REPUBLIC OF SERBIA
Ministry of Finance

The Republic of Serbia
Public Policy Secretariat

Овај програм финансира
Европска унија

#ЕУ
ЗА ТЕБЕ



EU exchange 6

# EUROPEAN UNION SUPPORT TO LOCAL SELF-GOVERNMENTS

STANDING CONFERENCE OF TOWNS AND MUNICIPALITIES
NATIONAL ASSOCIATION OF LOCAL AUTHORITIES IN SERBIA

# PROGRAMME exchange

The Exchange Programme is one of the longest-running assistance actions of the European Union intended for local self-government in the Republic of Serbia. In the previous 20 years, via six phases worth EUR 35,080,000 (EU grant funds), priority reforms of the local self-government (LSG) system were supported through a range of activities aimed at contributing to the decentralisation process, LSG capacity building and improved service delivery to citizens and businesses. In all phases of this EU Programme, ministries in charge of public administration and local self-government, finance and European integration were actively involved, same as other line ministries and national institutions, while the Programme was implemented by the Standing Conference of Towns and Municipalities – National Association of Local Authorities in (SCTM).

In the period between 2004 and 2024, six phases of the Exchange Programme were implemented as follows:

### Exchange 1
#### October 2004 – December 2007

The overall objective of the Programme was to support the efforts of the Republic of Serbia in the area of European integration through LSG capacity building in line with EU standards. The purpose of the Programme was to stimulate innovation and enhance the capacities of Serbian towns and municipalities via project-based cooperation of Serbian LSGs and partner municipalities from EU countries through the exchange of knowledge and presentation of best practices applied by LSGs in the EU. The Programme was implemented by the SCTM in cooperation with VNG International and the International Cooperation Agency of the Association of Netherlands Municipalities. The total Programme value amounted to EUR 5,330,000. The total budget for municipal projects equalled EUR 3,300,000, with EUR 600,000 being allocated for the training of town/municipal representatives in the Republic of Serbia.

During Programme implementation, 49 local projects were delivered including: in 19 towns and municipalities, direct service delivery to citizens was improved through the establishment of service/ info centres; 5 LSGs introduced a primary waste separation system, another 6 improved operation of public utility companies (PUC) in this area; 3 geographic information systems (GIS) were established; in 7 LSGs conditions were improved for rural development, development of small and medium-sized enterprises (SME) and local tourism; 2 centres for provision of social services and Youth Office were established and general administration functioning was improved in 6 LSGs. Additionally, cooperation was established between Serbian towns/municipalities and 31 LSGs from the EU, of which 25 signed standing cooperation agreements. Over 130 LSGs have had an opportunity to improve the knowledge of their staff in 10 thematic areas.

### Exchange 2
#### February 2008 – March 2010

The objective of Exchange 2 was to ensure support in capacity building of the SCTM and selected LSGs in defining their roles and competences in line with EU standards to ensure preconditions for a faster pace of reforms needed for integration into European trends. The Exchange 2 Programme comprised two components: 1) SCTM capacity building and 2) Joint support to LSGs in Serbia, with a total Programme value of EUR 4,500,000.

The Programme contributed to improved daily operations of the SCTM, and LSG interests advocacy function was strengthened, as well as cooperation and approximation of national legislation to EU standards. Through the analysis of the legal framework and elaboration of 6 sector analyses, the foundation was laid for the development of the SCTM Advocacy Strategy. Moreover, the initial analysis and manual for the introduction of programme budgeting were prepared. In the planning standardisation domain, a

methodological framework for local sustainable development strategies (LSDS) was developed and piloted, which became a planning standard at the local level in the years ahead.

### Exchange 3
#### March 2010 – April 2013

The purpose of Exchange 3 was to contribute to Serbian LSG capacity building for further participation in the decentralisation process in line with EU standards.

The total Programme value amounted to EUR 13,000,000, of which the fund for local projects totalled EUR 11,000,000, while EUR 2,000,000 was allocated for implementation of five Programme components.

In the scope of the Programme, 67 local projects were implemented, whereby in 32 LSGs, conditions were developed for faster local economic development and attracting investments through establishment and support in operation of local economic development offices, support for tourism development, rural development, elaboration of spatial and urban development plans and GIS. The quality of work was enhanced through the introduction of new municipal/town social and utility services for citizens in 29 LSGs. Environmental protection was enhanced in 6 LSGs through primary waste separation and the introduction of energy efficiency management systems.

Drafting of local sustainable development strategies led to improved capacities for planning, good governance and coordination in 15 LSGs, along with the established database of local strategic documents within SCTM. Moreover, the information system assessing the maturity of planning, project - technical documentation for municipal/intermunicipal and regional infrastructure projects (SLAP IS) was introduced. Local authorities and line ministries recognised SLAP IS as an instrument supporting the programming and planning of international assistance, EU funds and budget funds for the development of municipal infrastructure, and the network of SLAP coordinators across LSGs was likewise developed.

The financial management process was improved through the introduction of municipal bonds, while foundations were laid in the area of programme budgeting in Serbian LSGs. Dialogue between central and local levels of government was fostered through participation in the work of the Local Government Finance Commission.

Improved LSG operations were supported through the organisation of 27 training events and the implementation of 11 packages of (expert) support in the areas of urban planning, property management, service delivery, local economic development, etc.

### EU Exchange 4
#### May 2013 – December 2015

The Programme was implemented as the EU grant to the Republic of Serbia within the IPA 2012 Programme, designed to ensure a follow-up of activities launched in the previous Exchange Programme phases, focusing on the introduction of European models of functioning in the work of Serbian LSGs.

The overall objective of the EU Exchange 4 Programme was to contribute to the process of strategic change at the local level through enhanced administrative capacities and service delivery efficiency in LSGs in Serbia, in line with the public administration reform principles, relevant national sector policies and EU practice.

The EU Exchange 4 focused activities towards strengthening LSG in local planning, financing system and service delivery. Specific objectives of the Programme were divided into three components:

- **Component 1**: Support in the implementation of relevant national priorities at the local level by linking sector strategies and action plans and development of specific municipal infrastructure projects.
- **Component 2**: Support to fiscal decentralisation by facilitating implementation of new financial legislation concerning programme budgeting, local tax administrations and alternative sources of funding.
- **Component 3**: Support in the implementation of priority national measures in the areas of economic development, social services and environmental protection at the local level, via grant scheme projects.

The total Programme value amounted to EUR 5,800,000. Out of this amount, EUR 4,500,000 was allocated for town/municipal projects, while EUR

1,300,000 was earmarked for the implementation of other activities in the scope of three Programme components.

The Programme beneficiaries were Serbian towns and municipalities, but also their citizens who benefited from improved services provided by their LSGs, line ministries, and national and regional institutions. The EU Exchange 4 directly supported 85 towns and municipalities.

## Exchange 5

### April 2017 – July 2021

The Exchange 5 Programme was the EU donation approved to the Republic of Serbia within the IPA 2014 allocation as part of the IPA II Action Programme implemented under the indirect management regime, whereby management powers in relation to the EU funds were delegated to national administration. The Ministry of Public Administration and Local Self-Government was the primary Programme beneficiary at the national level, with an important role played by the Ministry of Finance given the content of the support and the role this Ministry had as the Contracting Authority - Department for Contracting and Financing of EU funded Programmes (CFCU). The Programme was essentially intended as a support to LSGs (as final beneficiaries) in efficient property management (component one) and strategic planning and Programme budgeting (component two).

The total budget of the Programme was EUR 4,750,000 EUR: 4,450,000 from the EU contribution (EUR 3,000,000 was the grant scheme fund for the implementation of local projects, and EUR 1,450,000 was a direct grant supporting the implementation of both Programme components), while the amount of EUR 300,000 was the co-financing by LSGs that obtained funds for implementation of grant projects.

Exchange 5 Programme directly supported 68 LSGs under Component 1 (through grant scheme and support packages) and 12 LSGs under Component 2 (direct technical support). Certain Programme activities were designed to cover all LSGs in Serbia, while others included only a limited number of LSGs (selected per calls for specific support).

Support in the field of property management was aimed at raising the financial capacity of LSGs and the competitiveness of the local economy while incentivising inter-municipal cooperation. Supported LSGs worked on public property inventories and registration, establishing sustainable property management units, improving databases for keeping records on real estate, financing geodetic surveys of constructions/facilities and networks above and underground, and drafting studies for the preparation of cadastral and topographic plans/maps, and on calculating the value of real estates.

Years of work with LSGs to improve planning and budgeting processes continued within the Exchange 5 Programme. The focus was on the implementation of programme budgeting as a modality in budget planning, enabling improved public administration performance management, increased accountability of budget beneficiaries, establishing stronger links between annual budget, prioritising expenditures and public policy implementation, same as improved transparency of spending. The main form of technical assistance pertained to support in improving the process of Budget Decision drafting in line with the Guidelines on programme budgeting published by the Ministry of Finance.

