REPUBLIC OF SERBIA
GOVERNMENT OF THE REPUBLIC OF SERBIA

STRATEGY OF PUBLIC ADMINISTRATION REFORM IN THE REPUBLIC OF SERBIA

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INTRODUCTION

The rule of law, democratization of society and sustainable economic development through implementation of economic and social reforms, represent some of strategic aims that the Government of the Republic of Serbia has accentuated at the very beginning of its mandate in March of 2004. In the process of realization of these aims, the reform of the public administration represents one of the main priorities.

The public administration reform is a complex and long-lasting process, particularly in the countries in transition, in which the administration, both at the central and at the local levels is weak, burdened by a series of problems accumulated during several decades. This is not only the question of territorial and administrative distribution of competences in the state or the issue of the number of employees, and even less it is a sum of instantaneous decisions motivated by the interests of the parties in power. On the contrary, the Government of the Republic of Serbia is aware that the reform of the public administration represents an important condition for the success of reforms in other segments of society and that it is intrinsically connected with them.

If the transformation of this sector is to give positive results, it must be carefully designed and generally accepted and must never depend on the relation of political powers in the state at a certain moment. The prerequisite for that is existence of a Strategy of Public administration reform based on the general principles of the European Administrative Space, "good governance" and the concept of "open government".

Also, public administration reform process should develop simultaneously with the related development frameworks and programs such as the Poverty Reduction Strategy Paper – PRSP, European partnership (and the future Agreement on Stabilization and Association - SAA), Sustainable Development Strategy, Strategy for Promotion of Information Society etc., as well as activities related to achieving the Millennium Development Goals – MDGs) so that various development initiatives in the transition process could be integrated and mutually adjusted. The Government of the Republic of Serbia is aware that without strong, capacitated and stable institutions, it will not be possible to achieve long-term results in any field, as confirmed by the experience of other transition countries.

The ultimate objective of the reform is to provide a high quality of services for the citizens and to create such a public administration in Serbia that will significantly contribute to the economic stability and the quality of standards of life what is of crucial importance for the quality and efficiency of economic and social reforms.

The path towards this objective will not and cannot be easy or quick, particularly taking in account the existing situation and the fact that, due to various circumstances, Serbia is very late in reform moves in this area as compared to a series of other transitional countries. However, precisely because of that Serbia and its Government have the obligation towards its citizens to undertake, without delay, steps for achieving European standards and values in the area of management of public affairs, such as: the principle of rule of law, reliability and predictability, principle of transparency, accountability, economy, effectiveness and efficiency. These are the steps that lead

Serbia in the direction of joining the international integrations and that is what Serbia and its citizens wish to achieve.

The initial step on this path is adoption of a Strategy of Public Administration Reform in the Republic of Serbia that apart from a survey of the existing situation includes also the reform principles, key areas of reforms and the framework for necessary reforms in other sectors on which the reform of the public administration depends (fiscal decentralization, mechanisms for control of the public administration performance, introduction of modern information technologies into the work of public administration).

The timeframe for the implementation of the public administration reform strategy is divided into several phases which are described in detail in the Action Plan that represents an integral part of this Strategy.

Taking into consideration the time that is objectively necessary for an integral implementation of the public administration reforms in such a way that its results become visible in practice, the Government has the intention to establish the main directions and principles in this document so that they can represent a permanent foundation for the reforms.

1. STARTING POINTS

At the moment of choosing the model for the public administration reform, the factor that must be, above all, taken into account is the constitutional/legal concept of the state itself. Of course, the principles of organization and functioning of the public administration in the countries members of the European Union represent the main starting point/basis and the ultimate goal that is to be achieved by the planned reform. Simultaneously, the experiences of other countries in transition, particularly those that have recently become members of the European Union can also offer an important assistance, in the first place with the aim of avoiding traps that exist on the reform path. However, when the experiences of transition countries are used one should be careful and make a meditated and critical selection of a country or countries whose experiences will be used. Namely, only comparison with the countries of similar characteristics (starting from the similarity according to the size and number of citizens, state organization, through the existing situation in the area of public administration and at least approximately similar situation in the commercial and economic spheres, and up to the traditional roots upon which the legal system and legal institutes lay in a country) can bring some positive results. Evidently, some experiences of the USA and Canada should also be taken into consideration.

Serbia's tardiness in this area, in spite of all the shortcomings, can have one advantage as well: wise utilization of the experiences of others can help to avoid the mistakes and sped up the realization of the planned reform tasks. In any case, automatic taking over of any foreign model without taking in account one's own specificities, would create maybe an ideal, but still only a theoretical model that would not have big chances to succeed. That is why it is necessary - when strategic starting points of a modern public administration are defined - to take into account that the reform of the public administration is a reform of the state itself, through changes, on one hand, in its organization and functioning, but also, as important if not even more important, through the changes in the minds in what concerns the relation towards the state, both those that

make up the institutions of the state and the citizens for whose sake and interests these institutions should function.

Taking into consideration the stated above, it is obvious that the issue of legal and constitutional provisions is unavoidable. The fact is that selection of a reform model would be a much simpler and more reliable endeavor as far as the success of the reform is concerned, if the process of adoption of the new Constitution of the Republic of Serbia had already been finalized. Namely, the space that the norms of the still valid Constitution from 1990 leave for the reform is not sufficiently big. However, it is more that obvious that it is necessary to start introducing well premeditated strategic changes in this area, regardless of the fact that they are being created before the Constitution have been changed. At the first sight, it may seem that without establishing the constitutional provisions it is not possible to prepare a strategy of the reform of such an area as the public administration. However, although certain risk cannot be excluded this endeavor although difficult, is not impossible. The arguments for this conclusion lie, in the first place, in the fact that all basic principles of a modern democratic state (the principle of rule of law, sovereignty of citizens, division of power, decentralization of power, representative democracy, principle of limitations of power – checks and balances, protection of minorities, limited mandates, inviolability of the basic human rights and so on), are indisputable for all democratically oriented forces in Serbia, so that the adjustment of each model of public administration that is based on the respect of these principles with the future Constitutional provisions is just a matter of nuances, but not of substance. Of course, since this document does not have the intention to prejudge the provisions of the future Constitution, for certain reform segments only the basic strategic directions will be given while their elaboration will take place upon the adoption of the Constitution.

It has already been said that a successful public administration reform has to take in account the historical development of the country and its characteristics, but also if the reform is to be successful it is necessary that it is harmonized with European and world-wide developments in the development of society. The most important world trends in the development of modern society which influence on the structure of public administration and the position of the public sector in the state are the following:

- the passage from industrial society toward an IT society;
- the passage from a national economy towards the world economy;
- the passage from the short-term to long-term planning;
- the passage from the centralism towards decentralization;

It is also necessary to bear in mind that the reform of public administration is a long-lasting process in the same way in which the process of development of the state and society as a whole is. The best illustration for this is the fact that the public administration reform does not take place only in the transition countries, nor does it ends by their joining of the international integrations. On the contrary, in the majority of European countries the public administration reform continues being the essential element of the overall development.

General view on the ongoing public administration reforms in other countries shows that there are certain apparent trends that cannot be avoided, and that refer to the following processes:

- changes of understanding the position of the public sector in society and seeking an optimal level of its regulation from the point of view of the general, public interest;
- understanding of public administration as a service to the citizens, instead of seeing it as a powerful instrument of the authority;
- de-concentration of the state administration, delegation of power from the central toward the lower levels and the decentralization as a form of relinquishing a part of power by passing it to the lower levels – all this precisely with the aim of making public services more accessible to the citizens;
- fiscal decentralization as one of the guaranties that the lower levels will be more capacitated to carry out the tasks that have been assigned or transferred to them;
- changes in relation of the public administration with the citizens and private sector through better efficiency at work, increasing of legal security – reliability and predictability, more efficient implementation of laws and an efficient sanctioning for committed omissions, more openness and transparency of work, in the first place through accessibility of information on own work and similar, that being the obligation of administration originating in the fact that citizens as tax-payers and citizens as entrepreneurs provide the means for its work;
- application of new methods in public administration management, manly through the changes in the procedures and organization of work, decision making, motivation of public servants whereby the issue is not only the application of certain methods and knowledge, but also on the legal regulation of their status;
- rationalization as finding optimal ways of organization of carrying out public functions with the optimal number of persons and with optimal level of expenditures;
- creation of control and accountability mechanisms whereby the classical forms of administrative and judicial control are expanded by the control by ombudsman institution, but also by the control of the public itself – through availing of their right to dispose of accessible information regarding the work of state bodies. A particular place is occupied by a precise definition of the public administration control mechanisms towards the local authorities for carrying out the tasks delegated to them;
- development and implementation of information technologies in public administration sector as one of main tools for increasing effectiveness of securing of public services (starting from the formation of different data-bases up to the introduction of e-government), as well as an instrument by which the information can easily and quickly be made accessible to the widest public, which means increasing the public awareness on activities of public administration in order to

increase a possibility of public control and finally, as one of the rationalization measures in the work of public administration;

- increasing the qualification and accountability of the employees in the public administration (civil servants) starting by the establishment and applying of objective and impartial criteria for selection of new employees, based on merit, through permanent upgrading of knowledge during work and creation of the overall ambience that is motivating for the employees, up to the precisely defined responsibilities and first of all to depoliticize state employees and employees of self-government.

Serbia is aware that facing of all above-mentioned trends is to be expected in the reform process and that the success of the reform depends on its capability to find adequate solutions and mechanisms as responses to the challenges that will appear in the coming period.

2. EXISTING SITUATION OF THE PUBLIC ADMINISTRATION IN SERBIA

2.1. General Overview

In order to approach realistically the strategic planning of the public administration reform, it is necessary to take stock of the existing situation by which the administration situation is characterized at this moment.

When the current situation of the public administration in Serbia is discussed, one should mention that certain analyses of renowned international institutions point out that the tradition of Serbian public administration (as well as other states-republics of ex-Yugoslavia) is based on the comprehensive legal regulation with a strong feeling for the political impartiality which was the consequence, among other, of the implementation of the career system that offers guaranties for gradual advancement in the career based not only on the years of work experience, but also of the quality of work performance and with the aim of securing impartiality of the employees and their loyalty to each legally elected authority. Unlike some other countries in transition, the values of the professional administration that include a strong legalistic approach to the state management, strict adherence to the internal rules and procedures and an enviable degree of respect of administrative impartiality were not an unfamiliar to the Serbian administration. This system remained partly untouched all the way to the end of 1989.[1]

After the adoption of Serbian Constitution 1990, started the period when traditional values of Serbian administration systematically were ruined. The political voluntarism instead of legalism and permanent underrating of importance and the role of public administration, expressed through systematic arrears in payment of salaries that exceeded needs imposed by the difficult economic situation that, particularly since 1996, reached dramatic proportions, had as a consequence that an enormous number of capable,

[1] More on this topic in: Serbia and Montenegro - Development of Public administration – Creation of Conditions for an Efficient Economic and Social Reform; World Bank Policy Note, No. 28553-YU, May 2004.

expert and experienced civil servants left the public administration. At the same time, the level of average salaries that was lower multiple times than the salaries in the private sector or public enterprises, were not stimulus for young people to professionally orientate themselves towards working in the public administration. Apart from low earnings, another de-stimulating factor was the fact that career advancement based exclusively on the professional qualities and capabilities was extremely difficult. All this influenced on the quality of public services and the absence of employees' motivation.

The democratic changes in 2000 found the public administration in a very poor state:

- without enough expert and experienced personnel and particularly without sufficient number of young educated people, motivated for work in the public administration; and
- without enough reputation in the society and that is not a consequence only of the inadequate quality of services, but also of expansion/dissemination of a negative image on the administration as a parasite part of society that does not produce, but only spends the national income.

The new democratic Government in Serbia formed in January 2001 pointed out that the public administration reform, its modernization and harmonization with the European Union standards would be one of important fields of its future activities. However, in the course of the past three years there were no visible results in this field. The wish and the needs to start reforming all areas of society as soon as possible so as to compensate for the 10-years long isolation and delay of Serbia, accumulated problems in all areas, complex nature of the coalition Government[2], concentration of the Government on the changes, primarily in commercial, economic and financial spheres while neglecting the basic institutional problems in the political and administrative systems and, finally, the insufficient experience in designing and coordinating the reform process within such a complex system as the public administration, represent some of the main reasons of the failure in the period between 2001 and 2004. Simply, the reforms that were initiated without a clearly defined institutional framework needed for their implementation, without the political will to make a real effort with the aim of adoption of a new Constitution, without adoption of the strategy for public administration reform as a document that should be a starting point/base for the implementation of the reform, without creation of legal framework for the reform, without comprehending that the delay in introducing the reforms in this area represents a serious danger for a successful implementation of reforms in other areas and, finally, in the presence of strong lack of confidence an animosity against the total of the existing situation of public administration, with replacement of the majority of existing staff occupying higher positions in the administration by new, young people without any previous experience in the functioning of the public administration, such reforms, objectively, had small chances of success.

The new Government, formed in March 2004, although also a coalition Government, has no dilemmas concerning the need for a quick but well formulated approach to the reform of the entire public administration, while the need for adoption of a strategic framework was recognized by all main political forces in Serbia.

[2] The coalition Government of the Democratic Opposition of Serbia that was in power until December 2003, consisted in the beginning of 18 political parties.

2.2. Territorial Organization and Power Distribution

According to the Constitution from 1990 that is still in force in the Republic of Serbia, apart from the central level of power, there also exist the Autonomous province of Vojvodina and the Autonomous Province of Kosovo and Metohija[3] as forms of territorial autonomy and municipalities and towns as local self-government units.

According to the Government Decree of 1992, the districts have been formed in Serbia as well, but not as a form of territorial organization of the state, but as a form of de-concentration of power or as branches of the ministries and other state organs in which they carry out some of their activities away from their headquarters, for the needs of citizens of a certain territory that covers several municipalities.

As far as the distribution of power is concerned, Serbia or ex-Yugoslavia was, until the last decade of XX century one of the rare countries with the communist system which has widely developed the decentralization of power. However, over the last 10 years of the past century the dominating trend was the one of more centralization and reducing powers of the territorial autonomies and local authorities.

Upon the democratic changes, the adoption of the Law on the Establishment of Certain Competences of Autonomous Provinces[4] and the new Law on Local Self-Government,[5] represented the first important step towards decentralization. These laws establish a series of tasks in the sphere of rights and responsibilities of autonomous provinces and local authorities (municipalities and towns), and that, in the first place, means their right to regulate independently by their own rules and in conformity with the Constitution and laws of the Republic, some issues that are of interest for the citizens who live and work on their territory and to implement the adopted regulations independently.

Apart from the tasks that, according to the Law, are transferred to the competence of local authorities in their entirety, it is also envisaged that the certain tasks can be delegated from the state level to the local self-government level by sectoral laws. The tasks are delegated always when it is in the interest of a more efficient and more rational implementation of citizens' rights and meeting their needs.

According to the Law on Local Self-Government, the municipalities and towns carry out the following tasks independently and in accordance with the Constitution and the laws that are in force:

- adopt their own development plans;
- adopt urban development plans;
- adopt their own budget and final balance statement;

[3] In accordance with the Resolution 1244 of the Security Council of the United Nations, the Autonomous Province of Kosovo and Metohija is since 1999, under a temporary international administration.

