
European Partnership with Municipalities Programme

Description of Action draft

October, 2010

Executive Summary

The European Partnership with Municipalities Programme – PROGRES is a joint action of the European Union, the Government of Switzerland and the Government of Serbia, to enhance stability and socio-economic development of Serbia's two most underdeveloped areas. The United Nations Office for Project Services (UNOPS) has been granted an initial budget of EUR 17 million for the Programme, which should be implemented in a timeframe of three years, starting in the first half of 2010.

Underpinning the PROGRES are two basic drivers: the need to reduce differences between the richer and poorer parts of Serbia, and the need to enable local institutions to better use current and future investment funds from a range of sources.

By focussing on four components: (1) good governance, which is a cross-cutting theme underpinning all components, (2) municipal management and development planning, (3) social, economic and environment infrastructure, as well as on (4) public awareness and promotion of the South and South West Serbia, the Programme will, in a holistic manner, endeavour to accelerate growth and improve the overall living conditions in the focussed areas.

In particular, the PROGRES will aim to strengthen local governance by addressing: performance of the local authorities and management of public resources; participation of organised civil society groups and individual citizens in public sector decision making; partnerships between local authorities, civil society, and private sector units which will provide and produce local collective goods and services. Furthermore, the Programme will work on strengthening financial departments and improvement of the local institutions' budgeting and financial processes and the enhancement of project management capacities - in particular those concerning a systematic approach to development of environmental, economic and social infrastructure.

Direct beneficiaries of all activities are the twenty five municipal administrations (including city councils, and assemblies) in the South and South West Serbia taking part in the Programme. Other beneficiaries include municipality-founded institutions and public utility companies, civil society organisations (CSO) and media in the participating municipalities. However, the ultimate beneficiaries are the inhabitants of the South and South West Serbia.

In the light of the recent increase of requests for asylum to EU countries from these areas due to economic hardships, and in response to the recent visa liberalization, particular attention has been paid to the social aspects of the Programme. The Swiss separately funded Migration project which has been operating in the South West Serbia for over a year and a half, and the Component 1 directly address the social aspects – integration of migrants into society, promotion of gender equality, human and minority rights. However, these social aspects and good governance are the cross-cutting objectives of the entire PROGRES and have been addressed throughout the Programme document.

Finally, the PROGRES design has taken into consideration complementary programming and support to municipalities and regions from the Government and international donors. The PROGRES implementation will be harmonised with other assistance, and it will build on other initiatives as appropriate.

Section 1 of this document provides Background of the circumstances surrounding the PROGRES, including the sector analysis, problems to be addressed within each component and justification of the Programme. Section 2 – Intervention - provides information on the overall objectives, Programme's purpose, as well as details of the results and individual activities. Assumptions and Risks are explained within Section 3, while Section 4 deals with the Implementation arrangements, including physical and non-physical means, organisations, modalities, procedures, timetable, and costs and financing plan. Section 5 covers the factors ensuring sustainability – policy support, appropriate technology, environmental protection measures, social aspects, institutional, management and financial capacity. Conclusively, activities in the Inception Period, proposed methodology for the monitoring of the Programme and its evaluation, are elaborated in the Section 6.

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1 Background

The municipalities in the South and South West Serbia are considered significantly less developed than most other municipalities in the country¹. A common denominator of both the South and South West Serbia is the absence of economic growth - a major factor to long-term stability. Suffering from decades-long neglect and under-investments both areas face a number of challenges: poverty has risen dramatically, unemployment is high; infrastructure is inadequate, education is unsatisfactory, while most social services have collapsed. The public sector is characterised by poor governance, weak financial management and planning, lacking municipal services.

Both the South and South West of Serbia are home to large ethnic minorities. The South of Serbia is a post-conflict setting with latent tension. The municipalities of Bujanovac, Preševo and Medveđa are inhabited by a majority of ethnic Albanians who have been under-represented in the state administration and large enterprises, and almost completely absent from the police and judiciary. In the South West Serbia, the tension has been of intra-ethnic nature, where conflicts exist between competing Bośniak political groupings. However, the ethnic dimension does not entirely explain the poverty of these areas. Other, Serb populated areas, such as some within the Toplica District and other parts of Serbia are equally poor, if not poorer.

The ethnic dimension however, does exacerbate problems of migration. From Serbian areas people migrate to the bigger cities in the country. The Bośniak from the South West Serbia move to Sarajevo, Western Europe or further, and the Albanians from the South Serbia look to Kosovo and the Western Europe.

The European Partnership with Municipalities Programme (PROGRES) is a successor to the area based programmes in the South and South West Serbia, Municipal Improvement and Revival (MIR2) and Municipal Support in South West Serbia (PRO). These Programmes achieved results in two noteworthy areas – the development of organisational capacity at municipal and regional level, and the preparation for and implementation of improvements to infrastructure. However, since the PROGRES area is considerably less developed than most municipalities in the country, there is a great deal of additional support required in order to close the gap and continue momentum created by PRO and MIR2. The PROGRES has taken into consideration the evaluations of both Programmes and has addressed the key recommendations in this document.

However, there is no simple, single-sector solution. For that reason, the PROGRES is taking an area-based approach², aiming to tackle a broad range of concerns. Taken together, this Action will help to accelerate the growth of these, less developed parts of the country, and to support them to reduce disparities with the rest of Serbia.

1.1 Government/Sector Policy

Government policy for local government, and less developed areas, covers a wide scope of issues from social welfare, to environment and infrastructure. The number of government functions being decentralised is growing, but being applied very slowly. This section highlights a small sample of the policies and laws affecting local government in the PROGRES areas.

Foremost, the right of citizens to local self government is protected by the Serbian Constitution adopted in 2006.

The changes in the functioning of local self-government were influenced by the Strategy for Public Administration Reform adopted in November 2004. The Strategy set out five key principles that should

¹ The Government of Serbia (2007) *Serbia - Regional Development Strategy*; Available at: <http://www.prsp.gov.rs/engleski/dokumenta.jsp>

² An area based approach is an intervention which targets “specific geographical areas in a country, characterised by a particular complex development problem, through an integrated, inclusive, participatory and flexible approach” (UNDP/RBEC Area-Based Development Practitioners Workshop, 29-31 October 2003; Available at: http://europeandcis.undp.org/index.cfm?menu=p_search&p_result&p_documents&DocumentID=4002).

underlie the reform: decentralization, de-politization, professionalization, rationalization and modernization.

Furthermore, at the end of 2007, four laws were adopted in the sphere of local self-government: the Law on Local Self-Government Finances, the Law on Local Elections, the Law on the Capital City and the Law on Territorial Organization of the Republic of Serbia. All four are harmonized with the European Charter on Local Government, ratified by the National Assembly in July 2007.

Finally, some of the key laws, relevant for the PROGRES implementation, are: the Law on Salaries; the Law for Public Enterprises and Common Services; the Law on Communal Services; the Law on Anti-Discrimination; the Gender Equality Law, to name a few. Other laws in the spheres of urban planning, construction, environment protection, social protection, regional development and social safety, are also pertinent to the Programme.

A comprehensive list of strategic documents, laws and regulations is available in Annex I.

1.2 Features of the Sector

Municipalities are a primary institution for achieving the necessary social and economic development in Serbia. Nevertheless, they are constrained by the national circumstances – legislation, property ownership, central government transfers, privatisation, national roads and railway links.

On the other hand, municipalities do have some scope for taking action locally to attract investments and promote the living environment. For example, in 2009, local self governments (LSG) gradually began assuming additional responsibilities for social protection and local economic development, when they started revenue collection of property and other local taxes.

The national reforms are ongoing and some of those will have direct effect on municipal activities and performance:

- Decentralisation of some revenue collection responsibilities
- Increasing responsibilities of municipalities for provision of social welfare services
- Increasing responsibilities of municipalities for early years education
- Introduction of new standards in waste disposal and management, including recycling
- Introduction of new responsibilities for provision of social housing
- Improvements in the property registry system
- Introduction of the new Law on Regional Development, which will see the creation of Nomenclature of Units for Territorial Statistics (NUTS) II level statistical regions with appropriate institutional framework envisaged by the Law and relevant By-Laws.

Other reforms are in the pipeline, although they will face many challenges before coming into effect at the local level:

- Reforms of local public utility companies which provide the majority of municipal public utility services
- Return of municipal property to local ownership, reversing the 1990s action which transferred ownership of municipal properties to the central Government. This law can have far reaching, positive implications for municipalities.
- Revising the election arrangements for local government, in which a proportion of seats in the assembly will be elected on a ward basis instead of all seats being allocated from party lists. This may make a considerable change to the degree of accountability of local assemblies to their citizens.

Although the list of reforms is long, the pace of change is still regarded as rather slow. In order for decentralisation to continue, municipalities – especially those in the poorer parts of the country – need to strengthen their policy-making and management capabilities.

1.3 Beneficiaries and parties involved

Beneficiaries

The direct beneficiaries of the PROGRES are the institutions (assemblies, executive councils and the municipal administrations) of the following municipalities:

- Ivanjica, Nova Varoš, Novi Pazar, Priboj, Prijepolje, Raška, Sjenica, and Tutin in the South West Serbia
- Blace, Žitorađa, Kuršumlija, Prokuplje in the Toplički district
- Bojnik, Vlasotince, Lebane, Leskovac, Medveđa, Crna Trava, Bosilegrad, Bujanovac, Vladičin Han, Vranje, Preševo, Surdulica, Trgovište in the South Serbia³.

Other beneficiaries may include municipality-founded institutions and public utility companies (PUC), civil society organisations (CSO) and media on the territories of these municipalities.

However, the ultimate beneficiaries are the residents of the PROGRES participating municipalities in the South and South West Serbia.

Where Programme activities cover larger areas such as districts or regions, or national policy envisages additional municipalities to be involved regarding a specific issue, other municipalities may benefit indirectly.

Parties involved

The Programme will be implemented where possible through implementing partners, including LSG, some of which have already been identified (please see Annex III). In addition, there will be a continuing necessity to make new alliances for specific Programme activities. This will be done in accordance with the United Nations Office of Project Services' (UNOPS) procedures, and with the approval of the Programme Steering Committee (PSC).

The PROGRES will work in cooperation with a number of key agents whose areas of authority and competence are relevant to the Programme implementation and oversight. These include, but are not limited to:

- The Ministries of Finance, Economy and Regional Development (MoERD), Environment and Spatial Planning (MoESP), Public Administration and Local Self-Government, and National Investment Plan (NIP)
- The Coordination Body for Preševo, Bujanovac and Medveđa
- The National Agency for Spatial Planning
- Serbian Water Directorate
- The Standing Conference of Towns and Municipalities (SCTM)
- The National Council for Regional Development (forthcoming)
- The National Agency for Regional Development (forthcoming)
- Regional Agency for Economic and Spatial Development of Raški and Moravički Districts, Kraljevo (RDA Kraljevo)
- Sandžak Economic Development Agency (SEDA), Novi Pazar
- Regional Development Agency Zlatibor, Užice, (RDA Užice)
- Regional Centre for Development of Jablanica and Pčinja Districts, Leskovac,
- Development Association South, Niš

There will also be close cooperation with other programmes and mandated organizations working in the area of municipal and regional development. These are described in Section 1.6. *Other Interventions* and detailed in Annex IV.

³ For a map of the Programme Area, please see Annex II

1.4 Problems to be addressed

The need to improve the local governance in underdeveloped areas, such as the South and South West Serbia, is imperative. This also relates to strengthening their strategic planning capacities so that they can actively participate in attracting funding for regional and inter-municipal projects, but also to deliver better services to their citizens and to fully respect human and minority rights. Overall, such an approach will lead to municipal socio-economic development.

Furthermore, the Ministry of Public Administration and Local Self Government has reiterated that the capacity building of the local self-governments is crucial if the successful process of decentralisation is to be carried out. At the moment, according to the Ministry, decentralisation across Serbia is stalled by the 'limitations of the local budgets for appropriate carrying out of decentralized functions; weak local administrative capacities, and in some cases, badly organized implementation'⁴.

One of the key problems the PROGRES will address, thus continuing the momentum of the PRO and MIR Programmes is the capacity building of local and regional stakeholders to prepare a project pipeline and efficiently use funding support in a transparent manner for the benefit of all citizens. This means developing internal administrative and good governance capacities to be able to absorb, European (IPA and Structural Funds) and other (Government) funds in the future, which is particularly important for small and medium-sized municipalities.

Governance

Under the Law on Local Self Government Finances (2007), most municipal services and functions are directly accountable to the assembly (skupština). This means that the assembly appoints the heads of municipal enterprises and organisations that deliver services, approves their annual budgets, plans and reports. Since there is very little independent audit, monitoring or inspection of service provision, the accountability of municipal services to the Assembly is insubstantial.

Generally, there is no gender equality in the public sphere. Although there are quite a few women active in the civil society, where positions are either volunteer or badly paid their representation in the policy making positions still needs to be significantly improved. For example, looking at Serbia, there is an average of 21% women in the local assemblies⁵. In the South and South West only 18% women are local parliament deputies. Even this number is deceitful as the evidence has shown that the real decision making lies with the senior male party politicians.

Outside the assemblies, civil society organisations (CSOs) in the poorer municipalities are generally weak. Typically there are one or two fairly strong CSOs which are capable of obtaining funds from national or international sources and which have a relatively high profile. Others tend to be gatherings of like-minded people who do not have capacity to make a difference in their communities.

Furthermore, the real participation of citizens in local governance is meagre. Local governments make very little effort to provide accurate information about their performance and budget. Where consultation is required by law, such as for the budget, it is generally perfunctory and for information, rather than genuinely consultative.

In regards to the local media, they are under everyday political pressure of the municipal administrations, suffering from the unequal division of budgetary funds, incomplete privatization as well as the work of many illegal broadcasters. Furthermore, the local media have been badly affected by the economic crisis and their collection of marketing revenue has been seriously reduced. The Government is expected to draft a strategy for the national media in 2010 which should point out to the possible solutions to the problems which occurred after privatization.

On the whole, local government requires greater refinement, awareness, and stronger management, rather than complete overhaul. The system is difficult rather than fundamentally flawed, and there are many positive signs that things will improve in the coming years. The South and South West of Serbia

⁴ Ministry of Public Administration and Local Self Government, "Overview Of Realization Of The Strategy Of Public Administration Reform In The Republic Of Serbia And The Action Plan For Implementation Of The Public Administration Reform For The Period 2004-2008", Belgrade October 2008, page 6

⁵ From Municipality Yearbook 2008 – data refers to results of 2004 elections. Current situation is marginally different, but data not easily obtained.

need to keep up with national trends for improved governance despite lower resources and lower capacities.

Municipal Management and Development Planning

Municipal management and development planning concern another core of local government – service delivery for local population, based on revenues collected locally and transfers from the central Government. Although recently municipalities have become cleaner, more ordered places, with more reliable supplies of electricity, water and heating, there is certainly scope for improvement. For example a survey conducted by the PRO Programme in 2009 shows that citizens are mostly dissatisfied with the social welfare, economic development, support to SMEs and support to young people – where responsibilities and expectations are not yet clearly defined. However, according to the same survey, the citizens are significantly happier with the services provided by the Citizens' Assistance Centres (CACs) in the municipal administrations, which have been the focus of international assistance.

Municipalities are gradually coming to terms with two key factors that have changed their work substantially. The first is: a greater autonomy in planning their economic development⁶. The second is: the capital investments can no longer be allocated based on good personal or political connections in the central Government. Quite a lot of funding is now available from sources that have more stringent administrative requirements⁷, which means that municipalities have to improve their abilities to plan both at the strategic level and at the project level.

One of the pending tasks the municipalities must complete is the creation or update of spatial plans which are, according to the Law on Planning and Construction, a precondition for any kind of construction planning and development. According to the Law, municipalities are obliged to adopt their Spatial Plans until the end of March 2011 and plans of general Regulation until the end of September 2011. All municipalities are in the process of development of Spatial Plans, however plans of General Regulation are in preparation in just a couple of municipalities. Although relevant ministries⁸ have some budget lines for supporting municipalities in this process, it is far from enough. Furthermore, planning documents— spatial plans, urban plans and detailed regulatory plans—are a precondition for issuing building permits. Without them any kind of legal infrastructure development in municipalities is not possible.

In regards to environmental protection, a set of laws which brought new responsibilities to municipalities and regulations for the proper planning of waste management was adopted in May 2009. The Serbian Solid Waste Management Strategy prescribes that appropriate planning instruments are a precondition for the further development of regional landfills, creation of recycling yards and recycling centres. Just a couple of municipalities from the South and South West Serbia have entered the process of planning of solid waste management, so there is a strong need for support.

A major constraint on the performance of municipal management is the unpredictability of the central Government transfers. With the Law on Local Government Finance, the formula for these transfers has become more transparent, while it also provided for greater redistribution. In the fiscal years 2007 and 2008 the poorer municipalities benefited greatly from increased incomes. However, in 2009 the global financial crisis has left a major effect on local governments. By mid-2009, transfers were cut by 40%, which meant that municipalities which depended heavily on transfers were badly afflicted, and had to postpone a great deal of their spending plans.

The Law on Local Government Finance also made local administrations directly responsible for revenue collection from property taxes and other minor charges. The first full year of implementation was 2009, so it remains to be seen what effect it will have on local government budgets. Indications are that collection rates have improved, but that there is also great scope for better collection, more strategic rate setting, and correcting administrative efficiencies. Nevertheless, although these taxes form a relatively small part of the poorer municipalities' revenues, greater effectiveness will still be welcome.

⁶ The table in Annex V details PROGRES municipalities that have various kinds of planning documents.

⁷ Such as EU's Instrument for Pre-Accession Assistance (IPA) and National Investment Plan (NIP)

⁸ Ministry of Environment and Spatial Planning (MoESP) and Ministry for National Investment Plan (NIP)

Improving municipal management therefore requires intervention and support across a number of areas, including the assembly's ability to hold public institutions to account, revenue collection, spatial planning capacities, public consultation and responsiveness to public demands. However, the effectiveness of reform at local level is greatly dependent on central level reform efforts focused on the PUCs and the Directorates, and subject to the variations in the central government transfers.

Infrastructure

Serbia's recent history has left its legacy on the infrastructure that is in serious need of reconstruction and renovation. Population increases put severe pressure on infrastructure in some places, while in others, where population is declining, user fees cannot hope to pay for repairs, let alone renovation. Municipalities have traditionally paid for infrastructure from current expenditure but with dwindling and unreliable budgets, maintenance and renovation programmes have fallen far behind.

Furthermore, municipalities were not capacitated to prepare infrastructure master plans or individual projects in a systematic manner. Additional support is needed to make sure that they have both knowledge and capacity to develop infrastructure projects of sufficient quality, which are ready for funding. The recently established SLAP database, within the Standing Conference of Towns and Municipalities (SCTM), provides an overview of municipal infrastructure projects and a score for the readiness of each one. Every three months, the 'best in class' projects are presented to potential donors and domestic sponsors for support, investment and implementation.

In the coming years, there will be a shift of donor support away from municipal level projects to larger, more regional and multi-municipal projects. This means that for the smaller municipal projects, the municipalities themselves will have to work harder to find finance, and to look at more options – to examine commercial loans, and public-private partnerships.

Beside infrastructure renovation the main priority for all municipalities, but also for line ministries, is the improvement of new infrastructure, necessary for economic development of municipalities. This includes infrastructure that will contribute to environment protection and valorisation of touristic potentials.

This Programme will address three types of infrastructure: environmental, economic and social.

Environmental

Serbia, in general, is facing serious problems regarding environment protection. Unsolved issue of solid waste management in municipalities and the illegal waste dumps, management of hazardous waste, river pollution and waste water treatment are just some of the problems to be addressed in the South and South West Serbia.

A high priority for environmental infrastructure in the PROGRES area, as identified by the MoESP and the Ministry of NIP, is the construction of new solid waste disposal facilities – mainly landfills – which conform to EU standards. Currently there is just one regional landfill in the South Serbia covering five municipalities. In the South West, regional landfill that will cover four municipalities (Nova Varoš, Priboj, Prijepolje and Sjenica) is far from functional.

Solving the solid waste management issues is a complex activity though, requesting the following actions:

1. Development of waste management plan
2. Construction of regional landfills and development of their management structures
3. Construction of recycling yards and transfer stations
4. Sanitation of old landfills and illegal waste dumps

The PROGRES will also support the municipalities to prepare the necessary planning documents for designs of the recycling yards to fit into the MoESP regulation of a standard recycling yard which will be ready in the first half of 2010.

Finally, in regards to the river pollution, the Rivers Ibar, Raška, Lim and Južna Morava are badly infected by waste water from municipalities, illegal dumps on the river banks and industrial waste. All these rivers are flowing in to the river systems of inter-regional and international relevance; the Lim

River through rivers Drina and Sava respectively into the Danube River, and the Rivers Ibar and Južna Morava through Velika Morava, also into the Danube River.

Economic

Recent surveys acknowledge that the development of the industrial sector is hindered by obsolete and inadequate infrastructure, which inhibits the attraction of new foreign and national investments. The major interest of foreign investors, as observed by the Serbian Investment and Export Promotion Agency (SIEPA), is in Greenfield and Brownfield investments with adequate and well maintained infrastructure and where possible, readily built new or preserved production facilities. The investment decisions of international companies are mainly determined by the existing opportunities for starting business or establishing an enterprise in the short term. In addition, this decision is influenced by national and local efficient administrative services which facilitate investment.

Line ministries and local governments are most interested in economic investments which will stimulate the private sector and create employment opportunities, with public policy presently geared towards facilitating the development of industrial parks/zones (IP) and of business incubator centres (BIC) in strategic areas of Serbia. Although the Serbian Government has been providing support for these arrangements to attract investments, further support is needed in order to establish an economically sustainable basis on which support services for new businesses can be provided, and to ensure local and national decisions to provide support to establish IP and BIC in the Programme area are based on sound economic grounds, with sustainable organizational structures developed.