The Programme was implemented in line with the objectives laid down in the Public Administration Reform (PAR) Strategy by 2020, whereas the work with LSGs included intensive promotion of new planning system aspects in the Republic of Serbia. Likewise, contributions were provided in drafting the new PAR strategic framework for 2021 2030 and accompanying Programmes on LSG system reform, public financial management and public policy coordination.



# PROGRAMME EU exchange 6

## *Enhanced credibility of planning, programme-based budgeting and control in execution of public expenditures at the local level in Serbia*

**Duration:** from September 2021 to February 2025
**Value:** EUR 2 million (IPA 2019)
**Competent institutions:** The Ministry of Finance (MFIN) and the Public Policy Secretariat (PPS) along with the Ministry of Public Administration and Local Self-Government (MPALSG) and the Ministry of European Integration (MEI)
**Implementing partner:** Standing Conference of Towns and Municipalities (SCTM)
*https://www.skgo.org/projekti/detaljno/63/eu-exchange-6*

The EU Exchange 6 Programme was funded by the European Union in the scope of IPA 2019 national Programme and implemented under direct management regime via the EU Delegation in Serbia. The total value of the Programme is EUR 2 million (EU grant), approved for a duration of three and a half years. Target groups of the Programme are towns and municipalities in Serbia, local administrations, local communities, citizens, civil society, and business entities as beneficiaries of improved local development planning, budgeting and financial management.

The Programme consisted of three components, with a part of the programme activities designed to cover all local self-governments in Serbia by capacity building, implementation of accredited trainings, networking, and continuous advisory support, while direct assistance was envisaged for a limited number of towns and municipalities selected based on public calls for direct support in elaboration of development plans and mid-term plans, in improving capital planning and budgeting, enhancing/establishing the internal audit and financial management and control, as well as public budget portals.

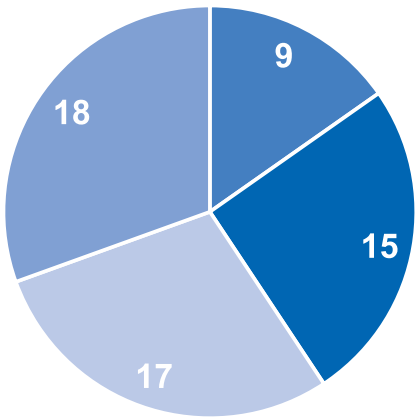
The EU Exchange 6 Programme provided **96 sets of direct expert support for 59 different local self-governments** (some LSGs were awarded several types of direct support upon the public calls).

59 towns and municipalities directly supported within the Programme, account for 41% of the LSG units in Serbia (excluding city municipalities, which were covered only by the horizontal activities of the Programme, although they were also eligible to apply for direct support). Among the supported LSG units, municipalities are dominant with a share of 71% (42 or 36% of the total number of municipalities in Serbia), while the remaining 29% of supported LSG units are towns (17 or 61% of the total number of towns in Serbia).

The Programme has supported towns and municipalities from all development groups, particularly the devastated ones, i.e. 31% of the supported LSGs belong to the fourth development group (41% of the total number of LSGs from that development group in RS) and 29% of the supported LSGs belong to the third development group (36% of the total number of LSGs from that development group in RS). A significant portion of the support, i.e. 25% of the supported LSGs, was directed towards the LSGs from the second development group (44% of the total number of LSGs from that development group in RS), while 15% of the supported LSGs belong to the first development group (45% of the total number from that development group in RS).

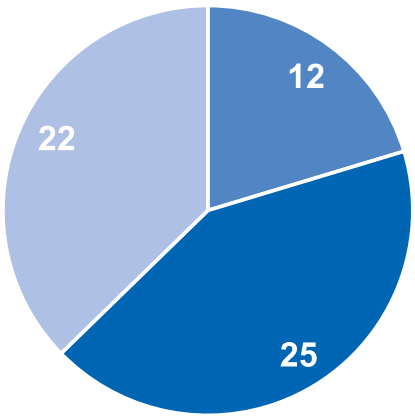
Towns and municipalities from all regions except Belgrade were supported, with the highest number of supported LSGs being from the region of Šumadija and Western Serbia - 42% (48% of the total number of LSGs from that region) and from the region of Southern and Eastern Serbia - 37% (47% of the total number of LSGs from that region), while 20% of supported LSGs are from the region of Vojvodina (27% of the total number of LSGs from that region).

**Number of directly supported LSGs per development groups**




- 1st group (above the average of the Republic of Serbia)
- 2nd group (80%-100% of the average of the Republic of Serbia)
- 3rd group (60%-80% of the average of the Republic of Serbia)
- 4th group (below 60% of the average of the Republic of Serbia)

**Number of supported LSGs by regions**




- Vojvodina
- Sumadija and Western Serbia
- Southern and Eastern Serbia

Beneficiary LSGs received various types of direct support within all three Programme components, primarily on a competitive basis. Certain Programme activities were intended for all towns, municipalities, and city municipalities in Serbia, while all support activities were implemented in coordination with relevant national institutions. In addition, by developing overviews and analytics, the EU Exchange 6 Programme contributed to regular reporting on planning documents accompanying the Public Administration Reform Strategy, i.e., the Reform Programmes for LSG System (until 2025), for public financial management and for public policy management. In this regard, the annual reviews in the scope of EU Exchange 6 are aligned with the methodology (so-called "passports") of indicators that are reported upon at the national level.



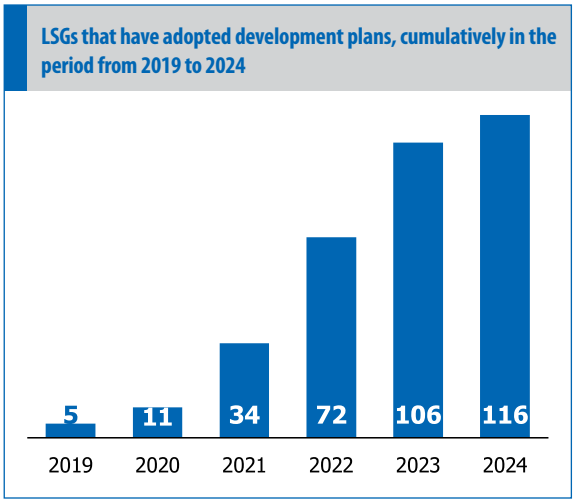
## Fostering LSGs in preparation and implementation of Development Plans and Mid-term Plans in line with their programme budgets

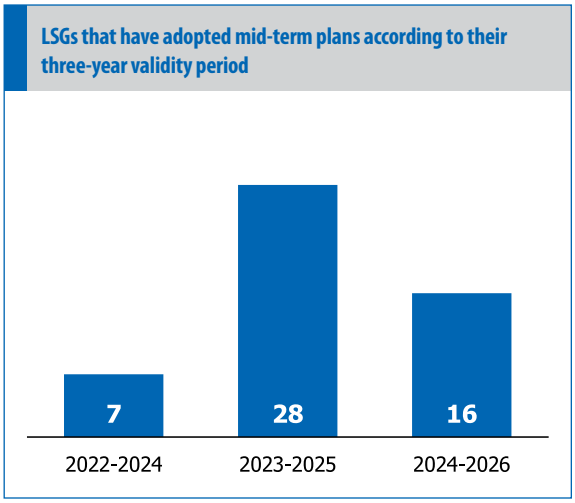
Support to LSGs in improving planning and budgeting processes, aimed at better performance management by public administration, constituted the backbone for the majority of the Exchange Programme phases, while in the scope of EU Exchange 6, it obtained a new dimension and most direct concretisation within the first Programme component. The adoption of the Law on Planning System and the accompanying Decrees in the period 2018-2020, represented a turning point and the long-awaited benchmark for public administration reform. A new chapter was opened on the consolidation of public policy coordination and associated financial planning, budget execution, and spending accountability. Attention was paid to the efficient implementation of the EU accession process, especially in the context of the requirements from Negotiating Chapters 17 - Economic and Monetary Policy and 22 - Regional Policy and Coordination of Structural Instruments. It should be underlined that in the same period, the United Nations Agenda 2030 for Sustainable Development became more prominent in the Republic of Serbia, and increasing attention was being directed towards the localisation of Sustainable Development Goals (SDGs).

Long-term development and mid-term planning became obligatory for LSGs, encompassing the preparation, adoption, implementation and reporting upon implementation of planning documents. The Law clearly prescribed the obligation of towns and municipalities firstly to adopt a Development Plan as a comprehensive planning document valid for at least 7 years, based on an in-depth situation analysis and development needs, and providing basis for defining mandatory elements ranging from vision to priority objectives and measures, with obligatory consultative process and overall transparency of work. This is followed by a Mid-term Plan as a more detailed planning document adopted for a period of 3 years and updated and adapted annually in line with the budget. It integrates the public policies and competences of the LSG with the mid-term expenditure framework and with objectives and indicators at appropriate levels of the programme budget structure. It is being prepared






based on viable public policy documents, taking into account the priority development objectives of the LSG, available capacities and resources, and changes in the actual state of play compared to the time of adoption of development planning documents (development plan). To understand the complexity of the planning processes in LSG, one should consider the diversity of their fields of action, alignment with changes in the regulatory framework, predictability of funding, and an objective assessment of local administration capacities.