[4] This law, adopted at the beginning of 2002 was published in the 'Official Gazette of the Republic of Serbia', no. 6/02

[5] This law, adopted at the beginning of 2002, was published n the 'Official Gazette of the Republic of Serbia', no. 9/02

- regulate and secure carrying out and development of communal activities and that includes creation of organizational, material and other conditions for their realization. This, among other, refers to:
    - cleaning up and distribution of water;
    - production and provision with steam and hot water;
    - local transport of passengers in road transportation;
    - maintaining cleanness;
    - maintenance of landfills;
    - regulation, maintenance and usage of open-air markets, parks and other public surfaces, public parking and public lights;
    - regulation and maintenance of cemeteries and similar;

- take care of maintenance of residential buildings and security of their usage and establish the level of financial compensation for maintenance of residential buildings;
- execute the procedure of eviction of persons who have illegally moved into flats and common premises of residential buildings;
- adopt programs of regulation of construction land, regulate the regime of utilization of construction land and establish the level of financial compensation for regulation and utilization of construction land;
- regulate and secure utilization of business space that is managed by the municipalities or town, establish the level of financial compensation for the utilization of business space and supervise its utilization;
- take care of the environment protection in such a way that:
    - they adopt programs of utilization and protection of natural values and programs of environment protection n accordance with the strategic documents and their interests and specificities;
    - establish special compensation for protection and advancement of environment;
- regulate and secure carrying out of tasks that refer to the construction, reconstruction, maintenance, protection, utilization, development and management of local roads and streets;
- establish reserve provisions of goods, their volume and structure with the consent of the ministry in charge with the aim of meeting the needs of local population;
- establish, monitor/follow the work and secure functioning of institutions and organizations in the areas of:
    - primary education;
    - primary health protection;
    - sport;
    - child and social protection;

- tourism;

- organize the protection from the natural disasters and fire and create conditions for elimination of their consequences or for their mitigation;
- adopt bases for protection, utilization and regulation of agricultural land and take care of their implementation;
- establish water-related conditions, issue water-related permits and permits for the objects of local importance;
- take care of the development and secure conditions for preservation, utilization and advancement of areas with natural healing characteristics;
- stimulate and take care of the development of tourism on their territories and establish the level of the so-called visitors' (tourist) tax;
- take care of the development and advancement of the catering service, craftsmanship and trade, decide on the working hours, places where these activities can be carried out and prescribe the conditions related for carrying out of these activities;
- regulate and organize jobs related to keeping and protection of domestic and exotic animals;
- take care of the protection and realization of personal and collective rights of the national minorities and ethnic groups on their territories;
- decide on the languages and alphabets of national minorities to be used officially on their territories;
- provide public information provision of local importance;
- establish independently the organs, organizations and services for carrying out these tasks and regulate their organization and work, they may establish the services of legal aid to the citizens etc.

Still, the adoption of the Law alone was not sufficient to produce in practice a full decentralization, envisaged by the Law. There are three reasons for this:

- The Law on Local Self-Government was not accompanied by changes in the corresponding sectoral laws that regulate each of the areas in which, by the new Law, local authority has some independent authorities;
- The Law not followed by a complete fiscal decentralization that would ensure direct funds for the units of the local authority from which they could finance carrying out of tasks they had been assigned with;
- Available human resources and material basis of an important number of municipalities in Serbia have not been sufficient to enable the municipalities to take over the responsibilities envisaged by the Law on Local Self-Government.

2.3. Organization of the State administration

The ups-and-downs of the transitional period reflected in the instability of the organizational structure of state administration, accentuated by earlier mentioned complex nature of relations in the first democratic coalition Government, have not spared Serbia either. For example, the previous 3-years long period was followed by relatively frequent changes in the organizational structure of the state administration and by abolishment of the existing and the formation of new organs.

One of essential starting conditions for the reform of the entire sector is functionality and institutional stability of the system. The existence of various organs with competences and responsibilities that are not clearly defined, overlapping of competences of two different organs, frequent changes in the organizational structure, dangerously imperil the system of accountability and represent a risk in real terms for execution of any long-term reform plans.

The causes of instability and of the lack of clear definition of the state administration in the period 2001 to 2004 are as follows:

- through the transformation of the Federal Republic of Yugoslavia into a state entity Serbia and Montenegro, the biggest part of tasks that were at the level of the federal state passed to the level of member republics (customs, public finances, federal police, entire system of inspectors' supervision that existed at the federal level etc.);
- the adoption of the new sectoral laws in the process of harmonization of the legal system of Serbia with the European Union legal system, meant that in certain areas independent regulatory bodies should be established, separated from the classical system of public administration with competences taken over from the ministries in the majority of cases. However, in the period until the start of work of these regulatory bodies there were no conditions for functional reform of the ministries themselves;
- the system of state administration is seriously damaged by the establishment of a big number of agencies (established mostly by Government decrees) by which the existence of a unique legal framework regulating their status was made impossible, as well as nomination of their management, and regulating their responsibilities among agencies, ministries and the National Assembly;
- formation of ministries and other state administration bodies was not always a consequence of a real, functional need, but were conditioned also by a complex coalition of the previous Government.

One of the first actions of the new Government, undertaken in March 2004, was to reduce the number of ministries from 19 to 17 adapting that number to the functional needs of the state. Also, in May 2004, with the aim to uniform the system of state

administration and its organization in the manner prescribed by the Constitution,[6] the Government has abolished, based on the Law, the biggest number of agencies and formed new, special organizations to take over the tasks from their competence which have clearly defined positions within the system of the public administration in Serbia[7]. With this, the first step has been made in the rationalization of the state administration system.

2.2. Number of Civil Servants at the State Administration and the Public Sector Wage Bill

Table no. 1: The data referring to the number of employees on the 31st August 2001 – before the assignments and employees were taken over from the federal level

State administration bodies		Appointed Staff[8]	Employed staff
I	Ministries[9]	88	3.260
	General Secretariat and services of the Government	24	71
	Mutual Services Administration	4	782
	Sub-total under I	116	4.113
Total under I		**4.229**	

[6] The Constitution of the Republic of Serbia envisages that the organization and competence of the state administration organs are regulated by the law, and not by the Government's acts.

[7] According to the Constitution that is presently in force, apart from the ministries, Serbian Government also has so-called special organizations – organs in charge of carrying out the public assignments out of which the biggest part - according to its nature – enters into the category of technical/expert jobs, while the smaller part represents the classical jobs in the public administration (for example, the Statistical Institute of the Republic, Legislative Secretariat of the Republic etc.)

[8] In accordance with the Law on Labor Relations in the State Organs ('Official Gazette of the Republic of Serbia', no. 48/91 with posterior changes and amendments),, the notion of 'nominated persons' refers to the officials occupying highly-placed positions in the state organs, nominated by the Government (Deputy Minister, Assistant Minister, Secretary of the Ministry, manager of a specialized organization, etc.);

[9] The data in this and in the following tables do not include the Ministry of Interior

II	Special Organizations	55	3.815
	Total under II	**3.870**	
	Sub-total I and II	171	7.928
	Total I and II	**8.099**	

Source: Ministry for Public Administration and Local Self-Government

When to the figure in 'Total (number of employees) under 'I', from the above Table, the number of temporarily employees is added, as well as the figure referring to beginning employees (persons who are employed for the first time and who are being trained during this preparatory phase so as to become capable of performing independent work in the state administration), the total figure was about 5.000 persons employed in the state administration on the republic level - without counting the Ministry of Interior and special organizations (Hydro-Meteorological Institute, Statistical and Geodetic Institutes and similar), i.e. the total number of employees including all the mentioned organs (except for the police) on the 31st August 2001 was between 8.000 and 9.000.

Table No. 2: The number of employees on the 31st March 2004 – after the takeover of competences and the employees from the federal level and immediately upon the appointment of the new Government

	State administration bodies	**Appointed staff**	**Permanent employed staff**	**Temporarily employed**	**Beginning employees**
I	Ministries	365	19.254	1.038	16
	General Secretariat and services of the Government	11	105	24	5
	Mutual Services Administration	4	939	182	-
	Sub-total under I	380	20.298	1.244	66
	Total under I	**21.988**			
II	Special Organizations	48	4.519	607	76
	Total under II	**5.250**			
	Sub-total I and II	428	24.817	1.851	142
	Total I and II	**27.238**			

Source: Ministry of Public Administration and Local Self-Government.

Therefore, due to the takeover of competences of ex-federal organs, in the first place, Serbia has witnessed multiple increases in the number of employees in the state administration, so that the total number amounted to 27.000 employees in all the state organs at the level of the Republic.

The proof that the cause of this increase is almost exclusively the new re-distribution of competences among the organs of member states and the organs of the state union are contained in the latest data presented in the Table no. 3 from which can be seen that over the past half a year, the total number of employees gradually goes into stagnation, particularly concerns permanent employed staff.

Table no. 3: The number of employees on the 31st of July 2004

	State administration bodies	**Appointed staff**	**Permanent employed staff**	**Temporarily employed**	**Beginning employees**
I	Ministries	388	19.264	1.105	79
	General Secretariat and expert services of the Government	10	83	15	5
	Mutual Services Administration	5	974	204	-
	Sub-total under I	403	20.321	1.324	84
	Total under I	**22.132**			
II	Special Organizations	58	4.538	804	81
	Total under II	**5.481**			
	Sub-total I and II	461	24.859	2.128	165
	Total I and II	**27.613**			

Source: Ministry for Public Administration and Local Self-Government;

If the above data are compared with the World Bank data regarding movements of the number of employees in some European countries in the period between 1999 and 2001, that also do not include persons employed in the police, army, health and education sectors, we would get the following picture: in the year 2004, after majority of functions of the federal state have been taken over, the number of employees in Serbian administration was bigger than in Czech Republic, Finland, Hungary and Poland, for example, but smaller than in Ireland, Greece and Austria or just a bit above the average of other European countries.

When comparing the wage bill of the state administration of Serbia expressed as a percentage of the total central Government expenditure, by using the data of the International database of civil servants and salaries prepared by the World Bank and using the Budget Law of the Republic of Serbia for 2004, can be noticed that in comparison with the countries of Central and Eastern Europe, Serbia is placed above the average with the percentage of 19% (the average for this region is 15%), but it is below the percentage as compared with Slovenia, Croatia and Greece.

This data should be taken only as a relative indicator taking in account that data used for Serbia date from 2004, while the parameter for other countries were data from the period between 1996 and 2000.

Graph 1: Central Government Wage Bill Comparison 1996-2000 (Serbia 2004) % of Total Central Government Expenditures

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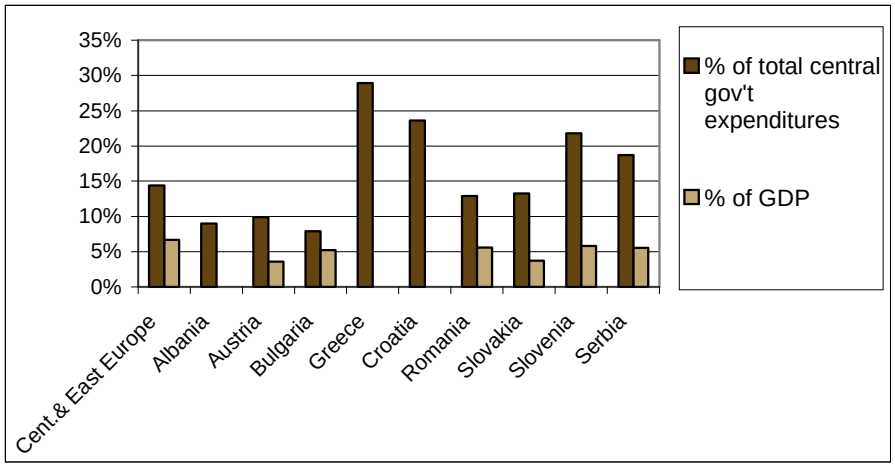
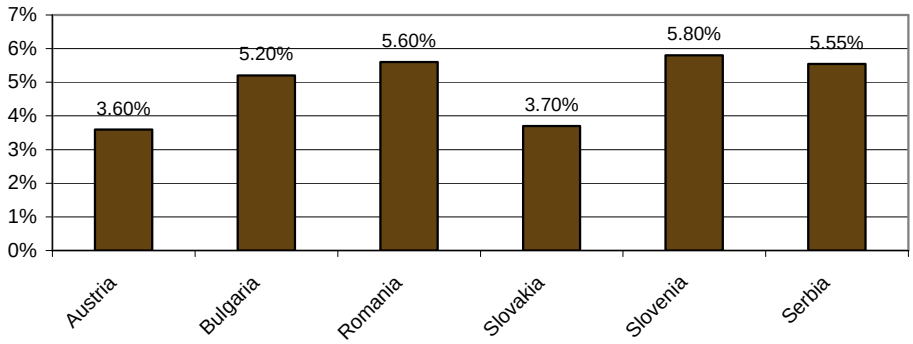


Sources: 1. Cross-National Dataset on Government Employment & Wages, World Bank
2. Law on budget of Republic of Serbia in 2004

Graph 2: Central Government Wage Bill comparison as % of GDP



Sources: 1. Cross-National Dataset on Government Employment & Wages, 1996-2000, World Bank
2. Law on budget of Republic of Serbia in 2004

It is necessary to emphasize once more that there are differences in the time periods for Serbia and other countries making this comparison relative from the point of view of the present situation, but on the other hand may be useful particularly taking in account that Serbia is now going along the path on which some of these countries were at the time of this data.

3. BASIC OBJECTIVES AND PRINCIPLES OF THE REFORM

As stated at the very beginning, the main objectives that Serbia wishes to achieve through the public administration reform are the following:

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

The Government of Serbia will be guided by the following basic principles while implementing reforms with a view of achieving the stated objectives:

- principle of decentralization;
- principle of de-politization;
- principle of professionalization;
- principle of rationalization;
- principle of modernization.

The reform of legal framework that will create a legal basis for the implementation and building of the above-cited principles, represents an initial step on the road of system changes while permanent pursuance and evaluation of the effects of law implementation with active participation of all relevant social subjects, represents the main mechanism that provides dynamism to the reform process and enables continuous adjustment to the real needs and elimination of the weaknesses and shortcomings that have been detected in the meantime.

3.1. Principle of Decentralization

The distribution of power between the central and sub-central (local) levels of power represents one of essential prerequisites for the general society democratization. The possibility of active participation of citizens in the creation of public policies is much higher if the important issues that influence directly on their daily lives and work, are decided upon at the local level. Therefore, the decentralized power can be better and more informed on the needs and requests of individuals and that can produce better quality in meeting the public needs and to the comprehensive development of the local environment. This creates conditions for increased responsibility of those who bring and implement decisions, and it reduces the possibilities of their transformation into the alienated centers of power.

The decentralization principle may be realized through implementation of one of three models cited below or by their combination:

- **Model of Devolution** is the most complete decentralization model since it implies transfer of an important part of state authorities into the exclusive competence of local authorities. The local authorities acquire in this way certain rights in some areas in accordance with the laws in force, acts independently and have their own sources of financing for this. The process of decision taking and their implementation are entirely within the competences of local authorities, and in case of conflicts among them or between them and the bodies of state administration, the courts in charge may intervene only if some violation of laws or of the Constitution has occurred.

- **Model of De-concentration** implies decentralization of state bodies belonging to the central power (mostly inspections and special organizations, such as Republic Geodetic Institute whose tasks are, by their nature, directly related to the entire territory of the state) in such a way that they form their branches at the local level with a view of achieving a more economical and efficient work performance making public services more accessible to the citizens. This model, in fact, is not a real form of decentralization since local self-government do not influence on the work of 'branches' of state administration.

- **Model of Delegation** that is, in fact, a compromise model of decentralization, standing between the transfer and power de-concentration. In this case, the local authorities (and not the state administration branches) are entrusted directly to carry out certain public functions while the central authority keeps certain form of control over carrying out of the entrusted tasks and, as a rule, has the obligation to provide, from the state budget, the funds necessary for these activities and to pass them on the local authorities.

3.2. Principle of Depolitization

Depolitization implies in the first place clear delimitation of the process of political creation of decisions from the process of their legal regulation in the forms of norms and implementation in accordance with the regulations and rules that are in force. In the transition countries the implementation of the de-politization principle is of exceptional importance for the transformation of public administration into a service for all the citizens.

There are two basic forms through which the depolitization process is carried out:

- development and strengthening of career systems including guaranties for promotion based on professional merits and the contribution given. This implies, before all, clear definition of positions (work places) that are obtained on the basis of political trust, on one hand, and those positions on the top of administrative hierarchy which should be occupied by professional civil servants, on the other hand. That also implies clear division of rights and responsibilities between these two categories of persons – politicians and leading civil servants;

- establishment of mechanisms that will prevent political influence on the work of career employees.

Depolitization is a condition for establishing a permanent public administration at the highest level, and a permanent public administration is a condition for securing professionalism and continuity at the strategic level of administrative decision taking.

Taking measures in the sphere of depolitization implies both - legal regulation of the civil servants' status and raising awareness regarding the role and importance of public administration for the wholesome development of society regardless of relationships between the political forces.

3.3. Principle of Professionalization

Professionalization implies creation of well-trained, responsible and efficient administration. Unprofessional, irresponsible and inefficient administration, even if depoliticized, is equally bad for citizens and for the society as a whole. For this reason, these two principles are closely connected and equally important for the public administration reform.