The tourism subsector which has also suffered decline over many years is now being actively promoted by the Tourism Sector of the MoERD as one avenue to stimulate infrastructure investments. The Programme encompasses areas of national importance which are being targeted for development i.e. Vlasina Lake, Golija, Kopaonik and Besna Kobila, Zlatibor and Zlatar Mountains. The PROGRES will provide support to the municipalities and the Ministry to develop priority projects from the Master Plans for Development of these areas.

Social

The Government of Serbia enacted the Social Protection Development Strategy in 2005, in which the need for the development of locally based social assistance services is highlighted. This document identifies local authorities as main actors in providing community care while services themselves can be provided by private sector, non-governmental organizations or statutory providers. However social policy is not well developed or understood at the local level and resources are scarce.

Regional development programmes are rarely seen as a tool that can enable social development as most of them target the economic sphere. However, regional inequalities that exist in Serbia are a result of both the poor social and the poor economic capital. In order to reduce inequalities, social policy priorities should be mainstreamed into regional development programmes, those incorporating social inclusion practices, enhancement of the human resources outcomes, community revitalization etc. The same applies to the understanding of economic growth. Rarely are social innovations seen as an important accompanying measure of technological innovations, whilst in fact they should be seen as a development tool. Therefore, civil society organisations that support social innovation programmes or projects should be eligible to apply for grants through the Programme calls for proposals.

The Ministry of Labour and Social Policy (MLSP) is currently drafting a new Law on Social Protection which foresees the establishment of earmarked transfers to less developed municipalities, to services of general interest and to innovative programmes. This, and other initiatives through the new Law on Citizen Associations and the Office for Sustainable Development all need to be well coordinated in order to become effective. Therefore, the Programme foresees technical assistance (studies and analysis of possibilities of integration of social policy into regional and local economic plans and regional and local growth strategies) that would enable better coordination amongst different actors. This is in addition to activities through the migration project such as support to: day centres for elderly or disabled people, facilities for disabled children, schools, and social housing. Priority will be given to viable and sustainable projects where co-financing is available from the local municipality and other sources, and where repayments, maintenance loan and running costs are identified and covered by user fees and/or other charges.

Public Awareness and Branding of Areas

The people in the Programme area – as elsewhere in Serbia – after many years of turbulence and uncertainty, remain reluctant to see change as a good phenomenon. Many initiatives, even those that seem obviously positive for the community, are viewed with suspicion and generate resistance and refusal. The success of the PROGRES will, to a large extent, depend on the understanding and engagement of people in municipal administrations, public utilities, regional development agencies, and in the towns and villages of the Programme area. Furthermore, in order to increase prospects for achieving sustainable social change and to go beyond individual behaviour to development of new social norms and culture, it is necessary to empower communities and ensure their voices are heard. This is why the PROGRES will strongly communicate the logic of its actions and benefits for the community and insist on good governance principles and citizen's participation in a number of activities including in the identification and implementation of infrastructure projects.

An additional obstacle to sustainable development lies in the predominantly negative image of the South and South West Serbia. The area is often seen as conflict prone, politically unstable, and driven by ethnic tensions. Poor infrastructure, poverty, high unemployment, lack of a good governance framework and other social and economic hindrances, further damage the area representation. In turn, this seriously affects potentials for investment, tourism, and overall growth and development, and contributes to population outflow. Hence, there is a pressing need to make a positive difference in the way the parts of the South and South West Serbia are perceived, internally, for the morale and optimism of its own citizens, and externally, with an aim to improve opportunities for investments, tourism and economic development.

Political sensitivities and inter ethnic distrust are real. The existence of significant distance between Serbian and Albanian population living in South, and Serbian and Bośniak population living in South West Serbia, is also seen in every day life, for example in a very modest number of concluded inter ethnic marriages. In addition, there are intra-ethnic rifts within the Bośniak community, namely in regards to the division between political parties. Furthermore, both Bośniak and Albanian minorities observe actions of the Serbian Government with great deal of distrust. Considering the above, visibility of the European Union, the Swiss Government, and the Serbian Government in the area, would be a strong positive signal that would encouragingly affect the local political stability and reduction in interethnic tensions.

Finally, the majority population in the South and South West Serbia supports the accession of Serbia to the EU. However, there is limited understanding of benefits that the EU membership will bring to citizens, especially on the local level, as well as of an understanding of European values. The PROGRES will therefore be an opportunity to vigorously promote European values through the EU and Swiss partnership.

1.5 Justification⁹

EU Programming

The PROGRES is identified in the IPA 2010 Fiche, CRIS Number 2009/021-765, Local Government Support in Serbia, and is consistent with the Swiss Cooperation Strategy for Serbia 2010-2013 approved in December 2009. Both serve to set out the scope and activities of this Programme, which should result in:

- Improvements in the performance and reform of public administration at all levels
- Provision of assistance to further strengthen institutional building and an increase of absorption capacity of Serbian institutions
- Tackling unemployment and support the job creation, while improving the competitiveness of the economy and labour productivity

⁹ For a further justification analysis see Annex IX which is an extract from the 19December 2009 document, which, it should be noted, included a wider number of municipalities.

- Strengthening inter-municipal cooperation through the SCTM and other municipal associations and support municipal, inter-municipal and cross-border municipal projects and implementation of the Poverty Reduction Strategy at the local level
- Fighting discrimination and promoting human and minority rights, assisting in creation of conditions for inter-ethnic tolerance and multicultural coexistence, growth and sustainable development of all communities, increasing general, society-wide culture of tolerance as a basis for coherent and meaningful inclusion policies
- Supporting civil society in order to promote creation of a genuine dialogue and partnership with the Serbian authorities.

Socio-political context

All municipalities in the South and South West Serbia need support so that they can provide better conditions for strategic socio-economic development, including reorganisation of human resources and strengthening of planning so that they are able to: deliver improved service to citizens; actively take responsibilities needed for the decentralization process; stimulate regional and inter-municipal cooperation and provide and attract investment. Moreover, the EU monitoring reports of both PRO and MIR Programmes as well as the final evaluations, recommended that further support is needed in terms of support to the civil society and empowerment of women¹⁰.

An additional feature of the South and South West Serbia is that they are considered the most sensitive parts of the country. This sensitivity is a consequence of multi ethnicity and very low level of development. Experience has shown that without a broader context, special attention to such municipalities can even aggravate problems, as they see their chance in separation rather than inclusion. This tendency can be reversed with strong inter-municipal activities and insisting on larger inter-municipal and regional projects¹¹. This needs additional attention in the South Serbia because of the issues concerning the three predominantly Albanian-populated municipalities Bujanovac, Preševo and Medveđa.

With the absence of any significant economic growth and a continuation of the environmental and infrastructure degradation, rise in poverty and consequent social problems there has so far in 2010 been a large rise in abuses of visa liberalization and increase in requests for asylum.¹² Economic hardship and seeking of better employment opportunities appear to be the motivation for this rise in departure for the EU. On the other hand, the risk that sending back failed asylum-seekers poses to the European image is big and the EU and the Serbian Government need to agree a coordinated action. The PROGRES will monitor the developments and will provide support as appropriate through developmental means.

Overall, communication, attitudinal change and cooperation for development, which the Programme will promote, are the tools for building trust and economic integration in Serbia rather than continuing processes of isolation and segregation.

Approach

Adopting a sector-specific or target-group-specific approach was considered to be insufficient to address the situation in the South and South West Serbia. Therefore, an area-based approach will be taken to enable a holistic tactic in multiple sectors, i.e. economic, social, and political. This is expected to mobilise many more stakeholders, while dealing with the root-causes of the problems, and at the same time trying to mitigate undesired symptoms of present regional imbalances.

¹⁰ Further, support was recommended for 'infrastructure projects, support to the civil society, in terms of empowerment of women and increasing their role in the decision making process.' The Table in Annex VI summarises EU support to the South and South West Serbia since 2002 on which this Programme is to build on.

¹¹ A number of projects were implemented through MIR and PRO programmes on inter-municipal level/ national government level and clearly made a difference in relationships between municipalities. Through implementation of common projects, this situation has slightly changed, by placing developmental considerations into the primary position.

¹² 'According to preliminary data from Belgium, Sweden and Switzerland, the first countries to react, each country received several hundred applications in January and February. This equates to at least the total number of applications received in the whole of 2009, and in some cases it is two or three times that number' (Oxford Analytica Saved Search Alerts, 30 March 2010)

The PROGRES will deal with the cross-cutting governance issues in two ways: by explicitly addressing specific issues like the oversight functions of assemblies and councils vis-à-vis local administrations (accountability), consultative municipal budgetary processes (participation) or gender issues within LSG (non-discrimination & inclusion) within component 1. In addition to this, governance will also provide the underlying transversal principles for the more technical components of the Programme. For each major action line entry points to address one or more of these governance principles will be sought, e.g. potential for participation or non-discrimination (inclusion of minorities) in spatial planning, service provision by civil society organisations (efficiency, participation) or appropriate information of the public on funding received for infrastructure projects (transparency).

The PROGRES takes into consideration a number of recommendations deriving from MIR and PRO final evaluations. Primarily, the major focus of the Programme will be governance, both through directly addressing good governance issues, and indirectly, through respect of good governance principles, such as transparency and citizens' participation, in all Programme activities. The PROGRES also includes activities that directly support civil society, primarily through Citizens Involvement Fund. The funding predicted for this activity is, in line with evaluation recommendations, four times higher than the one allocated by PRO. The Programme intervention will include financing of small scale infrastructure projects, thus ensuring sound visibility for the PROGRES. With an aim to facilitate sustainability of these projects, the PROGRES support will be provided through co-financing with beneficiary municipalities. This positive practice has been applied by MIR and PRO, and was reaffirmed by final evaluations.

Last but not least, due attention will be paid to the finalization of the PROGRES's logical framework, in a participatory manner involving all stakeholder groups during the inception phase; during its implementation, modifications of the logical framework will be made possible in order to address external changes and needed Programme adaptations. The modifications will also be done following the mid-term evaluation of the Programme, prior and post to local and national elections or as appropriate should contexts change.

The general approach required is the same in both the South and the South West Serbia, involving:

- Intense presence on the ground and promotion of local ownership,
- Capacity development of municipalities,
- Development of projects aimed at bridging the gaps between local priorities and national policies, by encouraging engagement between local and national stakeholders,
- Targeted promotion of existing institutions such as RDAs, Local Economic Development offices (LED) and Citizen Assistance Centres (CACs) within municipalities, and
- By development of the 'One-Stop-Shop' (OSS) concept.

Annex VII gives an overview of the implementation approach.

1.6 Other interventions

There are several large EU funded programmes, working to build strong and effective local governments and make them ready to absorb future funding. The PROGRES will strive for close coordination of all its activities with other assistance in the intervention field, and in particular with:

- RSEDP 2 - The Regional Socio-Economic Development Programme, which is the EU technical assistance programme to support the RDAs throughout Serbia
- MISP - The Municipal Infrastructure Support Programme that works together with the municipalities, public utility companies, the Serbian Government, banks, donors, professionals and the EU to prepare technical and financial project documentation for municipal and regional infrastructure projects as well as to implement them
- Municipal Support Programme, another IPA 2007 funded initiative, working in three sectors: good governance, grant scheme and skills transfers, and direct award to SCTM. Particular attention will be paid to cooperation with the SCTM and Exchange III, in the area of good governance, municipal management and sustainable development

- Cross Border Cooperation – as both Programme areas – the South and South West – are in border zones, the PROGRES can have a useful role to play in promoting and supporting eligible municipalities and RDAs to develop project ideas and proposals
- A joint UN Programme ‘Strengthening Capacity for Inclusive Development’, which operates in the South Serbia. In partnership of UNDP, UNICEF and ILO, this Programme works to deliver targeted interventions to (1) enhance community cohesion and human capital, (2) improve provision and equitable access to public services, (3) strengthen economic development, and (4) improve migration management, based on the PRO intervention in South-West Serbia
- World Bank Delivery of Integrated Local Services Programme (DILS) which will increase the capacity of institutional actors and beneficiaries in order to improve access to and the efficiency, equity and quality of local delivery of health, education and social protection services, in a decentralizing environment
- USAID – Municipal Economic Growth Activity (MEGA) and its follow-up programme, developing the skills of local governments and local business groups to foster economic growth and job creation.

Furthermore, the PROGRES will strengthen links and facilitate co-funding of projects with the MoERD and the MoESP, both of which are continuing to be very active in the Programme area.

Finally, the SDC has agreed that the UNOPS will also implement in the South West Serbia, as a separate contract to the PROGRES, the remainder of the Swiss and Lichtenstein Governments funded Migration project¹³, from 1 May to 31 December 2010. This project supports migrants to fully participate in the social and economic life in four main areas of activity: improving access to public services for marginalised groups; improving access and quality of education for migrants and vulnerable groups, with a particular focus on inclusion of Roma people; increasing migrants’ opportunities for employment and sustainable livelihoods; improving the management of migration by state institutions active in the area. These activities will be integrated into all aspects of the Programme.

2 Intervention

2.1 Overall objectives

The Programme’s overall objective is *to contribute to enhanced stability and socio-economic development in Serbia’s poorest and most conflict-potential regions: the South and South West Serbia.*

2.2 Purpose

The PROGRES purpose is *to enhance governance, municipal and intermunicipal management capacity and social, economic and physical infrastructure in a holistic, area-focused fashion.*

2.3 Results

Component 1: Good Governance

Result 1: Participatory, accountable and transparent governance, respecting human rights

Component 2: Municipal Management and Development Planning

Result 2: Municipal organizational effectiveness and efficiency improved and capacities to deliver services to citizens and business increased

Result 3: Capacities for planning municipal and regional sustainable development strengthened and relevant development documents created

Component 3: Physical, Economic and Social infrastructure

Result 4: Projects and project documentation prepared for key economic, environmental and social projects

¹³ Implemented by UNDP, within PRO, from September 2008 – April 2010.

Result 5: Project financing facilitated through enabling contacts with ministries, donors and other projects

Result 6: Selected projects financed and implemented through the PROGRES

Component 4: Public Awareness and Branding of Areas

Result 7: Awareness of the need for, the logic of, and the effects of changes communicated to a broad public

Result 8: A plan to develop the areas' images and self-images as unique areas of Europe are established and implementation begun.

2.4 Activities

Component 1: Good Governance

The concept of good governance entails open, transparent and effective performance and accountability of the local government. Furthermore, it denotes a strong, participatory civil society, and independent media, which are constantly engaged in improving relations with the local government.

In good governance, the information flow between the LSG and citizens is constantly enhanced; the competence and responsiveness of the organisations to citizens' needs grows; finally, citizens are capacitated to access entitlements to public services in a non-discriminatory fashion.

Good governance enables strong partnerships on the local and regional level and continually proves its ability to attract investments, both national and international.

Governance is a transversal theme and will be promoted through all Programme components.

The Deputy Programme Manager will directly manage the Component 1 Manager and be accountable for the Good Governance outcomes.

Result 1: Participatory, accountable and transparent governance, respecting human rights

The PROGRES will work with both local institutions and the citizens to support the improvement of governance on the local level.

On the one hand, elected and appointed officials need the tools and resources to perform their functions timely, effectively and efficiently: impartial enforcement of the legal framework, transparent decision making and full protection of human rights. In addition, they should be fully accountable to those who are affected by their decisions. Finally, the local administrations need to ensure that all affected stakeholders are duly informed and that they understand what the government is up to.

Citizens, on the other hand, have to be aware of what kind of information they can expect from the public institutions. This will empower them to strengthen their demands on the elected officials for both accountability of public resources and services' performance under their control.

The PROGRES will take action in each of these areas – strengthening citizens' demands for better governance, and making them more realistic and constructive; providing elected officials with the tools with which to better manage the resources and institutions under their control.

Particular attention will be paid to the issues concerning gender equality. Following consultations with political parties (and donors), it was decided to shift the attention to the work with their elected representatives (i.e. the members of the local parliaments), and at the same time to only include the political parties' representatives in the work of the Gender Equality Councils which must be formed within each municipality. This is a good entry point for the Programme, at the same time ensuring achievability of the outputs and eventually outcomes while avoiding political interference, a large risk.

Activities:*1.1. Citizens' Involvement Fund supports projects that have resulted from partnerships of civil society organisations and local government institutions*

Citizens' Involvement Fund (CIF) is a mechanism for funding small, short term projects which address community needs and that have resulted from partnerships of the civil society organisations and local governments. As the local governments have a wide mandate under the current Law, this activity is not looking into substitution of some of the local self governance services by civil society organizations. Instead, it is focused on creating strong, more sustainable and more mutually supporting links, leading to greater mutual understanding of each service provision role, between the local self governments and civil society organizations.

There will be two calls for proposals within CIF in all PROGRES municipalities, each funding up to forty partnership projects. The projects will have to reflect priorities identified in the municipal sustainable development strategies.

PROGRES will specially support smaller, less well established civil society organisations to develop project ideas, prepare proposals, manage projects and promptly report on their achievements in this way contributing to their capacity building. The promotion of CSO and LSG partnerships are seen as the institutional anchor to promote sustainability.

1.2 Citizens' Satisfaction Surveys

Citizens' Satisfaction Surveys will be conducted in year 1 and year 3. By using a base of questions, data sets will be comparable with both the current surveys and the previous ones conducted within the PRO Programme in the South West Serbia and MIR Programmes in the South Serbia. The surveys will be used to provide feedback to municipalities – both elected and appointed officials – on their performance, the trends in satisfaction over time, but also on the perceived priorities for services and change. Although the Citizens' Satisfaction Surveys may be considered as a proxy means of validating any real socio-economic change, taken into account with other indicators of economic and social development, they'd be a valid tool to inform the PROGRES and its stakeholders on areas for priority support, local policy making and advocacy by citizens.

1.3 Citizens' Advisory Services provide practical assistance and information to citizens, enabling them to access their rights and entitlements

Based on the PRO piloted free advisory services in Novi Pazar and Prijepolje, within the SDC-funded migration component, this activity will secure Citizens' Advisory Services in four municipalities, with an estimated 4,000 people, mainly Roma and migrants, getting practical assistance and information on how to access their rights and entitlements, such as identity documentation, education, healthcare and social welfare benefits. This will also be a support to the beneficiaries to exercise their civil rights, such as the right to vote.

Furthermore, the provision of this service, and the collection of the data about the needs of citizens, provides valuable information when advocating for changes in local government service delivery.

Finally, the activity has been designed to fit in with the national legislature on free legal aid, which will provide a sustainable funding mechanism once the relevant new laws have been approved.

1.4 Support local self governments to conduct appropriate consultation on annual budgets, involving representatives of civil society and media

Despite the legal obligations, public annual budget consultations in many municipalities are seen as a formality. Little information is available in advance, budget information is poorly presented and not linked to performance improvements, and current disbursements are not separated from capital expenditures.

This activity will be phased into three stages, in line with the legal, annual, obligations of the local governments in budget drafting process.

In Phase I, three pilot municipalities will be selected, taking into account their achieved progress in consultations on budgetary planning. In Phase II, starting on 1 January, 2011, and lasting until 31 December 2011, ten municipalities will be competitively selected to undergo the same process. Phase

III will cover all the remaining PROGRES municipalities, during 2012, including the three from Phase I, if need be.

All municipalities will receive technical and advisory support, reflecting their needs, to ensure their preparation and presentation of budget is done transparently and efficiently. This will be complemented with activities aiming to broaden the understanding and discussions on budget issues between the national and local government, media and civil society organisations, thus increasing the public demand for accountability. This activity will be conducted in partnership with two key partners: Balkan Investigative Reporting Network (BIRN)/Pro Concept through their "Eye on Public Finances" project while PROGRES will work with the Toplica Centre in the Toplica District.

During Phases II and III, two study tours to Serbian municipalities with well-established practices, in cooperation with the SCTM will be organised.

Finally, three anti corruption seminars will be organised, in partnership with the OSCE Media Department on the relevant anti-corruption laws and strategies, as well as on the work of national bodies, for the representatives of the local government, civil society organisations and media, so that they are capacitated to make more constructive criticisms and suggestions. The Component Four will support this activity by various advocacy campaigns.

1.5 Assembly members and City Councils, from municipalities participating in the Programme are provided with information and resources which enable them to better monitor the performance of local institutions, including PUCs

This activity will be implemented in close cooperation with the SCTM and MISP and will include organisation of round tables on monitoring of the performance of the municipal institutions.

A pilot project in conjunction with a willing municipality implementing one of the key infrastructure projects will endeavour to develop a set of LSG performance measures and test a more independent assessment of the municipal-founded institutions and PUCs. Following a review, further similar initiatives will be supported. Should the concept be accepted at both the central and local levels, then a full initiative on performance monitoring will be developed with partners and presented to the PSC for funding approval.

In order to ensure the widest impact, in parallel, trainings in partnership with the OSCE on political reporting, media literacy for politicians and local media awareness on government responsibilities will be conducted.

1.6 Support municipalities to develop and adopt Local Gender Strategies and Action Plans, with the aim of strengthening women participation in policy making processes

The key element of this activity will be advocating for the signing of the European Charter on Equal Participation of Men and Women on the local level, as recommended by the Deputy Ombudsman for Gender Equality. This will be achieved in partnerships with the key civil society organisations in the Programme area – DamaD in Novi Pazar, Forum from Prijepolje and Civil Resource Centre from Bujanovac.

At the same time, the PROGRES will work with the local administrations to help them establish the Gender Equality Councils, where not existing yet.

Furthermore, within this activity, support will be provided for localisation of the National Gender Equality Strategy as well as for the drafting of the Action Plans to implement them locally.

