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# Subnational government in the Western Balkans

Subnational governments play a significant role in ensuring good public governance. The way that they are organised and function has a direct impact on the economic and social well-being of citizens and public trust in government. This report presents the system of multi-level government in the six Western Balkan economies, comparing them both with one another and in the context of broader international trends in multi-level governance. The report covers territorial and institutional organisation, competences of local governments, human resources and accountability, public financial management and vertical and horizontal co-ordination, in each case identifying key characteristics and recent trends.

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# Foreword

## Rationale and purpose of this report

Subnational governments play a significant role in ensuring good public governance. The way that they are organised and function has a direct impact on the economic and social well-being of citizens and public trust in government. This report presents the system of multi-level government in the six Western Balkan economies, comparing them both with one another and in the context of broader international trends in multi-level governance.

The aim of the study is to provide an evidence base that can be used to identify specific and collective challenges and priorities. From this initial study, which presents a snapshot of the situation rather than an assessment of performance, more in-depth research can provide specific guidance on how these challenges can be addressed by the national authorities and by the international community. In particular, a clearer perspective on the issues facing local governments should help international donors, such as the European Union, to better target support programmes.

The study builds on key principles of multi-level governance, which most importantly include subsidiarity and local autonomy, a balanced distribution of power and responsibilities across levels of government, inter-institutional co-ordination, effective oversight, fiscal autonomy and responsible financial management of subnational governments. The study is aligned with the SIGMA Principles of Public Administration,<sup>1</sup> thereby constructing a coherent picture of how the public administration functions as a whole, including co-ordination between the central and subnational governments. The guiding themes in the report are: 1) the extent to which the rules, regulations and guidelines that apply at the national level are also applicable at the subnational level; and 2) which aspects of local-level governance have a separate, autonomous system and what are the main characteristics of these systems.

This report addresses a topic that is a core governance challenge for many EU Member States, as is evident in the integration of multi-level governance issues in the European Semester. The national reform programmes of several EU Members, for example, include initiatives to clarify roles and responsibilities and better allocate resources across levels of government.<sup>2</sup>

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<sup>1</sup> OECD (2017), *The Principles of Public Administration*, OECD, Paris <https://www.sigmaweb.org/publications/Principles-of-Public-Administration-2017-edition-ENG.pdf>

<sup>2</sup> See for example:

Estonia 2035: Action Plan of the Government of the Republic, [https://ec.europa.eu/info/sites/default/files/nrp\\_2022\\_estonia\\_en.pdf](https://ec.europa.eu/info/sites/default/files/nrp_2022_estonia_en.pdf).

Government of the Republic of Croatia: National Reform Programme 2022, [https://ec.europa.eu/info/sites/default/files/national\\_reform\\_programme\\_croatia\\_2022\\_en.pdf](https://ec.europa.eu/info/sites/default/files/national_reform_programme_croatia_2022_en.pdf).

Finland's National Reform Programme 2022: Economic Prospects, [https://ec.europa.eu/info/sites/default/files/nrp\\_2022\\_finland\\_en.pdf](https://ec.europa.eu/info/sites/default/files/nrp_2022_finland_en.pdf).

The structure of subnational government in the Western Balkans is a product of historical, socio-cultural and political factors. As in every other country, structures and practices have evolved over time, not always optimally. This study and subsequent work by SIGMA aims to shed some light on where the system could benefit from reforms and what kind of support could help to deliver such reforms.

### Key questions addressed

The report focuses on five issues that correspond to the main pressure points with respect to the ability of local governments and the multi-level governance system in general to function effectively:

#### 1) *Territorial and institutional organisation*

What is the territorial organisation of subnational government (size, population)? How does this compare with the OECD/EU and how has it evolved?

Are there special laws for large cities/special zones/areas defined for ethnic or linguistic reasons etc.?

What is the administrative structure of local governments with respect to the representative body/council and the executive/office of the mayor?

#### 2) *Competences of subnational government and service delivery*

What are the main competences of local government?

What is the nature and source of each competence (own, delegated, shared...)?

#### 3) *Human resources and accountability*

Are staff in local public administrations civil servants? Are they under the same civil service law as central government staff?

Are recruitment procedures governed by universal or specific rules?

Does a central human resource management body provide guidance in setting rules, organising training, recruitment, etc? If not, is there any co-ordination of HR practices at local level?

What oversight bodies exist to oversee the actions of local governments?

#### 4) *Public financial management*

What is the level of fiscal autonomy of subnational governments?

What is the level of autonomy in setting budgets and identifying spending priorities?

What is the level of autonomy in implementing the budget, including restrictions on incurring debt and arrears?

Is there a regulatory framework for internal control and audit, and financial inspection?

#### 5) *Vertical and horizontal co-ordination*

Which ministry (or ministries) lead on co-ordination with subnational governments?

What kinds of support does the central government provide for subnational governments (e.g., in terms of guidance or training)?

What mechanisms exist for co-ordination among municipalities?

What role do associations of municipalities play in vertical and/or horizontal co-ordination?

### Structure of the report

**Part A** of the report introduces the key concepts and trends in multi-level governance at the international level, including territorial and institutional reform, the evolving distribution of competences, and human, financial and fiscal resources of subnational governments, as well as mechanisms for vertical and horizontal co-ordination between national and subnational governments. It draws heavily on the OECD's

work on multi-level governance over the past two decades, highlighting key developments and country experiences.

**Part B** provides a synthetic overview of subnational government systems in the Western Balkans, identifying trends and recent evolutions in the organisation, functioning and capacity of local governments. Part B also reviews horizontal and vertical co-ordination mechanisms and the role of local government associations, as well as oversight and accountability.

Finally, the **Annex** provides individual overviews for each of the Western Balkan economies. These case studies present more detailed information across each of the five areas analysed in the report.

## Acknowledgements

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\* This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

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## List of abbreviations and acronyms

The International Organization for Standardization (ISO) defines three letter codes for the names of countries, dependent territories and special areas of geographical interest. The table below presents the codes used for the geographical display of some figures in this publication in line with the ISO codes and, where there is not an official ISO code, the OECD practice.

### Countries and territories of the Western Balkans

Albania	ALB
Bosnia and Herzegovina	BIH
Kosovo	XKV
Montenegro	MNE
Republic of North Macedonia (hereafter, "North Macedonia")	MKD
Serbia	SRB

Furthermore, the following codes are used for Bosnia and Herzegovina:

Bosnia and Herzegovina – State level	BIH_State
Bosnia and Herzegovina – Federation of Bosnia and Herzegovina	BIH_FBIH
Bosnia and Herzegovina – Republika Srpska	BIH_RS
Bosnia and Herzegovina – Brčko District	BIH_BD

AAM (Albania)	Albanian Association of Municipalities
AKM (Kosovo)	Association of Kosovo Municipalities
ALA (Albania)	Association for Local Autonomy
ASLG (Albania)	Agency for Supporting Local Self Government
BBO	Budget balance objective
BD	Brčko District
BiH	Bosnia and Herzegovina
ESA	European System of Accounts
FBIH	Federation of Bosnia and Herzegovina
HRM	Human resource management
HRMIS	Human Resource Management Information System
IMC	Inter-municipal co-operation



LG	Local government
LGA	Local government association
LGU	Local government unit
MLGA (Kosovo)	Ministry of Local Government Administration
PIT	Personal income tax
PPA (BiH_FBIH)	Public Procurement Agency
PPP	Public-private partnership
RS	Republika Srpska
SCTM (Serbia)	Standing Conference of Towns and Municipalities
SOGFBIH	<i>Savez Općina i Gradova Federacije Bosne i Hercegovine / Association of Municipalities and Towns of the Federation of Bosnia and Herzegovina</i>
SOGRS (BiH_RS)	<i>Savez Općina i Gradova Republike Srpske / Association of Municipalities and Towns of the Republika Srpska</i>
UMMo (Montenegro)	Union of Municipalities of Montenegro
VAT	Value-added tax
ZELS (North Macedonia)	Association of the units of local self-government

## Key messages

A trend towards **greater decentralisation** and strengthening of local autonomy, as established in the European Charter of Local Self-Government ratified by all Western Balkan economies, can be clearly identified.

In terms of **municipal size**, Western Balkan economies have relatively large average population per local government unit, comparable with several EU countries that have larger municipalities with more pronounced local autonomy.

In general, local government structures follow the principle of "**unitary community/symmetric distribution**", in which all municipalities have the same statutes, competences and powers, regardless of their size. Where villages, communes and other municipal entities exist, these are merely spatial units without distinct competences. At the same time, there are a few examples of special provisions for large cities (a trend in OECD/EU countries towards functional urban areas) and some examples of special status accorded to certain areas for political, cultural or other reasons.

**The range of competences of local governments in the Western Balkans is comparable to those found in EU countries.** Most local governments have relatively wide responsibilities across land use, environmental protection, social services, early school education and health. The only exception is Montenegro, where municipal tasks are more narrowly defined.