It is necessary to ensure the following in order to respect the professionalization principle:

- impartial and objective selection of civil servants based on merits in the process of their recruitment;
- permanent training of staff over the whole duration of work accompanied by the possibilities of getting additional knowledge and skills;
- objective evaluation of the work of civil servants;
- establishment of motivation and rewards mechanisms, including career promotion on the basis of demonstrated capabilities and results;
- establishment of a stimulation wage system;
- introduction of clear rules of behavior and relations toward public activities;
- prevention of all sorts of corruption, including prevention of conflicts of interests, particularly for the highest state officials and highly-placed civil servants;
- establishment of clear mechanisms for control of work and responsibilities.

3.4. Principle of Rationalization

Implementation of the rationalization principle in the public administration has, as a final objective, creation of an optimally organized public administration that will offer a satisfactory quality of services timely and in an efficient manner through engagement of the smallest possible number of executors so as to minimize the total expenditures needed for its work.

The rationalization implies the process that consists from several elements:

- at the level of macro-organization (organization of the entire public administration), the rationalization means clear delimitation and distribution of competences and responsibilities both among the levels of power and between the

organs within the same level and that implies a precise and rounded-up regulations and securing of vertical and horizontal coordination of work;

- at the level of micro-organization (organization of individual organs and institutions), the rationalization means clear distribution of competences and responsibilities between certain parts within an organ, implementation of modern methods of work and providing service, capacity building for decision making at lower management levels, ensuring good horizontal coordination and control and finally, realistic evaluation of the necessary number of executors for each job implying a comprehensive functional analysis of tasks of each organ;
- implementation of work modernization principle.

3.5. Principle of Modernization

Modernization principle, in this context, implies in the first place, technical and technological modernization of work of public administration by implementation of modern information and communications technologies.

One of the trends in the modern society is that it is being transformed, passing from the phase of industrial society into the phase of information society. The informatics and telecommunications become a more and more powerful tool, both in the daily life and in carrying out public functions, shortening the information collection time and the time needed for analyses of information and data, ensuring accuracy of information, bridging physical distance of the subjects that are communicating, realize savings in time and expenditures for the ongoing work of the organs, eliminates unnecessary bureaucracy, acquires transparency in the work of the public administration, so that the citizens can obtain the most diversified data related to the work of public administration and get insight into the public data-bases by the simple use of the Internet.

The modernization in itself is a process that should be well premeditated and coordinated, in the same way as in case of the overall reform of the public administration if it is to produce the desired effects and if it is to be realized in the most cost-effective and the most reliable manner. Taking in account permanent technical and technological development in this area, the cost-effectiveness and coordination of the entire process merit exceptional attention, in view of investments into the modernization that requires considerable financial means, particularly in what concerns elaboration and utilization of unified data-bases, establishment of an uniform communication system between the public administration bodies on the entire territory and introduction of e-government and e-signatures into the work of public administration.

3.6. Regulatory Reform and Public Policy Process

3.6.1. Regulatory Reform - Reform of Legislative Framework

The legal framework is an important tool for management of social processes and includes both the sphere of laws' and other regulations' adoption and implementation as well as law enforcement and evaluation. Only in this way, an atmosphere of legality and

rule of law can be created. Undoubtedly, the adjustment of legal regulations with the European Union jurisdiction represents an important prerequisite for the dynamism of the integration process. In the same way as the institutional part of the reform of public administration represents a basis for transformation, the legal reform is also unavoidable presumption of an institutional reform. In that way, the regulatory reform must be a part of the reform of public administration.

The reform process should include both de-regulation in the areas and to the extent in which it is necessary as a part of general process of democratization of society and creation of conditions for free flow of merchandise, services and capital, and for better regulation with the aim of realizing the public interest ensuring a qualitatively higher level with a significant disestablishment, understanding administration as a service for satisfying the needs of citizens.

A part of this reform is a transfer of regulatory mechanisms from the state administration to the local self-government.

A well-organized regulatory reform increases the efficiency of both the economy and the administration.

Already in 1997, ministers of OECD countries defined the principles that should be respected when a regulatory reform is carried out:

- the program of regulatory reform that will clearly define the aims of the reform and the framework for its implementation, must be harmonized and approved at the highest political level;
- there should exist a systematic control and evaluation of legal regulations to ensure that they lead effectively to goals;
- to secure that the regulations and the regulatory process are transparent, non-discriminatory and that they are used for the intended purposes;
- to monitor a scope, effectiveness and enforcement of the principle of free competition and, if necessary, to take measures to strengthen it;
- to carry out the reform of regulations in all sectors of economy in order to support free competition and to eliminate those regulations that have a negative impact on it;
- to identify important links to objectives of other politics and to develop a strategy aimed at reaching their adjustment.

In concrete, the reform of the regulatory framework in the area of public administration means adopting regulations that will be a legal framework for a functional and organizational reform of public administration, based on strategic principles. That, in the first place, implies a set of laws and by-laws that lay the foundation of public administration in Serbia, such as the Law on Public administration and the Law on Civil Servants. At the same time, beside these laws, another part of legal framework consists of laws that regulate procedure of executing the public powers (when public administration body decides on someone's right or obligation) and the control of legality of their work i.e. the Law on General Administrative Procedure, the Law on Administrative Disputes and the Law on Ombudsman. On the other hand, follow-up of the implementation and an evaluation of the Law on Local Self-Government and the Law on Local Elections will demonstrate whether and to what extent the existing regulations represent an opstarcle to the efficiency of decentralization process. In any case, adjustment of sectoral laws in each

area in which the competences have been transferred to the local authorities is an unavoidable part of the regulatory reform.

The reform of the legislative framework requires that certain measures should be taken in the process of drafting and, after the adoption, in the process of implementation of any law. Some of these measures are motivated by a faster inclusion into the international integrations, while some other are motivated in the first place by economic and practical reasons. In the process of drafting and after that in the process of implementation, the law-maker has to ensure that the following three analyses are undertaken:

- cost-benefit analysis that must be an integral part of any draft law;
- analysis of the effects of a law upon the process of future accession of Serbia to the European Union;
- impact assessment before and after the enforcement of regulations.

Cost-benefit analysis assumes primarily analysis of fiscal impact assessment of implementation of legislation. However, this analysis does not imply only fiscal, but also administrative, technical, ecological and other sorts of expenditures depending on the area for which a law is going to be adopted. Elaboration of such an analysis along with the preparation of a draft law should define whether future implementation of the certain law is financially sustainable in order to avoid that future implementation of the law would be made impossible or made quite difficult because of the lack of necessary financial means. At the same time, this analysis should show the relation between the benefits and shortcomings that the implementation of the law entails.

The following analysis is an analysis of the effects of the law upon the process of future accession of Serbia to the European Union. As it is already known to the domestic public, Serbia and Montenegro has the obligation of starting - immediately upon signing the Agreement on the Stabilization and Association - the procedure of adjusting the domestic regulations with the European regulations in the areas defined by this Agreement. The Government of the Republic of Serbia has already adopted a mechanism for assessing the level of adjustment that should serve as a measure of success and of the precision of action plans.

The analysis of the impact assessment of regulations before their elaboration and upon their enforcement is the third analysis that has to be a part of a legislative reform. This implies the process which identifies, envisages and assesses the possible effects, both positive and negative, that a regulation might produce upon public and private sector and to seek ways for reducing the negative impacts. In that sense, this sort of analysis is complementary to the first measure - the cost-benefit analysis. However, the so-called impact assessment does not imply only the assessment of regulations before their adoption, but also the assessment upon their enforcement. This kind of evaluation enables an adequate supervision of the implementation of regulations.

In principle, the impact assessment represents a multi-disciplinary process and should ensure connecting different systems in the society such as political, social, economic and ecological systems. In the most recent theories, this analysis is seen as the key mechanism for inclusion of various reform factors and a manner to reach agreement among them. At the same time, the impact assessment is a very important tool for assessment of sustainability of a certain regulation and for avoiding possible mistakes

that could be very expensive. However, the problem that this kind of analysis entails in the public administration reform context originates precisely from the multidisciplinary character of this process, so that it must be introduced and developed gradually, over a longer period of time since the precondition for its success is existence of strong institutional and financial frameworks for reform implementation in all areas of a society, as well as the capacity building.

3.6.2. Public Policy Process

The public administration reform does not imply only implementing a reform of the legislative framework, but also the entirety of public policy, as well as the sectoral policies. Through the implementation of laws and other legal acts of the National Assembly, the Government creates the policies of the Republic of Serbia. In accordance with the provisions of the Constitution of Serbia that is presently in force, the Government supervises the work of the public administration bodies, orientates these bodies in the implementation of policies, laws and other legal acts and adjusts their work. Finally, the work of the Government is transparent.

All these provisions evidence the necessity of a complete implementation of the principle of an open government as an unavoidable standard in the work of the public administration. The reform of the public administration signifies that this objective must be reached. However, the open government principle should not be observed out of the context of social reality. Namely, the implementation of this principle requires creation of mechanisms that will include, apart from the state bodies and public administration, also private sector and non-governmental institutions, or, in other words, all parties interested in participating in the formulation of Government policies should be included. This implies, in the first place, that the Government accepts and seriously considers the initiatives for adoption of laws that are initiated by the local self-government, unions, professional public and non-governmental organizations, also that enables them to give their views regarding the proposals of new laws, and that the Government consults them on the issue of the effects of the implementation of the adopted laws. This is particularly important in the area of work-related, health, pension, invalidity and other related legislation.

A particular concern of the Government has to be the part of the public administration that has a direct communication with the citizens. Due to the implementation of the above-mentioned principles of the public administration reform, their work is to be upgraded in such a way that the realization of citizens' rights and fulfillment of their obligations is made easier.

4. KEY REFORM AREAS

4.1. DECENTRALIZATON

4.1.1. Selection of Decentralization Model

As stated earlier, there are three basic models of decentralization. In the light of future reforms, it is necessary to respond which model will be applied in Serbia. In principle, two following approaches are possible:

1. to continue with the existing, mixed model of decentralization that consists in the combination of all three models, or
2. choose one of the basic models.

In order to give an answer to this question, it is necessary to analyze the advantages and disadvantages of each model as listed below:

- **Consequences of implementation of a model of power de-concentration**

If we start from the main objectives for which the decentralization process is undertaken, then it will be easy to come to the conclusion that the de-concentration, taken as the main decentralization model, in fact is not the right way towards decentralization. The fact is that power de-concentration makes services rendered to citizens more accessible (the citizens can satisfy their needs easier and quicker, simply because they do not have to go to the central office of the state organ) and a de-concentrated authority, as more accessible to citizens, can have better understanding of their needs and can react upon their requests. However, a de-concentrated authority continues being just a part of state administration, both as far as functioning is concerned on one hand, and management, financing, accountability and control of its work, on the other. In other words, de-concentration of power does not contribute either to the strengthening of autonomy, independence and accountability of local self-government or do the citizens have a more direct influence upon it's functioning. Precisely due to this reason, the de-concentration model cannot be used as the main decentralization model.

However, in the conditions where the local self-government is too weak in many of its aspects to be able to take over all responsibilities that are imposed upon it by the decentralization process (from the aspect of human resources, financial and material capabilities, institutions' capabilities), what, as a rule, is the case in the transition countries, the de-concentration model used rationally and moderately and not at the expense of the principle aims of decentralization, combined with other models, may be a useful corrective factor that will make more accessible to the citizens also those public services that the local authority is not capable of undertaking or which, by their nature, belong to the state administration.

- **Consequences of implementation of a model of delegation**

The Delegation Model, entrusting local authorities with the state administration tasks i.e. the local self-government autonomously carries out the entrusted powers (but without adopting rules that would regulate carrying out of these assignments) whereby the state administration keeps its right to control the execution and even in extreme cases, if the local self-government is not capable to execute the entrusted assignments, to take over the execution, represents the first step towards the real decentralization.

This model has significant advantages in the initial phase of decentralization when there is no sufficient security that the local self-government will be able materially, staff-wise, and in all other senses, to take care all alone of satisfying an important part of its citizens' needs.

Since, as a rule, this model is accompanied by provision of necessary funds in the state budget for carrying out the entrusted tasks, the local self-government is liberated from worries related to the securing of funds from its own sources. However, in this case the financial flows are rather non-transparent and are not subject to control by elected representatives of citizens at the local level.

The existence of direct mechanisms for control of execution of entrusted tasks and the right of state administration to take over concrete measures in case if local authorities have violated the law, influences in a positive manner upon the level of accountability of local self-government. However, one of disadvantages, if this were the only method to be used in the decentralization process, is that carrying out of tasks, legally speaking, on its own behalf and for the account of someone else, strengthens the sense of responsibility for a correct execution, but does not develop creativity and does not contribute sufficiently to strengthening of accountability for a comprehensive development of local community.

Also, although there is a possibility for local self-government to initiate the adoption or changes the laws and other regulations concerning the entrusted tasks, they have less influence upon their adoption.

- **Consequences of implementation of model of devolution**

Contrary to the de-concentration model, the devolution model, model of transfer the powers from the state level into the complete competence and responsibility of the local self-government, represents the most complete form of decentralization. Devolution of powers has as a consequence that the state administration renounces one part of its competences in favor of the local authority. The aim is to strengthen local self-government in the interest of citizens, contributing thus to the general democratization of the society. That further means that future relations between the state administration and local self-government are based on the principles of cooperation, and not on subordination. Cooperation is manifested in the first place through offering expert assistance to the local self government authorities related to the execution of their activities, in information on the phenomena that violate the constitutionality and legality and on the measures for elimination of such phenomena, in requesting reports, data, and information from the local authorities on the tasks that they are carrying out or, on the other hand, on the right of the local authorities to participate in the preparation of laws, to initiate regulations in sectors that are of importance for local self-government, to request opinions from state administration in connection with the laws' implementation etc. Therefore, as long as the local self-government carries out the tasks transferred to it in accordance with the Constitution and the Law, the central authority cannot interfere or control the way of carrying out these activities, but in the case of dispute regarding the question whether the activities are carried out in conformity with the law or not, the decision can only be taken by the court in charge.

In this case, the local self-government is in a position to 'listen' to the needs of citizens on its territory and to act in accordance with them. Generally speaking, public activities are brought closer to the citizens. Local self-government have full freedom and the possibility of initiative and creativity aimed at going towards meeting these needs, but also of having full responsibility for own actions.

At the same time, the possibility and the right of exercising influence on adoption of laws that regulate the sectors in which the local self-government autonomously carries out activities should be significant.

This model is undoubtedly in favor of local autonomy. However, this model at the same time implies an accountable and capable local self-government. What are the risks of an exclusive implementation of this model in practice?

- if the implementation of this model is not accompanied by an adequate capacity of each local self-government unit (each municipality or town), it will objectively not be in position to carry out in a good quality manner the activities that have been transferred to it. This depends to the greatest extent on the quality of execution of fiscal decentralization, but since the initiating material base of municipalities (commercial and economic) is not identical, there is a risk that less developed municipalities will not be materially sufficiently capacitated to carry out the tasks they have taken over in spite of the fiscal decentralization;
- the lack of human resources can also represent a risk and that particularly in less developed municipalities in which, precisely due to the general situation, migrations occurred rather frequently, specially migrations of highly educated persons;
- a successful implementation of this model i.e. implementation that has for a result an increased quality of services provided for the citizens and the overall development of local community through creation of better conditions for life and work of citizens and meeting of their needs, unconditionally implies high degree of accountability of local self-government. In case if this accountability is missing, the citizens are exposed to damages that the state administration cannot prevent. For example, if local authorities have responsibility for such issues as reconstruction of schools and taking care of parks and in spite of all obvious needs of citizens to reconstruct a school, the state administration cannot prevent local authority to invest the funds originating from tax payers giving priority to the parks' arranging which some exotic plants will be planted and with a fountain in the middle of the park, instead of carrying out reconstruction of the leaked roof of the school building.

On the other hand, the above example leads also to an opposite conclusion. This model secures more transparency of expenditures and significantly better control of financial flows by elected representatives of the citizens. This fact can influence to a big extent on the accountability of the local self-government, particularly on the volume of customary expenditures for the work of local administration. Observed on the long-term basis, that can influence positively on reduction of total expenditures.