Based on such considerations and newly established planning system reform objectives, the sixth phase of the EU Exchange was designed to directly support towns and municipalities in key planning processes and to strengthen the coordination of competent institutions and partners in the early years of the new legislative package implementation, and to provide additional methodological guidelines to LSGs.

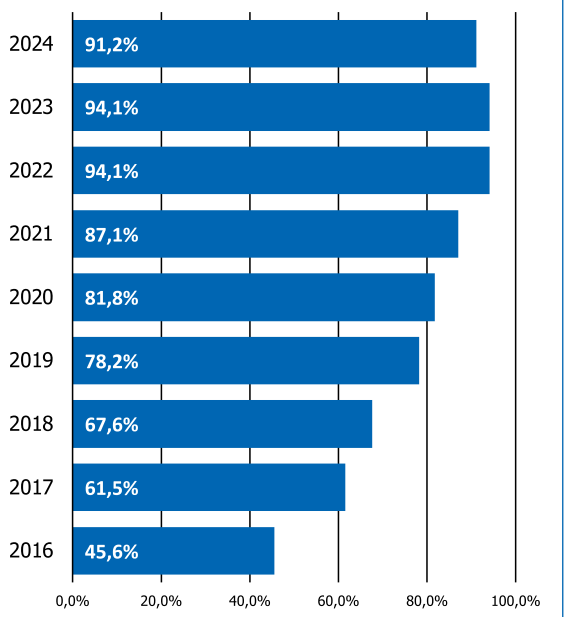
According to the latest data and measurements for 2024, 80% of LSGs adopted their Development Plans (116 out of 145 LSGs), while the Mid-term



Plans for the period 2024-2026 were adopted by 11% of LSGs (16 out of 145 LSGs). The growing number of adopted Development Plans has been registered since 2019, particularly in 2022 and 2023, dominantly as the result of activities undertaken by the Public Policy Secretariat in cooperation with implementing partners, to which the SCTM also made a significant contribution through the Programme and previous projects. Despite the efforts invested, visibly modest results have been registered in terms of adopted Mid-term Plans, with the largest number recorded in 2023, with only a few LSGs managing to repeat the process in two or more consecutive years. In this regard, documents prepared in the scope of EU Exchange 6 highlight the challenges in the mid-term planning process and concerning the links with (programme) budgeting, and incorporate recommendations for overcoming these challenges. Regarding the implementation of programme budgeting within LSG budget decisions, annual analytics are being undertaken for 170 towns, municipalities, and city municipalities, given that the budget system requirements apply to all LSGs. By 2024, a doubling of results had been noted compared to the initial measurement in 2016 (an increase from 45.6% to 91.2% of LSGs), primarily attributable to activities undertaken in collaboration with the MFIN in previous years and continuously since the fourth phase of the Exchange Programme.

Within Component 1, significant portion of Programme resources was dedicated to providing direct expert assistance to selected LSGs through municipal support packages (MSPs) for elaboration of Development Plans and Mid-term Plans, described in more detail in the text below.

**LSGs that have implemented programme budgeting in budget decisions, as share of the total number of LSGs**




In addition to direct technical assistance, through **horizontal programme activities** intended for all LSGs, the following has been implemented within Component 1:

- Capacity building and certification of successful trainees (certificate from the National Academy for Public Administration) through **accredited training** on mid-term planning in LSG (one-day trainings implemented at the end of 2021 with the participation of 191 representatives from 66 LSGs, i.e. from 38.8% of the total number of local LSGs) and on elaboration and implementation of Development Plans (two-day trainings











implemented at the end of 2022 with the participation of 100 representatives from 53 LSGs, i.e. from 31.2% of the total number of LSGs).

- In collaboration with the MFIN, the practice established during former Programme phases has been continued – in terms of holding **annual cycles of regional seminars** (combined with webinars) to support towns, municipalities, and city municipalities in **planning and preparing Budget Decisions**. These have included themes of programme budgeting, performance reporting on budget, interlinking budget and planning documents, capital planning and budgeting, as well as gender budgeting and budget transparency. These seminars, conducted annually during the autumn part of the budget cycle, included recommendations for necessary improvements to achieve a more consistent and high-quality implementation of budget classifications for the following year. These recommendations are based on the analysis of LSG Budget Decisions, findings of the State Audit Institution, and instructions issued by the MFIN. An important aspect of these seminars is dedicated to presenting updates every year, including relevant amendments of the legal framework, examples of new guidelines and methodologies, and new software solutions for budget operations. During four cycles of annual seminars, there has always been significant interest in participation from the LSG representatives (with up to 87% representation of the total number of LSGs).
- **Annual comparative reviews and recommendations on aligning LSG programme budgets with Mid-term Plans** have been elaborated, as well as analysis of options for potential modifications of the LSG programme budget structure, aimed at better alignment with development and public policy needs. Elaboration of these documents, and related consultations with representatives of LSGs, national institutions, and partner organisations, have been undertaken pursuant to the LSG System Reform Programme in the current horizon by 2025, laying grounds for further action planning, regulatory, and methodological adjustments.
- Throughout the EU Exchange 6 implementation, towns and municipalities had access to support for **modelling and guidance** in the preparation of accompanying documents within planning processes (e.g. assistance in the preparation/ review of local acts on initiating the process of development plan / mid-term plan drafting, and the establishment of local teams for the preparation of planning documents and their links with local teams for programme budgeting), while also **annual updating of templates for programme budget** preparation and for performance reporting was continued, as well as the publication of answers to dozens of questions - most frequently in the final part of the calendar year and budget cycle (all content, developed models and instructions are available on the website dedicated to the programme budget: *https://www.skgo.org/strane/225*).

# Support packages for elaboration of Development Plan


Municipality of Ćuprija


Municipality of Čajetina


Municipality of Boljevac


Municipality of Vrnjačka Banja


Municipality of Golubac


City of Bajina Bašta


Municipality of Krupanj


City of Kraljevo


Municipality of Lajkovac


Municipality of Kosjerić


Municipality of Veliko Gradište


City of Požarevac


Municipality of Bogatić


Municipality of Svilajnac


City of Kruševac


Municipality of Smederevska Palanka


Municipality of Medveđa


City of Šabac


Municipality of Surdulica


Municipality of Gadžin Han


City of Čačak

## Support packages for elaboration of Development Plan

Direct expert support for elaboration of Development Plans was provided in 21 LSGs by means of tailored MSPs. The selection of beneficiary LSGs was conducted through public calls. During the first call, conducted at the beginning of 2022, 12 LSG were selected; with the second call, conducted at the beginning of 2023, new 8 LSG were selected. Additionally, upon request of the municipality of Medveđa, support was approved for upgrading the existing draft of the Development Plan, as complementary for the implementation of MSP concerning capital projects.



The process of preparing the Development Plan in the beneficiary municipalities started with preparatory activities, which implied establishing a coordinating team and determining the composition of thematic working groups. It was followed by the identification and analysis of partners from the local community to engage a wide range of participants in the preparation of the Development Plan, which was used as a basis for the decision on the preparation of the document and working groups.

The process continued with detailed socio-economic and functional analysis and assessment for the town or municipality. This included: conducting situation analysis in eight policy areas including the related aspects of sustainable development goals; drafting report on the implementation of the previous umbrella strategy and of other main local planning documents; and assessing the functional and financial capacities of LSG.

Local community engagement has proven to be crucial for the overall process in elaborating the document. Thus, upon completion of analyses, wider public engagement mechanisms were activated in the modality of partnership forums. In addition to the coordinating team and thematic working groups' members, these forums also



involved representatives of various stakeholders to identify key development challenges for the community.




The next step was to define the vision, objectives, and measures of the Development Plan. Workshops were organised to facilitate the drafting of the vision and priorities, along with the related performance indicators, while ensuring alignment with the 2030 Agenda and SDGs. The draft Development Plan underwent extensive consultations with working groups and partners for feedback and further draft finalisation. Only then was the formal public debate process launched, which brought further comments and suggestions to be integrated into the final draft of the Development Plan, which was subsequently submitted to the local council and assembly for adoption. Part of the provided support also related to the definition of the mechanisms and calendar for implementation, monitoring, reporting, and evaluation of the Development Plan in accordance with the Law on Planning System.