At least three public awareness campaigns should be implemented to sensitise population on gender issues. Key media partners will be TV Forum from Prijepolje, Sandzak Danas, Radio Sto Plus from Novi Pazar, Radio Ema and TV Spektri from Bujanovac.

1.7 Improve inter ethnic representation of local-decision making in the Programme Area through inter ethnic cooperation

The Programme will work with the Coordination Body for South Serbia and other relevant partners with to strengthen municipal will to continue to establish inclusive multiethnic local governance, consolidate the political base of the moderate leaders from both communities, and contribute to interethnic cooperation especially with youth projects.

Presently, discussions with the Coordination Body and Municipalities have identified interventions which include:

- Study tour of municipal officials to other parts of Serbia or to Hungary for example, for these officials to learn the experiences and best practices of other regions which have addressed the issue of minority rights
- Establishment of a student Grant scheme to support students from Presevo, Bujanovac and Medvedja to study at leading Serbian Universities
- Projects specifically targeted at cultural exchanges between Serbian and ethnic Albanian youth groups

Once assessments are complete and costs estimated, recommendations will be made to the Programme Steering Committee for approval to proceed.

In addition, the PROGRES will work closely with the National Minority Councils to support their Action Plans, once they are elected, later in 2010. This will be complemented with partnership with OSCE to organize trainings on reporting in minority languages, throughout the Programme Area.

Component 2: Municipal Management and Development Planning

This component will focus on strengthening two sets of municipal administration competencies that are vital to improving social and economic development. They are:

- Provision of effective and efficient services to the population and to businesses
- Production and implementation of development policies, strategies, and plans.

The PROGRES will provide technical, advisory and financial support to individual municipalities to ensure improvements in application of these competencies and application of transparency/citizen participation aspects of governance. Resources will be limited, so in most cases municipalities will be asked to apply for each activity separately. The selection of beneficiaries will be on a basis of pre-agreed criteria, ensuring appropriateness of the individual interventions.

This component will also empower municipalities to take responsibilities for management and maintenance of activities. Through this exercise, the municipalities will have the 'ownership' of activities and results, which in turn will be a solid capacity building exercise. In addition, municipalities will have access to a number of mechanisms that promote good governance, learning, best practice sharing and cross-fertilisation of ideas.

The following sections describe generic activity headings proposed at this stage. Others may emerge during the course of the Programme implementation and will be submitted to the Programme Steering Committee for consideration and approval.

Result 2: Municipal organizational effectiveness and efficiency improved and capacities to deliver services to citizens and business increased

Municipalities in the South and South West Serbia have been improving functioning of their municipal administrations in recent years, with the support of programmes like PRO and MIR. However, quality, scope and accessibility of services vary across municipalities. The PROGRES will therefore work in a number of areas to ensure further improvements of established services and facilitation of development of new ones. This is especially the case in regards to those relevant to economic development, and institutionalisation of standards of services quality.

Activities will include the support for establishment or upgrade of the Citizens' Assistance Centres (CACs). Local Economic Development (LED) offices, now established in most of Programme municipalities, will receive support in order to develop key elements of economic policy and improve the quality of services they provide to businesses. Efforts will be put in order to further strengthen the position of LED offices within municipal administration and to enable its staff to develop necessary skills. With an aim to simplify and shorten administrative procedures for small and medium enterprises (SMEs), the PROGRES will facilitate the establishment of "One Stop Shops" (OSS) in a number of selected municipalities.

Some activities will provide support to selected municipalities to improve collection of property taxes and strengthen their financial management capacities.

Finally, the PROGRES will introduce Quality Management System in Municipal Administration in all participating municipalities and ensure its implementation in a number of selected ones.

Activities

2.1. Establishment of Citizens' Assistance Centres in municipalities where they do not exist, and further improvement of services in existing CACs

The priority will be the establishment of up to three CACs in municipalities where they do not exist. In addition, support will be given to municipalities that have formed CACs but face problems with limited accessibility due to the outdated IT equipment which slows down the process of service delivery.

The generic activities will include infrastructure improvements of facilities in order to make them suitable, provision of technology equipment in order to ensure there is a base for efficient and effective work, and provision of training to the staff that will be responsible for the delivery of services.

Up to eight municipalities will be included in this activity.

2.2 Strengthening of LED offices in their abilities to provide coherent and strategic support to business growth in their municipalities through promoting innovativeness and competitiveness of SMEs, and Industrial Park and Business Incubator Cluster Developments

Based on the recommendations of the study "Innovativeness and Competitiveness of SMEs in South West Serbia", conducted by the PRO and the MoERD, in 2009, and similar studies conducted in the South Serbia, the PROGRES, through the appropriate LED office, will primarily focus on identifying and expanding potentials for cluster development, including: promotion and introduction of clustering among entrepreneurs, support in cluster forming for up to three productive sectors, development of business plans, technical equipping of the clusters, and similar.

Furthermore, once Industrial Park (IP) and Business Incubator Cluster Developments (BIC) are identified and needs assessment and business plans are created by LEDs and their partners, activities will focus on the development and introduction of the management systems, territorial marketing, capacity building for management of IP and attracting of foreign direct investments (FDIs), development of management structure of, and services provided by BICs and finally the promotion and introduction of activities and for enhancement of innovativeness competitiveness within SMEs.

There will be a strong link between this activity and the component for economic infrastructure (see Result 4) but it will require the strong support of central and local authorities in identifying investors before Programme funds are 'risky' in investing into actual hard infrastructure. By promoting ownership of this activity to the appropriate LED, capacities will be improved for the LED to promote local economic development.

2.3. Technical Assistance to municipalities in establishing 'One Stop Shops' and simplifying administrative procedures for small and medium sized businesses

This activity will pilot support to municipalities to improve their services for businesses by establishing a 'One Stop Shop'. At least two municipalities, that have an urgent need for this kind of service delivery, will be included. The need will be tested according to a supply and demand analysis of LSG i.e. municipalities with the highest demand and investment potential for opening of the new enterprise will benefit from this activity. Sub activities will include:

- Mapping of the functions within municipal administration connected with business community development
- Development of the pilot model of services for business that can be implemented through a 'One Stop Shop'
- Defining of organizational and functional structure of a 'One Stop Shop'
- Creation of 'One Stop Shop'
- Development of a necessary set of documents, brochures and guidelines for 'One Stop Shop'
- Integration of the 'One Stop Shop' within CAC structures.

2.4 Support to LSG to improve the rates of collection of property taxes

This activity will provide advice, technical support and appropriate IT systems, training, and improvements to the selected municipalities with the aim of strengthening both the policy making and the practice of revenue collection. Furthermore, this activity will aim towards reduction of the administrative costs for managing property tax collection in municipalities through creating common

system of administration for groupings of municipalities. It will be implemented in close cooperation with the SCTM, which has been providing technical support on this important topic to its membership.

Based on the achievements and experience from other initiatives in Serbia, a set of technical assistance packages will be finalised during the Inception Period. These packages will be developed according to the identified needs of the municipalities and consist of the following assistance sub groups:

- Support to create and/or update registry of tax payers, in at least 15 municipalities
- Support in development of mechanisms for collection of property taxes, construction permit fees and communal taxes, in at least 10 municipalities
- Establishment of at least 2 common IT Administrative Centres for tax collection of groupings of up to 5 municipalities within a single system
- Testing of developed and implemented mechanisms for tax collection, in at least 5 municipalities
- Support to all municipalities in the Programme area for implementation of the new legislature on property transfer, expected in mid 2010.

Selection of the municipalities for this activity will be in accordance to the need, appropriateness and their interest, while taking into account the realistic potential of the applicants to increase its income from collection of property taxes.

2.5 Support LSG to strengthen financial management capacity

This activity will provide tailored assistance to interested municipalities, including support for preparation of budgets, public budget hearings, trainings for staff, and provision of technology and equipment. Each involved municipality will work with the Programme team to produce a plan for financial management improvement. Examples of such assistance could include improved standards of accounting policies, unified municipal budgets, annual audit reports, capital works planning and preparations for future programme budgeting. Full needs assessment and a list of proposed models to be developed will be finalised during the Inception Phase and presented in the overall and annual work plans.

This activity is complementary to Activity 1.4 within the Component 1. It will also be implemented in close cooperation with other interventions such as Exchange 3 and MSP-2007 through the SCTM.

2.6 Introduce Quality Management System in Municipal Administration

This activity will introduce Quality Management System (QMS) in municipal administration in all PROGRES participating municipalities. Three introduction seminars and training cycles on the following topics will be conducted:

- ISO/FDIS 9000:2000 - Quality management systems – Fundamentals and vocabulary
- ISO/FDIS 9001:2000 - Quality management systems – Requirements
- ISO/FDIS 9004:2000 - Guidelines for performance improvement

Following the completion of seminars and training cycles, the PROGRES will provide technical assistance to up to five municipalities in implementation of QMS in their organization. Selection of the municipalities will be done in accordance with the interest, readiness and capacities of municipal administration to introduce QMS.

Result 3: Capacities for planning municipal and regional sustainable development strengthened and relevant development documents created

The national legislation is increasingly including planning documentation as a pre-requisite for any infrastructure and socio-economic development.

Spatial plan is the baseline document in this regard as it is a precondition for any kind of construction planning and development in municipality. Furthermore, according to the Law on Planning Construction, all municipalities in Serbia have a legal obligation to create or update their spatial plans by 2011. Other planning documents – urban plans, detailed regulatory plans, waste management plans – are also necessary for obtaining building permits and conducting relevant construction works.

Sustainable development strategies are also one of key development documents. Most of the municipalities in the South and South West Serbia developed these strategies, through participatory approach that involved, with more or less success, civil society and business community. However, the progress on implementation of the strategies was insufficient in most of them. In addition, few municipalities established genuinely independent bodies that will closely monitor the implementation and organise revision of the strategies.

Social housing is another, but hitherto neglected, component of local development. The MoESP commenced the preparation of the legal and policy basis for social housing in 2009, with the implementation strategy expected during 2010. All municipalities will be obliged to develop their own social housing plans, based on the Strategy. And although some local self governments already have local social strategies, they may need support to identify their social housing needs, and to develop appropriate and affordable solutions.

Activities:

3.1 Support to municipalities in preparation of spatial, urban and waste management plans

At least 10 municipalities will be supported in the development of their Urban Plans. This support for development of urban planning documents will be given on a case by case approach according to a set of criteria that will include relevance of the plans for economic development or environment protection, number of the projects depending on these plans and potentiality for funding of implementation of these projects.

As part of urban planning process, methodology for Infrastructure Master Planning has been developed within PRO Programme and delivered to municipalities together with intensive capacity building and a software solution for prioritizing of infrastructure projects. The PROGRES will extend this positive experience to municipalities of the South Serbia and continue with support to municipalities in development of infrastructure master plans. At least 2 municipalities from the South Serbia area will be included in the transfer of methodology and at least one municipality from the South West Serbia will be supported in further development of infrastructure master plans. Involvement may be extended depending on final cost estimates.

All municipalities included in projects on regional landfills will be supported in the preparation of Municipal and Regional Waste Management Plans where appropriate.

3.2 Assistance to municipalities to establish effective and sustainable mechanisms for implementing their development strategies, and reporting on progress to the municipal assemblies.

This activity will assist interested municipalities, at least eight of them, to strengthen the systematic planning and implementation of their sustainable development strategies. This will involve some or all of the following steps: analysis of the trends in the local and wider area; planning in accordance with the current situation and predicted trends; preparation of costing and indicative sources of finance; capital investment plans; establishment of monitoring committees; preparation of annual progress reports. Assistance will also be provided to the implementation of the strategy, through the Activities 6.1 and 6.2.

3.3 Support to LSGs in planning to improve citizen access to key public services and social welfare entitlements regardless of citizenship status or ethnicity.

The PROGRES will support municipalities to pilot approaches to development of local social policy action plans, based on social policy/strategies already developed, social housing plans and to ensure all citizens, especially Roma and other marginalized groups access health, employment, education and other services. In parallel, social housing, social protection and welfare strategies in a small number of municipalities, where the need is high, will be developed. Some urgent issues regarding social policy or access to welfare services and social housing that can emerge in municipalities covered by the PROGRES during its implementation will be considered for action in accordance with capacities of the Programme, and recommended to the PSC for approval.

Component 3: Physical, economic and social infrastructure

The infrastructure component will provide support to the PROGRES municipalities on two levels: on the one hand, it will facilitate conditions for long term capital infrastructure; on the other, it will ensure

immediate and visible infrastructure improvements. The support will focus on the development of environmental, economic (including tourism) and social infrastructure.

Common to both levels of support will be pre-defined criteria for the selection of projects for technical and/or financial support, which will be based on municipal, regional and national development priorities. Projects will be identified and designed through a systematic approach; programme budgeting and financial planning, as well as preparation of tender documentation in line with the national legislature and following highest international standards. Other general criteria will be availability of permits, project duration, number of direct and indirect beneficiaries, cost-effectiveness, co-funding available, environmental impact, gender sensitivity, sustainability, and similar. When possible, the PROGRES will transfer the ownership of specific projects to appropriate (local) institutions and provide financial and technical support they need for the implementation. In such a way, the capacity of local institutions will be enhanced.

In regards to the projects which will facilitate conditions for long term improvement of infrastructure, the activities will include provision of financial and advisory support for the development of documentation for inter-municipal and municipal projects. In addition, the PROGRES will support dialogue and cooperation between municipalities and relevant ministries, donors and other programmes in order to help them to identify common projects and funding mechanisms.

The key definition of the other level of infrastructure support is funding of small scale municipal infrastructure and inter-municipal and national projects. The latter will be primarily done through partnership and co-funding with the Serbian Government, other infrastructure programmes, international financial institutions, while the participation of private sector will also be taken into consideration.

Result 4: Projects and project documentation prepared for key economic, environmental and social projects

Project documentation is the key precondition for accessing funding. In spite of that, majority of the municipalities in the Programme area have not prepared projects which would allow immediate funding for their important municipal and inter-municipal initiatives. This is further complicated by the fact that they often do not have necessary capacities to prepare project proposals, nor are sufficiently aware of the importance of such documents.

The PROGRES preceding programmes, PRO and MIR have facilitated positive change in this field. It is, however, necessary to provide further technical support to municipalities in order to enable them to develop project documentation to mature, implementation phase, as only then they will be able to apply for funding. For example, the municipalities can enter their projects into the recently established, comprehensive, SLAP database, at the SCTM, which provides an overview of the readiness for funding, but also serves as means for donors to select projects for support.

Activities:

4.1 Support to prepare documentation for inter-municipal economic and/or environmental and/or social infrastructure projects

Support will be provided to the institutions responsible for developing project documentation. This may be at the municipal level – for example a municipality construction directorate, a project management body established for a specific purpose, or a RDA.

At least three essential, inter-municipal, economic and/or environmental, and/or social infrastructure projects' documentation will be prepared. The selection of projects will be on the basis of need, appropriateness, and interest of the beneficiary, co-funding and resources available.

4.2 Selected municipalities supported to prepare documentation for municipal economic, environmental and social infrastructure projects

At least six projects, in the economic, environmental and social areas, are selected from the SLAP database and developed to a mature stage. Projects will be selected according to the criteria such as the needs of the municipality, the appropriateness and sustainability of the project, the level of interest

from the beneficiary, and the likelihood of attracting funding for implementation. Although it is not envisaged that the PROGRES will fund the projects itself, this activity is directly complementary with the Activity 5.1 and contributes towards the development of a mature project pipeline.

Result 5: Project financing facilitated through enabling contacts with ministries, donors and other projects

The financing of necessary infrastructure is a key limitation for municipalities in Serbia. Since the resources of the PROGRES are limited, a portion of activities will facilitate dialogue and cooperation between municipalities and relevant ministries, donors and other development programmes. The objective of dialogue will be to identify common projects, establish partnerships for their implementation, and detect the most suitable funding mechanisms.

Activities:

5.1 Support inter-municipal partnerships to develop project finance plans

This activity will support municipalities to provide co-funding for at least three key inter-municipal infrastructure projects and up to six local infrastructure projects. The PROGRES will initially facilitate dialogue among municipalities to help them to identify common inter-municipal projects. During the identification, local development strategies and national priorities, master planning and the likelihood of attracting funding, will be considered. Subsequently, the PROGRES will, using its expertise and broad network of contacts, help municipalities to get in touch with potential funding contributors within the Serbian Government, financial institutions and donors.

The support will also include assistance regarding the adoption of the most appropriate funding mechanism. These could be grant funds, soft loan funds, multilateral finance facilities etc. Public-private partnership will be explored, but until a law or institutional arrangement is in place, the Programme will have to proceed on a case by case basis in coordination with the main stakeholders.

Result 6: Selected projects financed and implemented through PROGRES

A proportion of the overall Programme funds will be allocated to actual small scale, high visibility and high impact infrastructure developments, especially as an entry point to the Toplica District which has received little support previously. Infrastructure support will also include strong support in capital investment planning and finance to enable municipalities and regions to take advantage of capital investment funds in the longer term.

Please see Annex VIII for draft selection criteria of the projects.

Activities:

6.1 Implementation of small municipal infrastructure projects in Blace, Kuršumlja, Prokuplje and Žitorađa municipalities

The PROGRES will, based on assessments and positive experience from previous area-based initiatives, define mechanism for identification of infrastructure priorities, grounded in the municipal sustainable development strategies in Prokuplje, Kuršumlja, Blace and Žitorađa, which have not had this kind of support previously.

The implementation as such will take several steps:

- Identification of appropriate implementing partner within the Municipality
- Finding of co-funding
- Assistance to prepare required documentation, planning approvals and initiate tender procedure
- Selection of implementing contractors
- Preparation of contract; definition of activity plan; reporting on progress system, milestones and deadlines
- Monitoring of implementation by the Programme Team
- Assessment of the performed project implementation and final payment to the contractor

The process will also involve public presentations of the selected infrastructure projects in each municipality in order to ensure broad coalition for participation, as well as the PROGRES support to implementation/monitoring process and for evaluation of the results.

6.2 Call for proposals for small scale municipal or inter-municipal projects

Terms of Reference will be developed and advertised for Programme municipalities to apply for funding to implement small scale infrastructure, economic or social projects. Sub activities include:

- Developing of Terms of Reference which are subsequently approved by the Programme Steering Committee
- Training sessions on project preparations
- Organisation of promotional events
- Answering queries and assistance to applicants to identify project partners
- Closing the tender and assessment of applicants
- Awarding of contracts
- Monitoring, completion of projects and transfer of final payments
- Provision of reports with lessons learnt and recommendations

6.3 Financially and technically support the implementation of the projects of inter-municipal or national importance

The PROGRES support to infrastructure projects will require pre-secured support from other sources of funding, such as the Government, other infrastructure programmes, international financial institutions, and private sector participation. The PROGRES will look to contribute to the costs of implementation, and the provision of technical support to local public institutions with responsibility for oversight of the project - whether municipality, construction directorate, public utility or RDA.

The process will involve:

- Development of criteria for the selection of projects
- Selection in partnership with municipalities, relevant ministries, other project partners (such as SCTM, MISP etc.) and approval by the Project Steering Committee
- Finalization of project partnering, financial plan, approvals and documentation
- Implementation of projects, ideally through appropriate local, regional or national institutions where local or regional capacities are not available, then the PROGRES team will be responsible for direct implementation. This however will be minimised and subject to partners and Steering Committee approval
- Ongoing technical and consultancy support from the Programme team
- Commissioning final payments

6.4 Implementation of municipal infrastructure projects in Pcinjski District municipalities

A new funding allocation has been made available to PROGRES for use in exclusively in Pcinjski and Jablaniski Districts and it is proposed to implement inter-municipal infrastructure projects which will have a demonstrated cross border effect with Macedonia.

Consistent with the model being used, implementation takes several steps:

- Receive project proposal from the Municipality/ies
- Identification of appropriate implementing partner
- Finalise criteria based on NUTS 111 and distance from Macedonia border calculations
- Agree co-funding
- Assistance to prepare required documentation, planning approvals and initiate tender procedure
- Selection of implementing contractors
- Preparation of contract; definition of activity plan; reporting on progress system, milestones and deadlines
- Monitoring of implementation by the Programme Team
- Assessment of the performed project implementation and final payment to the contractor

The process will also involve public presentations of the selected infrastructure projects in each municipality in order to ensure broad coalition for participation, as well as the PROGRES support to implementation/monitoring process and for evaluation of the results.

Component 4 - Public Awareness and Branding of Areas

This component is the cornerstone of the entire Programme since its activities - directly or indirectly - support other Programme components. Firstly, the Component will include activities specifically designed to facilitate implementation and promote achievements of other three components. Then, it will be raising awareness on important socio-economic challenges in the South and South West Serbia and encouraging citizens' action on social, economic and political issues that affect their livelihoods and rights. Finally, this Component will concentrate on building of positive images of the specific areas within the Programme for the purposes of promoting investments, tourism, and economic development. Activities will include implementation of advocacy campaigns, image building projects, work with media, organisation of promotional events, and production of publications.

The key cross cutting objective of all activities within this component, as is the case with other components, will be raising awareness of support which the European Union, the Swiss Government, and the Serbian Government provide to the Programme area and the vigorous promotion of European values. Where and when appropriate, activities will be carried out in close co-operation with the Delegation of the European Union, the Swiss Government and other Programme stakeholders to ensure the desired Donor and Government visibility.

Result 7: Awareness of the need for, the logic of, and the effects of changes communicated to a broad public

The basic concept behind this result is that positive communications facilitate easier and swifter societal metamorphoses, resulting in more positive outcomes. Communications' activities will reinforce the impact of Programme activities through influence on behavioural changes – this is why they are essential for the success of the PROGRES.

Activities within this result will cover two areas. First, communications support will be provided to other components in order to promote their actions, results and impact. Second, information-education and/or advocacy campaigns that address specific societal challenges in the Programme area will be designed and implemented.