General Conclusion

On the basis of everything stated above, conclusion can be that the devolution model undoubtedly satisfies the main objectives of the decentralization idea itself. However, an exclusive implementation of this model in transition countries that are, as a rule, burdened by an uneven and insufficient development of all parts of their territory, brings about certain, and not small risks that could be avoided by a combination of this and other models with the ultimate idea that this model should in the long-term become predominant.

Implementation of the combined decentralization model is in favor of strengthening of democracy and places the citizens in a position of transformation from users of services into subjects that can influence in a more direct way on carrying out the public functions that are in their immediate interest and in the interest of the community in which they live and work. This model secures control over the work of the public administration both directly by citizens and by the institutions of the state and that offers better guaranties for objectivity and impartiality of the public administration. If the combined model is complemented by the elements of de-concentration of power, the prerequisites have been created for rendering services of public administration accessible to the citizens to the maximum.

When a clear distribution of competences is made between the state administration and local self-government, this model enables that both sides of public administration are equally respected.

The combined model in which a significant competences from the state administration to local self-government are transferred and the other competences are delegated, offers sufficient independence to the local self-government, but also offers opportunities to the local self-government to build its capacities gradually and to strengthen itself for further independence and from the other side protects citizens from insufficiently trained and insufficiently accountable local authorities.

At the same time, the combined model gives time to both sides to build mechanisms of mutual cooperation, coordination, respect and adjustment of mutually different interests and that is one of the hardest and most delicate phases in the decentralization process.

Therefore, it could be considered that the existing combined decentralization model, based on the Law on Local Self-Government that is presently in force, represents a good basis for the continuation of this process. The analysis of the results of Law implementation, particularly from the point of view of functioning of local authorities, the elements that influence negatively on the decentralization process will be detected and it will be defined in which direction modifications should be made. In any case, because of an uneven development of municipalities and towns in Serbia resulting in the weaknesses of certain local self-government units, the decentralization process must be gradual. This, because a big number of examples from the experience of other countries shows that an abrupt and uncontrolled transfer of functions causes big problems in the attempt to provide high quality public services at the local level. In some cases, a sudden decentralization, without previous preparation, has caused even an increased

centralization since the local authorities were not in a position to respond sufficiently promptly to the new requirements.

4.1.2. Material and Financial Prerequisites for the Decentralization Process

Simultaneously with the transfer of competences to the local authority, it is unavoidable to define the sources of funds from which the local self-government will finance the carrying out of transferred tasks.

The steps towards decentralization require at the same time some big changes in the system of public revenues and in the system of financial balance, but also taking measures directed towards limitation of risks of over-indebtedness of local self-government from violation of total budgetary balance at the state level etc.

The process of fiscal decentralization, as a related reform process, is directly connected with the overall reform of public administration and for that reason this topic will be further discussed later.

When the material prerequisites for the decentralization are discussed, particularly power devolution, a question that is unavoidably posed is the issue of local property. Simultaneously with the transfer of competences to the local self-government, it is indispensable not only to enable to that authority to dispose of some local revenues, but also to have its own property as a condition for carrying out public functions. The Constitution of Serbia that is presently in force does not recognize the local (municipal) property, so that before introducing changes in the Constitution it will not be possible to make any major steps in this direction. For the time being, local self-government only uses real estate in the state ownership and there are no possibilities for it to dispose of them independently without the some kind of state approval. This is one of essential questions that should find its place in the new Constitution so as to create a legal base for the transfer (devolution) of state property as well, and not only of activities and functions to the local self-governments contributing thus to their financial independence.

4.1.3. Territorial Organization

The success of decentralization process depends a lot on the creation of good (optimal) territorial organization and structure of local self-government units. However, since the issue of territorial organization can produce consequences not only upon the decentralization process, then this becomes one of top constitutional issues.

Territorial organization has two following aspects:

1. what forms of organization of the lower levels exist in the state, what is their position from the point of view of competences and responsibilities and what is their mutual relation and relation towards the central authority;
2. on the basis of which criteria the local self-government units – municipalities and towns are formed.

The answer regarding the first aspect of territorial organization can be given only by the Constitution. At this moment, the existing Constitution recognizes territorial

autonomy (autonomous provinces) and local self-government (municipalities and towns) as a form of territorial organization of the state. In any case, if future constitutional solutions bring in some innovations in the territorial organization of the Republic, they can only be in favor of the decentralization process.

As far as the second aspect is concerned, the creation of an optimal structure of municipalities, from the point of view of their growth, is particularly important for the efficiency of the decentralization process. The size of the municipalities influences directly on its economic force, while the economic force of a municipality determines its capability to provide efficient and quality services in the area of infrastructure, administration and other.[10] The local self-government bodies are much more flexible as compared with the state administration regarding their organizational structure and the manner of securing services. What is more, basically they are capable to deliver services cheaper and without too much of unnecessary bureaucracies. However, if this is to happen in practice, the condition is that the local self-government has sufficient resources to carry out its activities in an efficient manner.

A right decision regarding optimal size of local self-government units enables:

- devolution of competences of state administration and mechanisms for securing own financial sources;
- creation of preconditions for rational execution of tasks in a quality manner;
- rendering public services closer to citizens;
- securing more efficient and more professional execution of public services in smaller communities as well.

On the other hand, in the process of creation of municipalities, beside the size, other specificities such as geographical, historical, cultural and other must be taken into account, as well as the traditions of certain regions, circumstances that regard the level of development of the road net and other infra-structure as well as configuration of the soil, and everything else that can influence on the territory for which a municipality is being formed, represents a more or less rounded up whole where the local self-government bodies (having, as a rule, its headquarters in the administrative center of the municipality), will be at least relatively equally accessible to all citizens living and working in the municipality. Since citizens quite often believe that it will be easier for them to satisfy their own needs if the place that they are living in is an independent municipality and make pressure upon the central authority in the direction of further fragmentation of municipalities, it is necessary to organize a strong public campaign with the aim to explain and clarify that, contrary to the general belief, small territory which objectively and economically is not capable to secure provision of services as an independent municipality will not be capable of carrying out the competences that belong to the local self-government and thus will not be able to satisfy the needs of its citizens.

It is also necessary to bear in mind that it is never possible in practice to avoid completely the disproportion and disparity among municipalities as far as their size and the achieved level of development are concerned. Because of that, it is necessary to

[10] See the conclusions from the Conference of the European Council 'Size of Municipalities and Effectiveness of Participation of Citizens', Budapest, 1994.

consider which mechanisms should be applied to ensure functionality of all the municipalities regardless of some evident differences among them.

One possibility is to start with the devolution process selectively, which means to transfer competences selectively in dependence on whether a local self-government unit is capable of ensuring execution of activities independently and in a quality manner. Although this possibility is based on a rational and pragmatic approach, it seems that it should not be taken too seriously into consideration since it would lead towards limitation of citizens' rights in smaller municipalities and to different position of citizens in dependence on the place they live in, and that is unacceptable.

Another possibility is to establish special kind of inter-local cooperation through formation of common municipal offices on condition that the assemblies of these municipalities adopt such a decision and, of course, on condition that there exists a legal base for the formation of such common/joint organs. Then the competences that cannot be carried out in small municipalities would be passed on to these offices. However, this approach includes several obstacles that make its implementation in practice difficult:

- the experiences of other countries indicate that it is a need a strong legal framework and exclusion of all forms of voluntarism in the course of choosing the headquarters of the joint office;
- it is necessary to clearly define to whom this office should be responsible for its work since it must be accountable to certain local self-government body in each municipality for which it carries out work;
- it is necessary to ensure such a legal status of the office which enables it to receive directly money transfers which belong to all municipalities;
- in order to ensure functioning of the system, the influence of the state, although only in connection with organizational and financial issues, must be bigger, but that is contrary to the intentions of the decentralization process;
- financial contribution of each municipality to this office must be calculated with precision and it must be predicted what will be the consequences if the office does not fulfill services as envisaged;
- the process of operational management of the work in the office must be clearly defined, and research has shown that if there is no supervision of each municipality for the needs of which the office has been established, the system functions with difficulties.

Taking into account everything mentioned above, it can be concluded that this solution to the problem of 'small' municipalities is rather complicated and exposed to great risks of failure.

The third possibility is to find a way for supporting these 'small' municipalities through the mechanisms of fiscal decentralization and so to enable them to carry the burdens of decentralization that is not very light. This possibility seems to be the most acceptable and the most realistic one.

4.1.4. Capacity Building of Local Self-Government and Decentralization Dynamics

One of the main challenges in the implementation of the decentralization process is the existence of the necessary levels of capacity of the local self-governments enabling them to independently take over the new competences.

As mentioned earlier, the capacities of the local self-government has two aspects:

- material capacities that must be provided by means of:
  - balanced territorial organization of the state that takes care of the size, structure and capacities of municipalities and towns that are being formed;
  - process of fiscal decentralization that should be developed along with the decentralization of functions whereby the strategic directions of fiscal decentralization in Serbia are presented within the next chapter;
  - creation of constitutional and legal bases for the existence of own property of local authorities, primarily the ownership over the real estate;
- sufficient capacities of human recourses what implies the existence of:
  - organizational frameworks;
  - management systems;
  - necessary knowledge and skills of staff;
  - mechanisms that ensure, within the local self-government itself, the supervision and control over the work of its organs, as well as the transparency of their work.

In the process of capacity building of local self-government, the Government of the Republic of Serbia will support the local self-government in the realization of the system capacity assessment and in the elaboration of the capacity development plans.

Since the transfer of competences should not be carried out selectively, but equitably and simultaneously for all the local self-government units, it is necessary that the analysis of the present state and planning of measures for advancement detect all possible implementation problems, both in municipalities that dispose of better capacities and those that are less well capacitated.

Also, having in mind that the process of capacity building in the local self-government is a continuous, and not an one-off process, it is necessary to provide the adequate mechanisms that will enable the representatives of local authorities, directly and/or through the national association of towns and cities and in cooperation with the Government and state administration, to develop in an coordinated manner their capacities in the long-term. A part of the process of capacity building in the local self-government is encouraging and motivating municipalities and towns to cooperate among themselves and to adjust certain elements of their development. And finally, the decentralization impact assessment should include a two-track communications and an institutionalized consultation process.

4.2. FISCAL DECENTRALIZATION

Fiscal decentralization has very important implications upon the functioning of the public sector. It influences on both the choice and quality of public expenditures, and upon the manners of their financing. It is a phenomenon that, by its nature, is not static, but is undergoing a permanent evolution. Properly regulated, complex system of financial relations among different levels of power within a state that is functioning properly is a 'key' for achieving the biggest number of wide reform objectives of transition countries.

The fiscal decentralization represents an important instrument for increasing democratic participation in the decision-making process enabling better transparency in the provision of public services. Apart from that, the way in which this decentralization is carried out may have a significant impact upon macro-economic management and stability in a certain country.[11] Namely, the decentralization can even worsen the existing budget imbalances putting in question macro-economic stability of a country. Such a danger might be decreased if sub-central levels of power show a high level of fiscal discipline, and the fiscal discipline plan includes, among other, some stimulants for cost-effectiveness in management of public expenditures.

The local authorities in the country must be permitted to build their institutional structures in a way that will make them fully responsible for the fiscal decisions they make. There is a need to strengthen the autonomy of local authorities, and to rationalize fiscal relations from both the revenue and expenditures side, between the central power and sub-central level of power. The main influence upon the environment in which the local authorities are acting, turns more and more into a trend towards decentralization of fiscal functions.

4.2.1. Main Reasons for Fiscal Decentralization

There are several, mainly economic reasons that explain the need to carry out a fiscal decentralization:[12]

- one of them refers to changes in individual preferences by consumers in the course of selection among different public options. The allocation function imposes the need to permit to the local levels of power in the country to carry out such policies of public expenditures and public revenues that best correspond to the interests and needs of their residents. If a higher level of fiscal decentralization increases the number of alternative tax jurisdictions, each attempt to increase the tax rates in one jurisdiction would produce as a consequence moving of its residents into other jurisdictions;[13]

[11] For details see: T. Ter-Minassian, Decentralization and Macroeconomic Management, IMF Working Paper, WP/97/115, Washington D.C., 1997.

[12] See: 'The Role of Intermediate and Local Levels of Government. The Experience of Selected OECD Countries, Seminar Paper, OECD, Paris, 1991, page 8; See also: Robert D. Ebel, Fiscal Decentralization and Intergovernmental Fiscal Relations, The Central European University Summer Program, Budapest, August 1999, pages 5-8.

[13] See more about this in: Robert D. Ebel – Serdar Yilmaz, Intergovernmental Relations: Issues on Public Policy. Paper presented at the Central European University Course in Intergovernmental Fiscal Relations and Local Financial Management, Budapest, July 1999, pages 9 – 10.

- a decentralized authority is capable of being better and more deeply informed on the needs and requests of individuals and that can contribute to the better quality in meeting the public needs;
- Securing services at the local level is less expensive because the general expenditures and control expenditures are lower;[14]
- Fiscal decentralization brings the tax administration into a more direct contact with tax payers stimulating thus their participation in public expenditures management;[15]
- Decentralization offers possibilities to the local authorities to take over the responsibility not only for its own economic, but also for its entire social development.

4.2.2. Limitations of Fiscal Decentralization

Contrary to the arguments that speak in favor of fiscal decentralization, there are also certain limitations that it entails.[16] Namely, the stabilizing economic policies and better possibilities for administrating more complex tax forms such as valued added tax and synthetic taxes on citizens' income, require certain degree of centralization of fiscal systems. The central power is the one that, above any other, has the responsibility of management the macro-economic trends in the country. In order to be able to do that effectively, it needs certain instruments, including those of fiscal nature. In some cases, because of that some intervention of central power is required, but it erodes the fiscal autonomy and responsibility of local levels of authority.[17] If the central power decentralizes too much the tax system, that could decrease significantly its capability to use the measures of fiscal policy for the realization of macro-economic objectives.[18]

4.2.3. Principles of Fiscal Decentralization

Three basic principles may be identified and must be satisfied if an efficient fiscal decentralization is to be achieved. They are:[19]

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[14] See in more detail: Sonja Čapkova, 'Pitanja lokalne vlasti – javne finansije' (Local Authorities Issues - Public Finances), editors Juraj Nemec – Glen Wright, Belgrade 1999, pages 398 – 399).

[15] See more about this in: Luz de Mello – Matias Barenstein, Fiscal Decentralization and Governance: A Cross-Country Analyses, IMF Working Paper, WP/01/71, Washington D.C., 2001, page 3

[16] See also: Robert D. Ebel, op.cit.page 5. Compare: Anwar Shah, Perspectives on the Design of Intergovernmental Fiscal Relations in Developing/Transition Economies, Washington, D.C.: World Bank, 1991, pages 2-3.

[17] See more in: Ulrich Thiessen, Fiscal Federalism in Western European and Selected Other Countries; Centralization or Decentralization? What is Better for Economic Growth? P. 10 (http://www.diw.de/deutsch/publikationen/dskussionspapiere).

[18] See: Fiscal Decentralization in EU Applicant States and Selected EU Member States, OECD, Paris, September 2002, pp. 31 – 32.

[19] See more in: E. Dabla-Norris, J. Martinez-Vasquez – J. Norregaard, Fiscal Decentralization and Economic Performance: The Case of Russia, Ukraine and Kazakhstan,Washington, D.C., International Monetary Fund, 2002 (Cited according to: Era Dabla-Norris – Paul Wade, The Challenge of Fiscal Decentralization in Transition Countries, pages 14-15).

(1) ***The need for a clear definition of functions and responsibilities of different levels of power in the country***. In that sense, it is indispensable to delegate (entrust) functions from the part of central power to the local authorities with clear and transparent determination of ownership of public revenues.

(2) ***Measuring autonomy of local authorities on the revenues and expenditures sides***.

On the side of public revenues, this implies that the local power has authority to finance by its own means public expenditures on its level. Certain taxes, according to their characteristics and objectives that are realized through them, better correspond to the central power level (for example, the value added tax, tax on the income of physical persons), while other taxes are more suitable to be introduced at the local level (for example, property-related taxes). With a view of avoiding more significant expenditures for the society expressed through the loss of economic efficiency and justice, the financial literature has set certain rules of general character that determine suitability of public revenues for different levels of power within a country:[20]

(a) Great *mobility of tax base* between different tax jurisdictions significantly complicates taxation at the local levels of power and makes difficult an efficient allocation of production resources. Because of that, the taxes with less mobile taxation base (for example, property taxes for real estate in the first place) are more suitable for local levels of authority since that avoids moving of tax-payers into those local communities where the tax rates are lower.