## STATEMENTS OF REPRESENTATIVES OF BENEFICIARY LSGs REGARDING THE DEVELOPMENT PLAN

*Municipality of Krupanj has prepared a large number of strategic documents with the support of the EU, which is also the case for the Development Plan in the scope of EU Exchange 6 Programme. This type of support is important for a small municipality with limited capacities given that, despite having experience in preparing strategic documents, there is a lack of employees and specialised experts. Considering that the development plan is created in line with a new methodology, guidelines for shaping the document for 7 years, forms, content, and defining the best framework for implementing and monitoring the development plan were extremely important. The entire process has been facilitated, and we believe that we have produced a very high-quality document. In the process of drafting the plan, we involved all stakeholders with the intention for the document to recognise and determine priorities and measures that will best meet the needs of citizens and impact the improved quality of life in the municipality. Based on sound recognition of needs of our local community, directions have been defined for future investments. By creating a realistic document, the possibility is opened for later adequate mid-term planning and preparation for financing priority projects that will be linked to the municipal programme budget. We adopted and applied a transparent approach by publishing information on the phases of work and by undertaking continuous consultations with the public. With the support of the EU Exchange 6 Programme, our capacities and the process of managing the local development of the municipality are being improved.*



***Municipality of Krupanj,***
***Jelena Teodorović,***
***Head of the Department for Economy,***
***Local Economic Development,***
***Finance and Budget***

## STATEMENTS OF REPRESENTATIVES OF BENEFICIARY LSGs REGARDING THE DEVELOPMENT PLAN

*The support received within the EU Exchange 6 Programme facilitated the process of Development Plan elaboration. It systematically provided expert and technical support, which enabled us to engage local actors and the community in creating the highest quality local umbrella planning document. By elaborating a Development Plan, the municipality of Veliko Gradište has received a long-term planning document with defined directions of development and measures, whose implementation aims to make tourists happily return to our municipality by 2033 and for citizens to choose to stay in it. The most important contribution of the support we received, is the improved strategic planning and our readiness to contribute together to the community in the planning process. By adopting the Development Plan, we received clear development guidelines and defined measures that benefit the public, private, and non-governmental sectors in implementing their plans and investments.*

*The results of the EU Exchange 6 Programme support are sustainable and functional. We have received assistance to advance procedures in the preparation of planning documents through expert support, we have improved our knowledge and skills, and we have become more efficient, which is our goal to achieve even better governance through optimisation, education, and the implementation of good governance principles.*



***Municipality of Veliko Gradište,***
***Jasmina Štrbac,***
***Head of the Local Economic Development Department***

## STATEMENTS OF REPRESENTATIVES OF BENEFICIARY LSGs REGARDING THE DEVELOPMENT PLAN

*Given that the Development Plan-making is a very complex process with a large number of participants and a methodology that was used for the first time in our municipality, the support of the EU Exchange 6 team significantly facilitated the preparation of the plan. We had real-time support, associates, and representatives of the SCTM who guided us through the entire process and directed us towards the final goal of creating the best possible planning document. In this way, we completed this process in partnership with SCTM within the given deadlines and in a very transparent way with the broad participation of the local community and the private and non-governmental sectors.*

*The Development Plan is the ultimate strategic document of the municipality, valid until 2030, providing guidelines for further sustainable development; thus, this document should guide the further development of the municipality to achieve the defined vision. The document aligns with the negotiating chapters, as well as with SDGs, emphasising three pillars (sustainable economic development, social development, and urban development and environmental protection). The expertise and support of the professional team were critical for efficient and effective implementation of the methodology and for the creation of a concise and high-quality planning document that will represent the backbone of the future sustainable development of Vrnjačka Banja.*



***Municipality of Vrnjačka Banja,***
***Nebojša Alimpić,***
***Head of the Local Economic Development and Investment Department***

## Expert support for performance reporting upon LSG Development Plans

A concrete step and a significant methodological contribution of the EU Exchange 6 Programme to the planning system implementation at the local level, is reflected in the piloting of the process of elaboration of performance reports upon LSG Development Plans. This is relevant particularly since monitoring and reporting are recognised as critical weaknesses that should be addressed in a reformed planning system, specifically for strategic documents.

As the reporting deadline is set by the Law on Planning System in three-year intervals in relation to the adoption of the LSG development plan, during 2023/2024 the conditions have been met for the LSGs which were among the first to adopt these planning documents in the Republic of Serbia, to develop/adopt the first reports on the effects of their implementation. However, since the methodological elaboration of this process was not sufficiently represented in the existing guidelines for the LSGs, the competent institutions of the EU Exchange 6 agreed on the need to test and systematise the approach in this regard within the Programme. Therefore, by mid-2024, a public call was conducted and 3 LSGs were selected to prepare the first performance reports upon development plans - municipalities of Bački Petrovac, Petrovac na Mlavi and Mali Zvornik. In addition to providing expert support to these LSGs, the SCTM was working in coordination with the PPS on instructional material with an overview of the reporting steps and examples/illustrations of parts of the process based on selected pilot municipalities.

**Municipality of Bački Petrovac**

**Municipality of Petrovac na Mlavi**

**Municipality of Mali Zvornik**





The process for elaboration of the performance reports upon Development Plans also had the start in preparatory activities aimed at establishing mechanisms and official municipal teams. These teams were responsible for coordinating the darfting of the report, ensuring that local government representatives were fully informed of the process and their respective roles. SCTM provided analytical assistance so that municipal teams could collect and process data related to implementation of the Development Plan. Comprehensive situational analyses were likewise prepared, integrating insights from existing reports and relevant public policy documents. Further to this, the draft report was improved through multiple rounds of commenting and workshops within the administration, while further steps in the process implied conducting broader/public consultations to ensure community involvement and transparency, with the mandatory availability of materials on the LSGs' websites. Upon finalising the report based on public consultations, the draft is submitted to the council along with a report on the results of the conducted consultations. The council establishes the proposal of the document/performance report and submits it to the local assembly for adoption.

In order to strengthen the LSGs' capacities for further monitoring of the Development Plan implementation, training sessions were organised for employees to acquire the necessary knowledge and tools for effective implementation and reporting. Customised models for monitoring and reporting on the effects of the plan's implementation were developed.

With the summarised methodological material on the process, EU Exchange 6 provided qualitative contribution to the subsequent shaping of guidelines by the PPS for instructing other LSGs in the preparation of these performance reports, a process that is expected to become increasingly widespread in the period ahead, and the need by LSGs for such instructions accordingly more pronounced.

## STATEMENTS OF LSG REPRESENTATIVES ON THE DEVELOPMENT PLAN PERFORMANCE REPORT

*The expert support of the EU Exchange 6 Programme has enabled us to acquire new knowledge through a number of workshops and training sessions for administrative staff to manage development processes in the local community more actively and efficiently. Reporting upon the Development Plan enabled us to see what we were doing right, what we could improve, and to realise where we were overambitious as well as what we needed to adapt to new conditions, considering all the changes that have occurred in the external environment, and thus seize opportunities and avoid the threats arising therefrom.*

*As part of the process itself, a review, analysis, and assessment of the progress in achieving priority objectives and implementing measures of the Development Plan were conducted, and links between the plan and national public policy documents were identified. Furthermore, tools for visibility and promotion of planning and reporting processes were improved through extensive consultations with the local community before adoption of the material by the assembly. This enabled us to significantly strengthen our capacities in planning and project implementation and effectively include the local community in the process. The recently published LSG Transparency Index for 2024, where the Municipality of Petrovac na Mlavi is positioned among the 20 best-ranked LSGs and the top 10 municipalities, is both a confirmation and an indication of the work done so far and an incentive to continue managing development in our community transparently.*



***Municipality of Petrovac na Mlavi,***
***Boris Gvozdić,***
***Deputy Mayor***

# Support packages for elaboration of Mid-term Plans

Municipality of Bela Palanka

Municipality of Ražanj

Municipality of Kovin

City of Subotica

City of Novi Pazar

Municipality of Merošina

City of Loznica

Municipality of Krupanj

City of Niš

Municipality of Raška

Municipality of Novi Kneževac

Municipality of Boljevac

City of Sombor

Municipality of Kanjiža

Municipality of Nova Varoš

Municipality of Sokobanja

Municipality of Bačka Topola

Municipality of Aleksinac

City of Leskovac

City of Užice

Municipality of Bač

## Support packages for elaboration of Mid-term Plans

Direct expert support for elaboration of the Mid-term Plan was provided to 21 LSGs through tailored support packages within the EU Exchange 6 Programme. The selection of beneficiary LSGs was made on a competitive basis, with 10 LSGs selected under the 1st public call announced at the beginning of 2022 and another 10 following the 2nd call in early 2023. Additionally, the municipality of Bač received support in revising the Mid-term Plan draft based on request and expressed needs.

The process of elaboration of Mid-term Plan in beneficiary LSGs began with preparatory activities, initially by organising an introductory meeting and workshop, followed by passing local acts to formally initiate the process and to establish a city/municipal team by the beneficiary LSG. The starting point for initiating the process was to assess the LSG existing capacities by producing information on the LSG as obligor of mid-term planning, as well as analysing performance reports on programme budget and available reports on (sectoral) public policy documents.