Activities:

7.1 Communicate Achievements of Governance, Municipal Management, Development Planning, and Infrastructure Components

The PROGRES will identify and carry out activities designed to communicate actions, results and impact of the activities in the areas of Governance, Municipal Management, Development Planning and Infrastructure. In the Programme Inception Phase, communication strategy will be drafted, identifying specific and measurable goals, opportunities and tools for the promotion of each Component, target audiences and clear messages. One of the key messages will be the link between desired outcomes of the PROGRES and Serbia's overall EU accession efforts.

All activities will be identified and implemented through consultations with the donors' and line ministries' communications counterparts, the SCTM and other key stakeholders, thus also ensuring desired visibility for Programme partners.

7.2 Information-education and/or advocacy campaigns are implemented in partnership with civil society

The PROGRES will work with the SCTM, OSCE and civil society groups to develop and implement three information-education and/or advocacy campaigns that address concrete societal issues in the Programme area. The campaigns' objectives will be identified through a consultative process (involving municipalities, relevant ministries and civil society), based on the findings of the Citizens' Satisfaction Surveys and municipal development strategies, and will be linked to general PROGRES objectives.

Once the topics have been identified, a selection of civil society groups, who will participate in the campaign, will be conducted. The PROGRES team will support the selected civil society groups, by providing guidance, expertise and resources for the preparation and execution of these advocacy campaigns.

Each campaign is expected to last for a year, and each one will also convey European values and the benefits of EU membership.

Opportunities to develop campaign topics from national level campaigns will be considered, and partnerships between national, the SCTM and local level organisations will be actively promoted throughout this activity.

Result 8: A plan to develop the areas' images and self-images as unique regions of Europe is established and implementation begun

Negative image in most of the Programme municipalities, within Serbia and abroad, is one of the key obstacles to sustainable development. The Serbian population generally perceives this area as conflict-prone, with high ethnic divisions and political instability while poor infrastructure, lack of a good governance framework and other social and economic hindrances, further damage the area image. Linked with poor investment outlook and low employment opportunities, all these factors result in a continuous brain drain from the area, lack of investment interest, low tourist visits and underdevelopment.

To improve the existing condition, the PROGRES will provide image building assistance to selected areas.

Activities

8.1 Design of plans and implementation of projects for image building in partnerships with relevant organizations

The PROGRES will provide support for the development and implementation of image building plans, through a competitive selection process. Municipalities, RDAs, tourism organisations, relevant governmental organisations and other non-profit entities will be eligible to apply, providing that their application includes organisations from at least two municipalities.

The selected beneficiaries will be given advisory support to develop plans. This process will involve: an analysis of the current strengths and weaknesses; identification of opportunities; development of key messages and of an activity plan.

Subsequently, this activity will provide financial support for the implementation of at least four selected projects, deriving from developed plans, and aiming to improve the image of the Programme area. The PROGRES will monitor the implementation and, upon its completion, will assess the impact of the projects and provide recommendations relevant for future image building interventions.

TRAINING SUPPORT

Although previous, extensive, training workshops have improved capacities of the municipal staff in the South and South West Serbia, the full effect is marred by political interfering. Once trained, municipal staffs often found themselves in new roles, or were sidelined by the change of local governments. Until a professionally based civil service, separated from politics, is functional, progress will remain inconsistent.

However, the PROGRES will continue with capacity building of local self-government employees, not only through individual Component's activities, but also by embedding the demand-driven training support within hard and soft projects. Extensive training needs analysis, developed by previous programmes in the South and South West Serbia, but also the SCTM, OSCE and USAID programmes, as well as UNDP are available to the PROGRES.

In particular, the PROGRES will support the SCTM Training Centre to act as a focal point for most training activities related to development of LSGs in the Programme's area of operation. Assistance will be given to the SCTM to recruit liaison officers at the local level, who can be helpful in the capacity building process.

The Organization for Security and Cooperation in Europe (OSCE), which has field offices in both the South and South West Serbia, is very also active in provision of media training, in the key areas of good governance. The PROGRES will establish partnership with the OSCE to build on the existing efforts, especially within Component 1.

The PROGRES will also coordinate and develop links with the UN and USAID advocacy campaigns, working groups, roundtables, workshops and other events to encourage participating municipalities to interact to solve collective problems and lift individual and organization capacities.

The Government of Switzerland, through SDC¹⁴ have a substantial transversal theme of good governance which runs through its country programmes. The PROGRES will advantage itself of reports, studies, expert backstopping, as agreed with the SDC, EUD, and Project Steering Committee, to ensure that current research and trends are concretely applied to all appropriate Programme result areas and transferred to local partners.

3 Assumptions and Risks

An assessment shows that the PROGRES is not a high risk Programme, as it will follow a tested area based approach supported by the UNOPS, which has extensive experience in similar interventions and in transferring ownership to local institutions. Practice has shown that most local self governments appreciate the assistance, especially when matched with grant support and infrastructure projects, which can be used as an incentive to motivate local government initiatives.

The Programme will employ an active risk management and contingency planning strategy to ensure sound management. Regular assumption and risk reviews will be undertaken and reported in Quarterly and Annual Reports.

3.1 Assumptions at different levels

<i>Item</i>	<i>Assumption</i>	<i>Assessment & Management Issues</i>
1	Overall political stability is maintained, and relations with the EU are consolidated and strengthened	There is a strong possibility that the current Government will fulfil its mandate and that political stability continues. National and local elections would then be held by mid 2012 and, although elections have proved disruptive for previous programmes, appropriate planning as required will allow adjustment of resources and inputs in response. The present positive trends of Serbia-EU relations include agreements on visa liberalisation and Interim Free Trade Agreement, EU Member-State approval of the Lisbon Treaty. Although the majority of parliamentary parties presently support the EU integration process, this assumption will be reviewed regularly as there are also issues that could disrupt political stability and therefore Programme progress i.e. Kosovo, the International Criminal Tribunal for Former Yugoslavia (ICTY) trials, Serbian Progressive Party call for early elections, etc.
2	The Government of Serbia remains committed to implement the Strategy for Public Administration Reform, with emphasis on accelerating and completing the decentralization process	Although there is a positive trend in the relationship between the central Government and municipalities, as the local self governments are taking more responsibility for citizens' welfare, the overall rate is slow. The Government of Serbia is continuing decentralization, and adopting the necessary policy and legislation to support this process. Serbian municipalities are becoming more involved in the reform, through SCTM WG/committees/advocacy activities. Further policies, envisaged for the coming period, such as the regulation of municipal property ownership, will give an additional boost to the decentralization process.

¹⁴ Please see Cooperation Strategy, Serbia 2010-2013, officially launched on March 8, 2010, available at: http://www.swiss-cooperation.admin.ch/serbia/en/Home/Cooperation_Strategy_2010_2013.

3	The impact of the current global financial crisis will not further impact municipal finances	<p>The global financial crisis has, according to experts, bottomed in Europe, while Serbia will remain adversely affected in the immediate future.</p> <p>The crisis has resulted in large cutbacks in financial transfers to municipalities in 2009, putting Serbia's intergovernmental finance system at risk and placing much pressure on LSG finances. While further cuts in transfers to municipalities seem unlikely, as that would bring LSG service provision to citizens to a standstill and would be strongly resisted by LSG and citizens, the level of transfers is expected to remain at the current level dependant on the rate of an economic recovery.</p> <p>EU funded Programmes like the PROGRES will be required to strategically plan with LSG programme resources and to identify new LSG funding sources for development to fill the gap of lost municipal revenues.</p>
4	Key stakeholders, especially cities, towns and municipalities, willingly participate in activities under the Programme	<p>Some local authorities will be more committed to Programme participation than others. The Programme will have a demand based approach and the flexibility to ensure that selected beneficiary LSG commit to active participation. The competitiveness of the grants' schemes, nature of infrastructure projects and the co-funding requirements should ensure positive participation.</p> <p>It should be noted that the cut in transfers as described under assumption 3 likely is to increase the demand for support from the PROGRES in preparation of planning documents and projects and an improvement of municipal finances as LSG seek alternative forms of financing for priority activities and plan for increased independence from central government transfers.</p>
5	LSGs have sufficient financial capacities to finance their own contribution to the grants awarded by the PROGRES grant scheme	<p>Municipalities will be required to provide co-funding for the grants awarded under the PROGRES. This has proven not to have been problematic in the previous area based programmes in the South and South West Serbia, despite the financial crisis which resulted in a significant reduction of transfers from the central Government.</p>
6	Officials who do not recognize importance of cooperation with the civil society (and vice versa) are supportive of CIF activities. The CIF Regional Selection Committee knows situation well in SW and South Serbia and shortlists projects in accordance to criteria. Sufficient number of good quality projects receives funding.	<p>Cooperation between municipalities and CSOs in South and South West Serbia is still undeveloped. Beside activities within PRO programme regarding CIF there have been no additional interventions in this area. It is expected that partnerships between municipalities and CSOs will be reinforced, by working on some real issues on the local level.</p>
7	The chosen statistical sample for Citizens' Satisfaction Survey, which could be small due to financial constraints, reflects citizens' satisfaction with municipal services. Municipalities, which normally do not monitor their services, are willing to act upon results of the CSS.	<p>Sampling is the key issue for analysis of citizens' satisfaction with the municipal services and methodology for sampling will be developed in accordance with the previous analysis done within PRO programme, based on perceptual bases, so that results can be comparable.</p>

8	<p>The Parliament of Serbia adopts Law on Free Legal Aid. Citizens are well informed about the existence of the Citizens Advisory Service.</p>	<p>It is expected that Law will be in place during 2011. This will mean that all activities regarding Citizen Advisory Services will have a legal background and more chances for sustainability.</p>
9	<p>Government and local government officials who have not been inclusive in the process of budget planning, recognize the importance of such approach.</p>	<p>The municipal annual budgets are prepared on the basis of previous budget taking in consideration inflation, potential increase of income and new expected spending. In order to have relevant developmental budget it is necessary that all stakeholders take part in preparation of the budget proposal taking into consideration developmental needs of the municipality.</p>
10	<p>Local government officials, CSOs and media recognize the importance of the transparency in budget preparation process and take part in OSCE training.</p>	<p>Although the Law requests transparency of budget preparation, often the municipalities just take actions such as public hearings in order to satisfy form rather than seriously take into consideration findings of the action.</p>
11	<p>PUCs, whose work has not been transparent to date, and which are not answerable to local assemblies, are willing to participate in the Programme and improve their accountability.</p>	<p>Although accountability of PUCs towards municipality is unquestionable there are situations where managers of the PUCs are political appointees and their accountability reaches just ruling majority in the assembly and this majority is not willing to call them on responsibility for functioning of PUC.</p>
12	<p>LSGs, who have been neglecting gender issues, become aware of legal obligations and willing to work towards achieving gender equality in their municipalities.</p>	<p>Gender equality is the legal obligation by the Law and LSGs have to work towards achieving results prescribed by the Law.</p>
13	<p>Media have capacity and knowledge to satisfactorily implement public campaigns.</p>	<p>Media in the South and South West Serbia are not so developed due to lack of financial sources. Nevertheless there are couple of relevant local media in the field but also desks of national media present in the South and South West Serbia.</p>
14	<p>Politicians in SS overcome their self interest and through moderation start including others in the works of LSGs. NMCs willing to participate in trainings.</p>	<p>In many municipalities there is a division of power between Mayor's Administration and the Assembly that can create problems in realization of projects. Constant communication is required with local officials on all sides to overcome the problem of division of power.</p>

15	Municipalities do have adequate space and technical documentation for CACs.	Any physical infrastructure development is preconditioned by a full scale of project technical documentation. Issues are present on the level of property ownership or municipal buildings are overcrowded so the lack of space is one of challenges that municipalities are facing.
16	Municipal officials regularly approve participation of their staff in trainings and same persons continually participate in training sessions.	As the municipal administration staff do not have clear ToRs they often receive additional tasks from municipal officials. Hence, often, the municipal servants do not follow the whole process of capacity building.
17	Premises and technical documentation exist for BICs. Municipalities fully dedicated to development of BICs.	Any physical infrastructure development is preconditioned by a full scale of project technical documentation. There are issues as to the level of property ownership or required technical documentation and the lack of space is one of challenges that municipalities are facing.
18	High interest for development of Clusters among stakeholders. Adequate level of cooperation with MoERD.	Clustering is relatively new concept among Serbian SMEs so the real knowledge about benefits of clustering has to be increased. Promotion of the ministerial program for cluster development will reinforce action in this regard.
19	Municipal officials recognize need for establishment of OSS. Adequate premises and technical documentation exist.	Services towards business sector are not so developed in any of the municipalities. Need for direct investments in businesses force municipal officials to pay more attention to real needs of investors regarding municipal services. Any physical infrastructure development has as a precondition the full scale of project technical documentation. Issues are present on the level of property ownership or municipal buildings are overcrowded so the lack of space is one of challenges that municipalities are facing.
20	Local tax offices exist in municipalities and are fully functional.	Although local tax offices should exist in every municipality, the level of their performance is questionable. In order to fulfil the tasks envisaged in the programme, one of the preconditions is to have a fully operational tax office in municipal administration.
21	Spatial Plans are adopted in time for General Regulation Plans (GRP) and for Detailed Regulatory Plans usage of locations are predefined in GRP.	Spatial and Urban Plans are connected in hierarchy where development of Urban Plans is not possible if Spatial plan is not in place. On the other side it is possible to include some already developed detailed regulation plans in preparation of General regulation plans and spatial plans.

22	High level of coordination between municipal administration and local PUCs exist.	Although formed by the municipality PUCs often works as separate institutions without real coordination with municipal administration. In order to have better planning process and distribution of budget it is necessary to have this coordination on a much higher level.
23	Municipalities are using their Sustainable Development Strategies in planning of investments.	All municipalities have adopted their SDS but implementation of those is on ad hock basis. Often, the strategies are used just upon donors' demand.
24	Cooperation between municipalities is on high level. Projects are embedded in Urban Planning documents and legal issues do not exist.	Cooperation among municipalities is on low level. It is rare that municipalities come with the common proposal for solving issues on their own. It is rather donor driven process and municipalities will be led towards cooperation and common approach to common issues.
25	Announced financial sources from Serbian Government, World Bank, EBRD, and other donor programmes are in place.	Financial crisis has significantly reduced level of investments during 2009. Nevertheless, a number of investment lines from the Serbian Government and international financial institutions for developmental projects have been announced in 2010.
26	Project documentation with building permits are provided by municipalities on time.	Slow process of issuing building permits, due to inefficiency of Cadastre and municipal administration, often prolong start of construction works. It is of high importance that technical documentation is timely prepared and issued building permit.
27	Programme donors participate in implementation of the Communication Strategy. Municipal officials, who are the key target audience, do not (mis)use Programme results for political promotion.	It is of high importance that messages developed within communication strategy are reinforced also by donors in order to have clear and strong approach towards beneficiaries on the first place municipalities. This will also prevent potential miss usage of programme results for political promotion of local politicians

3.2 Risks and flexibility

The Programme Team (PT) will carefully monitor potential risks and in consultation with the Programme's stakeholders and PSC, take counter measures. A risk assessment will be undertaken in the Inception Phase and formally updated in each Quarterly and Annual Reports.

The following risks have been identified for the PROGRES:

	RISK	Probability	Likely Impact	Assessment & Management Issues
1	Elections. National and local elections must be held by 2012 at the latest.	High	Moderate	Detailed Programme plans will take account of the elections scheduled for 2012. Any change to the election schedule will require

	Elections have proved disruptive for previous programmes, because elected officials focus on election campaigns at the expense of municipal management. At least one set of elections will be held during the programme period, possibly more.			an urgent revision of the Programme implementation plans, resource inputs and perhaps organizational structure.
2	Financial viability of municipalities. In 2009 transfers from central government to municipalities were drastically cut, putting a number of poorer municipalities at risk of bankruptcy. Bankruptcy would require central government intervention, administration and renewed elections. They would prove highly disruptive for processes of municipal development and investment plans.	Moderate	High	The PROGRES team will prepare contingency plans for support to bankrupt municipalities, in consultation with donors and the Ministry of Public Administration and Local Self Government. Should a bankruptcy occur in the PROGRES area, contingency plans to complete Programme activities will be put into effect, with approval from the PSC.
3	Lack of cooperation between the PROGRES and other Programme interventions in the field	Low	High	The PROGRES team will establish appropriate cooperation mechanisms with other programmes in the field, and hold regular coordination meetings.
4	LSGs have insufficient financial capacities to finance their own contribution to the grants awarded by the PROGRES	Medium	High	The requirements for municipalities to contribute to appropriate activities will remain, but may be reduced in some cases. In other cases, contributions may be requested in kind, as appropriate. Those may include staff time, office space, or similar.
5	Severe weather and other natural disasters. Much of the territory covered by the PROGRES is subject to severe weather conditions: snowfall, droughts and floods. Additionally, there is a small risk of earthquakes, particularly in the Prešovo Valley. This could delay implementation of construction projects, and change Programme priorities.	High	Medium	The Programme planning will take account of the risk of severe weather in winter. Other natural events will require a response to be developed once the extent of the impact of the event is clear.

6	Adequate Programme staff. Experience has shown that it can be difficult to recruit adequately qualified people to work in the more undeveloped and rural areas. Bringing people from outside risks the Programme being seen as not investing in the local communities, while recruiting under-qualified people risks slowing or harming Programme implementation.	High	High	Although the Programme will try to recruit staff locally, recruitment will be on a competitive basis. Salary levels will be commensurate with the position expertise required and difficulty of recruiting/or relocating to these less developed areas. Furthermore, allowances will be made for staff training, learning and development. The office in Novi Pazar will remain the key hub to support the eight municipalities in the South West Serbia, while another project office will be located in Prokuplje, with a sub-office in Vranje
7	Increased donor activity in the region leads to overlaps and confusion within the municipal management structures	Medium	Low	The PROGRES team will hold extensive consultations prior to the start and during implementation with relevant donors/donor project representatives to prevent anticipated difficulties.
8	Organizational culture resists changes to administrative processes, organizational structure and methods of work	Medium	Medium	The organizational development will be approached carefully, involving municipal leadership in the process from the earliest stages. Feasible changes will be proposed incrementally and not at once.
9	Political gridlock between municipal government and municipal assembly interfere in project implementation	High	High	There will be a clear message from the PROGRES team and donors that particular LG involvement will be discontinued without support and cooperation of all political parties and relevant stakeholders. The project interventions will be focussed on activities that have been identified as priorities by all stakeholders (regardless of their political affiliation). The PROGRES's communication efforts will be directed to widely publicize Programme to the public in order to build pressure of the citizens for project implementation.
10	Interethnic tensions in South West Serbia.	High	High	PROGRES, as a developmental Programme, will work with elected representatives in municipalities and civil society organizations. There will be a clear message from the PROGRES team and donors that particular LG involvement will be discontinued without support and cooperation of all political parties and relevant stakeholders.
11	Possible changes in municipal management before elections			Constant communication with municipal management and representatives of political parties in municipal Assembly will be in place in order that any potential change in governing structure will not influence implementation of activities.

4 Implementation

4.1 Physical and non-physical means

Financial resources will cover all Programme costs, including:

- Staff and other necessary human resources
- Travel and transport

- Office and IT
- Visibility
- Activities

The financial and administrative records will be kept according to the UNOPS rules and procedures, using double-entry bookkeeping system. Specifically, the Programme will keep:

- Accounting records (computerised or manual) from the UNOPS accounting system such as general ledger, sub ledgers and payroll accounts, fixed assets registers and other relevant accounting information;
- Proof of procurement procedures such as tendering documents, including bids and evaluation reports;
- Proof of commitments such as contracts and order forms;
- Proof of delivery of services such as approved reports, time sheets, transport tickets (including boarding passes), proof of attending seminars, conferences and training courses (including relevant documentation and material obtained, certificates), etc;
- Proof of receipt of goods such as delivery slips from suppliers;
- Proof of purchase such as invoices and receipts;
- Proof of payment such as bank statements, debit notices, proof of settlement by the subcontractor;
- For fuel and oil expenses, a summary list of the distance covered, fuel costs and maintenance costs;
- Staff and payroll records such as contracts, salary statements, time sheets. For local staff recruited on fixed-term contracts, details of remuneration paid, duly substantiated by the person in charge locally, broken down into gross salary, social security charges, insurance and net salary.

4.2 Organisation and implementation procedures

The principal parties involved in the Programme and their responsibilities are as follows:

The United Nations Office for Project Services

The UNOPS has the overall responsibility for Programme implementation. The UNOPS is responsible for achieving the Programme objective through the delivery of Programme results.

All Programme staff will be positioned in two project offices: one in Novi Pazar and the other in Prokuplje, and in a sub-office in Vranje. The staff will be accountable to their line managers for performance.

The Delegation of the European Union

The Delegation of the European Union (EUD) is one of the contracting authorities for this Programme, and takes a shared responsibility for monitoring the implementation of the Programme.

The Swiss Agency for Development and Cooperation

The Swiss Agency for Development and Cooperation (SDC) is the other contracting authority, and also takes a shared responsibility for monitoring the implementation of the Programme.

The Government of Serbia

The Government of Serbia is a major stakeholder in the Programme, and a financial contributor. It has a responsibility for monitoring Programme implementation, and providing assistance and facilitation as necessary.

Participating Municipalities

25 municipalities in the South and South West Serbia are the key stakeholders, beneficiaries and a financial contributor to the Programme. They have responsibility of taking ownership of activities implemented in their territory.

4.3 Timetable

The Programme implementation period will last for 36 months. The indicative start date is 1 May 2010.

The UNOPS will provide a detailed implementation plan, with key milestones, as part of the inception report.