The own or exclusive competences of local governments are largely enshrined in the Constitution and/or in a small number of basic laws on self-government. As such, the legal basis is relatively clear and well-established for those functions. **However, the large number of delegated competences are governed through numerous and scattered laws and regulations**, under the responsibility of multiple ministries, which makes it difficult to get a clear picture of the full range of local government tasks (and also difficult to assess the appropriateness of funding to perform those tasks). More generally, information on the quality of public services delivered by local government is limited.

Given the gradual, ongoing process of decentralisation, **overlap of competences between the state administration and the local government is an important issue.** While many tasks have been delegated from the central level to local governments, in addition to the original competences of the local level, there are also many that remain in the remit of the central administration. The key issue is how to ensure that across this complex pattern of central-delegated and own competences, it is clear to all who does what. In Albania, a "Matrix of Competences of Local Governments" was recently prepared with the support of the EC to provide a thorough mapping and identify both gaps and overlaps. A similar approach would be helpful elsewhere.

The internal structure of the **municipal administration varies in the Western Balkan region** and is largely established by the local governments based on internal regulations. In particular, the position and competences of the city or municipal manager/administrator appear to be regulated differently both across and within countries and co-ordination/accountability between the manager and the elected executive body are not always clearly defined.

**Human resource management systems at local level vary between those that are linked to a universal civil service law and those that are locally defined** (although usually in line with guidance or limits set at central level). In both cases, limited capacity at the local level can make it difficult to apply

central rules or guidance consistently in practice. The legal basis for merit-based and transparent recruitment exists in all Western Balkan economies, however, country information suggests that implementation is challenging in practice. In general, data on human resource management practices and performance is limited or does not provide a clear picture of how rules are actually applied.

**The share of the local government budget spent on salaries varies significantly**, from 19% in Montenegro to 54% in North Macedonia. Given these large variations, it would be useful to further explore the reasons behind the variations and links with competences and service-delivery performance (it is not simply an issue of range of services/competences). Limited information on the number and status of employees in local government, the difficulty of comparing salaries between central and local employees and other data issues suggest the need for further improvement of statistics on local level human resources. This concerns the implementation of the European System of Accounts (ESA 2010) and the use of the full-time-equivalent counting method for public employees.

Information on the level of **fiscal decentralisation and fiscal autonomy** suggests some challenges for the region. On average, municipalities have comparatively less revenue-raising power, with fewer of their own taxes and revenues than similar local government units in the EU. As such, they are also largely dependent on earmarked grants from the central government with pre-set conditions for spending. This restricts the municipalities' own scope for action and initiative. The low level of fiscal decentralisation stands in contrast to the extensive municipal competences enshrined in the constitution and delegated to them by law (i.e. "unfunded mandates"). In addition, their own taxes mainly consist of property tax and business-related taxes are not widely used at local level. While local governments in the region appear to have the right to generate debt, further research would be required to understand under what circumstances this option is used or could be used. Similarly, the existence/observance of fiscal rules for local government should also be further explored.

**Additional research on the practical implementation of PFM laws and regulations** at local level would help to clarify some important questions relating to, among other things, the efficiency and timeliness of financial transfers, the completeness and accuracy of financial reporting, and compliance with procurement laws, as well as the general extent to which weaknesses and problems identified at the central level are replicated or have an impact at the subnational level.

**A range of regulations and oversight systems exist in the region to manage local government purchasing and investment, but it is not clear how strong these procurement systems are in practice.** Research on respect for procurement laws and regulations at the local level is essential to understand the value-for-money and impact of local government purchasing and investment, as well as to mitigate corruption risks.

Co-ordination between **the central and local governments could be further enhanced.** The involvement of the local level in legislative processes is generally limited and informal in the Western Balkans, rather than institutionalised. Opportunities for co-decision by the local level in national policymaking – for example, with regard to negotiation of fiscal equalisation systems -- are restricted because regulations relating to the involvement of local government associations (LGAs) are not fully adhered to in practice. The capacity of LGAs could be expanded, and greater involvement of LGAs with the central government should be encouraged.

**Oversight of the activities of local governments is carried out by a wide variety of authorities**, often focusing on one aspect of the work of a local government such as finances or procurement. More insights are needed to understand how effective and complementary these systems are; for example, clarity in oversight of actions related to "original" and to "delegated" competences. In line with the principle of local self-government and subsidiarity, this supervisory function should be streamlined and brought under one roof if possible. In return, the internal control capacities of municipalities should be strengthened and their accountability expanded.

## A. Concepts and trends in multi-level governance

Multi-level governance systems organise the mutually dependent relationships among government actors situated at different territorial levels. Building and managing relations among levels of government is necessary to achieve policy goals and deliver public services that require co-ordination, collaboration, and joint effort. In order to manage these multi-level governance relations effectively, OECD member countries rely on a series of mechanisms, ranging from binding legal frameworks to informal practices, to enhance coherence, build capacity and help bridge co-ordination gaps among public actors (Charbit and Michalun, 2009<sup>[1]</sup>). Given that all countries have different configurations of federal/central and subnational power based on their specific historic, political, constitutional and economic contexts, multi-level governance systems vary significantly from country to country (OECD, 2017<sup>[2]</sup>; OECD, 2019<sup>[3]</sup>).

Drawing on OECD country experiences, this chapter explores a number of key conceptual elements that are linked to multi-level governance. First, it explores trends and good practices related to multi-level governance reforms, including territorial and institutional reforms at the subnational level, and considers the evolving competences of subnational governments in an OECD context. Second, it looks at human, financial and fiscal resources at subnational level and delineates trends, challenges and recommendations related to subnational finance, fiscal rules, fiscal autonomy and administrative capacity. Finally, it examines the mechanisms governing vertical and horizontal co-ordination between national and subnational governments, as well as additional important aspects of multi-level governance, such as performance measurement, citizen engagement and accountability mechanisms.

# Territorial and institutional reform

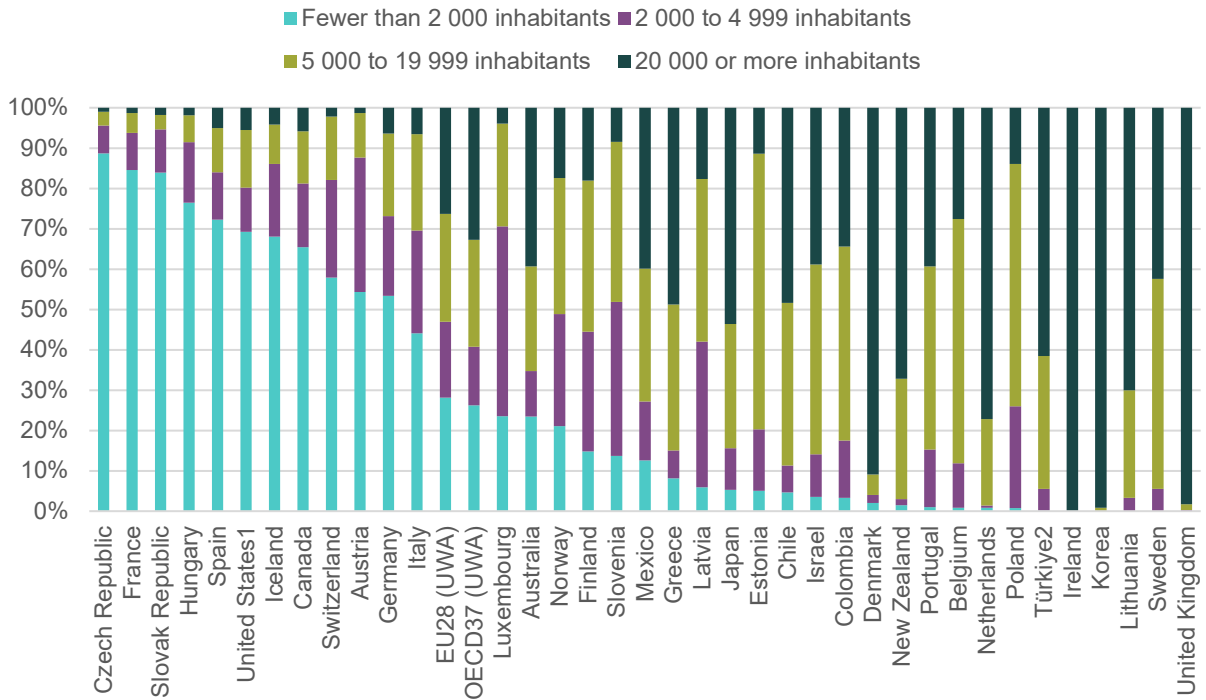
## Territorial reforms

The territorial structure of subnational governments reflects history and geography but is not fixed, with governments undertaking *ad hoc* reforms to correct imbalances or react to changing circumstances. Territorial reforms are often undertaken as part of a broader reform of multi-level governance systems (e.g. decentralisation or recentralisation) to respond to demographic shifts, socio-economic changes or fiscal consolidation pressures. The reforms are driven by a variety of objectives, including generating economies of scale for public service provision, improving co-ordination between municipalities and intermediate levels of government in certain sectors or fields (e.g. infrastructure), increasing subnational administrative capacities, improving the quality and number of subnational public services, improving the efficiency of municipal management, and developing more optimal or functional spatial planning and land-use policies.