(b) Progressive taxes that realize *re-distributive objectives of fiscal policies* should be centralized so as to avoid moving into those local communities in which the effective tax burdening is lower.

(c) Taxes that are used for the realization of *objectives of stabilization policy* (for example, tax on the income of physical persons, tax on the profit of corporations, general turnover tax), should belong to the central power in the country since in that way the most efficient realization of these objectives can be achieved.

(d) *Uneven distribution of tax bases* indicates that it is economically efficient that the state level tax natural resources (for example, a petrol or natural gas deposits). Namely, it could happen that the jurisdictions whose territories are rich in natural resources, because of the fact that they have a complete autonomy in determination of tax rates and tax bases for these taxes are in position to place other taxes significantly below the average tax burden and that would damage the resources allocation. What is more, if such resources are unevenly distributed among federal units, there exists a full economic justification for the central power to tax extra revenue in the intention of avoiding sub-optimal solutions in the allocation of productive factors.[21]

[20] For more on this, see: Richard A. Musgrave, Who Should Tax, Where and What? (in: Tax Assignment n Federal Countries, ed. By Charles E. McLure, The Australian National University, Canberra 1983, page 11).

[21] See also: Richard A. Musgrave, op.cit. page.11-13.

On the side of public expenditures, the fiscal autonomy assumes certain flexibility of local authorities to decide, within the set budgetary limitations, on the priorities regarding the realization of public expenditures. Fiscal decentralization has important implications on the functioning of public sector: it influences on the list of public services that are provided, on the way in which they are provided and means by which they are financed.

Each shortcoming in clear, stable and unique definition of rules for establishment of distribution of public revenues between the central level and local authorities, weakens budgetary management on the sub-central level of power and creates very wrong stimulants for local authorities to 'hide' local sources of revenues within extra-budgetary funds or to simply reduce its efforts to secure own revenues.

A sustainable fiscal autonomy and economic efficiency require reduction of 'vertical budgetary imbalances', as well as balancing of possibilities what should permit the local authorities to carry out functions and tasks that have been transferred to them. These imbalances appear in the situation when local levels of power in a country cannot increase their revenues that are needed for their public expenditures. Real, effective fiscal decentralization requires that local levels of power are entrusted not only with decision making on their own level regarding provision of public services, but also to bear themselves a significant part of expenditures related to the provision of these services.[22] In other words, this means that these levels of power must be economically capacitated and capable i.e. they must dispose of sufficient own revenue resources if they are to function efficiently.

(3) ***Establishment of adequate institutions (institution building)*** is one of necessary prerequisites for successful decentralization is that local authorities have enough administrative and technical capacities for efficient carrying out of tasks that have been transferred to them.

4.2.4. Fiscal Decentralization Models

In accordance with the models of power (competence) decentralization, there are three basic models of fiscal decentralization. Namely:[23]

(1) **Model of devolution** is a most complete decentralization model that implies establishment of a completely independent local authority which is entrusted with autonomous rights in the fulfillment of public needs, as well as independent jurisdiction for introduction of taxes and other fiscal dues necessary for financing of these functions. This is a full fiscal decentralization (i.e. transfer of power from central to local level) that is closely connected with the concept of democratic society and efficiency of the public sector.

[22] See also: W., A Survey of Recent Theoretical and Empirical Research, page 5

[23] More about this I: Robert D. Ebel, op.cit. pages 3 – 4. Compare also: The Role of Intermediate and Local Level of Government. The Experience of Selected OECD Countries, pages 9-10.

(2) **Model of de-concentration** implies decentralization of state administration (for example, competent ministries) i.e. branches of state administration, that are formed at the local level of power, giving thus possibilities of independent decision taking. In practice, it is possible to find a form of 'de-concentration of power without giving authority' when regional and local branches of state administration do not enjoy any independence but have to ask in advance the approval from the state body for each of its decisions. This is, in fact, just decentralization of public functions (i.e. public expenditures), but not of public revenues.

(3) **Model of delegation** is a compromise model of fiscal decentralization that stands between transfer/devolution and de-concentration of power. Local authorities (but not branches of state administration) have been entrusted with execution of certain public functions, but at the same time they are exposed to a specific form of supervision from central power that, as a rule, ensures certain financial means for financing of services at the local level.

4.2.5. Existing System of Financing of Local Self-Government in Serbia

The new model of local self-government financing, introduced by the Law on Local Self-Government in February 2002, is based on fiscal decentralization and new bases for treatment of revenues of local authorities creating necessary prerequisites for providing real autonomy to the local self-government.

Namely, the Law on Local Self-Government envisages that certain original public revenues created in its territory belong to a local self-government unit together with the conceded public revenues.[24]

The following are considered as ***own revenues of a local self-government unit***:[25]

- municipal administrative taxes;
- local communal taxes;
- visitors' taxes;
- compensation for usage of construction land;
- compensation for regulation of construction land;
- compensation for usage of natural healing factors;
- compensation for protection and advancement of environment;
- self-contribution introduced for the territory of municipality;
- fines pronounced in a judicial procedure for actions envisaged by an act of the municipal assembly, as well as material benefit retained in that process;
- revenues originating from leasing and usage of real estate owned by the state that is used by a local self-government unit or other organizations established by the local authority;

[24] See: articles 78 and 98 of the Law on Local Self-Government, Official Gazette of the Republic of Serbia, no 9/2002, 33/2004.

[25] Own (original)revenues of the units of local authority are the revenues that have been introduced by a law at the level of republic, but are Regulated in detail – in what concerns tax bases and tax rates – by the corresponding municipal decision

- revenues from the sales of movables owned by the state that are used by a local self-government unit, an institution or other organization founded by a local self-government unit;
- revenues from interests on the financial assets belonging to a local self-government unit;
- revenues earned through activities of municipal bodies, services and organizations;
- revenues from concession compensation;
- revenues from grants/donations.

The most important own revenue of the local authority from the fiscal point of view is the local communal taxes that are regulated in detail in the articles 79 to 86 of the Law on Local Self-Government. They can be introduced for different forms of the use of rights, objects and services (for example, for usage of space on public surfaces or in front of business premises for business aims, for advertising billboards, for using space for parking of road motor vehicles or trailers on regulated and marked places, for putting the name of the firm in a visible place within business space or out of this space on constructions and on surfaces that belong to the municipality (roads, sidewalks, transmission poles, etc), for using display cabinets to present merchandise out of business premises, for keeping playing articles, running restaurants and other catering institutions and entertainment objects on water, for keeping pets etc.). Particularly important amounts can be realized from the tax on the title/name of a firm advertising as one form of local communal taxes.

Among the original local public revenues a particular place belongs to the self-contribution. The specificity of this kind of local revenues lies in their targeted character (i.e. along the initiative for introduction of self-contribution it is obligatory to submit a program that establishes the sources, purpose and way of securing total financial means for the realization of self-contribution), and another specificity is that the decision on the introduction of this self-contribution is taken by the citizens through direct personal voting in a referendum. However, this sort of revenues still does not have any fiscal importance in the majority of municipalities i.e. it represents less than 2% of total revenues of local authorities units.[26]

The fact that original/own public revenues still are not sufficient to secure financing of local public expenditures[27] led to the decision that permitted to the local authority units to participate n a part of revenues originating from certain taxes which normally belong to the Republic. In the Law, these revenues are marked as *conceded public revenues.*

[26] Research has shown that only between 25 and 30 municipalities in Serbia, out of the total of 163, managed to introduce and collect self-contribution successfully realizing on that basis up to 10% of their original revenues. See: Tony Levitas, Reform of Financing System of the Local Authorities in Serbia; Expert Conference on the Reform of Financing Systems of Local Authorities, SLGRP, Open Society Institute, USAID, PALGO, Belgrade, 24 June 2003, page 17.

[27] Around 40% of total revenues of the local authority units stems from own/original revenues. See: Tony Levitas, op.cit. page 44.

Common/joint revenues of Republic and local self-government units[28] are:

- a tax on the citizens' income whereby the revenue from the tax on earnings is conceded to the municipalities and towns in the percentage of 30% in the period July – December 2004 (in earlier years, as well as in the period April – June 2004, this concession reached the percentage of 5%),[29] while the funds received from taxes originating from agriculture and forestry, revenues from independent activities, revenues from real estate, revenues from leasing movables, revenues from insurance of persons and other revenues (for example, earnings of a member of managing board, compensation received by deputies in the parliament, revenues based on volunteer work etc.) are conceded in their entirety to the municipalities or towns on the territory of which they had been collected,
- income taxes, both static and dynamic, are conceded in their entirety to the local budget (property income, inheritance and gift-related income and the tax paid for the transfer of absolute rights),
- turnover income for products and services is conceded to the local self-government units up to the level that at is defined each year by a special and separate Law on the Volume of Funds and the Participation of Municipalities and Towns in the Earnings Taxes and the Turnover Tax. An exception is only for the turnover tax for the products realized during imports and in that case it belongs to the Republic of Serbia in its entirety. Apart from these revenues, municipalities and towns are also entitled to additional funds from the taxes on the turnover of products and services, namely: municipalities are entitled to 8% of these revenues realized on their territory, towns (Nis, Novi Sad and Kragujevac) – 10%, and the city of Belgrade – 15%,
- compensations/fees for the use of goods of general interest (compensation for the use of mineral raw material, compensation for the material extracted from water flows, compensation for the use of forests, compensation for the change of usage of agricultural land) are conceded to the budget of a local self-government unit in a certain percentage. Only compensation for construction, maintenance and use of local roads

[28] Common/joint revenues imply that the Republic of Serbia determines, among other, also the tax base and the tax rate, both for taxes that belong to it directly, and for the taxes of local authorities, but that the tax revenues are divided between the central power and local authorities (that is why they are called joint revenues).

[29] See: Article no. 3 of the Law on the Volume of Funds and Participation of Municipalities, Towns and the City of Belgrade in the Income Tax and Turnover Tax in 2004, Official Gazette of the Republic of Serbia, no. 33/04. This Law is adopted each year. The reason for increase of participation of local communities in the earnings tax (from 5% previously to 30%) lies in the fact that since 1st of July 2004 the tax on the earning fund has been abolished. It represented original/own revenue in the budget of the local authority units. What is more, the tax on earning fund made up a big share of their total revenues (around 20%), and for that reason it was necessary to compensate the local authority units for this revenue. Apart from that, the same Law increased the participation rate of certain municipalities in the turnover tax.

belongs entirely to the municipality or town on the territory of which it is collected,

- ecological compensations/fees i.e. compensations for actions in the environment (compensation for polluting the environment and compensations for investments) are partly conceded/transferred to the local budgets,
- the funds collected in the privatization process belong to the municipalities or towns in the percentage of 5% of the amounts collected on the basis of sales of capital in the privatization process (this being an important source of revenue of certain municipalities and towns).

The above-cited revenues are categorized in the related literature as follows:

(a) *conceded revenues without limitations* (added turnover tax in the percentage of 8%, 10% and 15%; tax on the transfer of absolute rights; tax on property; tax on inheritance and gift; tax on income originating from independent activities; tax on income originating from agriculture and forestry; tax on income originating from real estate; tax on income originating from leasing of movables; tax on other income). These incomes in their summary expression represent around 43% of total income of local self-government units (41% in 2002)[30] and

(b) *limited conceded revenues* where the volume of funds originating from taxes is determined at the annual level (a part of the tax on earnings and participation in the turnover tax). These limited conceded revenues make up around 16% of the total revenues of municipalities or towns (18% in 2002).[31]

As a consequence of adoption of the fiscal decentralization principle, some important changes have been introduced into the system of local authorities financing in Serbia starting with 2001. Local self-government in Serbia got the right on the bigger (i.e. the entire 100%) participation in some joint revenues (for example, in some revenues from income tax, as well as in the tax on property).

Around 60% total revenues of local self-government units in Serbia come from conceded taxes, and out of it about 30% (therefore, one half) are revenues from turnover tax. Approximately 40% of total revenues of local communities originate from their own sources.

Local authorities participate with 16,4% in the total of collected taxes (data for the period January/June 2003)[32]. Their share in the contributions for social insurance is very small (1,4%), since the functions of social insurance are mostly at the level of the Republic. In the rest of public revenues, such as taxes, compensations, revenues originating from some activities, revenues from leasing etc, local authorities participate even with 23,2%.

In the local authorities financing (municipalities and towns), taxes participate with 74,7%, contributions for social insurance with 2,6%, and other revenues with 22,7%.[33] In

[30] See: Tony Levitas, op.cit.pages 19-20 and 44
[31] See: ibid, page 15
[32] The source is the date of the Public Payments Service of the Finance Ministry. See: Boris Begovic – Gordana Ilic-Popov – Bosko Mjatovic – Dejan Popovic, Tax System Reform, Center for Liberal-Democratic Studies, Belgrade, 2003, page 49.
[33] See: ibid, page 50.

towns the participation of taxes is lower (65,9%) than in municipalities (86,2%), and of other revenues bigger (29,5%) than in municipalities (13,8%).

4.2.6. Strategy of Financing Local Self-Government in Serbia

In the framework of strategy of further development of local self-government in Serbia through the decentralization process and their financing, it is necessary to bear in mind the following:

A. Which public revenues (of fiscal or non-fiscal character) will originally belong to the local authorities in future;

B. How will the difference be covered between the necessary level of revenues and own revenues (the problem of vertical imbalance);

C. How to assist the poorer i.e. economically weaker municipalities (the problem of horizontal imbalance);

D. How will the investments be financed i.e. capital expenditures in the local communities;

E. How should the indebtedness of local communities is settled.

In connection with the A: The decision on the division of tax revenues into the central and local levels of power poses conflicting targets before the law makers[34]. On one hand, economic and administrative reasons impose that some taxes are conceded to the central power and they are: taxes that are an instrument of macro-economic policies, taxes that have a mobile tax base, taxes that have a re-distributive function, taxes that have an effect on the international trade and that means tax on the profit of corporation, tax on citizens' income, tax on the added value. On the other hand, fiscal decentralization impose that the functions of local communities are financed to as big extent as possible from own revenues so as to ensure the necessary independence of this level of power in the country. This is necessary for various reasons: (a) in this way, the responsibility and accountability of local authorities that are to control both the level of taxes and other fiscal dues and the expenditures made out of the collected taxes, are increased; (b) local authorities will be interested to reduce the tax evasion as much as possible and to make the collection of fiscal dues as big as possible; (c) in that way, the danger of over-indebtedness of local authorities is avoided.

In connection with B and C: It is not necessary (and in practice it is not possible either) for each local community to have enough own revenues for financing of expenditures needed for executing their competencies. It is possible that some, richer local communities have some surplus of revenues as compared with expenditures, while the others will have a deficit. Such an imbalance is covered by transfers or other forms of transfer of funds from one to other power level. The transfer of funds should be based on

[34] See: Ibid, pages 64 – 65.

a certain formula, based on the criteria characterized by maximum objectivity. For each local community its financial needs and its financial possibilities should be calculated, and the difference should be covered from the central level. The financial needs depend on the number of inhabitants in a local community, density of population, whether that community is rural or urban etc. The fiscal capacity of the local community is normally defined by the size of the national income (or the social product) per inhabitant. But, one should bear in mind here that numerous, different factors influence on the level of public needs and fiscal possibilities of local communities, so that the above-mentioned formula by means which they are calculated, can be very complex (beside that, the problem related to the availability of data, possible political impact and similar shouldn't be forgotten). Apart from that, the central authority must not guarantee the coverage of *each* difference between the necessary and available funds of a local community, because then the motivation of local authorities to invest also their own efforts into the expenditures' rationalization and increase of the existing fiscal capacities – would be lost.

In connection with D: As a rule, local investments are financially supported by the central authority. The reasons are multiple: (a) it is necessary to ensure securing the minimum of public services in each local community (even in the poorest ones); (b) it is necessary to realize certain horizontal uniformity between the local communities; (c) respect of external effects of investments i.e. investments that produce effects that reach beyond the boundaries of a local community, etc.