Main part of the process focused on creating a draft table overview of objectives, measures, and activities, aligning goals and indicators with national and local planning documents (including links with the programme structure of the LSG budget), through workshops and working meetings with LSG representatives with sector-specific expert support. Further step included creating accompanying forms to be annexed to the Mid-term plan, carried out through workshop activities. After adopting the LSG budget decisions, the draft Mid-term Plan was aligned with the budget again with support of sectoral experts, which led to finalisation of the Mid-term Plan. Finalised document was then submitted to the local council and assembly for adoption.

The support also included capacity building of beneficiary LSGs for monitoring the implementation of Mid-term Plan, by conducting workshops to track the performance and evaluation of the Mid-term Plan and to monitor/establish links with budget performance reports. Finally, final visits were conducted to LSGs to present the recommendations for future cycles of mid-term planning and programme budgeting.



## STATEMENTS OF THE LSG REPRESENTATIVES ON THE MID-TERM PLAN

*Through the support of the EU Exchange 6 Programme, we had the opportunity, under expert guidance, to bridge the process from long-term development planning to medium-term prioritisation. We recognised and concretised numerous project ideas within the Mid-term plan for the period 2023-2025, and prepared the ground for further cycles of mid-term planning with appropriate alignment with the budget preparation process. The involved LSG representatives acquired new knowledge and skills, and some of us, for the first time, practically applied the methodology of defining objectives, indicators, accompanying activities, and means for their implementation, while investing our effort and creativity. We acted jointly in synergy in addressing problems and questions, defining solutions, while the Programme expert support provided motivation and education and represented the mainstay of our work.*



***Municipality of Raška,***
***Đorđe Radoičić,***
***economic development advisor***

## STATEMENTS OF THE LSG REPRESENTATIVES ON THE MID-TERM PLAN

*During this process, accompanied by the EU Exchange 6 expert team, our colleagues were trained to independently prepare documents for the subsequent planning periods. Elaborated document is fully aligned with the Development Plan so that the municipality of Ražanj can better plan and prioritise its obligations and goals in line with objective assessment of available resources and capacities. The entire process contributed to the success of the projects defined in the Mid-term Plan when applying for public calls published by line ministries, so that we managed to attract significant financial resources for the implementation of infrastructure projects and for the development of administrative services for our citizens.*



***Municipality of Ražanj,***
***Renata Bajkić,***
***advisor in the Local Economic Development Office***






## Component 2 - Upgrading capacities of LSGs to adequately apply capital projects' cycle and transparently operate the budget

Support aimed at improving the management of capital projects and increasing the transparency of budget processes at the local level was the focus of Component 2 of the sixth phase of the Programme. It included improving the process and procedures for proposing capital projects and their incorporation in the LSG budget, as well as support for the introduction of public budget portals (PBPs) in selected towns and municipalities while fostering the implementation of good governance principles in budget processes in all LSGs.

In recent years, public investment reforms have been focused on enhancing the efficiency and effectiveness of managing capital projects through improving the regulatory framework and related methodologies and tools. Through several consecutive Decrees and associated bylaws since 2017, the Government of the Republic of Serbia has strived to establish a unified system for prioritising and integrating the process of planning and implementing capital projects within the budget cycle and with programming protocols for funding by the EU and other international development partners and institutions. In this regard, management of capital investments has taken a prominent place in the Public Financial Management Reform Programme for the period 2021-2025. Although in initial years the emphasis was on projects of higher value and on the coordination of central-level institutions, the scope of the system gradually adapted to aspects of capital planning at the local level. In that sense, the EU Exchange 6 Programme represented a unique support action at the local level regarding these topics. It provided tangible assistance to LSGs in their efforts (and obligations) to keep up with the changing and demanding regulatory environment.

The 2023 Decree on Capital Projects reduced the threshold value (estimated cost) of capital projects falling under the Decree - from EUR 5 to 2 million (in RDS equivalent) and has defined categories of provincial and local projects. An obligation to form a local capital investment committee in every LSG was introduced, which specifically assigns both political and strategic weight to this process. Their responsibilities are explicitly defined in considering capital projects from the standpoint of their relevance for economic development, decision-making on incorporating projects into the budget, monitoring the implementation of ongoing projects, and regular reporting to the MFIN (every 6 months). Considering that a significant portion of local capital projects by their value still remain out of the coverage by the Decree, it is foreseen that these lower-value projects would also comply with the methodological guidelines foreseen in the Decree for most steps in the planning and investment cycle. In this sense, a possibility for LSGs to prioritise and assess relevance and readiness for all capital projects in their portfolio is provided in a way that the process is adapted to local circumstances and inclusive of all relevant participants. The most direct contribution and functional support to the selected towns and municipalities in implementing the adapted Decree in practice, has been provided through the methodological elaboration of the processes modelled in line with the Decree, under the sixth phase of the Programme.





# Support packages for improvement the planning and budgeting of capital projects

City of Pirot

City of Vranje

Municipality of Vrnjačka Banja

Municipality of Tutin

City of Požarevac

City of Kragujevac

Municipality of Vlasotince

City of Novi Pazar

Municipality of Petrovac na Mlavi

City of Sremska Mitrovica

Municipality of Arilje

Municipality of Kovin

Municipality of Prijepolje

City of Leskovac

City of Sombor

Municipality of Raška

Municipality of Aranđelovac

Municipality of Babušnica

Municipality of Medveđa

City of Zaječar

### Support packages for improving the planning and budgeting of capital projects

Through two public calls implemented during 2022 and 2023 within the EU Exchange 6 Programme, a total of 20 LSGs (9 in the first cycle and 11 in the second) were chosen for the delivery of municipal support packages geared towards the enhanced planning and budgeting of capital projects.

As part of the introductory activities for each of the selected LSGs, an analysis of planning and implementation of capital projects was prepared for the previous three-year period, and support was provided to LSGs to appoint a capital investment commission/body in line with local circumstances and needs. Each beneficiary LSG received support in organising the process of proposing, assessing, and ranking capital projects and their incorporation in the budget. In 20 towns and municipalities, a total of 339 ideas/proposals for capital projects were encompassed during the implementation of the Programme. Assistance was also provided in organising public hearings on the capital part of the budget, which improved transparency and citizen engagement in budget processes. During the implementation of the second cycle, with additional expert support, particular attention was dedicated to the monitoring, reporting, and evaluation of capital projects included in the budget. At the end of the process, towns and municipalities were provided with specific recommendations for improving the technical readiness of project proposals and for the planning and budgeting process of capital projects for future budget cycles.



### STATEMENTS OF LOCAL AUTHORITIES ON IMPROVING THE PLANNING AND BUDGETING OF CAPITAL PROJECTS

*The support received from the SCTM EU Exchange 6 expert team has greatly assisted the Municipality of Aranđelovac in deciding which projects to propose and assess in the context of their readiness for incorporation in the budget. There were some uncertainties in the administration in the past, but with the support of the EU Exchange 6 team and the Commission for the incorporation of capital projects in the budget established by the municipal council, we are finally on the right track, and this will become evident in the years to come. This type of planning incentivises the competitiveness among project proponents, who strive to make their projects as ready as possible and to receive the highest score from the Commission. A particularly significant aspect of the support related to public engagement, both in the phase of project nomination and subsequently during presentation of prioritised investments in the course of public debate on the budget before its adoption. This type of planning positively affects the transparency of local government operations, which is one of the priorities of our municipality.*



***Municipality of Aranđelovac,***
***Nevena Irić,***
***Deputy Mayor***



## STATEMENTS OF LOCAL AUTHORITIES ON IMPROVING THE PLANNING AND BUDGETING OF CAPITAL PROJECTS

*In the recent period, the Municipality of Vrnjačka Banja has implemented a series of significant capital projects, and we were further motivated to upgrade the procedures upon which capital projects are evaluated and selected. With the support of the Exchange 6 team and SCTM, Vrnjačka Banja has properly and adequately worked on the selection of capital projects that will improve the lives of our citizens but also preserve the environment, which are some of the main priorities of our local government.*

*The Programme has also helped us work towards the development of Vrnjačka Banja and for strategic positioning of the municipality with a vision and mission of being a unique tourist destination with abundant spa therapeutic capacities. Both indirect and direct budget beneficiaries have been involved into the process. In addition, the residents have played an important role, with everyone as initiators striving to ensure their projects are optimally prepared, well-rated, and included in our budget. Through this Programme, we have managed to further enhance the level of transparency of local government operations.*



***Municipality of Vrnjačka Banja,***
***Boban Đurović,***
***Mayor***



These support packages entailed a specific endeavour towards establishing a methodologically adequate process for aligning the budget and investment cycle at the local level. Modelled upon the public investment management system coordinated by national institutions to compile a single project pipeline for high-value priority investments, LSGs were supported in establishing the main parameters for assessing relevance (strategic importance) and readiness/maturity of planned local capital projects, mechanisms for their prioritisation, and inclusion in the budget. As an additional, significant result of the EU Exchange 6 Programme and based on the experiences gained during the implementation of the support packages, **LSG Guidelines for organising the process of proposing, assessing, selecting, monitoring, and evaluating capital projects** were prepared with accompanying forms. The guidelines are intended for all towns and municipalities and are applicable to capital projects worth under EUR 2 million, which are not directly subject to the Decree. They provide clear guidance through all the steps of the process in accordance with the local government budget calendar, including practical document templates and recommendations for their successful adaptation.



