

Interim Evaluation 2008

Reform of Intergovernmental Finance Systems in Serbia

Brief Report

Produced by: Arnold-Bergstraesser-Institut
This report was produced by independent external experts.
It reflects only their opinion and assessment.

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Evaluation Unit

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1. Tabular overview

1.1 The evaluation mission

Evaluation period	11/2008 – 01/2009 (in Serbia: 24/11/2008 – 06/12/2008)
Evaluating institute/ consulting firm	Arnold-Bergstraesser-Institut
Evaluation team	Mr. Dr. Herbert Edling (international expert) Mrs. Natasa Curcic (national expert)

1.2 The project/programme

Title of the project/programme according to the order	Reform of Intergovernmental Finance System in Serbia
Project/programme number	2007.2093.8 (05.2132.8-001.00)
Overall term broken down by phases	5,5 years (01/2006 – 06/2011) 1. Phase (01/2006 – 06/2008) 2. Phase (07/2008 – 06/2011)
Total costs	German contribution: 3.450.000 EUR 1.Phase 1.250.000 EUR 2. Phase 2.200.000 EUR Partner contribution: 300.000 EUR (2. phase 200.000 EUR)
Objective of the project/programme	Municipal finances are based on a more reliable and more autonomous basis
Lead executing agency	Ministry of Finance
Implementing organisations	Multiple partner structure: Ministry of Finance inclusive Tax Administration of the Republic of Serbia; Standing Conference of Towns and Municipalities; Ministry of Public Administration and Local Self Government; Finance committee of Serbian Parliament; pilot municipalities
Other participating development organisations	none
Target groups	Entire population benefiting from public services

The rating

Overall rating <i>On a scale of 1 (very good, significantly better than expected) to 6 (the project/program is useless, or the situation has deteriorated on balance)</i>	Good (2)
Individual rating	Relevance: 3; Effectiveness: 2; Impact: 2; Efficiency: 2; Sustainability: 2

Summary

Object of the evaluation is the GTZ-supported project "Support to Reform of Inter-Governmental Finance Systems in Serbia". The overall duration of the project implementation is five and a half years (January 2006 – June 2011). The goal of the evaluation is to appraise the expected success of this project in accordance with international evaluation criteria of OECD/DAC. The Arnold-Bergstraesser Institute was engaged to carry out the evaluation. The team of experts included a German expert, Dr. Herbert Edling (team leader, economist and public finance specialist) and a local expert, Ms. Natasa Curcic (fiscal decentralization expert). Field analyses were achieved during Nov. 24 – Dec. 5. The experts applied a combination of methods based on the evaluation of project documentation, statistical data analysis, and on interviewing key persons. The interviews were executed orally as intensive interviews with half-standardized questions or non-structured (spontaneous) discussions or in a written form as surveys.

With the introduction of democratic change at the beginning of the 21st century in former Yugoslavia, first steps towards democratization were made in Serbia. With the Law on Local Self Governments Financing passed in July 2006, municipalities were given administrative competence regarding taxes on property. This evoked expectations that municipal budgeting would in future have more reliable bases and be more autonomous, regarding revenues. In reality, municipal revenue structure showed a low degree of fiscal autonomy at the beginning of the Project. For a direct realization of this phase of reform, municipalities did not have appropriate institutional capacities. There was neither a sufficient number of qualified staff, nor the required infrastructure or organizational competence. There was a lack of communication networks, supposed to be used by all persons involved in fiscal decentralization, both horizontally and vertically. Additionally there was no common understanding of fiscal decentralization.

The overall goal of the project is: "Municipal finances are based on a more reliable and more autonomous basis". To accomplish this objective, the project works with a multiple

partnership structure. Using a multi-level structure, the exchange of information between municipalities and the central Government, especially the Ministry of Finance and central level Revenue Authorities is facilitated. This incorporates the monitoring and support of the Standing Conference of Towns and Municipalities (SCTM) as an intermediate institution. In addition, the SCTM evaluates experience gained in implementing tax-laws on property and forwards relevant results to other municipalities. The promotion of cooperation among municipalities is another important approach of the project. The project is supported by a long-term expert and a number of short term consultants. Furthermore workshops, study tours, seminars and financial contributions are provided.

The overall assessment of the project is good (2). A significant improvement of the revenues can be noted in a number of towns compared to the situation at the beginning of 2006, It is very likely that all municipalities – including those that form joint tax administrations – will have established their tax departments successfully by the end of the project. This would on the one hand enable them to administrate the competencies delegated by the central Government, regarding property tax and on the other hand it would allow them to collect other local taxes in future.