At the municipal level, territorial reforms include creating new municipalities, merging existing ones and promoting inter-municipal co-operation. Such co-operation can range from shared-services arrangements, as in the United Kingdom, to supra-municipal authorities with delegated functions, as in France, Portugal and Spain (OECD, 2019<sup>[4]</sup>). Upscaling municipal reforms aim to address municipal fragmentation, which generates additional costs for public service delivery, reduces local productivity and hampers economic growth (OECD, 2014<sup>[5]</sup>).

The average size of municipalities can vary significantly. In 2019-2020, the average size of municipalities among OECD members was 10 254 inhabitants, with 26% of municipalities having fewer than 2 000 inhabitants and 41% having less than 5 000 inhabitants (OECD, 2021<sup>[6]</sup>). . In ten OECD countries, 80% of municipalities had fewer than 5 000 inhabitants (OECD-UCLG, 2019<sup>[7]</sup>). In the Western Balkans, municipalities tend to have higher populations. In 2021, the average size of municipalities was around 38 000, and the median size was 27 500, with average municipality size ranging from fewer than 30 000 inhabitants in Bosnia and Herzegovina, Montenegro and North Macedonia to more than 70 000 inhabitants in Albania. Municipalities in the Western Balkans rank among larger-scale municipalities in EU Member States, similar to those in Greece, Portugal and Sweden.

Figure 1. Municipalities by population size class in the OECD and the European Union



Source: OECD-UCLG (2019), World Observatory on Subnational Government Finance and Investment - OECD, SNG-WOFI Database.

Municipal amalgamation processes have taken place in several European and OECD member countries. Reforms of this nature have been implemented recently in Ireland (2014), Estonia (2017) and Latvia (2021) (OECD, 2017<sup>[8]</sup>) (OECD-UCLG, 2019<sup>[7]</sup>).

Mergers are often seen as a threat to local identity and historical legacies, which explains the resistance in many countries (e.g. France, Slovakia). However, municipal mergers do not always imply the elimination of the former municipalities. A number of OECD countries have sub-municipal administrative divisions, especially countries with predominantly large municipalities and those having experienced municipal mergers. To mitigate the potential negative effects of consolidation, former municipalities are maintained as sub-municipal units.

In many countries, sub-municipal bodies can be effective actors to reinforce local democracy, bring citizens closer to policy making and political life, help maintain a certain level of proximity to the local level in service provision and ensure a continued link with community identity. Deconcentrating certain functions and resources from the municipal to the sub-municipal level, in particular via an independent budget, can help to balance the workload of municipal administrations (such as providing services to villages) and free up their capacity to focus more on strategic tasks (OECD, 2021<sup>[9]</sup>).

Metropolitan governance reforms can take the form of inter-municipal co-operation. Frequently, the administrative borders in metropolitan areas are based on historical settlement patterns and no longer reflect current economic and social functional relations. Enhancing co-operation and co-ordination of public policies on a metropolitan-wide basis aims to improve the quality of life and international competitiveness of large cities. Several countries have recently implemented metropolitan governance reforms, including Türkiye (2012) and France (2014). Around two-thirds of the metropolitan areas in the OECD have a metropolitan governance body.

Special status is afforded to capital cities and/or metropolitan governance bodies that exceed a legally defined population threshold, in order to address specific challenges and capacities for these territorial units (e.g. in France, Italy, Germany, the United Kingdom and the United States). In the Western Balkans, Pristina, the capital city of Kosovo, has special status provided by Law 06/L-012 on the capital. In Montenegro, two capital cities benefit from special status, which is granted by the Law on Administrative Capital for Podgorica and the Law on Historic Capital for Cetinje. In North Macedonia, the capital city of Skopje has special status, as does the city of Belgrade in Serbia (KDZ, 2022<sup>[10]</sup>).

## Decentralisation

Although widespread and extensively analysed, decentralisation is often understood and applied differently. In particular, it is often confused with deconcentration, which is a separate concept. Decentralisation refers to the transfer of powers, responsibilities and financial resources from the central government level to elected authorities at the subnational level, which have some degree of autonomy. Deconcentration refers to the delegation of central government tasks to non-elected central government units that are based at the territorial level. Decentralisation covers three distinct but interrelated dimensions: 1) political decentralisation, which involves a new distribution of powers among different levels of government, according to the subsidiarity principle; 2) administrative decentralisation, which refers to a reorganisation and assignment of tasks and functions among territorial levels in order to improve the effectiveness, efficiency and transparency of national territorial administration; and 3) fiscal decentralisation, which relates to the transfer of taxing and spending responsibilities to subnational tiers of government (OECD, 2021<sup>[11]</sup>). In theory, these three dimensions (distribution of powers, responsibilities and resources) are complementary and closely connected (Figure 2). Finding the right balance among these dimensions and the right sequencing to implement them represent major challenges in designing and implementing decentralisation reform. Often, one or two dimensions may be missing and/or the sequencing is not appropriate. Fiscal decentralisation is often the weakest dimension of decentralisation policies (OECD, 2019<sup>[3]</sup>).

Over the past few decades, the trend has been towards greater decentralisation in a majority of OECD countries (e.g. in Belgium, Denmark, Finland, France, Germany, Italy, Poland, Spain and Sweden). In two-thirds of OECD countries, decentralisation processes have resulted in increased economic importance of subnational governments, which is reflected in an increase of subnational government spending in total public spending and in GDP. Decentralisation reforms have often gone hand in hand with the upscaling of subnational governance through municipal co-operation, metropolitan governance and regionalisation. By contrast, some OECD countries have experienced a reduction in the share of subnational government expenditure in GDP and/or in public spending over the past two decades as a result of recentralisation processes (e.g. Hungary), public management reforms (e.g. Estonia) or fiscal consolidation measures (e.g. Ireland).

Regions and municipalities play an increasing role in key policy areas, such as transport, energy, broadband, education, health, housing, water and sanitation. In 2020, subnational governments represented 37% of total public spending in the OECD on average, and even more than 50% in Canada, Denmark and Switzerland. Subnational governments accounted for 55% of total public investment on average in the OECD, and more than 70% of total public investment in six OECD countries. Levels of subnational spending and investment in the Western Balkan countries are lower. Subnational spending represented 16% of public spending on average in 2020. This is close to OECD countries such as Chile, Hungary and Israel, and subnational investment represented 16% of public investment on average in the Western Balkans (see section below).

Decentralisation can have positive benefits, for example developing policies more suited and responsive to local contexts and strengthening local democracy. However, it also carries some risks, for example

reducing the size of government units, which can increase costs and reduce the efficiency and quality of public services.

Decentralisation is also about reconfiguring the relationships between the central government and subnational governments. Decentralisation can lead to a changing role for national governments, refocusing their activity on designing strategies, regulatory framework conditions and incentives. It also involves a shift from playing a direct role in administrative and public service delivery to one of assistance, ensuring consistency and facilitating the work of regional and local governments, as well as communicating good practices among them (OECD, 2019<sup>[3]</sup>).

## Competences and service delivery

As explored in the previous section, recent decades have brought about a shift towards greater decentralisation in a majority of OECD countries. This has involved the transfer of powers, responsibilities and resources from the central government to subnational levels. The principle of subsidiarity, which holds that public policy and its implementation should be assigned to the lowest level of government with the capacity to achieve the objectives, underpins assignment of responsibility in many OECD countries (Oates, 1999<sup>[12]</sup>).

Typical considerations underscoring the division of responsibilities include the scale at which subnational governments are able to deliver public services or invest. For example, higher education functions are often managed at the regional level in OECD countries, because investing in them requires a certain scale that is often lacking in municipalities. In addition, assignment of responsibility will typically give due consideration to economies of scope (e.g. bundling certain public services together to improve efficiency through information and co-ordination of economies) (OECD, 2018<sup>[13]</sup>).