Horizontal support for all LSGs has been implemented through **accredited training on capital budgeting**. Trainings were delivered at the beginning of 2024, in line with the annual professional development programme adopted by the Serbian Government, with supplementary instructions based on the mentioned guidelines for which the participants demonstrated keen interest. The

training was organised through seven regional one-day training events and one webinar, with over 150 participants from 52 LSGs, of whom 128 (85.3%) successfully passed the test and thus obtained a certificate issued by the National Academy of Public Administration.

The LSG capacity building was coordinated with the MFIN particularly for annual budget seminars, and the same applies to the **advisory support** for all LSGs to further improve the planning and budgeting of capital projects. Following the adoption of the Decree on Capital Projects in 2023, to assist LSGs in appointing and regulating the operation of local Capital Investment Commissions, models of local acts were developed in cooperation with the MFIN Sector for Monitoring Fiscal Risks: Model Decision on the establishment and functioning of the Local Capital Investment Commission and Model Rules of Procedure for Local Capital Investment Commission. The models, accompanied by additional information on the Decree itself and the necessary further steps in implementing it, were delivered to the LSGs (Materials available at: *https://www.skgo.org/strane/225*).

### Component 2 support for implementing the good governance principles in the LSG budgetary operations

With the aim of improving sound financial management practices at the local level, within this component, advisory support and instructions to all towns and municipalities were intensified to enhance budget transparency and participation, the quality of budget public debates, the implementation of gender budgeting, etc. In order to track the status and trends at the local level, targeted annual measurements were being carried out within EU Exchange 6 by reviewing budget documents and information from all 170 LSGs.

Data and measurements within the 2024 Programme indicate that 87 LSGs (51.2%) have conducted public debates on the 2024 draft budget decision. This is a lower figure compared to mapping for the previous year (107 LSGs or 63%) and is partly due to the fact that the budget cycle for 2024 was in a specific regime for some LSGs through temporary financing decisions and subsequent adoption of the Budget Decision, because of the extraordinary elections at the end of 2023. Similar reasoning goes also for the statistics on Citizens' Guide through LSG 2024 Budget Decisions, which was prepared by a total of 66 towns and municipalities (38.8% compared to 54.1% by 2023 mapping), while the Citizens' Guide to the Final Account for 2022 was prepared by 9 LSGs (5.3%, which is also a slight drop compared to the 12 LSGs or 7% from the previous annual mapping). The plan for the gradual introduction of gender budgeting in 2024 was adopted by 82 LSGs or 48.2%, which represents an increase compared to last year's 35.9%.

Based on findings of annual measurements in these areas, SCTM has also been providing additional guidance to all LSGs within EU Exchange 6 and updating models of accompanying documents to encourage quality behaviour of LSGs based on bylaws, MFIN instructions, and examples of good practice observed by SCTM. In this sense, part of the annual budget seminars is always dedicated to advising and debating with LSGs on ways to improve the credibility and transparency of local financial operations. Some of the mentioned parameters are also monitored by other organisations, programmes, and specialised indexes for LSGs, which SCTM also takes into account through coordination with partners to more objectively assess the situation and needs for support in towns and municipalities.

To foster transparent budget and investment decision-making and conduct in LSG, direct support for establishing public budget portals was implemented in the scope of EU Exchange 6.



# Support for the establishment of public budget portals

City of Vranje

City of Kragujevac

Municipality of Vrnjačka Banja

Municipality of Kanjiža

City of Požarevac

City of Sremska Mitrovica

City of Novi Pazar

Municipality of Aleksinac

Municipality of Prijepolje

Municipality of Merošina

Municipality of Čajetina

Municipality of Srbobran

Municipality of Aranđelovac

City of Leskovac

City of Bajina Bašta

Municipality of Vrbas

Municipality of Knjaževac

Municipality of Odžaci

Municipality of Kosjerić

City of Zaječar

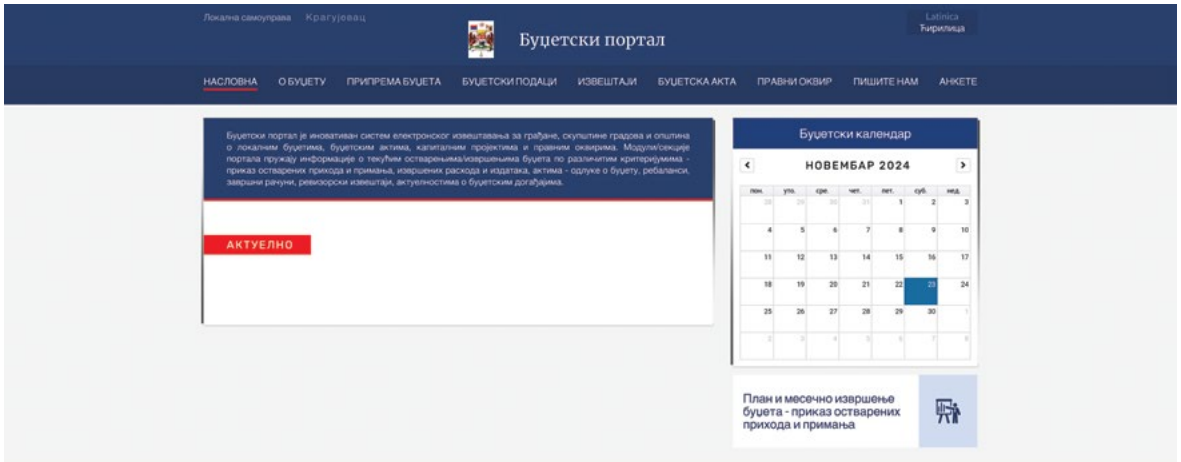
## Support for the establishment of public budget portals

Public budget portals (PBP) were introduced in 20 towns and municipalities during the sixth phase of the Programme, primarily by identifying beneficiary LSGs already selected upon other EU Exchange 6 competitions and which expressed need and interest for such a mechanism to enhance transparency in their operations. PBPs are software-based applications that facilitate a sophisticated system of electronic reporting concerning budget processes and financial documentation, streamline coordination within the LSGs, and, most importantly, enable communication with the interested public. Application is based on linking and importing basic budget data from materials otherwise prepared and/or controlled by the LSG finance departments, and it enables the combining of budget information with relevant news, as well as surveys related to financial operations. This customised information system allows users to track the preparation and implementation of the local budget, providing information on the execution of the current budget and preparations for the following year. A specific part of the presentation through the budget portal contributes directly to better informing the citizens/public, encouraging them to participate in considering local budgets and to understand both its possibilities and limitations. Therefore, PBP represents a 'window' of a sort, that offers the public insight into the phases of the budgeting cycle in LSGs, providing educational information on applicable legislation, audit findings, etc.

A particularly significant feature of PBP is the straightforward and visually appealing generation of income and expenditure reports at a monthly level, including options for different budget classifications. In internal coordination, the PBP enhances the technical capacities and functioning of organisational units responsible for finance, by reducing the time required for individual steps in the process and for communication with budget beneficiaries.

All selected LSGs have received support for introduction of PBP within the Programme, including the purchase of hardware necessary for operating the application on the LSG website, software installation, PBP user and administrator training and continuous technical support for data setting on PBP and its publication. To ensure the sustainability and smooth operation of the PBP, the existing guidelines for PBP users and administrators were updated, and additional instructional materials for its operation have been developed.

Starting from the positive experiences with PBP in towns and municipalities that have already implemented it earlier (some 30 LSGs supported since 2016 through projects from the development assistance of the Kingdom of Sweden and the Swiss Confederation via UNDP and SCTM), the Government of the Republic of Serbia encourages other LSGs to introduce PBPs - recognised as advanced mechanism of transparency in local finance also with the LSG System Reform Programme. The EU has further supported such an orientation within the EU Exchange 6, so the functioning of the application has been improved for beneficiaries, and additional 20 LSGs enabled to use this advanced transparency tool in local finance domain.