A successful realization of this first phase of the reform provides the basis for other taxes to be transferred to the local level. Therefore the chances for sustainability are good in terms of achieving a continuous process of fiscal decentralization even after project completion. This supposition is encouraged by the observation that the vertical and horizontal communication and coordination processes among municipalities have been improved increasingly. However, long-term success will presume a stable economic and political context.

Relevance (3)

The goal of the project is in line with priority policies and strategies of the partner country. In addition, it meets the requirements of partner institutions and beneficiaries. Fiscal decentralization is a priority area for the BMZ as well as for the international donor community in Serbia. Since fiscal decentralization has lost significance in terms of political agenda setting of the partner country in the course of the last years the relevance of the project is rated as satisfactory (3).

Effectiveness (2)

Considering the significant changes in terms of a more efficient revenue collection through local administration, it can be assumed that the project is going to achieve its overall goal. This tendency will likely continue in the years to come. Local finances therefore will be based

on a more reliable and self-determined ground than before. The project effectiveness is therefore rated as good (2).

Overarching development results (Impact) (2)

In the context of this project the overarching development results (impact) means to achieve more accountability through citizens' participation and through improved governance. With regard to these factors and possible future effects (e.g. increased central level tax incomes, or growing horizontal tax competition), overarching development effects are rated as good (2).

Efficiency (2)

The resources used and the forms of services rendered fit the existing framework and are in appropriate relation towards past and future effectiveness. A more economically acceptable alternative for the implementation of this project does not exist. The efficiency of is therefore rated as good (2).

Sustainability (2)

The reform of fiscal decentralization will strengthen the municipalities and cities. This might trigger further reforms. It is therefore expected, that the effects of the project will be sustainable. For this reason the sustainability of the project is rated as good (2).

Concerning gender issues, specific changes can not be observed. A relation to poverty reduction can only be seen as an indirect effect. The project sustains the Millennium Development Goals in the sense of facilitating transparent und rules-oriented processes of public finances. Therefore it contributes to good governance.

Conclusions and recommendations

In fiscal decentralization processes, interaction among area municipalities is of utmost importance. It is therefore recommended to focus the activities on the establishment of a functional communication platform for the remaining period of the project. This would help to increase the efficiency of project implementation and strengthen the process of fiscal decentralisation in the long run.

For that purpose the Ministry of Finance should be increasingly involved in the process. Existing unclarity regarding the competencies of the ministries and subordinated tax administrations might be reduced and confidence in decision making might increase. A stronger involvement of the Central Government in the project could facilitate a continued process of fiscal decentralization.

As far as the cooperation with SCTM is concerned, the chosen pathway should be continued. This is especially relevant for the local expert who is financed by project funding. If these funds cannot be secured in future and if new staff cannot be qualified within the SCTM management structure, the continuation of the decentralization process beyond the scope of present reforms is less likely -although the obtained results would not, indeed, be challenged.

Generally, increased attention should be directed towards smaller municipalities. Due to unclearly defined responsibilities during the process of reform implementation, the small municipalities hesitate most with the implementation of the reforms. It could be helpful if SCTM and the related municipalities were given the expertise how to organize municipalities' cooperation and form a joint tax administration, and finally how to evaluate expected results. For services which will involve smaller municipalities more and more, including the assistance in targeted alliances of local administrations, a more regionally implementation strategy is recommended, such as regionally organized meetings of heads of tax administration departments.

The project should further focus on an intensification of direct cooperation among municipalities. The experts therefore support the planned activity of having cooperation agreements arranged with other municipalities for a closer cooperation. Meanwhile, there is a sufficient number of municipalities all over the country that function successfully and are able and willing to share their experience with the ones that are presently behind – through regionally unified cooperation, for example in educational measures or on-the-job training. An improved coordination and cooperation with other donor organizations will be helpful in this respect. Pilot municipalities also should be integrated in this regional focus.

The evaluators also recommend further monitoring of individual measures that have already been partially initiated or discussed, such as support to advanced training of employees of local revenue/tax departments and assistance and support of municipal media campaigns intended to increase tax-paying willingness.

Further support is recommended in achieving required amendments to the Law on Local Self Government, financing and reviewing unified administrative regulations, including obligatory regulation of information exchange among state institutions, as well as of other services these should provide i.e. postal delivery. With regards to future development the evaluators recommend that feasibility studies on additional tax transfers should be handed over to municipalities. These studies should be distributed to all relevant stakeholders.

The continuation of the project should be seriously reconsidered in case the fiscal decentralization process is reversed by the central government.

The process of the project reveals the complexity of decentralization processes, which is due to the different stakeholders, shifting of power, bureaucratic obstacles. Decentralization is by no means a linear process. Ownership as such cannot automatically be assumed in all the phases. That is why it will be necessary to repeatedly create or reactivate ownership at all levels. A multi level approach enables to be more flexible and to adjust the interventions to the needs of the partners and the environment.