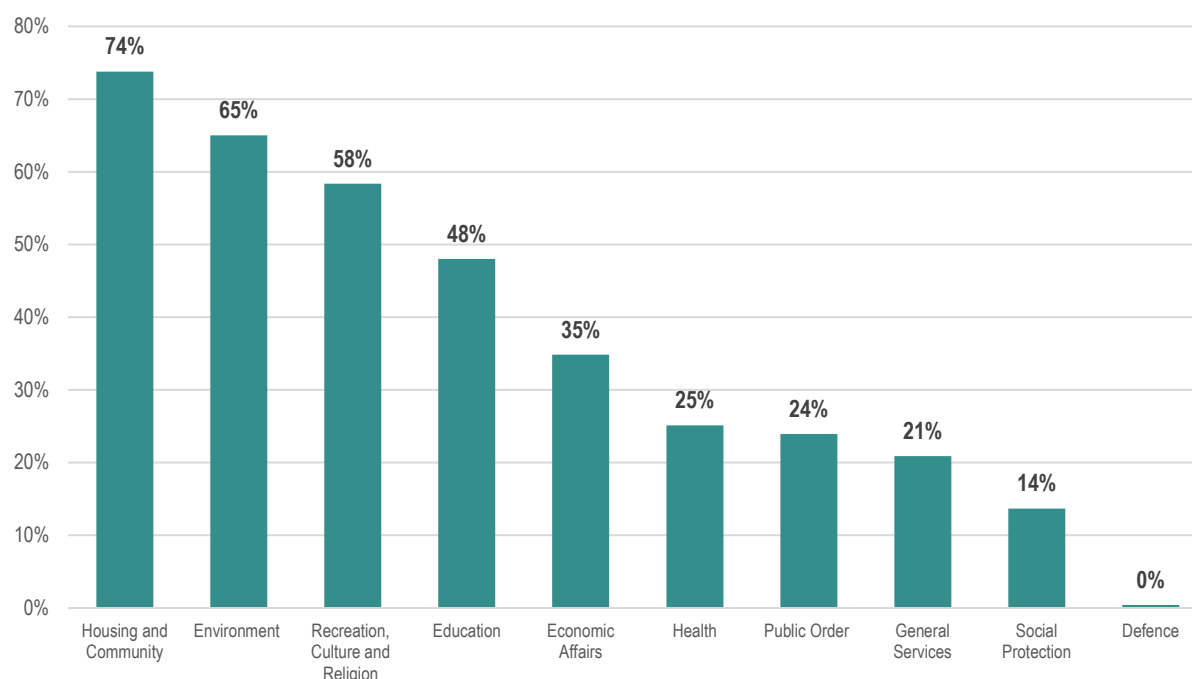
Rather than a clear-cut separation of responsibilities, however, most responsibilities are shared among levels of government, and the trend towards shared responsibilities has increased in recent decades. Apart from defence and monetary policies, which are usually national-level responsibilities in OECD countries, most policies are shared among levels of government to some degree. Shared competences emerge either through explicit legislation or through residual policy acquisition. The need to share responsibilities may arise for functional reasons, as is common between municipal and regional tiers on issues of transport, infrastructure, environment, water and economic development. It may also arise for financing reasons, such as for social services. Policy areas with the most extensive shared responsibility are often complex and costly to deliver. Some examples of commonly shared responsibilities in OECD countries include education, healthcare and social assistance or welfare.

Ensuring a clear assignment of responsibilities among levels of government is critical for accountability, monitoring and effectiveness of investment and service delivery policies. Ambiguities in the assignment of responsibilities can contribute to government failures, inefficiency or inequity in public service provision (OECD, 2019<sup>[14]</sup>).



## Figure 2. Areas of shared responsibility between national and subnational governments

Share of subnational governments in public expenditure by sector in OECD countries (% , 2019)



Note: The OECD average (unweighted) is calculated for 33 countries (no data for Canada, Chile, Colombia, Costa Rica and Mexico), with data from 2019. The functional areas correspond to the Classification of the Functions of Government, which distinguishes ten areas. The total of general government spending is non-consolidated.

Source: OECD-UCLG (2019), World Observatory on Subnational Government Finance and Investment - OECD, SNG-WOFI Database.

There is no one-size-fits-all approach to the assignment of competences among levels of government, and all OECD countries aim to adopt multi-level governance arrangements that are well tailored to their local context. In some OECD countries, the assignment of responsibilities is carried out using a symmetric approach, where all subnational authorities at the same level of government are treated in the same way (i.e. attributed the same responsibilities regardless of capacity). Another OECD trend of note in the assignment of responsibilities among levels of government has been asymmetric decentralisation, which refers to situations in which governments at the same subnational government level have different political, fiscal or administrative powers (Allain-Dupré, Chatry and Moisiso, 2020<sub>[15]</sub>). An increasing number of OECD countries are using differentiated approaches when assigning responsibilities, based on population size, urban/rural classification and fiscal capacity criteria (OECD, 2018<sub>[13]</sub>).

## Human resource capacities

Human resource capacity generally refers to a combination of capabilities that enable subnational government workforces to contribute to the core strategic objectives of the government. Multi-level governance systems need to be supported by effective human resource capacity, notably having the right skills to develop and manage complex projects (OECD, 2020<sub>[16]</sub>). The process of human resource capacity building may involve strengthening internal capacity to develop effective recruitment or remuneration policies, as well as adopting a comprehensive approach to the training and development of civil and public servants (OECD, 2020<sub>[16]</sub>). A key component of human resource capacity building is ensuring that subnational governments have sufficient staff and that staff are equipped with appropriate competencies,

managerial skills and specialist expertise. Many subnational authorities typically grapple with skills shortages. This can lead to skills shortages or skills misallocation due to a lack of formalisation around job profiles and roles and poor anticipation of skills needs. At the same time, local government employment is often seen as an attractive, stable option that can create an environment with little turnover or renewal, with stagnation in terms of skillsets. In order to ensure effective recruitment, it is important that subnational governments conduct evidence-based assessments of skills needed and skills available to meet future and core business requirements (OECD, 2020<sup>[16]</sup>). It is also important to continually review existing subnational government recruitment strategies. For example, developing and revising a competency framework to promote merit-based recruitment can help subnational authorities to hire candidates with more appropriate skills and competencies for their needs.

An additional element that can support effective recruitment and retention of subnational government officials is effective talent management. HR departments need to be trained effectively so that they are able to determine what packages can attract and retain skilled employees. They also need to be trained to use this information effectively to inform competitive subnational employment policies, including attractive remuneration and non-financial incentives (OECD, 2020<sup>[16]</sup>).

# Financial resources and fiscal management

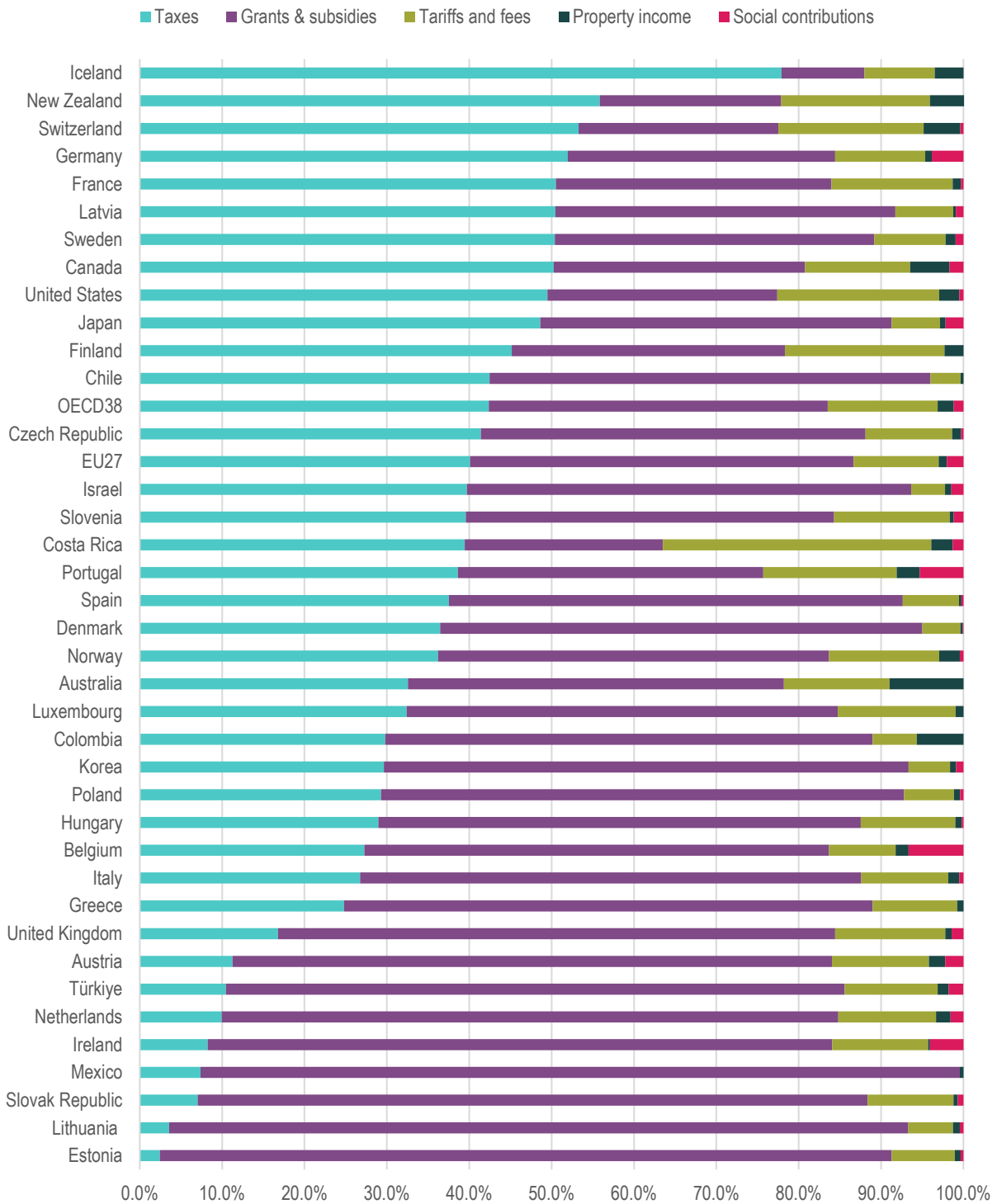
## Subnational revenue

Subnational financing systems vary greatly among countries (Figure 3). Tax revenues (shared and own-source taxes) represent more than 50% of subnational revenues in several federal countries, such as Canada, Germany and Switzerland, but also in some unitary countries, such as France, Latvia and Sweden. By contrast, grants represent the main source of revenues for subnational governments in Estonia, Lithuania, and the Slovak Republic, resulting in strong vertical fiscal imbalances (the difference between a subnational government's own-source revenues and its spending obligations).