In connection with E: The possibility and the right of local communities to get loans represent a very delicate issue. On the one hand, taking loans is a way of providing the funds to finance the expenditures (particularly for bigger investments that can then be financed over several years). On the other hand, there exists a significant danger that the local community can become over-indebted, either because it is a consequence of its conscious decisions (because it expects the central power to pay back its debts) or because it is a consequence of poor planning and irresponsibility of local authorities. For this reason, it is necessary to establish a good system of control of indebtedness of local authorities, in the first place through limiting the upper level of indebtedness, and through imposing the obligation to obtain the approval from the central authority for any significant loan that the local community intends to take either domestically or from abroad.

The existing system of support from the central (Republic) level of power to the local communities (that is reflected in concession of revenues) is, therefore, acceptable in principle, but it should be changed and supplemented as far as certain issues are concerned. The main changes would consist in the following:

- list of original (own) revenues of local self-government should be extended;
- formula for the distribution of transfers to the local communities should be improved (at that, the fiscal capacity of each individual local community in Serbia should be bear in mind and the local efforts to increase own fiscal capacities should be estimated particularly);
- transfers that are conceded to the local communities should be based on the combination of division of joint revenues of the Republic and local communities, and the monetary grants obtained from the budget of Serbia;

- rules should be established for (co)-financing of local investments;
- control of indebtedness of local communities should be introduced.

4. 3. BUILDING A PROFESSIONAL AND DEPOLITICISED CIVIL SERVICE

Only a professional civil service, based on the principle of merit and on the accountability of civil servants can realize successfully the requirements posed in front of it in the reform process. In order to change the relation of administration towards the citizens, some important changes have to be made in the administration itself. That is why the building of a professional civil service represents a key to a successful reform. Building of a professional administration is a long-lasting process that includes various elements and whose initial phase in transition countries requires an intensive engagement and big efforts so as to lay foundations of the entire process.

4.3.1 Elements for Building of a Professional Civil Service

There are three basic groups of elements on which the building of a modern or, in other words, professional civil service relies:

- legal framework for the regulation of the status and position of civil servants;
- qualified staff (civil servants);
- working environment that is closely related to the principle of modernization and this topic will be treated in more detail in a part dedicated to these issues.

(1) *Legal framework for regulation of the status and position of civil servants*

It is undisputable that the legal position of employees in the public administration must be regulated by law since they are employed by the 'state' that in this case has a role of an employer. Out of it, as in any other relation between an employer and an employee, a need for regulation of their mutual relation, rights and obligations arises and this regulation must be carried out by a law.

The first issue that is posed refers to whether the legal regime envisaged by the general Labor Code is adequate and sufficient in such a way that it could be applied also on the position of employees in the public administration or if it would be better to have a special legislation that regulates the status of civil servants. The answer to this question can be obtained through an analysis of the relation between the state as an employer and a civil servant as an employee in comparison to the classical relation employer – employee. The fact that employees in the public administration carry out public tasks acting on behalf of the state has as a consequence that the mutual relation between employer and employee is characterized by many specificities as compared with the relation employer – employee in the private sector. These specificities expressed in the first place in specific rights and obligations of the employee in the public administration i.e. civil servant, cannot be expressed to a sufficient extent in a general Labor Law. That is why a special

legal act that would regulate the legal position of civil servants should be a first element for building a professional civil service.

Special legislation for civil servants status is a way of improving the following administrative capacities:

- rule of law;
- openness and transparency;
- accountability;
- reliability and predictability;
- efficiency.

Of course, this does not mean that certain provisions of general Labor Law can not be applied on civil servants regarding those issues that do not require any specific regulation (for example, the provisions concerning working hours, right to annual leave, absence from work etc.)

The position of civil servants in Serbia has been regulated by a special law already in 1991.[35]

This law, basically, contains all solutions that express to a great extent the specificities of the legal position of civil servants, but its biggest shortcoming is that its provisions are not sufficiently clear and precise, so that they leave certain legal gaps creating possibilities for different interpretations and different implementation. Apart from that, the main obstacle in building of a professional public administration in Serbia, regarding the legislature sphere, is that neither the Law on Public Administration, as a system law in this area, nor the Law on Labor Relations in the State Organs, have clearly established criteria for nominations on high positions in the public administration (in the first place, appointments of assistants ministers, secretaries of the ministries etc.) that would be based on capabilities, experience and results of work and that would be more professional and less dependant on the political changes in the government.

Another issue that arises is the question of contents of legislature that refers to civil servants. In order for the Law on Civil Servants to represent a good legal basis for the reform of public administration, it should regulate the following issues:

- scope of the Law in relation to the circle of subjects to whom it applies i.e. it is necessary to determine: (a) a circle of public administration bodies for whose employees a special legal regime will be applied instead of the general Labor Law, and (b) a circle of employees in these bodies to whom this Law will be applied;
- specific obligations of civil servants;
- specific rights of civil servants;
- accountability of civil servants;
- principles of recruitment, principles for promotion and termination of work relation (retirement);

[35] A Law on Labor Relations in the State Organs was adopted for the first time in 1991 (Official Gazette of the Republic of Serbia, nos. 48/91, 44/91, 49/99, 34/01, and 39/02 regulating issues that are normally regulated in the law entitled Law on Civil Servants.

- transitional regime that will ensure the implementation of the new system while ensuring the continuity in the work of public administration.

The Scope of the Law can be determined by use of different criteria:

(1) according to the category of employees whereby it is possible that the law embraces all, or only some categories of employees in the public administration (only management or all except management);

(2) according to the performing tasks – including all employees in the public administration or only those who has executing public powers, but not those who work on work places that include jobs that represent accompanying 'logistical support to the management' (for example, drivers, translators, typists etc);

(3) according to the level of public administration – including all employees regardless whether they work in the state administration or in the local self-government bodies, or only employees in the state administration, but then if only employees in the ministries, special organizations[36] and services of the Government or also employees in the services of National Assembly and services of the President of the Republic;

(4) according to the way of financing – including all whose wages are financed from the state budget what excludes employees of the local self-government, but includes the employees in the public services (in the first place, education and health).

Existing experience from Serbia, combined with the experience of other countries indicate that the objectives will be best met if the Civil Service Law includes:

- all categories of employees, excluding members of Government whose position cannot be including into the category of public servants;
- all employees regardless of the performing tasks but it should separate those who works on executing public powers from those from the others engaged in the public administration on the accompanying professions (establish the 'scale' of titles with criteria for their acquisition based on the precise description of type and complexity of assignments that a civil servant with a certain title is carrying out and expert/academic qualifications that that employee should possess in order to carry out these assignments; establish criteria for promotion in accordance with the capabilities and results);
- all employees in the state administration including employees in the services of the Government, National Assembly and service of the President of the Republic, but including also employees in the local self-

[36] The concept of Special organizations in the system of public administration in Serbia has been explained earlier in part 2.3 of this document.

government, since their legal position, rights and obligations do not have and should not contain significant differences;

- legal status of employees in health, education and other public services that make up the wider definition of public administration, and that are financed from the state budget, also have to be defined by a separate law, and not by the general Labor Law in view of the specificities of these services and the fact that they too are executing public powers, but not by the Law on Civil Servants. The character of these services is such that the specificities of the position of their employees as compared with the public administration are not smaller than the specificities of the position of civil servants in relation to the general regime. But an attempt to regulate everything in one law (Law on Civil Servants) would cause more damage than benefit and would definitely be at the expense of quality and precision.

Specific Obligations of Civil Servants originate from the nature of the public administration. Civil servants through their daily work in practice should realize the main postulates of a modern administration. On this are based some specific obligations of those who are employed in the public administration, and that have to be regulated by the law. These obligations are the following:

(1) to be at the service of the citizen;
(2) to serve the public interest;
(3) to be neutral in executing the tasks;
(4) to observe the rule of law;
(5) to be accountable for own actions;
(6) to be liable to the state for damages caused.

As the work in public administration entails certain specific obligations, that also, due to the nature of assignments includes some **specific rights of civil servants** that should be regulated by a separate law. These specific rights are in the first place:

(1) the right to resist illegal orders;
(2) right to be protected against undue pressure and this entails the obligation of the employer (state or local authority) to protect the employee against reactions and pressures caused by unfounded dissatisfaction of citizens, and particularly against political pressures;
(3) right to training during work;
(4) possibility of promotion during career on the basis on merit.

At the same time, the Law should regulate also the mechanisms of protection of rights that are guaranteed to the civil servants.

The right to receive salary although it is not a specific right of only those who are employed in the public administration, should be guaranteed by this Law.

Of course, civil servants have a series of rights as well as other employees in the private sector (the right to annual leave and absence from work in other situations

envisaged in the law). If there are no specificities regarding the volume and ways of realization of these rights, the use of the general Labor Law should be recommended.

Regulation of **accountability of civil servants** is one of essential elements that should be included in the Law on Civil Servants. There are two aspects of accountability of civil servants:

(1) civil servants are accountable for their behavior in carrying out their functions and generally speaking for the assignments they are carrying out; and
(2) they are accountable for legal execution of their assignments and for taking decisions when they are deciding on the rights and obligations of citizens.

The first aspect of accountability is regulated and secured in one of the following ways or by simultaneous combination of both following ways:

- disciplinary regulations contained in the Law on Civil Servant including prescribing rules of behavior and proscribing prohibitions in behavior, procedures that establish if some rules of behavior have been violated and sanctions/measures that can be pronounced when it is established that a violation has occurred whereby they should be categorized by nuances in dependence of the severity of violation and frequency of violation of behavior rules and/or:
- by the provisions contained in the so-called Administrative Ethics Code.

Implementation of the established rules is secured through the implementation of the Law and/or the Ethics Code and by means of supervision over their implementation.

The other aspect of accountability is secured through the Law on Administrative Procedure that:

- ensures the principles of administrative procedures and prescribes the rules of procedures by which the public administration (responsible civil servant) decides on the rights and obligations of citizens, and
- ensures the rights of citizens to ask reconsideration of the decisions by higher administrative instances.[37]

Activities of the Ombudsman institution are also of great importance and their impact on both aspects of responsibility/accountability of civil servants is substantial.

As far as the **principles of recruitment, promotion and retirement** are concerned, the process of creation of professional administration depends directly on the ways in

[37] In this case we speak about the mechanisms of the administrative control of administration. Apart from it, there exists also the court control of administration that includes the right of citizens to appeal to the court with a view of reconsidering the decisions taken by the administration organ that is regulated by the Law on Administrative Disputes.

which these issues are resolved. In order for a public administration to become professional, it is necessary:

(1) that the public administration is open to everybody who wishes to work in it and who fulfils the requirements, under equal conditions that are announced in advance;
(2) that the position of employees in the public administration is based on merits (capabilities and results) implying, on one hand, depolitization and, on the other, guarantees and rules for promotion;
(3) to secure permanent civil service, but without excluding the possibility of horizontal mobility of employees;
(4) that the conditions and manners of retirement are regulated.

One of crucial issues that are posed within the public administration reform in case of all the transition countries, including Serbia, is the issue of **depolitization**. If it is understood in the rudimental sense – which means that the employees in public administration must be neutral and must not be led by their political convictions when carrying out their assignments – then can be concluded that a high degree of professionalism has been reached in Serbia in this sense. However, the implementation of the depolitization principle means one more step, and that is a clear division of work and authorities between elected politicians and officials appointed on the basis of political trust, on one hand, and professional civil servants on high positions in the public administration, on the other hand. Without taking this step, particularly in transition countries where relatively often the governments are replaced, it is not possible to build a stable and efficient system of public administration that enables continuity in the execution of public powers.

The development of stable and quality public administration top layer is a condition for advancement of the entire reform process. If, for example, each time a minister is replaced that entails the replacement of majority of other leading figures in a ministry, this would necessarily cause problems in the organization of work in the ministry and disturbs to a great extent the reform process in the sector that the ministry is in charge of. This refers in the first place to the position of the secretary of a ministry and assistants to the ministers who are in charge of certain areas/sectors from the scope of work of that ministry. Of course, such positions exist not only in the ministries, but also in other public administration bodies, both on the central and the local levels, in Government services, services of National Assembly etc. This system, apart from the above-mentioned, has also other shortcomings. Namely, if a position in the public administration is acquired basically on the basis of political trust, then there are no guaranties that in the selection of officials the criteria such as capabilities, competence and experience will be also taken in account, alongside with the political trust. Short-term work at certain positions that is a result of frequent replacements has as a consequence that the persons at higher positions have limited possibilities of getting experience at work, and are affected by the discontinuity of their work. Another negative consequence is that this system has an extremely negative and de-stimulating impact on the career civil servants at lower levels and that results in the absence of job satisfaction, diminished productivity and work effects, briefly, this weakens their motivation.

Recent experiences of some ministries in Serbia in which, except for the position of minister, all other positions, including deputy (vice) minister, assistants to the minister and secretary of a ministry, were occupied by experts in the related area, have proven that this is the right way to achieve better efficiency at work, better quality in carrying out assignments and much better and easier coordination of different assignments.

On the other hand, the experiences of a big number of countries in Central and Eastern Europe show that it is difficult to introduce significant changes into this area. Majority of attempts to reorganize the contacts between politicians and the administration, were balancing between two extremes.[38] One extreme are the attempts to carry out a complete depolitization of the highest positions (Lithuania, Poland, Ukraine), but that caused big resistance in the political structures that did not respect the political impartiality of the nucleus of the public administration. In the case of Ukraine, this brought about the abolishment of the position of the State Secretary that was introduced as a means of depolitization of the administration, while in the case of Poland the implementation of the new law which has introduced the depolitization was frozen. The other extreme are the attempts to create a defined political structure in the administration (Hungary, Latvia, Bulgaria) causing the effect that was contrary to the desired one (expansion of the political zone in the administration instead of its limitation) and that resulted in blockage in the functioning of the system. In the case of Latvia, this system was finally abolished in 1997, and in the case of Hungary it had as a consequence a wide abuse of the right of political dismissal.[39]

In any case, regardless of the problems that are appearing in this area of the reform, depolitization of the highest positions in the public administration is one of priority reform principles. For that reason, it is exceptionally important to lay a good legal foundation for the limitation of impact of politics on the operative management of public administration upon the development and advancement of the career system.

(2) Qualified Personnel - Human Resources Management

Without qualified civil servants professional civil service is out of question. When defining strategic orientations in the field of the human resources management, two basic spheres of action should be taken into account:

- sphere referring to issues related to recruitment of new staff and
- sphere referring to issues related to those already employed in the civil service.

Regarding issues related to **recruitment of new staff**, quality human resources management implies:

[38] See more about this in: The World Bank Policy Note, op.cit.
[39] See more about this in: Verhejen T (ed.), *Who Rules?* NISPAcee, Bratislava, 2001.

(1) correct assessment of the need for recruitment of new staff, in the context of rationalization of the civil service activities,
(2) transparency in the recruitment procedure,
(3) recruitment based on qualifications and skills and, if necessary, previous experience (recruitment based on merit).

One of conditions for successful public administration reform is its **rationalization**. Recruitment of new civil servants should be harmonized with the rationalization requirements. It means that it is necessary to reassess the civil service organisation beforehand, both as a whole (types of organs, their activities) and individually (from the standpoint of organisation and task assignment in each organ). The first step is to carry out functional reviews of each organ of the civil service that should lead to the necessary reorganisation through task critique. The main goal is to make clear demarcation of competence and activities between different organs of the civil service and to avoid overlapping. On the basis of precisely established type and volume of work performed by an administrative organ, it is possible to establish the actual needed number of employees. In order to make realistic assessment of the needed number of employees, it is necessary to give within the framework of each organ a precise, not general job description for each position, because it is impossible to specify all activities actually carried out in the scope of a position on the basis of inaccurate and general job descriptions, and to correctly define the necessary number of employees who should carry out those activities. If this process is followed and supported by professionalism and modernization of the civil service, it is possible to achieve higher quality of services with a smaller number of employees.

Transparency in the recruitment procedure is the way to secure civil service transparency and access to employment in the civil service to all interested persons. Transparency is in the first place secured by making known the need for new staff by public notice, by carrying out the procedure by an expert body consisting of a number of persons and by making public interviews with candidates.