4.4 Programme Steering Committee (PSC)

The aim of the steering mechanism, to be established in the inception period, is to ensure that the PROGRES provides relevant and effective support to the social and economic development of the South and South West Serbia. The steering mechanism will have the following functions:

- Informing all stakeholders of the Programme's activities, progress and results;
- Providing a forum for discussion of issues arising;
- Enabling decisions to be made regarding the overall design and content of the Programme;
- Reviewing and approving planning
- Endorsing Programme implementation reports

The Core Steering Committee will be comprised of representatives of line ministries, donors and the SCTM. It will meet on quarterly and ad-hoc basis, as required.

The six-month General Meeting will gather the Core Steering Committee, plus all mayors from the PROGRES area. Other local and regional development programmes will also be invited and additional participants as appropriate. This meeting will have a more informative character, and will provide an opportunity for stakeholders to raise issues for discussion.

The PROGRES will provide budget and administrative support for organising all steering meetings, with the Programme Manager acting as Secretary to the PSC.

4.5 Costs and financing plan

Financial resources will be provided as follows:

- The EU will provide EUR 13.5 million
- The SDC will provide EUR 2.5 million
- The Government of Serbia will provide a minimum of EUR 1.5 million
- Beneficiary municipalities will make additional resources available as part-contributions to sub-projects. These may be in kind or as financial contributions.

The total cost of the Programme, with the Government co-funding will be a minimum of EUR 17.5 million. A detailed budget is also attached to the grant agreement as an Annex.

4.6 Special conditions/accompanying measures taken by the Government

There are no special conditions or accompanying measures necessary from the Government for the implementation of this Programme. The Programme grant to the UNOPS is envisaged in the IPA 2010 Financing Agreement signed between the Government and the European Union as well as the bilateral contract signed between the Government of Switzerland, represented by the Swiss Agency for Development and Corporation (SDC) and the UNOPS.

5 Factors ensuring sustainability

The issue of sustainability is central to the design of the Programme. Its overall approach – providing support to local institutions to invest, develop, learn and take ownership – means that the Programme will place local institutions in a stronger situation to carry out their existing mandates.

5.1 Policy support

As an area-based Programme, the primary role of the PROGRES is not to develop new policy; rather it is to support the implementation of policy at local level. However, by being close to the ground and maintaining good contacts at central level, the PROGRES can be an effective feedback loop. It will be able to inform central level institutions about the practicality and effectiveness of their policies, and provide recommendations for modifications if necessary. It can also highlight needs for new policy

level action where needed. Specific actions will be identified in response to specific situations that arise during implementation.

5.2 Appropriate technology

The technologies applied through the Programme will reflect consideration of their need to operate in a longer run. The introduced software for improvement and modernization of municipal services will be tailor-made within the given framework for Serbian municipalities. This will ensure compatibility with other systems already applied in other local self-governments in Serbia, which is a prerequisite for local e-government.

In the area of infrastructure development, appropriate quality standards and assurance mechanisms and technologies will be promoted.

Internally, the UNOPS has the technical capacity to maintain its intranet, Atlas accounting system, its global learning network as well as the financial means to maintain its infrastructure.

5.3 Environmental protection measures

All Programme activities will reflect the principles of environmental protection and local sustainable development, complying with both Serbia and where possible, EU legislation.

Furthermore the project will promote the awareness and the understanding of the environmental issues throughout the implementation, while at the same time addressing them to higher instances on the level of the Government of the Republic of Serbia.

5.4 Social aspects

The Programme will contribute to socio-cultural communication and non-discriminative and multi-ethnic exchanges of experience and cooperation between all stakeholders. Tolerance, dialogue and communication between all partners at the local and regional level, as well as with the central level Government will be promoted.

The social and cross-cutting objectives, such as gender equality, national capacity, environment sustainability and minority representation are addressed within each Component, through an area based approach. As the full participation of women and minorities is a prerequisite for long term socio-economic development and creation of good local governance, the Programme will mainstream gender policy and gender equality through all envisaged activities.

The separately Swiss funded Migration Component which runs until the end of 2010 will underpin these social aspects and be integrated into the PROGRES proper. This is described briefly in *Section 1.6. Other Interventions*, while a separate proposal has been approved by SDC. This proposal would be made available on demand, subject to SDC approval.

5.5 Institutional and management capacity

The Programme is focused on the organizational strengthening and development of capacities of local stakeholders (municipal leadership and administration, civil society organizations, sectoral organizations at local level (health, social policy, labour, education, etc.), development agencies and business communities to facilitate and achieve socio-economic development of the South and South West Serbia. That is, the support will be geared to enabling these institutions to improve the performance of their work, by making investments in systems and in people.

At the same time, through direct support to the municipalities, the Programme will enhance municipal efforts to reform and modernize services, to increase responsibilities in the process of implementation of local and regional development plans, and thus to become key players in the developmental process.

5.6 Financial capacity

The Programme represents a viable long-term investment in so far as permanent capacities of the Government officials are to be developed. The PROGRES will directly support development of an enabling environment for better delivery of municipal services and local development. This will facilitate municipalities to attract more financial investments, at the same time operating in a more cost effective manner.

All Programme activities are governed by laws or national strategies and the Programme will not be introducing any new services or actions that have not already been legally required. There is a concern whether the local governments could afford to continue to provide these services and activities after the PROGRES, but that is partly under the responsibility of the Ministry of Finance which makes decisions on transfers to local government. However, promoting sustainability of Programme outcomes will be a priority; with improvements in tax gathering and financial and programme management, cultivation of other funding sources and the development of a Programme Exit Strategy with sustainability at its centre, many outcomes and thus impacts will be long term.

Overall, the PROGRES support to the implementation of fiscal decentralisation will have a positive impact on municipal incomes. However, local incomes in some of the poorer municipalities are generally less than 30% of total income with therefore any increase in local income through the Programme for these municipalities only capable of being marginally improved requiring alternative solutions to be explored.

6 Monitoring and Evaluation

6.1 Reporting requirements

Inception report

The Programme will prepare an inception report within three months of its official start date. The report will confirm and/or redefine the objectives and relevancy of the Programme, its results (including verifying the quantified indicators of achievement and methodology). It will also set out a detailed work plan for each activity, including a list of deliverables per activity; identify the experts required; outline the management structure and any possible commitments required from stakeholders and beneficiaries.

In addition, some open issues such as LSG performance measurement, with governance assessments and citizen satisfaction surveys and exploring avenues to associate the academic world to the Programme (especially political sciences) will be further explored during the Inception Phase.

The Inception Report will include an updated logical framework matrix following the EU project cycle management guidelines. The report will detail how the cross-cutting issues of governance primarily, environmental protection, minorities and gender mainstreaming will be incorporated in the implementation of the project. Activities conducted during the inception period and activities planned for the subsequent reporting period will be detailed.

Monthly Reports

Monthly Reports will be submitted at the end of the first week of the next calendar month. The Monthly Progress Report (maximum of five pages) will summarise Programme/component progress, issues or constraints encountered and any proposed changes and solutions compared to the previous report.

The monthly report will distinguish between activities achieved, activities considered finished and activities currently underway. Emphasis will be on progress to purpose.

A separate financial report will be sent to the EUD and the SDC monthly, while a monthly management meeting will be held at the EUD to discuss progress of the Programme.

Quarterly Reports

The Programme will provide regular quarterly reports to all members of the Steering Committee. The progress reports are to be submitted within 10 working days after the end of the reporting period.

The Quarterly Reports, commencing three months after submission of the Inception Report, will present an updated table of activities in relation to the key indicators as defined in the Log Frame, update the Programme chart, detail Programme progress, describe difficulties encountered in the course of implementation, present results accomplished during the reporting period, resources utilized as well as detailed planning of project activities for the forthcoming reporting period.

Annual Reports

Annual Report will be prepared at the end of each year of implementation. The Annual Report will substitute for the quarterly report for the last quarter of the year. Annual Report will be submitted to the PSC and all relevant stakeholders, in English and Serbian, ten days before the Annual General Meeting as detailed in the Section 5.4 above.

Final report

This Report will include a complete overview of all activities implemented during the performance of the Programme. The report will also contain an assessment of the impact of the Programme, measured against the stated objectives and the indicators of achievement included in the Log-frame Planning Matrix.

The final report will also include a Synthesis Report for each Programme Component; an in-depth analysis on each Component presenting a synthesis of key issues / key problems/ results/ lessons learned/ issues to be addressed/ views and recommendations, etc.

The Final Report will be submitted as stipulated by the Grant Contract and will include a description of all aspects relevant to implementation as per general EU requirements.

6.2 Monitoring

Apart from internal monitoring by the Programme team, formal Programme independent monitoring will be performed by the EU and the SDC according to their standard procedures. In addition, the UNOPS has a strong financial and programmatic audit framework which will provide another layer of monitoring to the Programme.

Both monitoring and evaluation will be based on periodic assessment of progress and delivery of specified PROGRES results towards achievement of Programme objectives. Suitable objectively quantifiable indicators will be agreed between the donors and the Programme and reflected in the reports mentioned under Section 7.1. The PROGRES team will hold periodic learning workshops, in which they assess themselves and the Programme's progress, with a view to strengthening their work and the impact that they are having in line with the overall objectives.

Further monitoring and evaluations' inspections could be undertaken by specialist consultants contracted separately, as the EUD and SDC decide. The EU Court of Auditors may inspect any EU programme as and when deemed necessary subject to the conditions of the Framework Agreement on Financial Assistance (FAFA).

There are two phases to consider in the monitoring: continuous monitoring framework and developing an Exit Strategy.

In the continuous monitoring framework, there are three critical aspects of the Programme to monitor: inputs, outputs and impact. Each aspect will have its own monitoring procedures and reporting.

Input monitoring covers financial monitoring and activity reporting from the side of the Programme team. Weekly, monthly and quarterly reports will be produced detailing expenditures, resource input, financial transfers, activities ongoing or completed, and support provided by consultants and other contractors.

Output monitoring will primarily focus on achievement of milestones and planned outputs against the Programme plan. Outputs will be detailed in the monthly and quarterly reports as for inputs. There will be an additional element to ensure that client organisations are delivering outputs to the expected quality and quantity. This will be an internal audit process of implementing partners conducted on a contract by contract basis by the Programme team. All project agreements will stipulate the possibility of an internal audit, and spell out the potential consequences of poor audit results.

Impact monitoring will be made subject of mid-term evaluation and final report. This will require development of a set of instruments to indicate social and economic change within the Programme area, which can compare with the social and economic situation outside the area. One source of information will be the Citizens' Satisfaction Surveys. Other data will be drawn from available official statistics.

An Exit Strategy will be finalised in the course of the second year of the Programme although it will be a prime consideration from commencement, with baseline data gathered. In the preparation of the Exit Strategy, indicators will be established, to point out the impact that the PROGRES had on institutional change in the Programme Area.

6.3 Evaluation

The PROGRES has taken into consideration the evaluations of both the MIR and PRO Programmes and has addressed the key recommendations in this document, in particular: recommendations related to the need to more regularly update and verify logframes; to include more local infrastructure projects as compared to technical assistance; and to continue to encourage civil society through stepping up the Citizen Involvement Fund.

The PROGRES will be evaluated at least twice, depending on Donors' needs. The mid-term evaluation will be based on assessment of output-to-impact. It will consider the extent to which the Programme's achieved and planned outputs have been contributing to the intended impact. Following mid-term evaluation, the Log Frame will be adjusted accordingly.

The final evaluation will be conducted before the end of the Programme. It will assess Programme implementation on the four standard EU and SDC evaluation criteria: relevance, efficiency, effectiveness and impact.

Annex I - Summary of Relevant Laws and Regulations

Foremost, the right of citizens to local self government is protected by the Serbian Constitution.

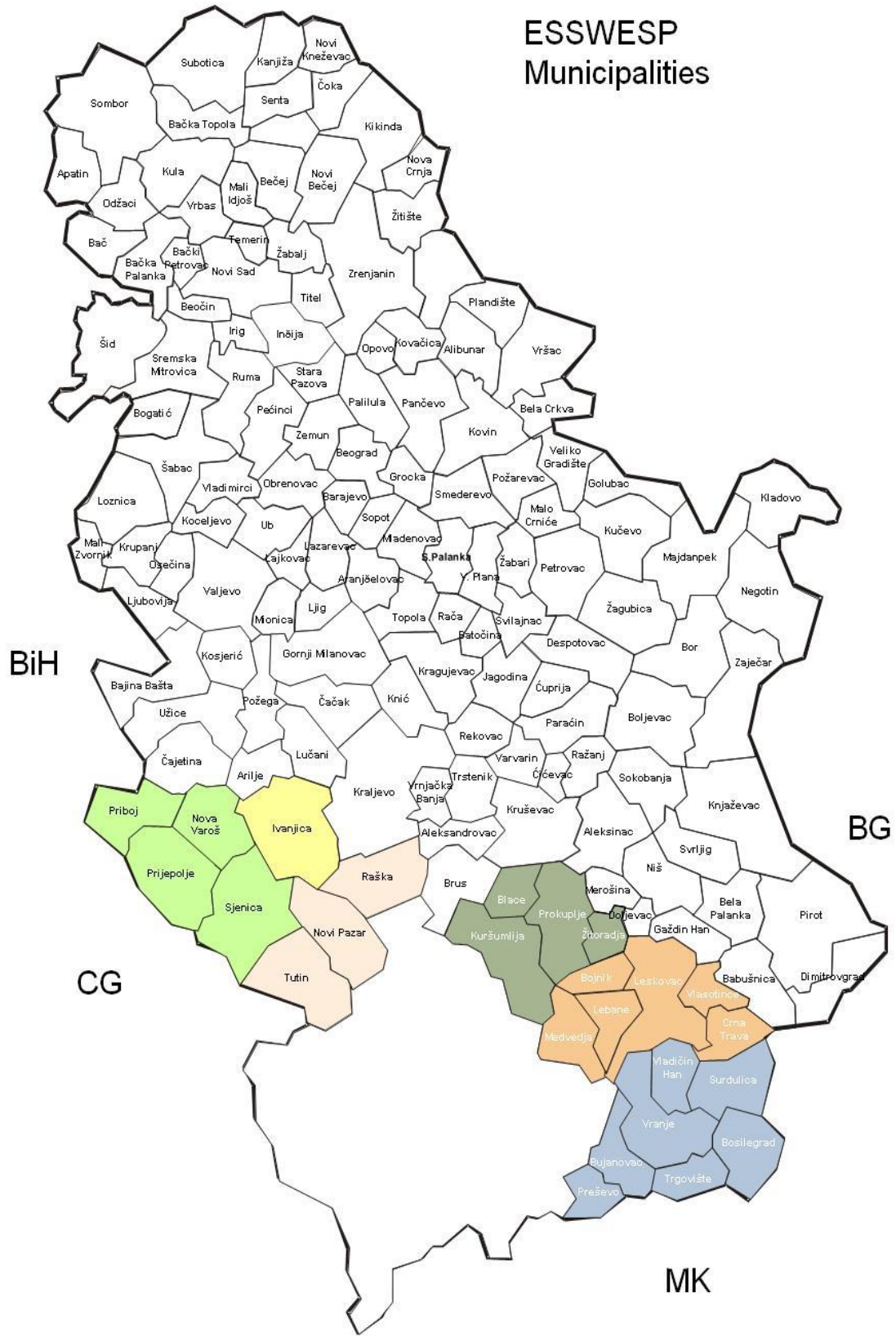
Strategic documents:

- The National Strategy of the Republic of Serbia for EU Accession, Serbian European Integration Office, June 2005
- The Poverty Reduction Strategy for Serbia, Government of Serbia, 2003
- The Strategy of Public Administration Reform in the Republic of Serbia, 2004
- The National Employment Strategy 2005-2010
- The Strategy for Integration of Returnees admitted through Readmission Agreements
- The Regional Development Strategy

Legislation:

- The Law on Local Self Government
- The Law on Property Owned by the Republic of Serbia
- The Law on Public Procurement
- The Law on Public Revenue and Expenditures
- The Law on Territorial Organization
- The Law on Local Elections
- The Law on Labour Relations in State Bodies
- The Law on Labour
- The Law on Salaries in State Bodies and Public Services
- The Law on Common Administrative Procedures
- The Law on Administrative Dispute
- The Law on Local Government Finance
- The Law on Budget System
- The Law for Public Enterprises and Common Services
- The Law on Communal Services
- The Law on Environmental Protection
- The Law on Strategic Environmental Impact Assessment
- The Law on Environmental Impact Assessment
- The Law on Integrated Environmental Pollution Prevention and Control
- The Law on Waste Management
- The Law on Packing and Packaging Waste
- The Law on Air Protection
- The Law on Managing Chemicals
- The Law on Biocides
- The Law on Nature Protection
- The Law on Protection from Ionizing Radiation and Nuclear Safety
- The Law on Protection from Non-Ionizing Radiation
- The Law on Protection and Sustainable Use of Fish Fund
- The Law on Noise and Vibrations
- The Law on Public Services
- The Law on Foundations of Education System
- The Law on Elementary School
- The Law on Secondary School
- The Law on the Social Protection and Social Safety
- The Law on Health Protection
- The Law on Water
- The Law on Planning and Construction
- The Law on Regional Development

Annex II - Map of Programme Area



Annex III - Programme Partners

The Programme will be implemented by the United Nations Office for Project Services (UNOPS), together with implementing partners as appropriate.

The UNOPS Financial Regulations and Rules allow for Grant Support defined as “a project activity which is outside the framework of procurement activities, and is undertaken by way of grants, credits or loans carried out through an implementing partner”. Grantees may be selected by the funding source and specified by name in the project agreement or an amendment thereto. UNOPS may award grantees to such specified grantees without going through its own competitive selection process. This can also be done for grantees not selected/specified in the project agreement or amendment thereto if such project agreement/amendment specifies the methodology for selection of grantees.

In this regard, the following Grantees have been selected as implementing partners:

- Regional Development Agency ‘Zlatibor’, Užice, which covers the municipalities of Nova Varoš, Prijepolje and Priboj
- Sandžak Economic Development Agency (SEDA), in Novi Pazar, which covers the municipalities of Novi Pazar, Tutin and Sjenica
- Regional Agency for Spatial and Economic Development of Raški and Moravički Districts (RDA Kraljevo)
- Centre for Development of Jablanica and Pčinja districts (RDA Leskovac)
- Vranje Economic Development Agency (VEDA)
- Bujanovac Economic Development Office
- Development Association South, Niš, covering Prokuplje, Blace, Kuršumlija and Žitorađa
- Civil society organisations: Sandžak Committee for Human Rights, DamaD, Civil Resource Centre Bujanovac, Forum Prijepolje,
- Media: Sandzak Danas, Radio Sto plus, TV Forum Prijepolje, TV Spektri Bujanovac, Radio Ema Bujanovac

Other implementing partners will be identified in line with the UNOPS Rules and Regulations throughout the course of the Programme on a case-by-case basis and submitted for approval to the Programme Steering Committee. The Programme’s Inception Report will detail a proposed methodology for selection of grantees and for adoption by the Programme Steering Committee.

Annex IV – Overview of Other Interventions

The SCTM, which is set to become a major project partner, is involved in or implementing a number of projects financed by different donors which will have great impact on LSG in the project area. These include among others:

- (1) “*Capacity Development for the Standing Conference of Towns and Municipalities*” - This project, managed by the UNDP and funded by SIDA, has been running from November 2006 and will come to an end in the first half of 2010. The first component of the programme focuses on assisting the SCTM with developing its organizational structure, HRM, Finance section (software), while it also developed the SCTM strategy and business plan. The second programme component focuses on key activities of the SCTM Training Centre. Activities under this component include carrying out a comprehensive Capacity Development Needs Assessment (CDNA), training of municipal employees, development of a database of trainers, and providing inputs to improvement of administrative procedures on the local level.
- (2) *Social Policy Reform Project (SPRP)* - funded by DFID - The aim of the project is to build and strengthen the partnership between the state and civil society, their social policy planning and service delivery in order to reduce the level of poverty and social exclusion in Serbia. The emphasis is placed on the partnership between the state and nongovernmental organizations and a close co-operation between various ministries conducting their projects and initiatives with the same goal.
- (3) GTZ-financed projects aimed at improving of municipal public services: *Modernization of Municipal Public Services, Land Management / Cadastre, Support of the Intergovernmental Finance System in Serbia*
- (4) KfW programme “Credit lines to Improve Municipal Infrastructure in Serbia“- KfW funded programme of approximately 50M€ available to municipalities in the form of credits (at favourable terms) for municipal infrastructure projects. This fund will be disbursed as credit lines through selected commercial banks and targets “small” projects under 800.000€.
- (5) *Increasing Citizens Participation in Serbia – phase II* – this SDC supported project aims at establishing effective and sustainable mechanisms of Citizen Participation at the local level in Serbia. After a study phase, which produced a comparative research and a list of recommendations, six pilot Municipalities were selected to implement the second phase and to put into practice the recommendations of the first phase. The Project is currently supporting six municipalities. The main project partners at the local level are the municipal authorities, the local communities (mesna zajednica), the local NGOs and groups of citizens. At the national level, there is a close cooperation with the Ministry of Public Administration and Local Self-Government and with the Parliamentary Commission for Local Self Government

Among the EU-financed programmes, the SCTM has implemented the following:

- A. *Exchange 1* – this EU-financed and EAR-managed grant scheme, in the period November 2004 – March 2008. Through the grant scheme a total of 49 projects of Serbian municipalities were financed through two calls for proposals. Serbian municipalities were provided technical assistance by their EU partner municipality, i.e. municipal twinning on a project basis. This was the first EU-funded programme implemented by the SCTM and laid the foundation for the grant management capacities of the SCTM, that still are in place today.
- B. *Sustainable Development in Towns and Municipalities in Serbia* (funded under CBC programmes) – SCTM has provided support to 7 pilot municipalities to develop sustainable development plans, including: Bečej, Koceljeva, Paraćin, Prokuplje, Smederevska Palanka, Sombor and Varvarin. In addition, this project was focused on further development of the *Coalition LA21*, as a network of LSGs with developed sustainable strategic plans and grouped around implementation issues.
- C. *Preparation of Serbian LSGs for EU Integration Processes* (funded under EIF programme) – the primary activities implemented included development of the SCTM EU Integration Action Plan and capacity building activities (training and study tour) targeting SCTM Committee on EU Integration and International Cooperation.

