-cutting issues

The entire MSP is essentially about improving municipal governance (and management). Its achievements have, therefore, to a large extent promoted **good governance**. Adherence to the core governance principles has clearly increased in the seven partner municipalities: leadership and administration are more accountable towards citizens, the means at disposition are used more efficiently, transparency in managing municipal affairs has increased, as has participation by people.

In terms of **gender**, the mission got first hand experience that the IMWGs and the PDCs have above average numbers of very qualified and committed female members. Furthermore, whenever this topic was discussed, the unanimous position was that gender discrimination was not an issue in the seven municipalities – problems were rather identified in the political sphere and at central government level.

66   Visibility and policy dialogue

The visibility of MSP is high in the region among its direct clients, i.e. the seven municipal administrations and governments.

The level of visibility and its profile among citizens of the seven municipalities is unknown, as this never has been assessed (and was not part of MSP's TOR). The PRO project, also co-financed by SDC, has embarked on an exhaustive exercise in assessing citizens' satisfaction and its results have been made available to the mission. Unfortunately, the material is rich in data but rather poor in analysis and conclusions; in addition, the attribution question is not really addressed. Hence, the mission has refrained from making any attempt at cross-interpretation of the PRO material on the MSP municipalities.

Several discussion partners mentioned the comparatively low visibility of MSP's success stories at national level; given the range of tangible results with considerable up-scaling potential – also when compared to similar project likes PRO – this was seen as an untapped potential. MSP today achieves visibility more through personal contacts than through a systematic dissemination approach.

67   MSP Ltd.

It is probably fair to say that the chances for realising the specific objective of MSP Consulting Ltd. do exist – to become independent and viable by providing expertise and support in the market beyond project duration – but that it is currently far from certain that this will indeed be the case after April 2011. However, it is probably also fair to say that the idea of a private company was donor driven in the first place.

Currently, rather strong frictions exist within the team, best summarised as engineers vs. development people. A common mission is not discernible anymore and the leadership is put in question. Still, the mission could not see major impacts of this situation on programme implementation; the daily work is being done as per plan, despite both groups working on their tasks largely independent of each other.

Based on internal discussions, the currently most plausible way out seems a split into two entities. The related question is whether this will mean a clean break or whether the option to set up a holding or group of companies is also pursued. The latter would allow separating into two financially independent teams, but to still jointly keep the reference capital, acquired through the successful implementation of MSP. Whichever option is chosen, sound contractual amendments would be required with SDC in order to ensure correct MSP implementation up to April 2011.

In any case, the need for starting to act in earnest seems rather urgent, if the MSP team (in whatever shape and form) would like to see income flowing in May 2011. New project contracts take time to negotiate and implementation takes time to start. The current market research is still weak and ideas for future business are only vague. In addition, size may also become an issue, as the current set-up might be too big to sustain with small projects only, but too small for the big projects (like, for instance, the PROGRES capacity building contract that is said to be tendered soon).

The backstoppers have clearly provided good steering in starting the necessary strategising exercises; leverage of external advice, however, is limited if the process is internally not followed up in earnest, as seems currently to be the case with MSP Ltd.

7   Exit strategy

The team has produced an extensive exit strategy document in January 2010. The document discusses all essential elements in detail, including an implementation plan for the strategy.

Still, the usefulness of the exit strategy, as it is now, is probably limited. The core critique of the evaluation mission is that the exit message is not yet sufficiently brought to the point. This relates in particular to the core question of which priorities the team is going to set in the remaining 10 months. In order to provide a sound answer, the following steps are proposed:

- First an informed understanding is required of where the chances are best for 'survival' of which type of MSP products or processes – in other words the potential for **sustainability** should be fully explored.

- This in turn then should define where to invest, i.e. where to place the strategic focus in the last months – in other words where **effectiveness** of directing the available resources is expected to be highest.

- Naturally, this may also mean to drop certain activities from the current work plan and negotiate accordingly with SDC.

The evaluation therefore proposes a revision of the current document in form of a short and sharp **operational action plan** that addresses the above core questions. The annex of the existing exit strategy is a good starting point for such an exercise. It goes without saying that the **backstoppers** should be strongly involved in this process in order to bring in the required external and independent expertise.

As has been said above, the remaining period should also be utilised, as much as possible, to capitalise at **central level**, in order to get – both for the team and SDC – more exposure and credit for what has been achieved.

For any future project or programme in municipal governance and management, finally, the following interrelated lessons could be learnt: the first relates to the need for a 'systemic' component, in order to influence national and regional developments (or non-developments), which directly impact on the local level and can diminish impact potential of project activities. The second point is that MSP has demonstrated that focusing on the local, i.e. municipal level, remains indispensable in order to earn sound field level credibility – which then can be put to use in higher level strategic and policy discussions.