A high share of tax revenue in subnational government revenue does not necessarily mean a high level of fiscal decentralisation. Subnational taxes can be composed mainly of shared taxes, where subnational governments have no power on the rate and the base. They can also represent a small share of GDP or public tax revenue. In the OECD, subnational tax revenue represented 7.2% of GDP in 2020 and 32.3% of public tax revenue in 2020 on average (Figure 3).

As with OECD countries, the Western Balkan economies have different patterns of revenues. On average, grants and subsidies are the main source, followed by taxes and then tariffs and fees. The average for the Western Balkans puts them very close to the OECD38 average in Figure 3, although, as will be discussed in the following part of this report, there are important differences across the six economies in the way that subnational finances are structured.

Figure 3. Subnational government revenue breakdown in OECD and EU countries, 2020



Source: Author's elaboration based on OECD national accounts (OECD, 2022<sub>(17)</sub>).

## Fiscal autonomy

Fiscal autonomy varies considerably among OECD countries. It is also complex to evaluate, since it encompasses three dimensions: expenditure, revenue and the capacity to access external funding. Fiscal autonomy concerns both sides of the budget, expenditure and revenue. Spending power may be limited, either because subnational governments act as a “paying agent”, carrying out a centrally defined spending agenda with little or no decision-making power or room for manoeuvre, or because regulations, norms and standards or budgetary rules impose ceilings or compulsory expenditures.

Revenue autonomy is also a complex issue and goes beyond tax autonomy. It can depend on: 1) the extent of discretion in intergovernmental transfers (from earmarked and conditional transfers to general-purpose grants based on a formula); 2) the type of taxes (from shared taxes with no or little taxing power to own-source taxes on which subnational governments have a certain power to set rates and bases); 3) the ability to set the level of tariffs, user charges or fees; and 4) the possibility of raising revenues from local assets. Equalisation instruments may also limit the fiscal autonomy of subnational governments, especially horizontal equalisation (from wealthy jurisdictions to the poorer ones, also called the “Robin Hood principle”).

Fiscal autonomy also includes the capacity to access external funding (e.g. by borrowing, engaging in public-private partnerships), the capacity to manage budgets, to hire and fire staff, to choose modes for delivering local public services, control and reporting mechanisms, and performance assessments.

At the subnational level, according to the golden rule, which applies to local governments in almost all countries (but less to state governments), long-term borrowing is allowed only to finance investment projects. It cannot be used to finance current expenditure. Borrowing is used when self-financing and capital transfers from the central government or international organisations are insufficient to meet investment project needs. Acquiring public debt increases the financial capacity of subnational governments to invest in infrastructure. The use of borrowing has other advantages, including better allocation of resources over time, inter-temporal and inter-generational equity and an acceleration of local development projects.

In OECD member countries, the subnational outstanding gross debt accounted for 27.9% of GDP and 20.2% of total public debt in 2020. Subnational outstanding debt is very unevenly distributed among OECD countries. It is higher in federal countries than in unitary countries. In the OECD, debt securities represent the largest share of subnational financial debt (56%), compared to loans (44%). This is explained by the weight of state government debt in federal countries, which comprises a high proportion of bonds (as in Canada, Germany and the United States). In the majority of unitary countries, issuing local bonds remains limited or non-existent, in particular in countries where bond financing is forbidden for local governments.

## Fiscal rules

Fiscal discipline is an important element of multi-level finance. It ensures that financial resources are properly managed and spent according to subnational priorities and in compliance with national guidelines. Rules for fiscal discipline and responsibility can help minimise fiscal risks and restrain imprudent fiscal behaviour (OECD, 2019<sup>[3]</sup>), which is crucial to monitor the overall level of public indebtedness. Fiscal control can also increase intergovernmental co-ordination, which enhances the bargaining power of subnational governments and their influence in national policy making (De Mello and Tovar Jalles, 2018<sup>[18]</sup>) (OECD, 2019<sup>[4]</sup>).

Most OECD countries use more than one fiscal rule for subnational governments, but the stringency of the rules varies (Vammalle and Bambalaite, 2021<sup>[19]</sup>). Borrowing constraints are the most common fiscal rules, followed by budget balance objectives (BBOs). BBOs often target only current balances (golden rule) for

realised budgets, are set on an annual basis and calculated in accruals. Expenditure limits are not widely used and usually constrain only certain types of expenditures (in particular, personnel expenditure).

Borrowing constraints consist mainly of requesting prior approval from the central government to borrow, restricting borrowing to investment purposes, and restricting borrowing abroad or in foreign currency or else restricting the issuance of bonds. Several countries also set a maximum amount of debt stock and debt service (in general expressed as a share of subnational government revenues). Budgetary and financial supervision and control are essential, particularly in a context of increased fiscal decentralisation and greater autonomy. Enforcement mechanisms for fiscal rules range from reducing access to specific types of grants to imposing sanctions, implementing corrective measures, replacing subnational government officials and even forcing municipal mergers.

Some countries have formal bailout mechanisms in place. These impose costs on bailed-out subnational governments in order to reduce the risk of moral hazard while ensuring their fiscal sustainability. Other countries in which subnational levels of government face structural financial difficulties have reformed subnational revenue allocation and expenditure tasks to ensure sufficient funding for their responsibilities, thereby preventing a build-up of subnational government debt. Different mechanisms are used to deal with unexpected shocks and cyclical fluctuations, such as escape clauses, rainy-day funds, unallocated budget lines for emergencies and central government support.

### Public investment by subnational governments

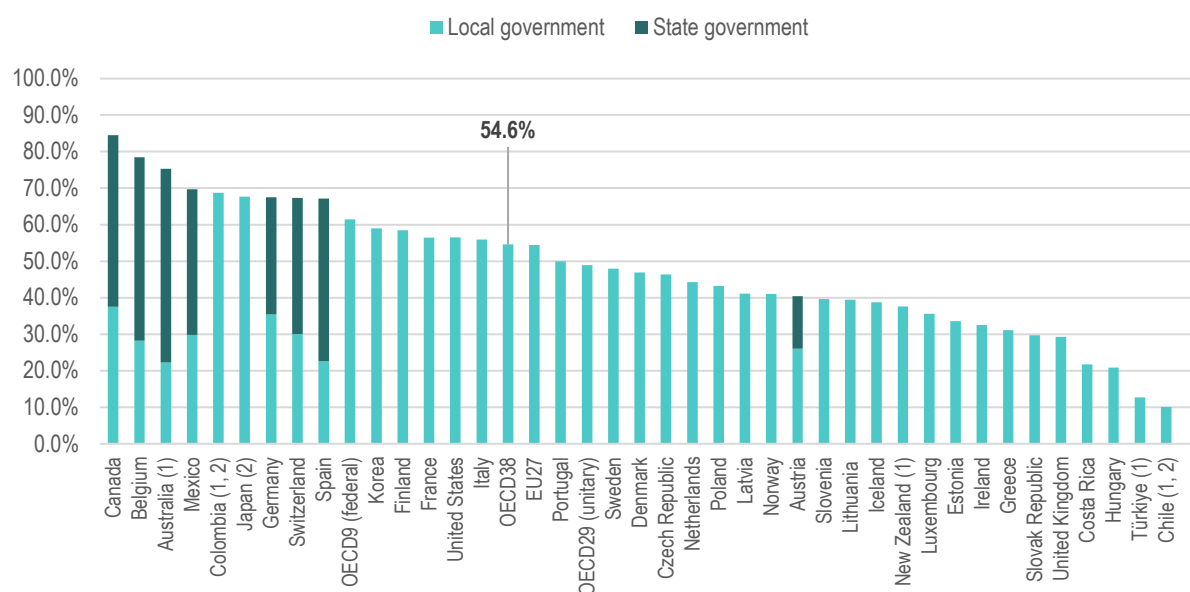
Subnational governments are key public investors in many countries, making them fundamental partners of central/federal governments in the achievement of policy, service and investment goals. This share differs widely across countries (Figure 4) (OECD, 2022<sup>[20]</sup>). Some subnational governments play a minor role in public investment, as in Chile, where subnational public investment represented only 10% of total public investment in 2020.<sup>3</sup> By contrast, in 2020, subnational public investment accounted for more than 50% of public investment in 15 OECD countries and more than 65% in 9 of them (OECD-UCLG, 2019<sup>[71]</sup>).