Currently the SCTM implements and/or cooperates together with the following EU-projects:

- (1) *Exchange 2* –consists of two parts: a services contract for TA and an operational grant for the SCTM. The Exchange 2 TA aims to: (a) Strengthen the SCTM through carrying out a member needs analysis, providing, training, assistance in developing action plans for services and advocacy, and development of documents for the SCTM's international affairs, (b) Develop a legal review of legislation relevant to LG and sector analyses, (c) Develop a methodological framework for strategic planning at the local level (LSDS) and assisting 25 municipalities in developing such LSDS and (d) Strengthen the capacities of 10 municipalities through Municipal Support Packages (technical assistance)
The operational grant aims to support the SCTM in its transition to a more service-oriented organization focusing on member needs and to support Serbian municipalities in development of LSDS and includes following components: (i) Strengthening administration function of the SCTM Secretariat, (ii) Strengthening information and communication function of the SCTM, (iii) Strengthening advocacy function of the SCTM and (iv) Strengthening service provision function of the SCTM.
- (2) *Municipal Support Programme - North East Serbia (MSPNE)* –designed to improve standards of living in the North East Serbia by promoting sustainable socio-economic development. It aims to enhance local governance in 29 municipalities of the North East Serbia, improving of local competitiveness of the region while enhancing socio-economic cohesion between local communities. MSPNE has piloted multi-annual/programming budgeting in two municipalities covered by the programme. The experiences and lessons learned of these municipalities have been used in workshops on municipal finance carried out under the Exchange 2 programme. In addition, the project has supported redesigning of the SCTM web site.
- (3) *Municipal Infrastructure Support Programme (MISP)* –was launched in early 2007 and will be finalised by the end of 2009. The ownership of the SLAP software and database, developed under MIASP and MISP and used to identify the status of municipal investment project documentation in progress, was transferred to the SCTM by the end of 2007. After the transfer of the SLAP database, MISP has provided expert support to the SCTM related to upgrading the software, maintenance of the SLAP database and assessment of municipal projects to be included in the SLAP database. The follow-up of the MISP programme, MISP II, which started in early 2010, mainly focuses on supporting municipalities in the SLAP database in developing the proper documentation for municipal investment projects up to the level that they can be submitted for financing. The SCTM is tasked with maintaining the database, adding new entries, keeping the database up-to-date and improving the SLAP web application
- (4) *European Union CBC/Neighbourhood Programmes* focus on promotion of sustainable economic and social development, protection of environment, fight against organized crime, improvement of border control and promotion of people-to-people actions on both sides of the borders concerned. The Programmes aim at reducing differences in the levels of development between regions on both sides of the EU external borders, and at promoting contacts between local communities in cultural, social and economic co-operation. Furthermore, under the new EU financing instrument "Instrument for pre-accession" (IPA) Serbia is eligible for financial support under two components of which one is Cross-border co-operation (IPA CBC). Also, the SCTM has regular meetings with member municipalities and other donors active in the sector. With this regard the crucial support required by the local communities is in developing their absorption capacity for successful participation in EU CBC programmes through strengthening their skills in developing project proposals.
- (5) *RSEDP 2* – is the EU technical assistance programme to support the RDAs throughout Serbia. RSEDP team, comprising regional economists and development advisors, working with all the existing RDAs and those stakeholders in parts of Serbia that do not have RDAs, but where there is an interest in regional development.
- (6) *Strengthening Local Self-Governments in Serbia (Phase II)* – this project aiming at further development and consolidation of the results previously achieved in the area of legal and institutional reforms. Four key areas planned include: (i) consolidation of legal and institutional framework of local self-governments; (ii) improvement of financial arrangements for LSGs and further support to fiscal decentralisation; (iii) introduction of coordination mechanisms and

development of overall decentralisation strategy and (iv) increase of citizens' participation on the local level and raising of general awareness of the issues related to the work of LSGs. This project is also part of the IPA 2007 MSP project fiche.

- (7) *Council of Europe (CoE)* programmes have an objective to establish an efficient local government system, in order to promote good governance and a more effective provision of services to citizens. The CoE works with the SCTM and other partnerships supporting the: consolidation of the institutional and legal framework for local self-government in the areas of basic legislation, town and municipal statutes, legal status of staff, law on communal police, election laws, administrative supervision); improved financial arrangements for local self-government and support to fiscal decentralisation (in the areas of local budgets, expenditure standards municipal property, equalisation system, municipal debt, auditing system); strengthened co-ordination mechanisms and decentralisation strategy; enhanced citizen participation at local level and awareness raised on local government issues, through the support to the drafting and implementation of a Law on Local Referendum and Popular Initiatives.

Useful partners among the ongoing or planned programmes are also WB, SIDA, the Swiss supported Municipal Support Programme in Central Serbia.

The USAID funded MEGA Programme will continue good practice of previous activities with specific focus on economic development through national-level policy advocacy, municipal capacity building for local economic development, local private sector development, and, more specifically, support to the SCTM training activities through a hand-over of training programmes related to the local economic development to the SCTM training centre. The follow-up on the MEGA programme (MEGA II) is expected to start work upon completion of the MEGA programme, and is likely to continue its focus on economic development

Annex V – Key Planning Documents

No	Municipality	Local Economic Development Strategy	Plan for Capital Investments	Solid Waste Management Strategy	Waste Water Management Strategy	Strategy Plan for Gasification	Local Plan for Communal Heating	Energy Efficiency Strategy	Local Sustainable Development Plan	Spafal Plan	Local Action Plan	Local Action Plan for Children	Local Action Plan for Youth	Local Strategy for Social Protection	Strategy for Rural development	Communication Strategy	
1	Blace								Y								
2	Bojnik							Y		Y		Y				Y	
3	Bosilegrad							Y									
4	Bujanovac							Y									
5	Crna Trava							Y									
6	hanjica							Y				Y					
7	Kursumlija							Y	Y			Y					
8	Lebane							Y	Y		Y	Y					
9	Leskovac	Y						Y									
10	Medvedja							Y		Y		Y				Y	
11	Nova Varos							Y			Y						
12	Novi Pazar							Y			Y						
13	Presevo							Y									
14	Priboj							Y	Y		Y		Y				
15	Prijepolje							Y			Y						
16	Prokuplje	Y						Y	Y		Y		Y	Y			
17	Raska							Y				Y					
18	Sjenica							Y			Y						
19	Surdulica							Y	Y			Y					
20	Trgoviste		Y														
21	Tutin							Y									
22	Vladicin Han			Y				Y		Y	Y		Y			Y	
23	Vlasotince							Y				Y					
24	Vranje							Y	Y		Y				Y		
25	Zitradja	Y															
Total number		3	1	1	0	0	0	0	21	6	3	10	0	11	1	1	3

Annex VI – EU and SDC Support to the South and South West Serbia since 2002

South Serbia	South West Serbia
<p>1. Rapid Employment Programme (January 2002 – June 2003) - REP</p> <ul style="list-style-type: none"> • Funding: 4 million Euro • Donor: EC through EAR <p><i>Objective:</i> to contribute to stabilization of peace and recovery of the local economy.</p> <p><i>Purpose:</i> to create immediate temporary job opportunities for unemployed through projects of infrastructure rehabilitation and environmental clean-ups.</p>	<p>1. Municipal Support to South West Serbia (PRO)</p> <ul style="list-style-type: none"> • EC through EAR July 2006 to Dec 2007 – 2.2€m • SDC July 2006 to June 2008- 1.2€m <p><i>Objective:</i> to provide support in facilitating socio-economic development by effectively using EU and Swiss Government funding support.</p> <p><i>Purpose:</i> develop capacities of local stakeholders and local governments so that municipalities in South West Serbia, individually and jointly, plan and take strategic action to achieve the sustainable socio-economic development of the region:</p> <ul style="list-style-type: none"> • based on sustainable development plans and EU funding requirements, and • creation of inter-municipal and area based development partnerships for sustainable socio-economic growth and to better exploit future EU funding support in South West Serbia.
<p>2. MIR1-Municipal Improvement and Revival Programme (July 2003 – Sep 2005)</p> <ul style="list-style-type: none"> • Total Programme Budget 7.5 million Euro • European Union through EAR 6.5 million Euro • Government of Republic of Serbia 1 million Euro <p><i>Objective:</i> to contribute to the implementation of the national strategies for Poverty Reduction (PRSP) by strengthening the environment for political stability and community capacity building in southern Serbia within the decentralization policy of the Republican government.</p> <p><i>Purpose:</i></p> <ul style="list-style-type: none"> • strengthen municipal capacities for service delivery, • strengthen community and civil society structures through participation in municipal planning and identification of key development priorities, • implement labour intensive subprojects selected from priority lists to continue economic support 	<p>2. Municipal Support to South West Serbia Phase 2 (PRO II)</p> <ul style="list-style-type: none"> • EC March 2007 to Dec 2009 - €4.91m • SDC Sept 2007 to April 2010 - €1.51m <p><i>Objective:</i> To strengthen local governments in facilitating socio economic development and improvement of living standards</p> <p><i>Purpose:</i></p> <ul style="list-style-type: none"> • provide support to inter-municipal activities through establishment of regional development agencies • to enhance good local governance and to • improve overall socio-economic situation through implementation of strategic priorities on the municipal and inter-municipal (regional) level
<p>3. MIR2-Municipal Improvement and Revival Programme (Dec 2005-end of 2008)</p> <ul style="list-style-type: none"> • European Union through EAR 6.5 million; • Swedish International Development Agency 1 million; Austrian Development Agency 1.5 million; Norwegian Government 200,000; • Government of Republic of Serbia min 1 million 	<p>Govt and municipal co funding for both phases over €1m In Kind contributions substantial</p>

<p><i>Objective:</i> to build local government capacities so that southern Serbia municipalities, individually and jointly, plan and take strategic action to achieve the sustainable economic and social development of the region and to fulfil their obligations to citizens.</p> <p><i>Purpose:</i> Municipal and district stakeholders co-operate to implement joint actions to address key regional development problems and are prepared to formalise or institutionalise their co-operation on regional development.</p>	
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The Governments of Switzerland and Lichtenstein have funded the Migration programme in the South West Serbia, through PRO, since September 2008, to a value of around one million Euros, and will continue to do so until the end of 2010 through the PROGRES.

A Potential Outcome of Note

In the South West Serbia, a number of projects were implemented on an intermunicipal level which have made a difference in relationships between municipalities.

Namely, as the result of political difference in municipal leadership these municipalities haven't cooperated in solving common problems in the way that they could have and there was a level of mistrust between them. Through implementation of common projects within PRO and MIR programmes, this situation has slightly changed. By putting developmental issues in the first place, these municipalities have started to cooperate and to build their relationship in the way that may help to reduce political tension.

Furthermore, Ministries are organized in such a way which did not allow inter-ministerial cooperation, in the implementation of developmental projects, on a satisfactory level. With the influence of PRO programme, which facilitated horizontal links between Ministries, and vertical links between ministries and municipalities, in implementation of common developmental projects, political differences were set aside and synergy effect was created for the benefit of all. The Uvac Reserve Visitor Centre project, the Golija Mountain Development Plan and the Kopaonik Mountain planning have brought numerous stakeholders together and now have also made the possibility of PPP projects possible in the next two years.

On this basis, any new project should continue to reduce political tensions in the South and South West Serbia, because communication and cooperation 'for development' are the tools for building trust and economic integration in Serbia rather than continuing processes of isolation and segregation by focusing primarily on ethnic angle. Specifically, ethnic issues are within the purview of other organizations mandated with development, with a purpose to bring different groups together and primarily to solve common problems.

This denominator has emerged as a specific outcome of the PRO and it is the one that could be built upon.

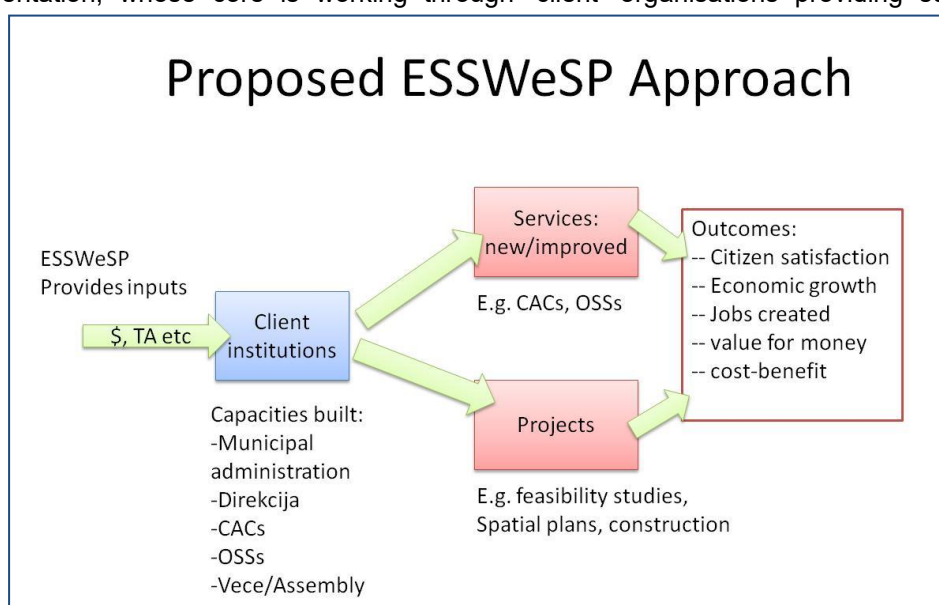
Annex VII – Overview of the Implementation Approach

The PROGRES strategy is to enable municipalities to accelerate their reforms and investments, and to close the gap between richer and poorer municipalities. It will not develop new policies but will rather assist in the piloting of centrally developed initiatives, or rolling out tested and approved methods at the local level.

Since the PROGRES will be working for only three years, it needs to have a clear initial impact, in terms of visibility and perceptions, on the capacities of the areas to accelerate their adoption of reforms, and enable them to take advantage of funding opportunities. This is especially important in the context of the need to build institutional capacity for managing EU funds, which are expected over the next 10 to 20 years.

Certain aspects of the MIR and PRO final evaluations have been taken into account during Programme design and in the context of looking to provide early impact and these are: to strengthen the Citizen Involvement Fund via an early call for proposals and to continue (as under PRO Phase 1) to set aside funding for local development infrastructure projects, again an early call is envisaged.

For these reasons, the main feature of the PROGRES overall approach will be indirect implementation, whose core is working through 'client' organisations providing support for their



capacity development, and enabling them to achieve the desired results. The above diagram illustrates the proposed PROGRES approach.

Where municipal level organisations are responsible for infrastructure projects, or other development work, the PROGRES will provide tailored financial and technical support to enable them to work, and to build their capacities to fulfil their role. Strengthening of governance principles in all procedures, including public procurement, will be at base of all activities and individual project implementation.

The PROGRES will work in support of RDAs, PUCs, and Building Directorates, especially where these organizations play a key role in infrastructure, business development or other regional development activities within the PROGRES remit. The focus will be on the support more in terms of collaboration and involvement, good governance promotion and less in terms of direct capacity building.

Subject to specific circumstances, the PROGRES may implement individual activities and or projects directly. This will, however, not be the approach for the bulk of activities and will be recommended only when absolutely necessary.

Annex VIII - Draft Criteria for Project Selection

The Project Fiche Document states that the Technical Assistance component of the Programme would be distributed (because of existing values of projects in each area): 40% South Serbia and 60% SW Serbia.

A matrix will be developed which will be a 'scoring mechanism' to evaluate potential projects for funding under the Programme. It will include the following considerations:

1. At the institutional level:
 - Inclusion and approval of projects in local and/or regional and/or national development plans with appropriate assembly or ministerial approvals
 - Inclusion of projects in the SLAP and other key projects lists
 - Inter-municipal or regional nature of projects
 - Legal authority over the project.
2. At the technical level:
 - Existence of cooperation agreements among inter-municipal project teams
 - Advancement of the project documentation and estimation to what extent and cost is further documentation required
 - Status of the approvals and permitting process.
3. At the funding level:
 - Secured finances and embedded in local or national bodies
 - Finance sources and type.
4. Project development
 - Quality of project document, log frame and budget to EU template
 - Partnership overview.

Annex IX - Overview and Analysis

This Annex was originally part of the Needs and justification section of the 19 December 2009 Document and has been included at the request of SDC in order to support the justification of this Action.

It should be noted however that at that time it was envisaged that more municipalities from the Raški, Rasinski and Toplički Districts were to be included in the Programme than is now the case.

Overview

The South and South West of Serbia have long been regarded as the poorest and least developed of all parts of the country. The causes of this are partly geographical and infrastructural – they are remote and largely rural, far from markets and centres of population. They are also political, in that they have suffered from more under-investment in recent years than other parts of the country. The funding of local government was, until recently, based on local incomes with little redistribution of wealth, and therefore reinforced the cycles of poverty.

Rural areas have also suffered from a declining population, and the tendency has been for the better educated to migrate away, thus starving these small towns of talent and skills.

Underlying all of this is an ethnic dimension. South Serbia is home to the largest Albanian minority in the country, and in south west Serbia there is a sizeable Bošniak (Muslim) population. This ethnic dimension does not entirely explain the poverty of these regions. Other, Serb populated areas such as Kuršumljija are equally poor, if not poorer. However, the consequence of under-investment and neglect is a continuing low level rumbling of potential unrest, with occasional flare-ups. The ethnic dimension also exacerbates problems of migration; in Serb areas people migrate to the bigger cities in the country. The Bošniak in south west Serbia move to Sarajevo, Western Europe or further, and the Albanians in south Serbia look to Kosovo and Western Europe. Investments in education are therefore lost to the country as a whole.

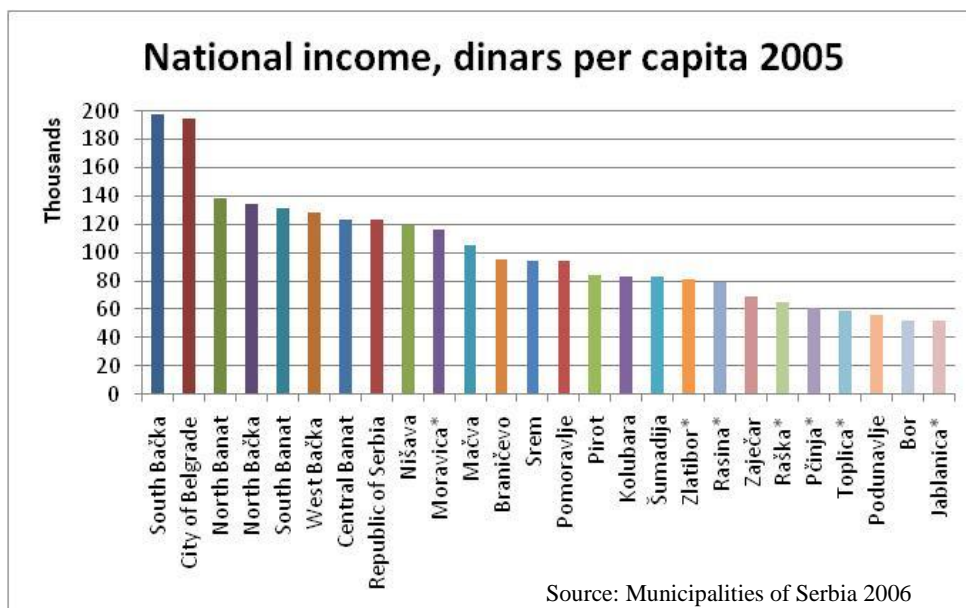
But international migration is much more difficult than migration within a country. Many young people from national minorities in both Novi Pazar and the Preševo Valley prefer to remain at home and unemployed than to seek work elsewhere. Perceived discrimination in other cities in Serbia is a deterrent to internal migration. This means that the population of cities such as Novi Pazar is increasing dramatically, but its economic growth is not keeping pace with population growth. Meaning that people are becoming poorer, that there is high youth unemployment, and that people – especially the poorer and less educated – are faced with little hope for improvement.

There is a complex inter-play of factors that reinforces the tendency for these areas to remain poor; infrastructure, economy, education, migration, a weak human resource base, poor municipal service delivery and under-performing governance. Tackling any one area – such as municipal service delivery – will not address the underlying problems and reverse the decline. In the long term, sufficient investment must be made in infrastructure, human and social capital to reverse a decades-long decline. An area-based approach provides the opportunity to make multi-sectoral investments, and to establish a stronger basis for planning and managing future investments.