Recruitment based on qualifications and skills means that for each position are beforehand known conditions that the candidate should meet regarding professional qualifications, skills and possible previous experience, and to make selection by applying these criteria and by choosing the top quality candidate.

Regarding issues related to the **existed personnel**, human resources management encompasses:

1) review of the present state of public administration regarding qualifications and experience of civil servants;
2) promotion of job security (permanent employment) and;
3) training and improvement of civil servants.

Implementation of the **job security** principle means:

- that as a rule one becomes employed for a longer period of time (in Serbia it is the institution of permanent employment) and that employment can be terminated against the employee's will only in cases stipulated by the law. Exceptions are persons on their first employment (so-called beginning

employees) who are always employed for fixed term (6 months or a year) and are being trained for independent work during that period, so that their tenure depends on his/her performance during the probationary period;

- opportunity for horizontal mobility of an employee from one civil service organ to another, without termination of employment;
- possibility for forced transfer of an employee, due to the needs of the service and in cases stipulated by the law;
- opportunity for promotion into a higher rank, on the basis of skills and results;
- carrying out the procedure of performance appraisal of employees, which depending on their outcomes can result in: promotion, additional awards, being sent to perfecting for additional improvement of their knowledge and skills or being sent to additional training for eliminating shortcomings in work performance, being sanctioned and being finally dismissed from service. However, prerequisites for quality conduction of performance appraisal procedure are: clear and coherent organisation of administration with precise job description for each position, which accurately reflects activities and assignments of each employee, existence of efficient management procedures for carrying out activities and objective and professional appraisal system. Given the consequences that it carries, it is very important that the appraisal system does not leave the opportunity for voluntarism and abuse, in relation either to favouring some or eliminating other civil servants.

Training and professional development of employees in the first phase of the public administration reform aims at bridging differences between the present and desired states of professional level of competence of civil servants. However, the purpose of training is not herewith exhausted. Professional development of employees should be a continuous process for the purpose of continuous rising of civil service level and securing reform's continuity. The purpose of training is not only in making it a prerequisite for promotion in career but also in better performance of the present job.

One of questions that can be posed is if it is better to organise the training of employees separately, in the scope of each individual civil service organ, or to form a unique training centre for all employees. Both solutions have advantages and disadvantages. Organizing trainings for general knowledge and skills in the scope of a unique centre seems to be more economical and to offer opportunity for a higher quality level of training. Anyway, trainings for specific knowledge in some fields (e.g. customs, collection of public revenue, environmental protection, education or health and social protection) should be organised within the framework of a specific organ, precisely for the same, above stated reasons.

It is important to encompass in trainings all layers of civil service, while in situation when the local self-government bodies are at a low level of competence it is very useful to also encompass the employed in these bodies, on condition that the training centre, if there is one, should be divided in two departments.

Creation of a training centre is a complex job. The first prerequisite for its success is to secure support by all relevant subjects in the society, whereby the support should be

based on awareness of the necessity for such an institution. Crucial issues which need clear answers at the moment of establishment a training centre are the following:

- what will be the organisational structure of the institution, i.e. who is its founder and who will supervise its work;
- how will the institution be financed, i.e. who holds the training budget;
- what kind of trainings will be offered;
- which are the target groups to use this institution's services;
- how to organize institution management and who is its staff;
- who are the lecturers, how to find them and how to pay them;
- who prepares training curricula;
- should certificates (diplomas) of completed training be issued.

At the moment, training programmes in Serbia are carried out in the scope of individual projects, with the support of foreign donors. Considering the importance of permanent training in the process of the public administration reform, one of the reform tasks is to design a continuous, institutionally defined system, which also means finding answers to the above mentioned questions.

4.3.2. Pay System Reform

One of key elements of the reform is the pay system reform in public administration; therefore these two reforms basically have the same goals:

- to develop an efficient and quality civil service;
- to recruit and keep quality professionals, particularly those having specific knowledge and skills that are highly sought for in the private sector (e.g. experts in the IT field);
- to secure economical quality of the civil service and this implies limitation of pay costs within the framework of available budget funds.

Concrete measures taken in this field should aim at:

- securing consistency, transparency and impartiality in the system of civil servants remuneration;
- making difference in pay levels that will stimulate employees to perform better in order to be promoted in their careers, which will provide them a higher salary; it will also stimulate them to accept jobs with higher degree of responsibility, since they will be better paid for it;
- securing pay with corresponding ratio to pay level in the private sector, thus making the civil service attractive enough for young professionals, which will decrease the drain of skilled staff from the civil service, and will also, decrease the risk of corruption of the civil servants.

Although in the practice of different countries there are significant differences in determining pay and remuneration system of the civil service employees, certain standards important for the process of approaching the reform[40] can be noticed:

- the base for calculation of salaries is the main element of the total salary, which makes 90% or even more of the total salary;
- bonuses, as an additional aspect of remuneration are not common, since it is considered that in the civil service it is particularly difficult to create a system that would be objective and motivate the employees; in the cases where bonuses are foreseen, they are paid at the annual level, as the result of positive performance appraisal during the entire previous year;
- other kinds of benefits in goods or services are also not common, for two main reasons: (1) such benefits are considered to be expensive and (2) they are considered to have possibly negative impact on the general atmosphere among employees, since they put them into unequal position;
- the level of total income in the civil service is lower than the level for comparable jobs in the private sector; however, the difference in income, which is as a rule 10% to 20% lower in the civil service, is compensated by greater security regarding permanent employment as compared to the private sector;
- as a rule, level of the salary is based on pay grades determined by regulations and reflecting relative evaluation of specific jobs. In order to define jobs in the scope of pay grades, it is necessary to make job evaluation for concrete jobs in the first place, while evaluation of direct outputs, accountability, knowledge and skills required for the specific position is a method for determining the employee's salary. The level of responsibility implied by a specific position, particularly in relation to managing positions, the volume and nature of communication inside and outside the organ, as well as similar elements, should particularly be taken into account;
- the pay ratio within the scope of each pay grade enables nuanced evaluation of employees' performance on different jobs; it also offers the opportunity for gradual increase of salary of the employee within the same pay grade (as long as he/she reaches the maximum prescribed for that pay grade) when he/she shows increased capability and performance on the specific job;
- experiences prove that if there is a significant difference in the pay level between grades following each other (as a rule, it is at least 12% or even more), which contributes to financial motivation of employees to accept more complex assignments that imply higher level of accountability, but are also more highly appraised;
- implementation of the principle "equal pay for equal work", which means that in all public administration bodies are applied standardized pay grades

[40] Source: DFID/World Bank: Assessment of Civil Service Pay System in the Republic of Serbia, May 2004.

and standardized pay structure, facilitates horizontal mobility of employees; opportunity for advancing in career is not limited only to the organ in which the person is at the moment is employed and it helps fostering the collective identity of civil service;

- the public administration budgets should be formulated in the manner to finance the needed number of employees, whereby we previously spoke about the way of determining the actual necessary number, while the money saved on vacant positions cannot be used to increase the employees' salaries because it could provoke the organs to keep the number of employees under the necessary level in order to provide higher salaries for the existing staff, which as a rule results in lower quality of services and lower efficiency.
- performance assessment, as a set of methods used to motivate employees to upgrade their knowledge and skills in order to increase efficiency and high-quality of institutions they are working for - also taken into account in a matter of salary rising and remuneration of employees - is one of the key elements in development of salary system. The performance assessment process should not be reduced to salary matter. However, well-established causality between salary and performance management of employees gives them another impetus to make efforts in order to improve permanently their performance management.

Proceeding from above mentioned, the main reform objective ought to be the establishment of such a salary system that will provide salary determination according to volume, responsibility and contribution to total efficiency and results of relevant organ of public administration.

The pointed objective can be reached if following principles are applied:

- "equal pay for equal work",
- setting up of significant salary differential which will provide higher remuneration for more sophisticated and responsible work,
- remuneration on the basis of performance,
- transparent salary system, i.e. regulations on salary system must be available to all employees.

Implementation of these principles requests a number of specific measures, many of which require a new legal regulation starting with development of job evaluation mechanism and its distribution in groups by approximate similarity, introduction of salary grade and job ranking (fixing salary range for every salary grade and correlation between salary grades) up to the regulation of performance management evaluation procedure in order to provide consistent and objective approach in performance management evaluation of all employees.

Under the terms of restrictive budget and present economic situation in the country, the reform of the salary system, which, on the one hand is supposed to make more attractive salaries based on performance management and on the other to keep them within the limits of predicted fiscal expenditure, constitutes an extremely difficult task.

Therefore, to make this reform of salary system works and to support overall development of the public administration it has to proceed gradually and parallel with measures, which are carrying out within entire reform of public administration. Only synchronized actions can give results.

4.4 NEW ORGANIZATIONAL AND MANAGEMENT FRAMEWORK AS A BASIS FOR RATIONALIZATION OF PUBLIC ADMINISTRATION

Within the process of public administration reform it is necessary to introduce the methods of functional, program and structural analysis that will represent a starting point in the assessment of needs and in the search of adequate organizational and management solutions enabling effectiveness and efficiency of work.

4.4.1 Organizational Changes as a Basis for Public Administration Reform

In order to implement the principle of rationalisation of public administration, it is necessary to reassess the civil service organisation beforehand, both as a whole (types of organs, their activities) and individually (from the standpoint of organisation and task assignment in each organ). The first step is to carry out functional reviews of each public administration body that should lead to the necessary reorganisation through task critique. The main goal is to make clear demarcation of competence and activities between different bodies and to avoid overlapping. On the basis of precisely established type and volume of work performed by an administrative body, it is possible to establish the actual needed number of employees. In order to make realistic assessment of the needed number of employees, it is necessary to give a precise, not general job description for each position, because on the basis of inaccurate and general job descriptions it is impossible to specify all activities actually carried out in the scope of a position and to correctly define the necessary number of employees who should carry out those activities. If this process is followed and supported by professionalism and modernization of the civil service, it is possible to achieve higher quality of services with a smaller number of employees, which in the last resort means that the public administration expenditures will be reduced as well.

Therefore, it is necessary to undertake an analysis and a revision of the existing organizational framework from two aspects:

- in the relation to the processes and procedures that are applied in the public administration bodies, and
- in relation to the present organization and the principles of systematization of working places in the public administration bodies (job design).

Another element of a successful rationalization of the public administration in Serbia is creation of a legal framework for new institutional forms for carrying out public functions, such as regulatory bodies or public agencies and a gradual and controlled transfer of functions to them.

As mentioned earlier, this whole process includes two phases:

1) horizontal and system analysis of functions, structures, procedures and processes at the level of the entire public administration;
2) vertical analysis at the level of individual institutions.

The existing organizational framework of the public administration in Serbia does not secure - to the necessary extent - the observance of the modern principles of productive performance of institutions in the public sector. An example for this is the present way of creation of working places (systematization) that is based on some general specifications of jobs and functions. In some cases, it is even difficult to find adequate organizational elements that would explain the present state and assess the needs for further institutional development.

For that reason, the first step in the advancement of the organizational framework should be to change the procedures related to the systematization and organization of work places in the public administration. A new approach would mean that in the description of a job/work place, the following elements are stressed:

- description of tasks that should be based not only on the process that should be carried out, but also on the results that should be produced;
- organizational links (communication channels, responsibility lines, reporting etc.) with other relevant work places;
- bigger accent placed on the skills and experience that are necessary to carry out a certain task.

Upon definition of a new organizational framework, it is necessary to make an analysis of the existing capacities (financial, material, staff-related, information etc.) and to compare them with the future needs, so as to ensure in a consistent, systematic and expert way the definition of necessary measures (rightsizing) and to evaluate the requests for additional or reduced capacities.

4.4.2 Modern Management Systems

In each organization of any kind, including there also the public administration, exist unavoidably some management systems that are better developed and those that are less developed, since each organization in order to be able to function at all, must possess certain systems that enable it to manage its resources. In the Serbian public administration, certain systems function in a relatively efficient manner such as the system of financial management (particularly in relation to the budgetary processes). The specificity of the management systems around the world is that they have been strongly developed, modernized and advanced in the technological sense over the past decades. In that connection, it is necessary that the public administration in Serbia introduces some innovations into the existing systems and to introduce some new ones that will advance even further the processes of public resources management.

One of the main systems is management of human resources that represents a practical implementation of the legislative framework for managing the employees in the public administration. That topic was treated in the previous chapter. Other systems refer

to the management of finances, information and documents, as well as logistics. Each of the mentioned systems should be considered in the light of the present needs and possibilities, as well as specificities of Serbian management tradition and institutional culture.

A characteristic of all the management systems is that they require certain framework that includes planning, management and control. That principle is, in fact, relevant for any organization, either of public or private character. The specificity of the public sector is that its aims and methods of achieving the aims are different.

Each management system requires the existence of a coordination center and, in that sense, it is of a substantial importance that within the public administration the right solutions are found and the degree of internal decentralization determined (both within the system as a whole, and within the individual institutions), as well as the supervision mechanisms for control, monitoring and continuous evaluation. The strengthening of administration center (embodied in and the structures that support the work of the Government and the General Secretary) accompanied by the capacity building in the individual institutions is a principle that will be applied in the course of implementation of the public administration reform in Serbia and that will require establishment of a certain equilibrium in the relations and authorities so as to accommodate the need for flexibility, but also in order to secure transparency, democratic accountability and quality control.

The main measure in the introduction of modern management systems is upgrading of the planning process and elaboration of documentation and procedures that will support the operational and strategic plans, as well as a regular and substantial reporting about the achieved results. These new procedures must be adjusted to the legal framework, but also, have to be formulated on the basis of experiences from the practice and must be sufficiently operative in the daily work.

The advancement of management systems requires a change of practice and organizational culture and a long implementation period, but the effects become visible already in a very short period and the expenditures are quickly justified and covered.

4.5. INTRODUCTION OF INFORMATION TECHNOLOGY

Information society represents a new, qualitative step in the development of social life. It is characterized by an explosive increase in the usage of new capacities that were enabled due to the information technologies.

In the whole world, the Internet has being influencing all walks of life. All modern governments have adopted a concept of an unavoidable necessity of making the main information accessible to the general public by means of Internet.

The objective of the public administration modernization is to enable the citizens to exert influence on the public life, and this through introducing the information

technologies into the work of public administration both on the central and on the local levels. The Information and Communication Technologies (ICT) permit in this segment the electronic accessibility of the most varied services based on the principle of full transparency, and also enable the citizens to express publicly their attitudes towards the functioning of the public administration and regarding its carrying out of public assignments. This way of implementation of the Internet highlights the role of the public sector as a service oriented toward the citizens. The process of further development of the democratization in the society is impossible without modernization, and that is why it is indispensable that these two sides are carefully balanced and harmonized.

The electronic government can advance in a multiple manner the quality of life of citizens and can make big savings in both the time-related and economic aspects. The project of electronic government is directly linked to the changes at the level of organization in the public sector, as well as with the reforms at the level of the state. It is well known that the ICT have a potential integrate the data into structurally comprehensive forms, easily accessible for different kinds of analyses, researches and services, and these advantages represent one of the preconditions for a good quality public administration reform, on both the central and local levels. The main advantage of the introduction of ICT in a democratic society lies in the possibility of including the citizens and the civil sector into the formulation of public policies through direct interaction.

The objective of an electronic government is not only to place the information on the Internet and to offer different services to the citizens, but also to carry out vertical and horizontal communication within the public administration itself and its segments. This flow of information at the level of public administration and local authorities increases multiple times the level of its operability and efficiency.

The common/joint information system of the Government of the Republic of Serbia will be defined by the National Strategy of Development of Information Society. The information systems of the public administration at the central and local levels must rely on the Government common/joint information system that will define the forms of information exchange at the level of standards. Due to such usage of ICT, a very high operability is achieved and that offers the possibility that in spite of local differences, common aims are widely achieved. It is necessary that local self-governments cooperate mutually more (horizontal cooperation), as well as with the Government and the state administration (vertically), because only in that way it is possible to find solutions that will integrate the information systems of the local self-governments into the common information system. It is also necessary to carry out the reform of working processes before the implementation in accordance with the ICT standards through deregulation and simplification of work procedures whenever possible.