## STATEMENTS OF THE LSG REPRESENTATIVES ON THE ESTABLISHMENT OF PUBLIC BUDGET PORTALS

*Municipality of Čajetina, as a tourism hub, alongside its responsibility to provide high-quality services to citizens, has the obligation to operate with complete transparency. This primarily serves the purpose of better-informing visitors and investors coming to our municipality, but also for our local population, by offering insight into our planning and budget allocation, particularly for capital investments. The Public Budget Portal, in line with new digital technologies, surpasses traditional means of information dissemination through public assemblies and debates, providing timely and relevant data on budget creation. It also ensures that the local government bodies receive potential proposals to design budgets in line with the law and in a participatory manner. The portal facilitates viewing and planning the budget over a longer term, especially capital investments for 3, 4, or 5 years. For us, the public budget portal is an very useful and important tool, and we strive to promote it further in the coming period. Our aim is for this portal to be even more widely applied and to become one of the primary tools that we will use in local government functioning, as already tested in this brief period since introduction.*

*The citizens of the municipality of Čajetina, through this portal, receive timely information on the resources available to the local government, understand how and in what manner these resources are being used, and have a direct opportunity to propose capital investments for the budget.*



***Municipality of Čajetina,***
***Milan Stamatović,***
***Mayor***

## STATEMENTS OF THE LSG REPRESENTATIVES ON THE ESTABLISHMENT OF PUBLIC BUDGET PORTALS

*The Public Budget Portal is a software application set up on the main website of our municipality, and as such, it has become a central place where we publish our data related to the budget. When we first entered this project, we knew we needed a more transparent tool. This portal has truly allowed us to achieve this through support and collaboration with SCTM and by means of EU donation provided by the EU Exchange 6 Programme. The phrase "budget portal" means that in addition to income and earnings, expenses and spending, we also publish very important data and information, ranging from various types of decisions, orders, and conclusions made by our legislative and executive authorities. The portal is intended to inform the local community in Čajetina and, of course, the broader public; it provides useful data, overviews, and working materials to councillors, direct and indirect public fund beneficiaries from various areas of work - culture, sports, primary, secondary pre-school education, and managers of public fund beneficiaries to exchange information within the administration. We are committed to work on further promotion of our PBP and expect to involve more citizens through surveys and enable them to use what the portal actually offers, which is a channel for two-way communication between the administration and the citizens.*



***Municipality of Čajetina,***
***Snežana Stamatović,***
***a coordinator of the process of establishing a Public Budget Portal***

## Better incorporation of Public Internal Financial Control (PIFC) features in LSGs' operations and linking with local planning and budgeting frameworks

In line with international standards, Public Internal Financial Control (PIFC) was introduced into the public sector of the Republic of Serbia with the Budget System Law in 2009, when the first PIFC strategy was also adopted. Modern management methods aimed at achieving objectives, increasing efficiency, effectiveness, economy, and transparency in managing public funds were promoted since. Significant efforts were made in the first decade of implementation to lay the foundations of the system and build upon them, particularly at the level of central public funds beneficiaries, with gradual and increasing attention to the local level and meeting requirements from the process of European integration within the negotiation Chapter 32 (Financial Control). PIFC is based on three key pillars/elements: Financial Management and Control (FMC); Internal Audit (IA); and harmonisation and coordination of FMC and IA, conducted by the Department - Central Harmonization Unit (CHU) in the MFIN. Although these processes are defined by the Budget System Law, their implementation is essentially performed across LSG administration horizontally, and vertically by defining lines of managerial accountability for all (not just financial) aspects of LSG functioning. To provide value for money to citizens of Serbia, FMC and IA are integrated into the overall governance system by transferring national policy objectives into operational objectives of public sector institutions, with risk assessments concerning established objectives and by applying corresponding controls. Hence, there is a natural connection between these management functions and general planning processes, as well as the need to consolidate operational objectives as relevant for FMC and IA with elements of programme budgeting and mid-term planning. Therefore, important part of resources and a dedicated component on PIFC at the local level, have been allocated in the design of sixth phase of Exchange, and logically incorporated into the Programme support to towns and municipalities for improving the credibility of planning, budgeting, and execution of public expenditures.

In the framework of national Programmes for reforming LSG System and public financial management, EU Exchange 6 support is directly coordinated with the CHU, from the very concept of approach, selection of beneficiary LSGs, and organisation of more comprehensive capacity building activities to consider the recommendations and necessary improvements for the local level. The support is integrated with other projects or sources of support for LSGs in this domain to ensure the broadest coverage of LSGs in Serbia by combining development assistance resources.

Based on the public call within this component, 10 LSGs received direct expert support for the introduction/improvement of FMC (5 LSGs) and/or IA function (6 LSGs, one of which was simultaneously supported on FMC). In working with beneficiary towns and municipalities, activities were carried out to assist them throughout the process by building capacities and providing appropriate expertise for organisational consolidation and establishment/improvement of the documentary framework for the functioning of FMC and IA. The support was provided in line with the principles and standards of FMC and IA, as transposed through national legislation (primarily through the Budget System Law and corresponding Rulebooks on FMC and IA), and pursuant to the approach, methodological instructions and guidelines, manuals and models published by CHU, including also sharing of good practices and knowledge repositories.

Republic of Serbia
MINISTRY OF
FINANCE

CENTRAL
HARMONIZATION
UNIT

## Technical support to LSGs in introducing/improving the Financial Management and Control System

Based on the public call in 2023, 5 LSGs were selected for support in introducing/improving the FMC system: Boljevac, Tutin, Vrbas, Lajkovac and Srbobran. The support was organised in a way adapted to the circumstances of each beneficiary LSG (expressed needs, expectations, and the current state of the organisational and documentary framework on FMC) to achieve desired results for systemic improvements in line with capacities and regulatory requirements.

**Municipality of Boljevac**

**Municipality of Srbobran**

**Municipality of Lajkovac**

**Municipality of Vrbas**

**Municipality of Tutin**

Therefore, starting support activities included initial situation analysis and determining priorities regarding FMC in each LSG through interaction with competent managers and employees. Workshops were organised with participants from the broader composition of the local administration, managers, and appointed members of the FMC working group, which discussed content-related aspects and organisational establishment of the system in accordance with the regulations, the primary responsibility of the head of the public funds beneficiary for the implementation of FMC, as well as the obligations of annual reporting on the adequacy and functioning of the system. The focus was on the findings and recommendations from the Consolidated Annual Reports regarding the FMC establishment, implementation and development. In this regard, support was further provided for the creation/updating of an FMC action plan, business process lists, maps for defined processes, and accompanying flow charts.

One of the critical steps involved working on the risk register related to the objectives of LSG business processes, the analysis of strategic risks, and support for creating/updating the risk management strategy. Also, since the LSG annual report on the state of the FMC system intended for the CHU is a mandatory and important segment in the development of the FMC system through the review and addressing of identified weaknesses, in line with the dynamics of EU Exchange 6 activities support to beneficiary LSGs was provided at the beginning of 2024 in the reporting process for 2023.






## STATEMENTS OF LSG REPRESENTATIVES ON THE INTRODUCTION/IMPROVEMENT OF THE FMC SYSTEM

*Vrbas Municipality has been a pioneer in implementing many projects, and our desire was to further enhance our performance, so it was very important for us to obtain the EU Exchange 6 and SCTM support for financial management and control. In Vrbas, we had previously adopted the Development Plan, followed by a mid-term plan, which significantly facilitated the establishment of clear operational objectives relevant to the FMC. This was directly complemented by the risk register that we have developed with the support of Exchange 6, which is crucial for us to proactively manage risks and ensure that the achievement of strategic objectives is not compromised.*

*FMC improves efficiency and accountability in our operations, for all employees, from management to lower levels of administration. In this way, accountability is delegated to all participants in the process, which contributes to faster and more productive task-solving. Proper implementation of the FMC contributes to strengthening trust in local and state institutions, concretely also in Vrbas municipality, whose citizens allocate resources through taxes and contributions, and have the opportunity to participate in budget preparation and to influence distribution of these resources through various projects. An improved FMC system ensures that these processes, administration work, and service provision become more transparent and efficient than before.*



***Municipality of Vrbas, Milan Glušac, Mayor***

### Technical support to LSGs in introducing/ improving the Internal Audit

Following the public call at the beginning of 2023, 6 LSGs were selected for support in introducing/improving the Internal Audit: Odžaci, Tutin, Trstenik, Kanjiža, Golubac, and Sombor. Support within the Programme was tailor-made to the specific circumstances in each beneficiary LSG, taking into account expressed needs and expectations and the current status of personnel responsible for Internal Audit tasks, and the accompanying documentary framework. From the practical point of view, it was imperative to consider whether the IA has been legally established (through LSG systematisation acts) and if this normative precondition was met, to verify if the IA positions are actually filled-in (minimal requirement for provision of support). These aspects served as a starting basis for joined work and defining priorities in selected LSGs, striving to achieve the desired improvements in the IA function in these LSGs in the scope of EU Exchange 6 Programme.