Regional Inequalities

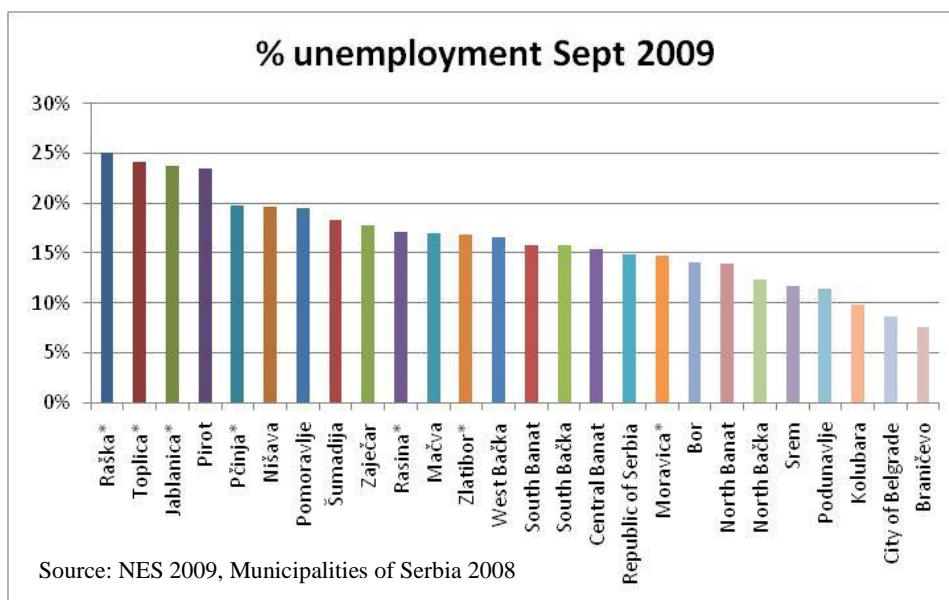
Serbia, like many other countries in Europe, has severe inequalities not just between rich and poor people, but between rich and poor regions of the country.

Data from 2005 show that the richest districts are nearly four times richer than the poorest.



More recent data shows that the selected region is consistently worse off in terms of net wage, unemployment, government budget¹⁵ and educational achievement¹⁶. Maps in **Error! Reference source not found.** show the extent of the level of disadvantage of this region.

It is not just that differences exist, but also that the *scale* of the differences is so significant. Unemployment in Raška is 10% higher than the average in Serbia – nearly one in four of the working age population is not working. Even among those who are working, average net wages are just over half as much as in Belgrade. Budgetary revenues in Pčinja district are one quarter those in Belgrade.



Statistical maps show that the geographical distribution of poverty in Serbia is predominantly in the south and south west of the country. Eastern Serbia is also poor, and it is the north and Belgrade that are the richest.

¹⁵ Municipality Yearbook, 2008, Republican Statistical Service, Belgrade

¹⁶ Ministry of Education 2005

It is perceived discrepancies in wealth rather than absolute levels that tend to be the cause of social unrest and conflict. It is vital, therefore, that conditions in the south and south west are seen to be improving relative to the rest of the country, and not that the rest of the country is enjoying growth and leaving its poorer regions behind.

The concentrations of national minorities – Bošniak and Albanians – in the poorest parts of the country together with these inequalities that provides a fertile base for social unrest and dissatisfaction.

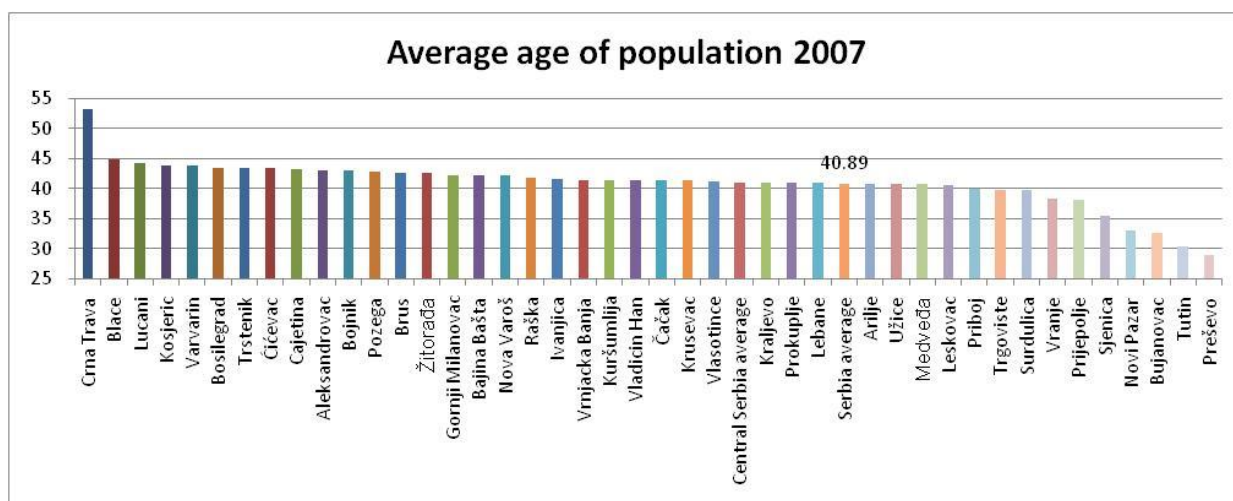
Area Profile

While the PROGRES region is consistently poorer and less developed than the rest of the country, it also contains wide variations between municipalities. This section describes some of these key differences within the PROGRES area, and some of the main features of its social and economic structure.

Population

At the last census, in 2002, the population of the total area covered by the PROGRES programme was 1.66 million. Most of the municipalities, however, are suffering a serious population decline brought about by a combination of falling birth-rates and outward migration. In some areas, this population decline appears to have been mitigated somewhat by inflows of IDPs from Kosovo (e.g. Kraljevo, Vrnjačka Banja) but actual numbers of IDPs are difficult to obtain.

Outward migration also means that many of the municipalities have a significantly older population than the average. Twenty eight of the 42 municipalities have a population above average for Serbia. The PROGRES area contains both the municipality with the oldest population in the whole country (Crna Trava) and the municipality with the youngest (Preševo). It is worth noting that the

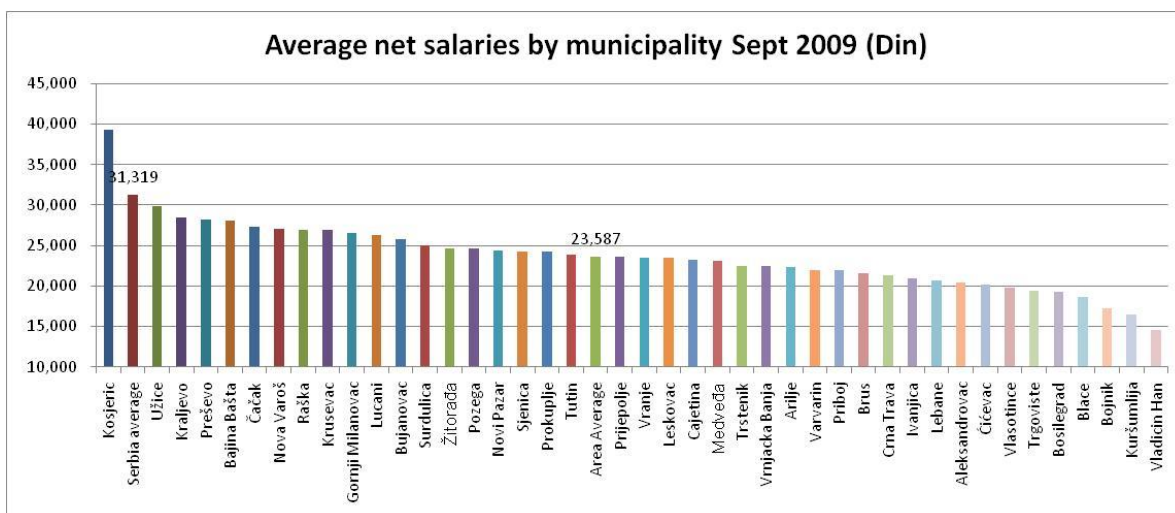


municipalities with younger populations also have high national minority populations. The reasons for this are not entirely clear. It is partly a higher birth rate, but it may also be because of lower migration potential to other cities in Serbia.

Standards of living

Using two basic indicators of standards of living, average wage and unemployment, we see that in general the more northerly municipalities and those located on Corridor X have lower unemployment than the more remote and rural municipalities. Higher salaries also correlate with low unemployment, so municipalities with high unemployment are also adversely affected by very low salaries. Only Kosjerić municipality in the far north of the PROGRES region has average salaries above the average for Serbia.

Tourism

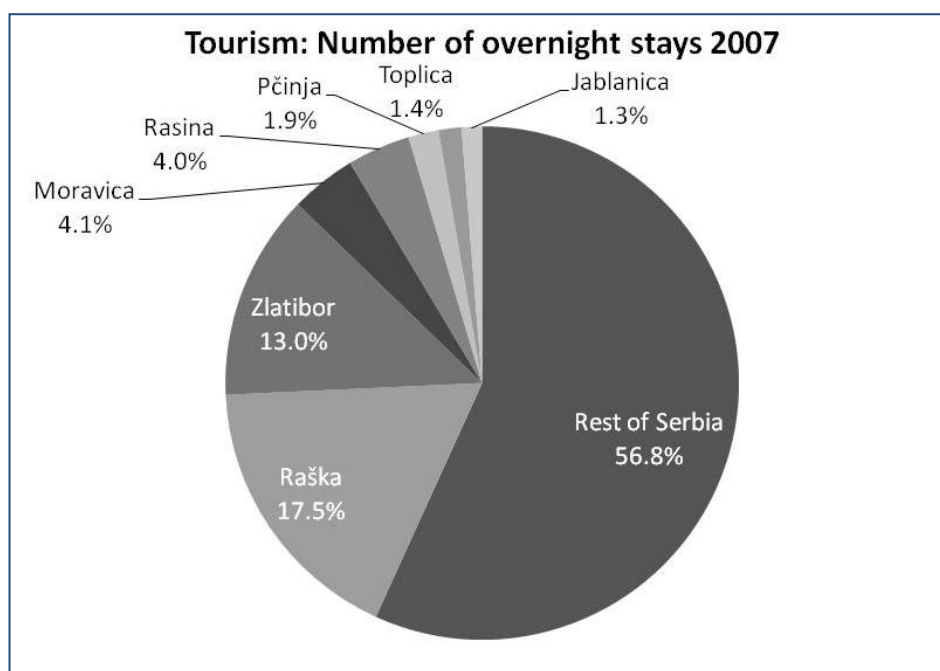


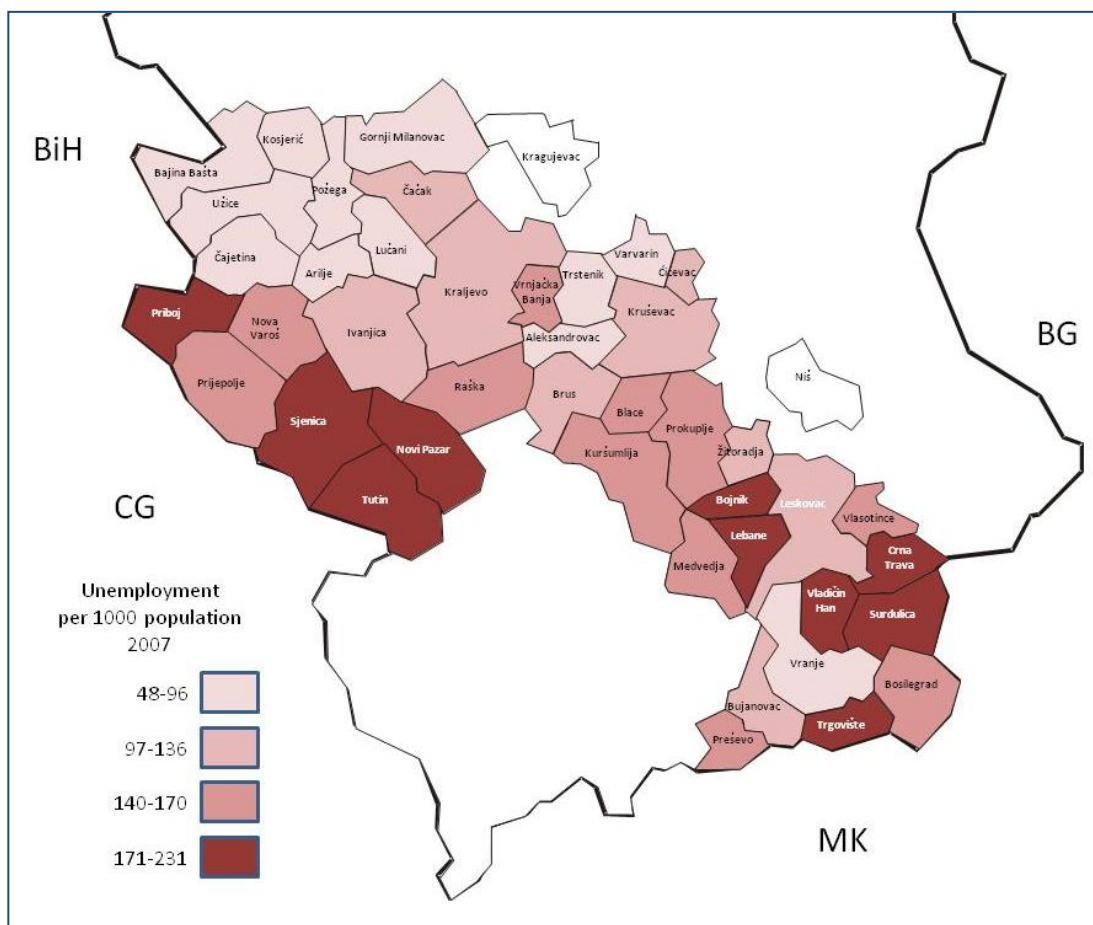
The PROGRES region contains two of the major tourist destinations in Serbia, Zlatibor and Kopaonik, as well as three rapidly growing destinations, Vlasina Lake, Vrnjačka Banja and Golija Mountain. However, all of these destinations, except Vlasina, are concentrated in only two districts, Raška and Zlatibor. These two districts therefore have some of the strongest tourism figures in the country, while remaining districts have municipalities with not a single overnight stay¹⁷.

Tourism thus presents a source of potential for the region. At the same time, the benefits of tourism are not evenly spread. There is considerable room for improvement in the way the area attracts tourists, and in the facilities that it offers. Municipal officials are mostly aware of the potentials of tourism; it is a high priority on most of the municipal economic development strategies. However, a great deal of basic investment is required in order to make the region an attractive and clean place for tourists to enjoy.

Employment/unemployment

Levels of unemployment vary strongly across the region. In 2007 (the latest available data





at municipal level¹⁸) unemployment was as low as 5% in some parts, and as high as 23% in others. This extreme variation is the product of many factors, including migration, investments, national infrastructure, activity on the grey economy, and dependence on former state owned enterprises that are now bankrupt.

National Minorities

The area covered by the PROGRES programme contains some of the largest numbers of national minorities in Serbia. Raška and Zlatibor districts contain the Serbian part of the area known as Sandžak, which has a high Bośniak population. In Pčinja district, and partially in Jablanica district, the municipalities close to Kosovo contain high ethnic Albanian populations.

These minority populations, following the wars of the 1990s, make the region politically sensitive. Ethnic tensions tend not to be between the different ethnic groups as in Bosnia or Kosovo itself. Rather, the tensions are between the national minority and the state (as represented by state institutions such as the police). Many state institutions in these areas tend to be staffed by a majority of Serbs rather than people from the local population. This reinforces perceptions of state bias.

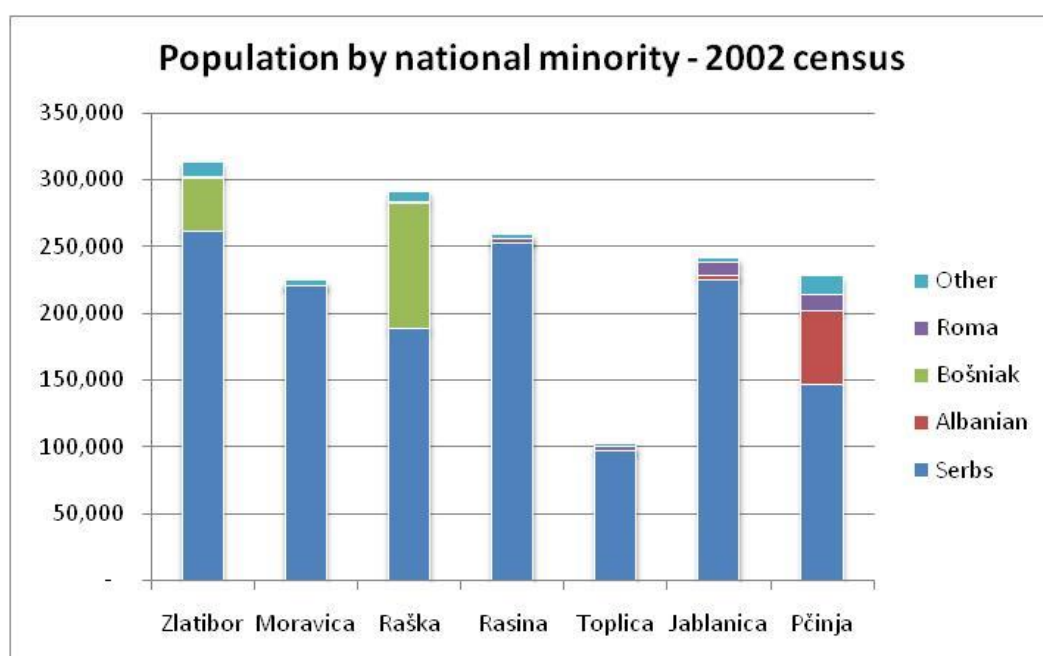
¹⁸ Municipalities Yearbook 2008

The situation in south Serbia is more complex. In south west Serbia, Bośniaks speak the same Serbian language as the rest of the population. There is therefore no need for separate education or bilingual government services. In south Serbia, however, there are separate Albanian language primary and secondary schools. There is a government initiative to open an Albanian language university level faculty in Medveđa.

The Roma minority is present in south west Serbia in small numbers, and in south Serbia as a significant part of the population. Census numbers are thought to have significantly under-reported the total number of Roma in Serbia because of seasonal migration and reluctance to respond to official enquiries. The real number could be up to 3 times higher than the census figures.

Conclusion – Area profile

Although the PROGRES area is as a whole significantly poorer and less developed than the rest of the country, within the region, there are great variations in levels of development and poverty. There are relatively big cities, such as Užice, Leskovac and Novi Pazar, as well as the smallest municipalities in the country. In all areas of the PROGRES programme – governance, municipal management, infrastructure and public awareness – implementation will need to take account of the needs and interests of these differences in appropriate and responsive ways.



EU integration

One of the main purposes behind the PROGRES programme is to ensure that the less developed regions of Serbia do not miss out on the opportunities for existing and forthcoming EU funds. One of the key factors affecting the rate at which EU funds can be used is referred to as 'absorption capacity'. By this is meant the ability of institutions to identify their needs for funds, match their needs to funds available, plan how they will spend funds in accordance with funding criteria, apply for competitive funds, manage projects, and monitor their implementation. This competitive approach to funding investment is still relatively new to many organisations in Serbia, and the development of sufficient organisation capacity will take time as well as motivation and commitment from leaders.

The process of EU accession will open up the availability of increasingly large amounts of money for investment. At present, IPA funds (Instrument for Pre-accession Assistance) are available for Serbia, which is currently a potential candidate country. This entitles Serbia to around €200m per year for transition assistance institution building, and cross-border cooperation. When Serbia becomes a full candidate country, this amount of money becomes available for three more lines of funding – Regional Development (including environment, transport and competitiveness), Human Resources Development (adaptability of workers, employment, social inclusion, education and training, and institutional capacity strengthening), and Rural Development.

Candidate countries have to manage IPA funds using a Decentralised Implementation System (known as DIS), which basically means more of the programming and management of the funds has to be managed by the government, and less by the European Commission delegation. The required management structure for the Decentralised Implementation System closely mirrors the structure required for managing European Structural Funds, which are available once a country joins the EU. These structural funds can be between 5-10 times higher than IPA funds.

The extent to which IPA and then Structural Funds can be used depends crucially on the availability of good quality projects managed by reliable institutions. Therefore, in south and south west Serbia, it is vitally important that such institutions and projects are available in advance of the increasing amounts of IPA funds, and then Structural Funds. Without strong and reliable institutions, and good quality projects, funds will go to other parts of the country, or not be spent at all.

Governance

This section describes some of the main issues relating to the governance of municipalities. They are not necessarily applicable to all municipalities, but are some of the key themes emerging from experience.

Under the Law on Local Self Government (2007) the structure established means that most municipal services and functions are directly accountable to the Assembly (skupština). In day-to-day practice, most of the Assembly functions are delegated to the Municipal Council (veće). This means that the Assembly appoints the heads of municipal enterprises and organisations that deliver municipal services, approves annual budgets and plans, and approves their reports. Since there is very little independent audit, monitoring or inspection of service provision, the accountability of municipal services to the Assembly is very weak. Moreover, heads of enterprises and organisations are often appointed on a party political basis as part of the coalition deals forming new municipal governments. In such situations, the incentives to perform and deliver quality services and value for money are not strong.

Assemblies and Councils typically have very few support staff. Those that do exist are administrative or legal in character. Policy advisory support therefore comes through the party system, and not from paid advisors in the municipality who are grounded in municipal administration. Alternatively, policy advice comes from the municipal companies and organisations, and the Municipal Administration (Opštinska Uprava), which, since they are accountable to the Assembly, cannot provide disinterested advice.