Again, the Western Balkans demonstrate significant variation in the share of subnational government in public investment but, as is discussed in the following part of this report, the overall level is below the OECD average of 55%, with Serbia the lowest at 16%.

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<sup>3</sup> Capital expenditure is the sum of direct investment and capital transfers. Public investment refers here to direct investment.

Figure 4. State and local governments, share of public investment in OECD countries (% , 2020)



(1) Estimates from International Monetary Fund, Government Finance Statistics.

(2) 2019 data. Israel is excluded from the graph, as a significant part of direct investment by the central government is carried out by public companies and not recorded in General Government Expenditure, thus leading to an overestimation of the ratio of subnational government in public investment.

Notes: Public investment is defined as gross capital formation and acquisitions, less disposals of non-financial non-produced assets. OECD and EU27 average are weighted.

Source: OECD (2019), *Making Decentralisation Work: A Handbook for Policy-Makers*, OECD Multi-level Governance Studies, <https://doi.org/10.1787/g2q9faa7-en>. (OECD, 2022<sup>[20]</sup>).

The large role that subnational governments play in public investment highlights the need for more co-ordination between national and subnational levels of government. Effective multi-level governance is crucial to this endeavour, as well as ensuring a more efficient and effective use of public investment funds. Evidence suggests that institutional quality and governance processes have a positive impact on expected returns to public investment (OECD, 2020<sup>[16]</sup>). In 2014, recognising the importance of the multi-level governance challenges generated by public investment, the OECD Council adopted a *Recommendation on Effective Public Investment across Levels of Government*. The principles associated with the OECD Recommendation highlight the significance of: 1) effective co-ordination among levels of government; 2) adequate capacities at the subnational level; and 3) a sound regulatory framework to ensure effective public investment across levels of government (OECD, 2014<sup>[21]</sup>).

## Co-ordinating multi-level governance

Multi-level governance poses a number of challenges that can be described as a series of gaps, all of which can inhibit the effectiveness of government policies. These gaps arise from the dependence of one level of government on another and can exist both vertically and horizontally. Information gaps can arise through information asymmetries between levels of government during the design and implementation of public policy. Capacity gaps refer to a lack of human or physical resources to carry out tasks at a given level of government. Fiscal gaps are represented by the difference between subnational revenues and the required expenditures for subnational authorities to meet their responsibilities. Administrative gaps arise when administrative borders do not match up with functional economic areas at the subnational level. Policy gaps occur when government agencies take vertical approaches to cross-sectoral policy (Charbit and Michalun, 2009<sup>[11]</sup>). Co-ordination mechanisms can help different levels of government to bridge these gaps and co-ordinate more effectively with one another, both horizontally and vertically (OECD, 2019<sup>[3]</sup>).

### Horizontal co-ordination mechanisms

A key challenge in multi-level governance is ensuring that subnational governments have enough capacity to deliver a sufficiently wide range of high-quality local public services that can meet the needs of citizens. Horizontal co-ordination can support subnational governments in this regard by enabling them to co-operate when delivering local public services (e.g. health and education), thereby increasing the efficiency of subnational investments through economies of scale. Modes of horizontal co-ordination in OECD countries commonly include contracts, platforms for dialogue and co-operation, specific public investment partnerships, and joint authorities (OECD, 2019<sup>[22]</sup>).

Horizontal co-ordination arrangements can also serve as a check on the national government by states or regions in federal countries. In Australia, the Australian States established the Council of the Australian Federation to help them to co-ordinate with one another, harmonise their policies and influence national legislation as a block (OECD, 2019<sup>[3]</sup>). In Italy, the Conference of the Italian Regions and Autonomous Provinces provides a forum for regional governments to discuss and agree on common positions, which can then be presented to the national government and parliament (Regioni IT, 2022<sup>[23]</sup>).

Governments can improve the quality of horizontal co-ordination in their territories by promoting inter-municipal and inter-regional co-operation. Inter-municipal co-operation means that two or more municipalities work together on one or more specific tasks. It is usually understood as expenditure-sharing. Such co-operation can be particularly beneficial for rural, urban and metropolitan areas to facilitate the provision of joint municipal services, share in costly administrative requirements, build greater human resources capacity and expertise (e.g. inspectors and architects) and reduce fragmented investment by promoting investment at the right scale (OECD, 2021<sup>[11]</sup>).

Inter-municipal co-operation is widespread in many countries, as legal frameworks and policies supporting inter-municipal co-operation have been significantly enhanced over the last 15 years. There are various formats for inter-municipal co-operation in the OECD and the European Union, which range from informal co-operative agreements (single or multi-purpose, shared services agreements) with no judicial framework to highly formalised arrangements (supra-municipal authorities) with entities under public law having



delegated functions and even taxing powers, as in France. Other examples of countries with the most integrated forms of inter-municipal co-operation are Italy, Portugal and Spain (OECD, 2019<sup>[14]</sup>; OECD, 2017<sup>[2]</sup>).

Motivation for voluntary inter-municipal co-operation varies, but often the rationale is simply to enable more efficient service delivery and better services for residents. In order to achieve this, it is essential to generate economies of scale. Inter-municipal co-operation can be applied to many service areas, from technical issues (e.g. waste, water and energy) to healthcare, education, and regional development (OECD, 2017<sup>[2]</sup>).

## Vertical co-ordination mechanisms

Effective vertical co-ordination mechanisms between central/federal and subnational governments are crucial for avoiding capacity or co-ordination gaps, managing joint responsibilities between central and subnational governments and aligning objectives among government levels (OECD, 2019<sup>[3]</sup>). Different types of vertical co-ordination mechanisms may support regional development strategies, promote service delivery or enhance fiscal relations among levels of government. Vertical co-ordination structures enable subnational governments to have their needs and problems understood at different levels of government, to submit proposals and comments, to negotiate with the central level and to obtain help in designing, implementing and monitoring reforms (OECD, 2017<sup>[2]</sup>). Vertical co-ordination platforms are often related to areas such as the environment, infrastructure, transport, technology and development.

Vertical co-ordination mechanisms in OECD countries come in a number of different forms. A common approach is to establish inter-governmental committees with regular, formal meetings to facilitate dialogue between national and subnational stakeholders. This method is particularly common in federal countries and in some regionalised states, such as Australia, Germany, Spain and Switzerland.

Another approach to vertical co-ordination in OECD countries involves establishing ad hoc commissions for a given period, which can accompany the design and implementation of a national strategy or of a specific reform (e.g. decentralisation and municipal mergers).

Formal contractual arrangements can help to circumvent bottlenecks among levels of government and support subnational public investment priorities. In France, for example, territorial strategies are formalised as contractual arrangements among levels of government through state-region planning contracts (*contrat de plan État-région*) that stipulate co-decision and co-financing of interventions (OECD, 2018<sup>[13]</sup>). Vertical co-ordination mechanisms, such as fiscal councils and internal stability pacts, are also increasingly used in OECD countries to reinforce inter-governmental fiscal co-ordination in macroeconomic management.

A final approach of note is the use of LGAs to facilitate vertical co-ordination. Denmark, Finland, Norway and Sweden convene regular meetings of central and local governments through LGAs to discuss policy and implementation issues (OECD, 2019<sup>[3]</sup>). LGAs also play an important role in advancing vertical co-ordination in the Western Balkans (KDZ, 2022<sup>[10]</sup>).

## Accountability and oversight

Effective accountability mechanisms can improve local government outcomes and ensure that officials are acting in the interests of their residents. In addition to voting, which provides an opportunity to hold ineffective local governments accountable while rewarding those that perform well, there are a number of other elements that can ensure local-level accountability, such as transparency and supervision, as well as mechanisms to remove or sanction officials. Initiatives to improve transparency at the subnational level vary across OECD countries (OECD, 2019<sup>[3]</sup>).

In order to be as effective as possible, transparency mechanisms should go hand-in-hand with subnational accountability frameworks. Accountability frameworks are the composite of various tools that governments use to ensure greater accountability and transparency. They serve as guidelines for what is expected of authorities with respect to accountability mechanisms. Accountability frameworks require governments to develop various institutions through which they can be held accountable.

An additional important element that can ensure subnational accountability is administrative supervision. Administrative supervision usually seeks to ensure legal and fiscal oversight of subnational government actions. In some decentralised countries, state territorial representatives play a key role in ensuring subnational-level accountability (OECD, 2019<sup>[3]</sup>).

A range of bodies exist in OECD countries to oversee local decision making in financial or economic matters. In Poland, for example, the Supreme Chamber of Control (a supreme audit institution which is subordinate to the national parliament) audits the financial activities of regional and local self-governments. In Estonia, auditing of local self-governments is carried out by the independent National Audit Office (Pal, 2018<sup>[24]</sup>).

## B. Subnational governance in the Western Balkans

This part of the report examines the functioning, organisation and some main characteristics of local self-government systems in the Western Balkans. It draws on overviews of Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia collected by local experts in the region and refers to other international sources where appropriate. Overall, it presents key characteristics based on these overviews, including recent trends and similarities and differences in comparison with EU countries.