**Municipality of Trstenik**

**Municipality of Odžaci**

**Municipality of Kanjiža**

**Municipality of Tutin**

**Municipality of Golubac**

**City of Sombor**

Considering the legal requirements regarding the IA function, particularly ensuring its organisational and functional independence, and direct responsibility to the head of public funds beneficiary (i.e., in the case of LSG – to the mayor), introductory meetings in each beneficiary LSG were held with senior management, emphasising their role in the process. The next step was the development of key documents necessary for establishing the IA function. The scope of these documents included the Code of Ethics viable for every individual internal auditor or IA unit, the IA Charter defining the purpose, authorisations, and responsibilities, as well as the Strategic and Annual plans for conducting internal audits.

In line with the model recommended by CHU, internal auditors were introduced to the methodology of elaborating the quality assessment programmes applicable to IA units, while the support was likewise provided in preparing the annual report on IA for 2023. To ensure understanding of the purpose of IA and the process from the perspective of the auditee (subject of audits), workshops were organised with the broader collective including various LSG organisational units, to explain the importance of adhering to the recommendations of IA Reports and of subsequent preparation of action plans to address the IA recommendations. Importance was awarded also to improving the internal auditors' communication skills and techniques for effective presentation of audit results, as crucial for conveying the information, findings and recommendations, and for building trust with all stakeholders in the process.

The most practical aspect of the support to internal auditors concerned actual undertaking of one internal audit and subsequently the preparation of related report. Added value for internal auditors in beneficiary LSG units was achieved due to the arrangement with CHU on providing parallel/joined support and official mentoring by CHU. CHU mentors, combined with expertise from EU Exchange 6 and in accordance with the action plan, conducted practical training on IA during 2024 with LSG candidates, thus providing these LSG internal auditors the opportunity to pass the exam and become certified internal auditors.

## STATEMENTS OF LSG REPRESENTATIVES ON INTRODUCING/IMPROVING THE INTERNAL AUDIT

*The Municipality of Trstenik has established an internal audit in a timely manner, as we were aware of this obligation, and desired to be more efficient in our work. We kept in mind that the legal framework is strict, and that it is not sufficient just to know the law, but that an internal auditor needs to have particular experience and professional practice to perform his/her duties as efficiently as possible. In this regard, the support through the EU Exchange 6 Programme brought us exceptional benefits, as our internal auditor had the opportunity to cooperate with very experienced auditors who transferred valuable work experience to her. An internal auditor, as a LSG employee, looks at the broader picture - our strategic goals and development plan - and points the possible weaknesses, the risk factors, suggests how to align our operations with the legal framework. Support was also extended to our employees in the municipality, who had the opportunity to enhance their knowledge through a series of workshops, and, when it comes to internal audit, to act as a collective, knowing that it brings us valuable advices for improving our performance. When it comes to citizens as direct beneficiaries of LSG services, it is very important for us that all our fellow citizens can efficiently exercise their rights, as simple as possible, that our administration system is of high quality and that the citizens know that we are transparent at all times, that we manage finances credibly, and that we strive to achieve the maximum for our population, in line with available resources of our LSG.*



***Municipality of Trstenik,***
***Milena Turk,***
***Mayor***

### Strengthening the capacities of LSG and advisory support for FMC and IA

In addition to direct support in working with the selected LSGs, as part of the EU Exchange 6 horizontal support activities have also been implemented, aimed at enhancing the capacities of all LSGs for better implementation of PIFC, with emphasis on the importance of upgrading the FMC and IA at the local level as pillars of PIFC and prerequisites for the success of public administration reform processes. In this context, annual recommendations and necessary improvements for LSGs based on consolidated annual reports on the state of PIFC, and from the EC progress reports on Chapter 32 were being reviewed. A platform has been provided for all towns and municipalities in Serbia to exchange experiences and coordinate with relevant institutions regarding the introduction and functioning of FMC and IA, through SCTM expert networks, organisation of seminars and workshops, while also enhancing awareness of managerial accountability through the work of SCTM Presidency and committees.




**Seminars for towns and municipalities - presentation of a new report template on the adequacy and functioning of the FMC system**: The obligation to report on the FMC system for public funds beneficiaries - by March 31st of the current year for the previous year - is stipulated by the Budget System Law. Detailed provisions outlining this obligation, as also the CHU mandate to prepare relevant reporting templates, are provided in the ***Rulebook on Common Criteria for Establishing, Functioning and Reporting on the FMC System in the Public Sector***. Bearing in mind that the CHU introduced modifications to the report template on adequacy and functioning of the FMC system and in the accompanying instructions, in preparation for the reporting cycle for year 2022, information seminars for towns and municipalities were organised in cooperation with the CHU in the scope of EU Exchange 6, to introduce these changes and to provide instructions on the new template. 3 seminars were delivered at the beginning of 2023, with a total of 226 representatives from 119 LSGs.

**Workshops for internal auditors from LSGs - presenting novelties and considering further improvements of the legal framework**: In October 2023, long-awaited amendments to the ***Rulebook on Common Criteria for Organisation and Standards and Methodological Guidelines for Internal Audit in the Public Sector*** were adopted. In line with the strategic commitments of the MFIN and the PFM Reform Programme, the revision of the regulatory framework concerning IA was carried out to achieve greater coverage of the IA function and better effects in line with the limited number of internal auditors. At the same time, in order to accelerate and simplify the certification process of internal auditors in the public sector, the ***Rulebook on the Conditions and Procedures for Taking Exams to Acquire the Title of Certified Internal Auditor in the Public Sector*** was also amended.

The preparation of these changes was communicated with LSGs and through the SCTM during the first half of the EU Exchange 6 implementation, while upon the adoption of amendments to the Rulebook on IA, two workshops were organised in December 2023 (separately for towns and municipalities) with the heads of IA units and internal auditors. The focus of workshops was on the new modality for establishing the IA function, which implies that the direct budget beneficiary is responsible to ensure the IA coverage towards all entities (budget beneficiaries) in its remit. It was necessary therefore to clarify the specificities of this modality for the local level, and to discuss on expected coverage of smaller budget beneficiaries with IA, on ensuring better quality in work and observance of IA standards, but also on improving the position/status of internal auditors. Aspects concerning the preparation of the IA Charter, the Strategic Plan/Annual Work Plans,

and reporting on IA were also elaborated. Proposals have been considered for specific steps and operational solutions that should serve as a practical addition to application of relevant provisions of the Rulebook on Internal Audit. Accordingly, at the beginning of 2024, guidelines related to the implementation of prescribed novelties in the organisation and conduct of IA were finalised and published. The guidelines were published at the CHU official website and delivered to all towns and municipalities.

Given that amendments to the IA Rulebook introduced new contextual elements in terms of IA's organisational structure and position within LSG, and considering that these topics are of particular significance for internal auditors at the local level, another workshop took place in mid-2024. Issues of labour status, organisational structure and material positioning of IA in LSG, were examined from the perspective of viable regulations and in the light of varying solutions present in towns and municipalities. Relevant provisions of systemic laws governing the budget system, LSG, salaries of local employees, and bylaws related to categorisation of working posts, coefficients for calculation and payment of salaries, and on organising IA in the public sector, have all been considered. The introduction of competencies-based system for LSG employees was addressed, given that particular functional competencies should also be defined for the area of work that encompasses IA tasks. Through workshop discussions, with the active contribution of over 60 colleagues from 50 towns and municipalities and representatives from MPALSG, the specificities of the position of internal auditors and the diversity of organisational IA practices in LSG were recognised, including various solutions through local regulations on organisation and systematisation of workplaces, and in local budgets. In this respect, proposals were discussed as well as potential steps ahead, towards more optimal regulation, harmonising practices and improving the legal framework affecting the IA. The review of the situation, conclusions, and proposals of further actions, were summarised in the form of a report, which presented the basis for consultations in the second half of 2024, on priority parts of the regulations that should be changed to address identified problems and to implement proposed solutions. Due to efforts invested by the CHU, part of the proposal regarding the clarification on IA's organisational independence within local administration and on direct responsibility to the mayor - was incorporated into the draft amendments to the Budget System Law.




Direct support from MFIN/CHU for all the aforementioned activities in the IA domain during 2023-2024 aimed at LSG, was provided through the collaboration and joint resources of the EU Exchange 6 Programme and the Local Finance Reform III project in Serbia (RELOF3, funded by the Swiss Government).

EU Exchange 6 has supported local governments in achieving specific improvements in planning and financial management processes, building on the results of previous phases of the EU support through this Programme. It encompassed intrinsically linked areas of LSGs' work, whose building blocks start with LSG development planning and continue with mid-term planning, programme and capital budgeting and budget transparency, and are rounded up with internal financial control and accountability in the public sector. These areas remain the backbone of public administration reform in the Republic of Serbia, which is critical for the success of European integration. SCTM remains committed to further supporting towns and municipalities in these processes.

More information on the EU Exchange 6 Programme is available at the SCTM website in the Projects section: *https://www.skgo.org/projekti/detaljno/63/eu-exchange-6*

EU exchange 6


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