The modernization of public administration by introduction of information and communication technologies represents an important element in the rationalization process. This not only renders the execution of public tasks more efficient and reliable and enables the citizens to access the information easily thus making certain tasks easier for execution, but it also creates the necessary space that will enable gradual reduction in the total number of employees in the public administration. Therefore, the modernization process proves to pay off and to be useful in multiple ways in the long run, although generally speaking it requires high investments and complex measures in order to

establish the system, on one hand, and to create the legal framework for introduction and usage of certain services intended for the citizens, on the other.

Taking in account the complexity of this entire process, it must be carried out in a planned, systematic and coordinated manner and through phases. There are three main phases through which the process of modernization of the public administration will be carried out in Serbia.

- **the first phase implies presenting of a cross-section of the existing state** and in that context, it is necessary:

  - to get an insight of a cross-section of the existing infrastructure;
  - prepare the evaluation of the information systems existing at the moment;
  - make an analysis of how the laws and other regulations in force can influence achieving of the set objectives and to what extent and in what direction introduction of changes is necessary in order to support the implementation of new technologies;
  - prepare and adopt the regulations that represent a basis for the legal validity and legal strength of electronic documents, exchange of data, submitting requests electronically etc.

- **the second phase implies the integration and implementation** and within it, it is necessary to:

  - prepare the project design and making an *independent* communication infrastructure of state administration;
  - prepare a design and establish a communication infrastructure of the local self-government units using the existing systems and capacities;
  - define standards of horizontal and vertical ICT communication;
  - define the main functions of the IC of local self-government;
  - adopt and implement the international standards;
  - enable access to the existing (inherited) systems, exchange of data and information;
  - carry out the reform of work processes and simplification of working procedures in the state administration and in the local self-government taking in account the advantages of the information and communications technologies (ICT) ;
  - organize training and motivate the staff for the utilization of ICT.

- **the third phase comprises introduction of an E-service for the needs of citizens and private sector**, both at the level of state administration and at the level of local self-government. These services include very varied public services, starting with issues regarding the personal status of citizens, their residence and citizenship, through services related to the issuance of certain kinds of licences, up to the tax applications etc. A particular space is occupied by the so-called Citizens Internet

Interaction that includes the possibility given to the citizens to express their views, offer remarks and suggestions related to the work of public administration, obtain the necessary information etc.

4.6. CONTROL MECHANISMS OF PUBLIC ADMINISTRATION ACTIVITIES

Public administration control is an indispensable part of the reform process. There are two basic control types:

(1) *internal control* goes on in course of working process and is carried out by the administrative inspection; it represent control of regularity of work in public administrative performance and

(2) *external control* means public administration performance legality control through following mechanisms:

- administrative control of the public administration – decision regularity control carried out by public administration organ superior to one that made a decision - which is regulated by the Law on Administrative Procedure and
- judicial control of the public administration – control carried out by courts according to complaint of the party – which is regulated by the Law on Administrative Disputes.

All above-mentioned types of public administration control have long tradition in Serbia and are well developed. Considering the fact that consequent to establishment of the State Union of Serbia and Montenegro the republics gain the right to regulate the matters of administrative procedure and administrative disputes by their own laws, Serbia prepared everything for adoption of these important two laws that will substitute federal laws still in force.

At the same time, according to experience in other countries showing the judicial control of public administration being more efficient and adequate if performed by specialized courts, with amendment of Law on Courts of 2001 Serbia is going to establish special Administrative Court exclusively authorized for administrative disputes. Pending the start of this court, which is suspended for January 1 of 2007 due to financial problems in regard with its establishment, judicial control is being performed by district courts and Supreme Court of Serbia.

Adoption of the Ombudsman Law which is also objective Serbia has to achieve, is another particular type of external control of public administration.

Besides, the control mechanisms of public administration should also include all those measures and rules regarding prevention and fighting corruption in the public administration.

Therefore, in the first place, the Criminal Law of the Republic of Serbia traditionally includes a number of criminal offences against official duty[41] and it penalizes various illegal acts that represent violation of official duties.

[41] See Chapter XXI of the Criminal Law of Republic of the Serbia, Official Gazette RS, n. 16/90 with additional amendments (last adopted on July, 1st, 2003)

Another regulation that Serbia has recently adopted is also supposed to prevent some situations that potentially may lead to violation of impartial and scrupulous acting of those on leading positions in the public administration. It is about a Law on Prevention of Conflict of Interests in Performing of Public Functions adopted in April 2004. [42]

One of important preconditions of preventing corruption in public administration is also transparency and high media visibility of public administration performance. Therefore currently introduced Draft Law on Availability of Information of Public Interest which predict right of every citizen to get an insight into every document in possess of public administration that contains information of public importance, should represent a contribution to general control system.

5 PUBLIC ADMINISTRATION REFORM MANAGEMENT

The process of reform managing should satisfy two main requests. The first one is request for continuity, which appears in two aspects. One is the continuity of reform itself considering that it can not be realized or finalized in one act or with one-time measures, and other is necessity to provide continuity in public administration works in course of reform implementation, particularly having in mind that number of reforms in other fields are closely connected and with great impact on public administration reform.

Preconditions for efficient managing of reform that are supposed to make this reform works are:

- political willingness and general consensus to carry out the reform;
- selection of priorities and gradual approach to its implementation;
- "popularization" of the reform that is bringing closer the reform objectives both to citizens and civil servants.

Adopting the Public Administration Reform Strategy Serbia shows its political willingness and determination to address difficult task such as the reform of the public administration.

In synchrony with preparation of the Strategy, the government established institutional framework for reform implementation in order to ensure from the very first day provided for clearly defined mechanism for management of reform process. Therefore, the Government opted for the concept according to which the strategic managing of reform would be assigned to governmental Council for Public Administration Reform. At its head is the Prime Minister, its members are Deputy Prime Minister, Minister of public administration and local self-government, Minister of finance, Minister of justice and Minister of internal as well as the Republic Secretary for legislation. It is political organ on the highest level and therefore the guarantee of political willingness to implement the reform. On operational level, the managing of the reform is assigned to the Ministry of Public administration and Local Self-Government. Unlike most other countries where matters of public administration and local self-government are assigned to ministries that already deal with another issues (usually the

[42] Law on Prevention of Conflicts of Interests in Performing of Public Functions, Official Gazette RS, n. 43/2004

Ministry of Internal or Ministry of Justice), Serbia opted for particular ministry dealing exclusively with matters of public administration and local self-government considering the importance and volume of activities. Having in mind that not even the separate ministry can provide reform implementation without coordination and active participation of all other bodies of the public administration, reform-teams have been established in every single organ of public administration, with assignment to coordinate activities in the reform process and take care of their implementation. Those reform-teams i.e. reform coordinators are the connection between every single organ of public administration with Ministry of public administration and local self-government.

A special attention will be paid to the strengthening of reform teams and their coordination, in the first place because of the need to carry out the general program of public administration reform in an adequate way in all the ministries and other organs. A concept of a reform team is based on the idea that it should be a body with the aim of both coordinating the activities upon the implementation of measures and for the introduction of certain methods used in the reform of the organs of public administration, and as such they have as an objective to become a central point for the promotion, supervision and expert support extended to concrete activities in this area.

In the course of the process, the reform managing must include permanent monitoring of some activities and measures as well as their assessment based on performance indicator. Monitoring and assessment should be carried out systematically and gradually: first stage consists of monitoring and assessment within every single organ of the public administration and reporting to the Ministry on results achieved or indicating encountered problems; second stage is synthetic monitoring and evaluation by the Ministry and third stage is a periodic analyze and evaluation of reform progress by Council for Public Administration Reform.

Monitoring and evaluation of reform implementation serve also to indicate problems and obstacles making the foundation for interventions within adopted Strategy or proposing its amendments. In that context, modifications in the Strategy can be introduced only upon an in-depth analysis of its effects and taking into account the expected changes in future environment in which the Strategy will be implemented.

And finally, the implementation of this Strategy will be based on the need and the request to realize the reform process in the partnership with all the key actors, particularly with the general public. In order to achieve this, a plan for ‘popularization’, promotion and education of general public will be made in order to inform the public about the significance and the expected effects of the public administration reform. It is particularly important to ‘translate’ the strategic document into a language that is understood by all segments of the society in such a way that it highlights the relation between the reform of institutions and the need of citizens to dispose of accountable and professional public services.

ACTION PLAN FOR THE IMPLEMENTATION OF PUBLIC ADMINISTRATION REFORM FOR THE PERIOD 2004 TO 2008

Measures and Activities	Realization and Deadlines	Activity Focal Point	Expected Support
I Decentralization area * *realization of these activities depends at a great extend on the new Constitution and possible changes that can be brought with a new Constitution			
1. Analyses of functioning of local self-governments' in the light of the Law on Local Self-Government	- Until the end of June 2005	Ministry of Public Administration and Local Self-Government in cooperation with local self-government units and Standing Conference of Towns and Municipalities	United Nations Development Program plans to provide expert and operational support to the so-called Assessment of Capacities at the Local Level and the implementation of Capacity Building Strategy; The European Agency for Reconstruction within its Municipalities' Support Program
2. Modifications in the Law on Local Self-Government on the basis of the above-mentioned analyses	- First half of 2006	Ministry of Public Administration and Local Self-Government (MPALSG)	-
3. Modifications in the sectoral laws as legal bases for further transfer of competences to local self-government	- In 2006	All line ministries	-
4. Adoption and/or changing of financial regulations	- In 2006	Ministry of Finance	-

within the process of fiscal decentralizations			
5. Local self-government capacity building in view of take over of new functions; - employees' training; - changes in organizational and management frameworks; - technical and technological equipment	- 2005 to 2008	MPALSG and/or Standing Conference of Towns and Municipalities or more rarely directly between the donor and the local authority units	A greater number of projects that are implemented with the help of development partners including: United States Agency for International Development; United Nations Development Program and Swedish agency for international development - SIDA
II Creation of a Legal Framework for Building of a Professional Public Administration			
1. Law on Government	- Adoption in the IV quarter of 2004	Republic Secretariat for Legislation	Support by the European Agency for Reconstruction
2. Law on Public Agencies	- Draft Law during October 2004 - Adoption in IV quarter of 2004	Republic Secretariat for Legislation	Support by the European Agency for Reconstruction
3. Law on Freedom of Access to Information of Public Interest	- Adoption in the IV quarter of 2004	Ministry of Culture	-
4. Law on Electronic Signature	- Adoption in the IV quarter of 2004	Ministry of Science and Environment Protection	-

5. Law on General Administrative Procedure	- Draft Law until mid-November 2004 - Adoption in IV uarter of 2004	MPALSG	Support in law creation by European Agency for Reconstruction Expert opinions of OSCE and Council of Europe
6. Law on Administrative Dispute	- Draft Law by mid-November 2004 - Adoption in IV quarter of 2004	MPALSG	Support in law creation by European Agency for Reconstruction Expert opinions of OSCE and Council of Europe
7. Law on Ombudsman	- Round table with participation of international experts until 5 November 2004 - Draft Law until mid-November 2004 - Adoption until the end of 2004	MPALSG	Support in law creation by European Agency for Reconstruction Expert discussion and opinions of OSCE and Council of Europe Support for the implementation of the Law – OSCE
8. Law on Public Administration	- Draft Law during November 2004 - Adoption until the end of 2004	Republic Secretariat for Legislation in cooperation with the MPALSG	Support by European Agency for Reconstruction
9. Law on Civil Servants	- Draft of Law in November 2004 - Adoption until the end of 2004	Republic Secretariat for Legislation in cooperation with the MPALSG	Support by European Agency for Reconstruction
10.Law on Civil Servants Salaries	- Draft Law in February 2005 - Adoption by the end of March 2005	Republican Secretariat for Legislation in cooperation with the MPALSG and the Ministry of Finance	Support by European Agency for Reconstruction in cooperation with the World Bank and DFID

III Creation of Conditions for Implementation of the New Legal Framework			
1. Adoption of secondary legislation (by-laws) with the aim of Law implementation.	- 60 to 90 days until entering of the Law into force	Organ in charge of preparing the Law	Support by European Agency for Reconstruction
2. Promotion of the state administration reform and its 'popularization'	- During 2005 and 2006	MPALSG	Support of United Nations Development Program is expected
3. Functional analyses and evaluation of capacities in the organs	- First phase in the second half of 2005; - Second phase in the second half of 2005 and during 2006	All public administration bodies in cooperation with the MPALSG	Support of United Nations Development Program is expected
4. Introduction of new organizational and management framework and new systematization of tasks/jobs (along with the necessary rationalization)	- During 2005, 2006 and 2007;	All public administration bodies in cooperation with the MPALSG and Ministry of Finance	Support of United Nations Development Program is expected
5. Corrections within the existing system of salaries as a first step in the implementation of the new	- December 2004	Ministry of Finance	Support by European Agency for Reconstruction

pay and grading system			
6. Start of implementation of new benefit system	1st July 2005	Ministry of Finance	Support by the European Agency for Reconstruction
7. Evaluation and modification of the system	- During 2006	Ministry of Finance	Support by the European Agency for Reconstruction
8. Training of members of reform teams and of reform coordinators and strengthening of coordination role of MPALSG	- 2005 to 2008	MPALSG with participation of all ministries	Ongoing support by the British DFID. Further support of UNDP is expected.
9. Evaluation of public policies in the area of public administration reform	- 2005 to 2008 (at the annual level)	MPALSG	Support of UNDP is expected. within support to strategy implementation
IV Human Resources Management			
1. Training of members of units for human resources management	- 2005 to 2008	MPALSG with participation of all ministries	Support of the Swedish Agency for International Development – SIDA
2. Expansion of the circle of organs incorporated in the human resources management project, including: - equipping all organs with hardware and software, and - civil servants' training.	- In the course of 2005	MPALSG	Support of the Swedish Agency for International Development - SIDA

3. Expansion/dissemination of a uniform data-base on human resources within the Ministry for State Administration and Local Self-Government.	- During 2005	MPALSG	Support of the Swedish Agency for International Development - SIDA
4. Establishment of a Training Center for civil servants training	- Elaboration of a study on the concept and implementation of a Training Center – during 2005. -Establishment of institution – until end of 2006	MPALSG	Support of the European Agency for Reconstruction is expected
5. Training of candidates for professional examine: - adoption of new programs for passing the professional examinations; - preparation of new training curricula; - elaboration of software for candidates' registration and issuance of certification; - trainers' training; - candidates' training	- New programs - in the I quarter of 2005 - New training curricula in the II quarter of 2005 - Preparation of software until the end of 2004 - Trainers' and candidates' training permanently upon adoption of new programs	MPALSG	Support of the European Agency for reconstruction is expected.

6. Introduction of appraisal system	- Since the beginning of implementation of the Law on Civil Servants and Law on Salaries – permanently, in deadlines envisaged by law.	Republican Secretariat for Legislation in cooperation with the MPALSG	-
V Modernization – introduction of information technologies			
First Phase – review of present situation	By the end of 2005	Ministry of Science and the Republic Institute of Informatics and Internet, in cooperation with the Governmnet services, state administration and local self-government	-
Second Phase – integration and implementation	By the end of 2006	Ministry of Scence and the Republic Institute of Informatics and Internet, in cooperation with the Government services, state administration and local self-government	-
Third Phase – introduction of services	By mid-2008	Ministry of Scence and the Republic Institute of Informatics and	-

		Internet, in cooperation with the Government services, state administration and local self-government	
VI Development of Control Mechanisms			
1. Modernization of work of Administrative Inspection: - procurement of new equipment, - training of administrative inspectors	- Procurement of equipment until the end of March 2005 - Training during 2005	MPALSG	Support by the European Agency for Reconstruction
2. Establishment of Administrative Court - creation of material prerequisites for Court's work; - selection of judges; - start of work	- Activities regarding establishment – during 2006 -Selection of judges – until the end of 2006 -Start of work on 01.01.2007	Ministry of Justice in cooperation with the MPALSG	-
3. Establishment and start of work of the Ombudsman: - appointment of Ombudsman and deputies; - securing premises and equipment for work; - adoption of regulations regarding organization of Ombudsman office; - establishment of Office	Appointment of Ombudsman – 60 days from the Law enactment date. -Appointment of deputies – 60 days from appointment of the Ombudsman. - Creation of conditions for work – 60 days since enactment of Law. - Organization and constitution of Office – 30 days upon appointment of Ombudsman	Appointments – National Assembly of the Republic of Serbia	Support of OSCE expected for the creation of conditions for work;