The chapter covers five areas, which correspond to five key characteristics that determine the organisation, functioning and capacity of local governments in Europe to act (i.e. the ability of local governments to perform their functions effectively and efficiently and manage their own affairs):

1. Territorial organisation and local government reforms
2. Competences of local governments and service delivery
3. Functioning, organisation and human resources of local governments
4. Fiscal autonomy and financial management of local governments
5. Horizontal and vertical co-ordination and co-operation.

# Territorial organisation and local government reforms

The territorial structure of the municipal level is closely connected to the function and capacity of local governments to provide local services. It can therefore be perceived as an important institutional condition for the viability and operational capacity of local governments.

In the Western Balkans, Kosovo, Montenegro and North Macedonia have only the municipal level of subnational government. Albania, the Federation of BiH and Serbia have a second tier between the municipalities and the central government. At the second tier, Albania has 12 regions and the Federation of BiH has 10 cantons,<sup>4</sup> most importantly for developing and implementing regional policies and performing other competences assigned to them by law. In Serbia, the autonomous province of Vojvodina has the function of a second tier of local government, while in general Serbian regions do not have the status of a government unit or a legal personality.

In the European context, Western Balkan municipalities are generally large in terms of average population (ranging from around 20 000, which is already relatively large by OECD standards, to over 70 000). There are also a small number of extra-large unitary municipalities in certain urban centres (notably the capital cities). The average municipal population is particularly high in Albania because the structure of local government was recently reconfigured with 373 communes merged into 61 large municipalities.<sup>5</sup> Hence, as mentioned in Part A, the local governments of the Western Balkans tend to rank among the large local-government type of EU Member States, such as Ireland, Portugal or Sweden, rather than among the small-scale local government type, such as Austria or France.

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<sup>4</sup> The cantons in Bosnia and Herzegovina are not classical regions, but a building block of the complex Dayton structure of BiH. Bosnia and Herzegovina: Political Entities & Cantons, <http://www.citypopulation.de/de/bosnia/cities/>.

<sup>5</sup> Congress of Local and Regional Authorities, Council of Europe (2021), Monitoring of the application of the European Charter of Local Self-Government in Albania, <https://rm.coe.int/cg-2021-41-14-en-monitoring-of-the-application-of-the-european-charter/1680a42072>.

**Table 1. Average population of local governments in the Western Balkans**

	Population total	Average population of municipalities	Special status of the capital or big cities
Albania	4 559 565	74 747	No
Bosnia and Herzegovina – Federation of Bosnia and Herzegovina	2 190 098 <sup>6</sup>	27 515 <sup>7</sup>	No <sup>8</sup>
Bosnia and Herzegovina – Republika Srpska	1 142 495 <sup>9</sup>	18 016 <sup>10</sup>	No <sup>11</sup>
Kosovo	1 798 188 <sup>12</sup>	47 321 (Pristina: 218 782)	Law 06/L-012 on the Capital of the Republic of Kosovo for Pristina
Montenegro	620 739 <sup>13</sup>	24 830	Law on Administrative Capital (Podgorica); Law on Historic Capital (Cetinje)
North Macedonia	2 083 227 <sup>14</sup>	25 541	Law on the City of Skopje
Serbia	8 677 006 <sup>15</sup>	47 580 <sup>16</sup>	Law on the Capital City

Note: Regions marked grey do not have the status of an administrative-territorial unit.

Source: Based on country overviews (Annex of this report) and NALAS Fiscal Decentralisation Report 2021.

The system of decentralisation in the Western Balkans follows the principle of "symmetric distribution" of responsibilities and competences, which means that all municipalities, regardless of their size, have their own statutes, competences and decision-making power. There are a few exceptions based on specific laws on some capital cities. Where villages, communes and other municipal entities exist, these merely represent spatial units, without being a legal entity and holding competences.

<sup>6</sup> Bosnia and Herzegovina: Political Entities & Cantons, <http://www.citypopulation.de/de/bosnia/cities/>.

<sup>7</sup> Network of Associations of Local Authorities of South-East Europe (NALAS), Fiscal Decentralisation Report, June 2021, 8th Edition, [http://nalas.eu/Home/Download/8\\_FDR](http://nalas.eu/Home/Download/8_FDR).

<sup>8</sup> The Dayton Peace Agreement determines that "Sarajevo is the capital city of BiH" (Article I.5 Constitution BiH). The same is true for the Constitution of the Federation of Bosnia and Herzegovina, which also defines that the City of Sarajevo is established within the Canton Sarajevo. Thus, it is at the same time the capital of the State and of the Federation of Bosnia and Herzegovina and of the Sarajevo Canton. But there is neither a law on the capital city, nor a definition of the role, powers and resources of a capital city in other legislation.

<sup>9</sup> Bosnia and Herzegovina: Political Entities & Cantons, <http://www.citypopulation.de/de/bosnia/cities/>.

<sup>10</sup> NALAS Fiscal Decentralisation Report, June 2021, 8th Edition, p. 180, [http://nalas.eu/Home/Download/8\\_FDR](http://nalas.eu/Home/Download/8_FDR).

<sup>11</sup> The Brčko District is a specific case (ca. 70 000 inhabitants): after an international arbitration ended the controversies regarding its status, since 2000, it constitutes a special district (under direct international administration). In March 2009, the Brčko District received a constitutional foundation through the first and only amendment of the Dayton Constitution. It is at the same time a municipality and a special district with its own assembly (31 delegates) and distinct legislation (which has to be in conformity with State legislation, but not with Entity legislation).

<sup>12</sup> 2020, Overview Kosovo.

<sup>13</sup> CEMR (ed.), TERRI Country Profiles – Montenegro, 2021, <https://terri.cemr.eu/en/country-profiles/montenegro.html>.

<sup>14</sup> North Macedonia Population 2022, <https://www.worldometers.info/world-population/macedonia-population/>.

<sup>15</sup> Serbia Population 2022, <https://www.worldometers.info/world-population/serbia-population/>.

<sup>16</sup> NALAS Fiscal Decentralisation Report, June 2021, 8th Edition, p. 180, [http://nalas.eu/Home/Download/8\\_FDR](http://nalas.eu/Home/Download/8_FDR).

## Local government reforms

Territorial reforms in the Western Balkans have mainly been driven by an effort to increase the responsibilities and resources of local governments, which are the administrative units closest to citizens. Nonetheless, the overall level of decentralisation has not changed significantly over the past decade. Kosovo has launched a second phase of decentralisation, defined in an action plan for local self-government over 2016-2026, which aims to reinforce the role of municipalities. Meanwhile, North Macedonia has decentralised competences to municipalities in the social, health and education spheres (OECD, 2022<sup>[25]</sup>) (KDZ, 2022<sup>[10]</sup>). Montenegro also established a new public administrative reform strategy for the 2022-2026 period to improve the quality of public service delivery and strengthen municipal functions and financial independence (OECD, 2022<sup>[25]</sup>). In addition, North Macedonia initiated a fiscal decentralisation reform in 2021 to increase fiscal capacity of municipalities, as did Serbia by amending the Law on Tax Procedure and Tax Administration in 2020 (OECD, 2022<sup>[25]</sup>).

In principle, the general trend in the European Union of merging small-scale local government structures has been also followed in the Western Balkans as the main method by which to increase capacity. Most recently in the Western Balkan region, a major territorial consolidation reform was implemented in Albania in 2015 to address the fragmentation of local governments. Based on the National Decentralisation Strategy, the Albanian government merged 373 local government units (municipalities and communes) into 61 municipalities with Law no. 115/2015 on the administrative-territorial division of local government units. According to the government, the creation of these large authorities was the first stage of a more comprehensive plan to give democratically elected local authorities a more substantial role in the country's public administrative system. The reform was accompanied by the adoption of Law no. 139/2015 on the organisation of local self-government, which forms the current basis of local government organisation and functioning. The new legislation had very wide-ranging political support.<sup>17</sup>

In 2021, the government of Serbia adopted the Programme for the Reform of the Local Self-Government System for the period from 2021 to 2025. For the first time in the history of local self-government reform in Serbia, a public policy document was prepared that plans the strategic development of local self-government system reform for a five-year period, with an action plan for the first three years.

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<sup>17</sup> Congress of Local and Regional Authorities, Council of Europe 2021, Monitoring of the application of the European Charter of Local Self-Government in Albania, <https://rm.coe.int/cg-2021-41-14-en-monitoring-of-the-application-of-the-european-charter/1680a42072>.

# Functioning, organisation and human resources of subnational governments

## Legal status of local governments in the Western Balkan region

Except for Bosnia and Herzegovina, local self-government is enshrined as a specific level of government in the constitution of all Western Balkan governments. In Bosnia and Herzegovina, local self-government is defined in the constitutions of the entities. All Western Balkan economies ratified the European Charter of Local Self-Government, and the status of implementation is regularly monitored by the Congress of Local and Regional Authorities of the Council of Europe.