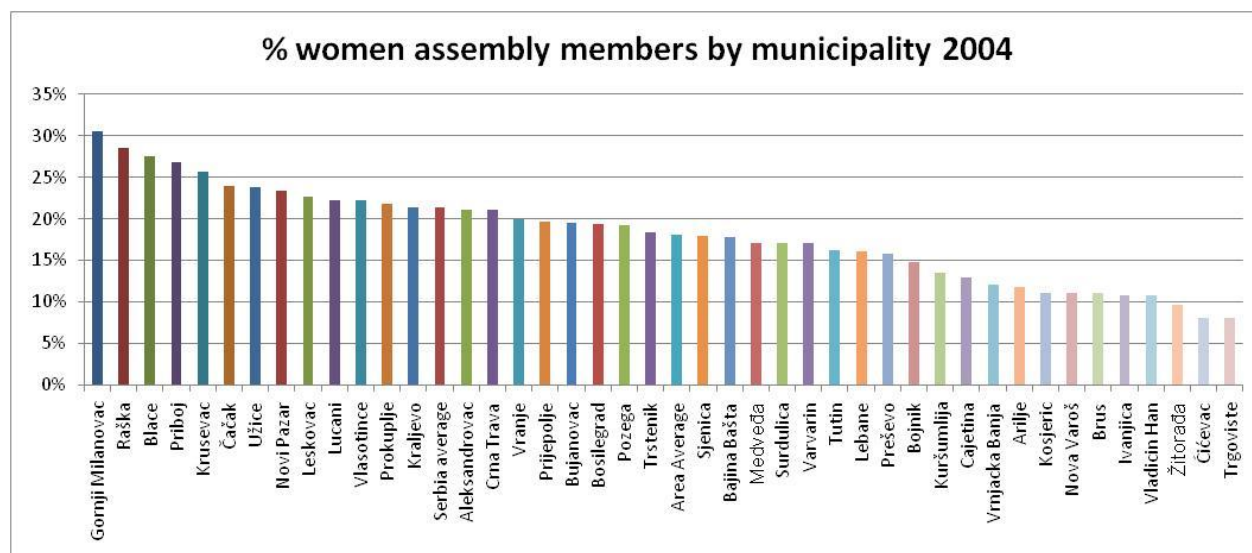
Outside the Assemblies, civil society in the poorer municipalities is generally very weak. Typically there are one or two relatively strong NGOs which are able to obtain funds from national or international sources and have a relatively high profile. Otherwise civil society groups tend to be occasional gatherings of like-minded people with few opportunities to make a difference to their communities. NGOs are often seen as politically aligned, either with ruling parties, or with the opposition. Municipal funding for NGOs and civil society organisations is frequently seen as being politically motivated rather than for genuine service delivery. Some reform programmes have begun to make a difference. The Social Innovations Fund, for example, provided funding support to NGOs and Centres for Social Work to provide new and innovative social welfare services for their communities. The PRO programme's Citizens Involvement Fund (CIF) funded small community groups to work in partnership with local government to improve their communities.

Local government generally sees civil society as either a threat (when it is confrontational) or irrelevant (when it is weak). There are few examples of municipalities that genuinely value dialogue and consultation, or see civil society organisations as potential partners for action and improved service provision.

Women are very poorly represented in local assemblies – throughout Serbia, and in the south and south west region. On average, 21% of local Assembly members in Serbia are women¹⁹, while in the south and south west; only 18% of Assembly members are women.

¹⁹ From Municipality Yearbook 2008 – data refers to results of 2004 elections. Current situation is marginally different, but data not easily obtained.

The variation between municipalities is wide. Gornji Milanovac has a good showing, with 31% women members, while Čičevac and Trgovište both come a dismal bottom with only 8%.



Finally, the real participation of citizens in local government is generally weak. Local government makes very little effort to provide accurate information about its performance and budget. Where consultation is required by law, such as for the budget, it is generally perfunctory and for information, rather than genuinely consultative. There have been some good, but rare, examples of citizen participation when citizens have organised to challenge local government.

On the whole, local government requires greater refinement, awareness, and stronger management, rather than complete overhaul. The system is difficult rather than fundamentally flawed, and there many positive signs that things will improve in the coming years. The south and south west Serbia regions need to keep up with national trends for improved governance, despite lower resources and lower capacities.

Municipal Management

Municipal management concerns the core of local government – service delivery for the local population, based on revenues collected locally and transfers from central government. While local governance deals with the representation of the people and the allocation of resources, municipal management deals with the effectiveness of spending those resources for the benefit of the population. In south and south west Serbia the effectiveness of local government is much criticised. There is certainly much scope for improvement, but in recent years towns and municipalities have become cleaner, and more ordered places, with more reliable supplies of electricity, heating and water.

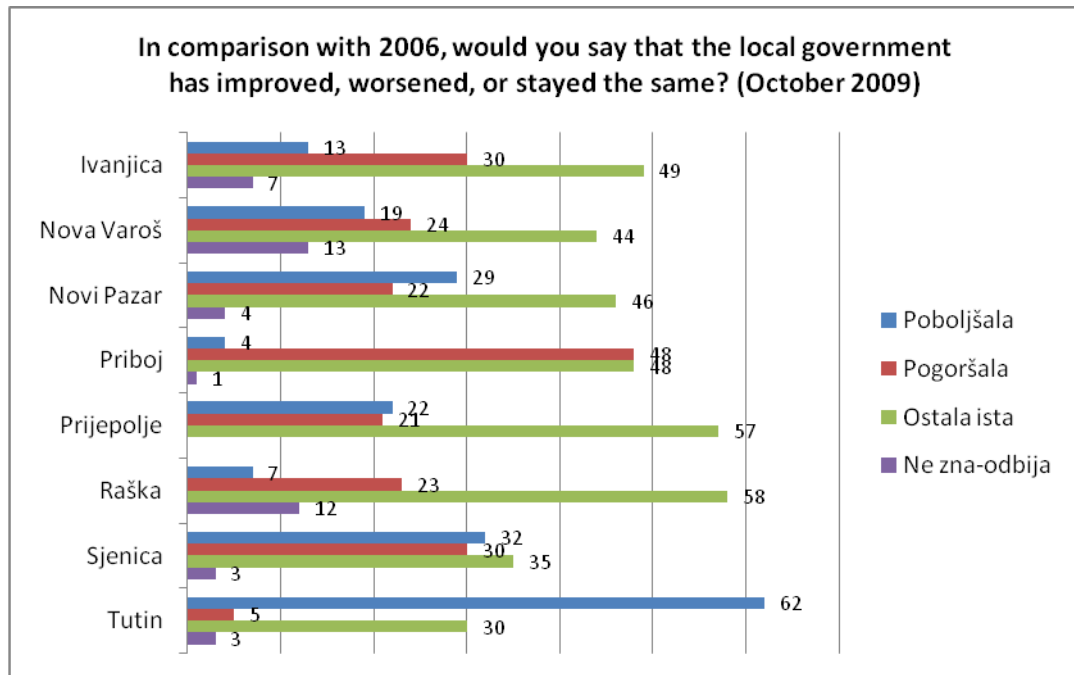
However, according to a recent survey carried out by the PRO programme, citizens are still quite dissatisfied with the performance of their local governments (see chart below²⁰). In general, there is some scepticism about improvements in local government. However, this scepticism varies between municipalities, and on the type of service.

Comparing results from 2007 and 2009, citizens are significantly happier with the services provided by the Citizens Assistance Centres (CACs) in the municipal administrations. These have been the focus of assistance from PRO and MIR, and the USAID assistance programmes SLGRP and MEGA.

²⁰ From the Citizens Satisfaction Survey. poboljšala = improved, pogorsala = worsened, ostala ista = stayed the same, ne zna = don't know

The areas of dissatisfaction with services tend to be the newer responsibilities for municipalities – social welfare, economic development, support to SMEs and support to young people – where responsibilities and expectations are not yet clearly defined. People are most satisfied with established areas of service delivery with little capital investment requirements, such as pre-school education (although this has had to expand rapidly in recent years), museums and libraries.

In between are the high capital requirement services such as water supplies and sewerage, roads, and central heating.



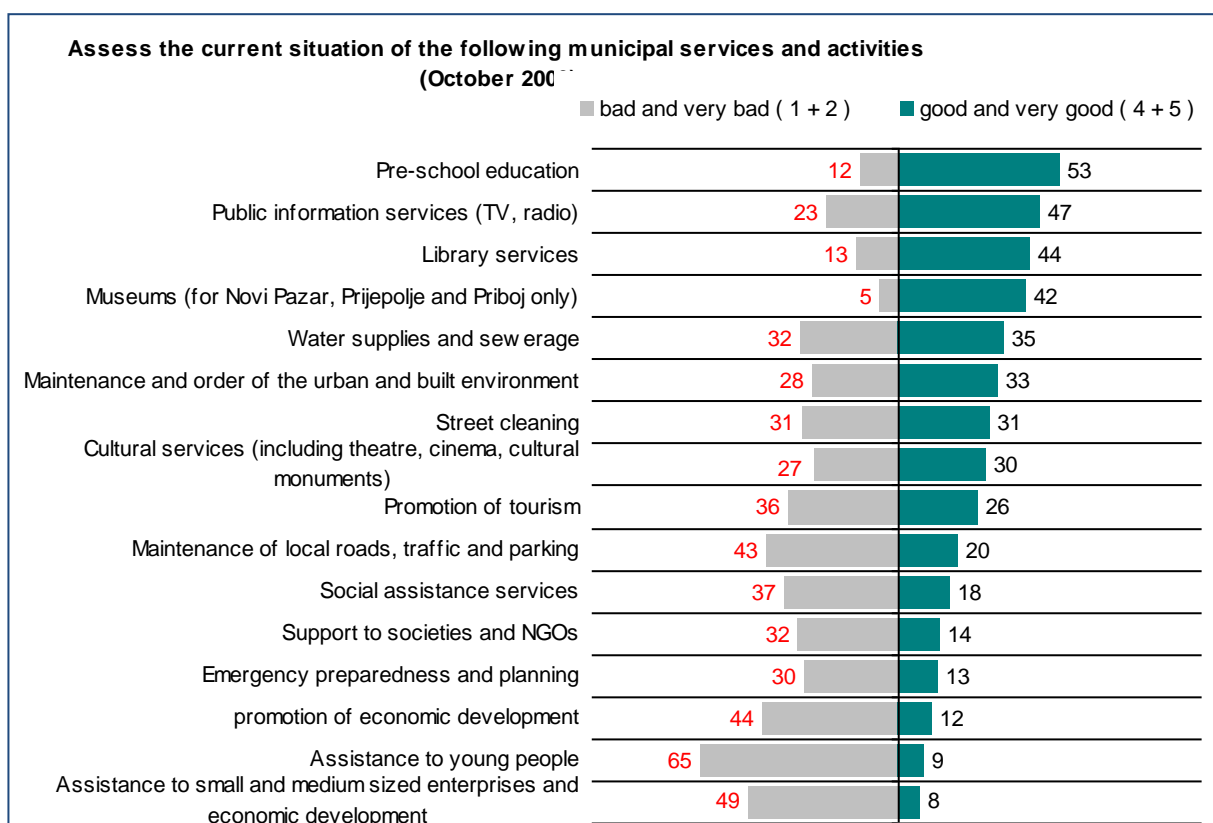
Municipalities are gradually coming to terms with two key factors that have changed their work substantially. The first is the greater autonomy they have to plan their own economic development. The second is that capital investment requirements no longer (so much) come from working good connections in central government. Instead, additional funding comes from sources that have more stringent bureaucratic requirements such as IPA and NIP.

This means that municipalities have to improve their abilities to plan both at the strategic level and at the project level. What has been shown so far is that municipalities have begun to engage in the planning tasks with varying enthusiasm levels. The key weakness that this now reveals is the ability to take plans to the next stages – to financing and implementation.

Municipalities are hampered in their management by a dysfunctional structure, especially where Public Utility Companies (PUCs) are concerned. PUCs generally provide public services such as roads maintenance, water supplies, sewerage and garbage collection and disposal. These are constrained by limits on the fees they can charge to citizens, in some cases they are not responsible for collecting fees. Fee collection rates are very low. PUCs are also not responsible for planning investments in the infrastructure that they operate. This is typically done by the Directorates for urbanism or construction. These Directorates are the beneficiaries of around 20-30% of the municipal budget in smaller municipalities.

The PUCs, the Directorates, and the Municipal Administrations all report directly to the Municipal Assembly. It is the Assembly (in practice, the Council, or Veće), therefore, that has the main responsibility for the performance of all municipal institutions, and coordination between them. However, few Assemblies set performance targets for these institutions, nor are there independent inspections of their work, nor are there independent financial audits. In all, the accountability mechanisms are extremely weak. Typically, Assemblies receive annual reports of activities, and approve annual budgets and end of year accounts.

In recent years there has been significant donor support for the preparation of municipal strategies of one kind or another. The greatest need at present is for the basic spatial plans of municipalities to be created or updated. The table below shows the number of PROGRES municipalities that have the various kinds of planning documents.



Numbers of Municipalities with the following Strategies and Planning Documents in 42 PROGRES Municipalities

Local Economic Development Strategy	9
Plan for Capital Investments	3
Solid Waste Management Strategy	5
Waste Water Management Strategy	2
Strategy Plan for Gasification	2
Local Plan for Communal Heating	2
Energy Efficiency Strategy	2
Local Sustainable Development Plan	32
Local Environment Action Plan	12
Spatial Plan	8
Local Action Plan for Children	12
Action Plan for Youth	5
Local Strategy for Social Protection	20
Local Action Plan for Roma	4
Strategy for Rural development	3
Communication Strategy	3

A major constraint on the performance of municipal management is the unpredictability of government transfers. With the recent law on local government finance (2006) the formula for these transfers has become more transparent, and provided for greater redistribution. In the financial years 2007 and 2008 the poorer municipalities benefited from greatly increased incomes. However, in 2009 the global financial crisis is having a major effect on municipalities. In the middle of 2009 transfers were cut by 40%, which means that municipalities that depend heavily on transfers are badly afflicted, and have to postpone a great deal of their spending plans. In addition, there is discussion that municipalities will have to lose a significant proportion of their staff by the end of 2009 as a central government response to IMF demands for reduced public expenditure. At the time of writing, this proposal for staff cuts has yet to be finalised. However, it could have a major effect on the effectiveness of municipal management in 2010 and beyond.

The local government finance law also increased local government responsibilities for revenue collection. They are now directly responsible for collecting revenues from property taxes and other minor charges. The first full year of implementation was 2009, so it remains to be seen what effect it will have on local government budgets. Indications are that collection rates have improved, but that there is also great scope for improved collection, more strategic rate setting, and administrative efficiencies. Nevertheless, these taxes form a relatively small part of poor municipalities' revenues, and greater effectiveness will be welcome, but not revolutionary.

Improving municipal management therefore requires intervention and support in across a number of areas, including the Assembly's ability to hold public institutions to account, revenue collection, spatial planning capacities, public consultation and responsiveness to public demands. However, the effectiveness of reform at local level is greatly dependent on central level reform efforts focused on the PUCs and the Directorates, and subject to the variations in central government transfers.

Infrastructure

Background

Serbia's recent history has left its legacy in the form of infrastructure that is in serious need of reconstruction and renovation. Population increases put severe pressure on infrastructure in some places, and in others where population is declining user fees cannot hope to pay for repairs, let alone renovation. Municipalities have traditionally paid for infrastructure from current expenditure. With declining and unreliable budgets, maintenance and renovation programmes have fallen far behind.

Further, the structure of local government contributes serious problems for infrastructure renewal. The municipal owned utility companies (PUCs) are not generally responsible for their own infrastructure development. This is generally entrusted to a Construction Directorate, which plans and executes investments on behalf of the municipality. Limits to increases in user fees means that PUCs cannot

raise sufficient income to pay for investment in infrastructure, but have to rely on the municipality to provide funds to the construction directorate, and rely on the directorate to plan for and prioritise the infrastructure that PUCs require. All of which means that the system is not functioning well.

There are some moves to reform of PUCs, but political interests mean that any reform will be slow, and may not lead to improvements. In the meantime, municipalities have to do the best job they can within the current arrangements. This means ensuring good cooperation between construction directorates and PUCs, and identifying sources of finance outside of the current budget.

Project Finance

At present there are five main sources of finance. The National Investment Plan has an annual programme of competition for national funds. The European Union is providing major funds through the IPA programme, with the government playing a major role in programming funding allocations. Bilateral government donors fund some smaller projects, and international financing institutions (IFIs) such as the European Bank for Reconstruction and Development are able to fund the larger investments. Finally, commercial banks are increasingly being seen as potential sources of capital finance for municipalities, although there are limits on the extent to which municipalities can borrow, and bad experiences from the 1990s are having a restraining effect on commercial borrowing.

Some policy-makers see municipal bonds as a potential source of capital finance, but realists suggest that even if this were a possibility, it would be limited to the larger, more financially stable municipalities and cities. The smaller municipalities in south and south west Serbia rely to a large extent on central government transfers, and these are unpredictable, and prone to rapid change – not the conditions on which investors would buy bonds, at least not at moderate interest rates.

Public-private partnerships are also a much talked about financing mechanism. However, the reality is that there is a great deal of mutual suspicion from municipalities and private companies who do not see each other as reliable partners and have very different approaches and mind-sets. There are also a number of substantial hurdles to be overcome if public private partnerships can work in reality (e.g. restrictions on cost-recovery fees, legal forms, etc). It will take a great deal of positive experience to begin to change the minds of local elected and appointed officials. Nevertheless, there is still some hope that public-private partnerships could provide some finance to the more commercially attractive infrastructure in the future.

The SLAP system

The Standing Conference of Towns and Municipalities is hosting a database of municipal investment projects called SLAP. This database provides a list of infrastructure projects and a score for the readiness of each project. The database therefore gives potential donors a means to assess impartially the potential of each project.

Every three months, the 'best in class' projects are presented to potential donors and domestic sponsors for support, investment and implementation.

The SLAP system is the key mechanism for attracting favourable finance for infrastructure projects. At present, 50 out of 166 projects on the SLAP database come from municipalities in south and south west Serbia, which shows a positive trend for the region. In part, this is due to the preceding PRO and MIR programmes providing support to project development. The challenge now is to make sure that there is sufficient good quality and appropriate projects in the database and that municipalities have the capacity to continue to develop good projects. The list of SLAP projects from the South and South West Serbia is available through www.skgo.org.

There will be a shift of donor support in the coming years away from municipal level projects to larger, more regional and multi-municipal projects. This means that for the smaller municipal projects, the municipalities themselves will have to work harder to find finance, and to look at more options – to examine commercial loans, and public-private partnerships.

Types of projects

Broadly, there are three types of infrastructure needed: environmental, economic and social. A high priority for environmental infrastructure is the construction of new solid waste disposal facilities – mainly landfills – which conform to EU standards. Other priorities include waste water processing, and water supplies. Roads are a major priority, but the more strategic fall within the remit of the national

government. The proposed new highway from Belgrade to the Montenegrin port of Bar is likely to pass through several municipalities in the region, including Sjenica and Tutin municipalities. This will give rise to a significant need for complementary local infrastructure, as well as many opportunities for development along the route. Corridor X passes through the south of Serbia, and the road project is due for completion soon. Investment opportunities are significant along the road route, and especially in the border area with Macedonia.

The tourist potential is also stimulating preparation of infrastructure investments in six areas around the region, all supported by the tourism sector of the Ministry of Economy and Regional Development:

- Vlasina lake
- Golija mountain
- Kopaonik mountain
- Besna Kobila
- Zlatibor and Zlatar mountains
- Tara mountain

There is a significant need for investment in basic infrastructure – roads, water supplies, waste water processing, solid waste disposal – before any real tourism potential can be realised. Yet the areas concerned are of outstanding beauty and could, in the longer term, lead to growth in the rural economies of these areas.

Project Implementation

As noted above, municipalities on the whole are weak in infrastructure management. In part, this is because of the fragmentation of responsibilities and financing between Assembly, Municipal Administration, Construction Directorate and PUCs. Reform appears to be a distant possibility because of the political interests involved in controlling these important institutions. Nevertheless, there is scope for improving management of infrastructure projects, and especially implementation. The prospect of forthcoming funds for investment with tightly defined requirements could be a strong incentive for cooperation between municipal institutions, and between municipalities in the region. It would be important to maintain a clear message about what the requirements for funding are, and how these requirements could be met. At the same time, it would be important to provide support for meeting these requirements – in the form of technical assistance and funding for project preparation activities – to avoid disillusion and cynicism.

The Regional Development Agencies can play a key role in providing support here. This includes provision of technical advice to individual municipalities, support to broker deals between municipalities, assistance in identifying and attracting financing opportunities, signposting municipalities to contractors and others who can help, as well as the more strategic functions of supporting regional planning and identifying regional priorities for development.

Conclusion

Municipalities and groups of municipalities need substantial support in moving to a position in which they are capable of effectively managing the whole infrastructure project cycle – from conception and prioritisation through design and financing to implementation and evaluation. The Regional Development Agencies play a significant role here, but their remit extends only to multi-municipal infrastructure. Where infrastructure within a single municipality is concerned, especially in the smaller, poorer areas, there will have to be a substantial increase in capacity if infrastructure needs are to be met.

Public Awareness

The image of the areas of south and south west Serbia is seen as negative: conflict prone, riven by ethnic tensions, poor, unattractive towns, high unemployment and other stereotypes and inaccurate perceptions. This negative image affects its potential for investment, tourism and overall growth and development. There is a great need for parts of south and south west Serbia to generate a more positive image of itself both for the morale and optimism of its own citizens, and to promote outsiders' interest, leading to opportunities for development.

The people of the region – as elsewhere in Serbia – are also, after many years of turbulence and uncertainty, reluctant to see change as a good thing. People with skills that are out of date, and who see the world changing around them in mysterious ways are understandably afraid of the future. Any initiative, even those that seem obviously positive, can be viewed with suspicion and generate resistance and refusal to accept new things. The success of the PROGRES programme will depend on the willingness of people in municipal administrations, public utilities, regional development agencies, and in the towns and villages of the region. If the people are enthusiastic about changes to come, they are more likely to participate and assist in the change. If they are pessimistic, and believe that they will lose status or security, they will fight against them.

The PROGRES is a programme for the benefit of people of south and south west Serbia, and depends on their engagement to be successful. Therefore there is a need to communicate with the people about changes to come – not just from the PROGRES, but also the EU accession process – and to explain how their engagement can make life better for themselves, and for all citizens. The PROGRES programme also presents an opportunity to strengthen the positive image of the European Union, and the benefits that membership will bring to all citizens, including national minorities and marginalised people.