The system of local self-government is regulated by law in all Western Balkan economies. The main legal regulation in Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia is the Law on Local Self-Government.<sup>18</sup> Other key laws governing the system of local self-government in the Western Balkans are mostly laws on Local Self-Government Elections, on Territorial Organisation and on Financing Local Self-Government. However, the content and scope differ from country to country and are complemented and specified by further laws and/or bylaws. For example, Kosovo, Montenegro, North Macedonia and Serbia have specific laws for their capital cities, and North Macedonia adopted a law on the balance of regional development in 2021.<sup>19</sup>

In the Federation of BiH, most powers in the area of local self-government are vested in the cantons, which have their own constitution, parliament, government and judiciary, and act in accordance with the laws of the Federation of BiH as a whole. Therefore, the Constitution of the Federation of BiH contains a few general provisions on the principles of local self-government, which must be respected by the cantonal constitutions. In all cantonal constitutions, there are specific provisions on "local authorities" in separate sections, and they have adopted their own laws on local self-government, some of which provide for different solutions in terms of powers and duties, taxes and funds. Therefore, the normative framework in the Federation of BiH is diverse and complex. The main responsibilities of the cantons are education, healthcare, public order and safety, and the courts, and they can delegate their competencies to a municipality or a city. The cantons also exercise supervision over administrative procedures in municipalities through inspections.

## Elections of local government bodies

Local government representative bodies include the municipal councils/assemblies as legislative bodies and the mayor as the executive body:

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<sup>18</sup> In the Federation of BiH, the Law on Principles of Local Self-Government in the Federation of Bosnia and Herzegovina.

<sup>19</sup> See details and specific information on local self-government laws in the country overviews (Annex of this report).

- Generally, the municipal assembly or council of the local government is the decision-and policy-making body empowered with legislative and supervisory functions.
- The mayor is the executive body, acts on behalf of the municipality or city and is supported by the municipal/city administration.

In all of the Western Balkan economies, local elections are held every four years. They are democratic (direct and free) elections by universal and secret ballot. The councillors are elected in direct elections, while the mayor is elected either by the elected council members or directly. Voters elect a political party and a candidate from the list of candidates for the municipal assembly/council. Seats in the assembly/council are, in general, distributed proportionally.

**Table 2. Electoral system, citizen participation and administrative structure**

	Albania	Bosnia and Herzegovina (BiH)	North Macedonia	Montenegro	Kosovo	Serbia
<i>Electoral system and citizen participation</i>						
<b>Direct elected representative bodies</b>	<b>Municipal Councils</b> (proportional system with closed lists) ; <b>Mayors</b> (majority system)	<b>Local Assembly</b> (proportional system using Sainte-Lague method); <b>FBiH</b> : also the <b>Mayor</b> ;	<b>Council and the Mayor</b>	<b>Municipal Assembly</b> (in the period 2006-2011 the Mayor was also elected directly).	<b>Municipal Assembly</b> as well as the <b>Mayor</b>	Councillors of the <b>Assembly</b> (proportional system using D'Hondt method)
<b>Nomination of other representative bodies</b>	<b>Regional Councils</b> composed of their municipalities' elected bodies; chairman and board elected by its members.	<b>RS</b> : The Assembly elects and dismisses the <b>Mayor</b> and <b>Deputy Mayor</b>	n/a	<b>Mayor</b> elected from the assembly by majority vote; <b>President of the Municipal Assembly</b> elected from among the members of the Assembly.	n/a	<b>Council</b> as well as the <b>Mayor</b> are elected by the Assembly
<b>Frequency of elections</b>	4 years	4 years	4 years	4 years	4 years	4 years
<b>Other forms of citizens LSG</b>	Citizens' initiative; Elected board and head of the village; Municipal co-ordinator; public consultation hearings	n/a	Civic initiative, gatherings and a referendum; Mandatory Forum in 50% of the municipalities	Public debates on draft acts; "empty chair" institute; Information and consulting of the public in the process of preparing acts	Citizens initiative, at least twice a year there has to be a meeting with citizens for public interest issues/topics.	Referendum, citizens' initiative and citizens' petitions, public consultations and other forms of participation
<b>Citizens participation mandatory</b>	Yes	n/a	No - but mandatory Forum in 50% of the municipalities; Participatory body for urbanism, Commission for Inter-Community Relations, Commission for Equal	Yes	Yes	Yes - e.g. special law on the referendum and the people's initiative



			Opportunities, Youth Council			
<b>Administrative structure</b>						
<b>Legislative and supervisory function / body</b>	<b>Municipal Councils and Regional Councils</b>	<b>Assembly;</b> (RS: extended list of competences)	<b>Municipal Councils</b> (may form permanent and temporary commissions)	<b>Municipal Assembly</b> chaired by a President elected from among them.	<b>Municipal Assembly</b>	<b>Assembly</b>
<b>Size of legislative body</b>	from 15 councillors up to 61 councillors.	11-17 mbrs for < 8,000 voters; 17-25 mbrs between 8,000 – 20,000; 25-31 mbrs for > 20,000 voters.	from 9 councillors up to 33 councillors. City of Skopje: 45 mbrs.	30 councillors plus an additional councillor for every 5.000 voters	from 15 to 51 members	from 19 up to 75 councillors, city assemblies up to 90 councillors, while the Belgrade City Assembly has 110 councillors.
<b>Executive function / body</b>	<b>Mayor, chairman and board</b> of the Regional Council.	<b>Mayor</b>	<b>Mayor</b> together with the <b>administration</b> .	<b>Mayor</b> together with the <b>municipal administration</b> .	<b>Mayor</b> is the highest executive body, together with the <b>municipal administration</b> .	<b>Municipal Council</b> and the president of municipality/ <b>Mayor</b>
<b>Local public administration</b>	Subdivided into <b>several administrative units</b> headed by an <b>administrator</b> . Administrative units comprised of towns and/or villages.	n/a	Organized in <b>sectors and departments</b> .	Organized through the function of <b>Mayor, municipal manager, chief administrator</b> and <b>secretariats</b> for certain public policy issues.	<b>Settlements, villages or quarters</b> as additional administrative units.	The municipal administration, as a single body, is managed by the <b>head of municipal administration</b>

Source: Based on the country overviews (Annex of this report).

## Key functions of the legislative body (Assembly or Council)

The assembly is the representative and the highest body of local self-government. Its main function is decision and policy making. The key competences of the legislative body<sup>20</sup> of local governments in general are:

- adoption of the statute, budget, financial reports
- adoption of plans and development programmes
- adoption of regulations and other acts of general interest
- decision-making in areas of local self-government (e.g. urban planning and education)
- control/supervision of the executive bodies (e.g. execution of budgets and work of services),
- establishment and supervision of public enterprises and institutions.

Legislative and supervisory bodies can have extended powers going beyond these key competences. In Montenegro and North Macedonia, for example, the assembly also establishes the level of local taxes, while in Serbia and BiH, the assembly appoints and dismisses the mayor as well as other core positions of the municipality's administration (e.g. director and the board of directors of public enterprises).

<sup>20</sup> Municipal Assemblies in Bosnia and Herzegovina (the FBiH and the RS), Montenegro, Kosovo and Serbia, as well as Municipal Councils in Albania and North Macedonia.

The size of the local government legislative body (the number of members or councillors) depends mostly on the number of inhabitants, whereby minimum and maximum limits are set: 15-61 councillors in Albania, 15-51 members in Kosovo and 9-33 members in North Macedonia. Montenegro sets the size at 30 councillors plus an additional councillor for every 5 000 voters. In BiH, the municipal/city statute defines the number of councillors in line with the Election Law. There are different categories for the number of municipal councillors based on the number of voters, not on the number of citizens.

The mayor takes care of and is responsible for the execution of laws, other regulations and general acts and the implementation of strategic documents and development plans. In most of the Western Balkan economies, the municipal/city mayor leads the municipal/city administration and is responsible for its work. The mayor's core competences include proposing the statute, budget and other acts and regulations of general interest to the assembly/council and implementing local policy in accordance with its decision.

The office of the mayor, together with the municipality's administrative capacity, is a core building block for the functioning of the municipality, providing services and dealing with daily issues at the local level. For example, in Montenegro, the mayor fulfils tasks related to human resource management, such as adopting the human resources plan, the integrity plan, the annual training plan and more. He/she appoints and dismisses the vice president, chief administrator, heads of bodies, chief city architect and municipal manager. The mayor directs, co-ordinates and supervises the work of bodies and the performance of public service delivery.

## Local government administration

A wide range of regulations exists regarding the structure and leadership of the local government administration and how political decisions are transferred to the administrative level. In general, laws on local self-government regulate the organisation and administration of local governments. Based on these laws, local governments prescribe the organisation of their administration more specifically. The mayor is the executive body, manages the municipal administration and, together with the municipal administration, is responsible for the execution of local government competences. A key role is played by the municipal manager or administrator, who is usually the head of the administration and who is responsible to the municipal council for the activities of the administration. However, the scope and role of municipal managers differ and often appear to be relatively weak. In this respect, the concrete role of the administrator (Albania), municipal manager (Montenegro) or head of municipal administration (Serbia) offer interesting examples:

- In Albania, municipalities are comprised of several administrative units that have traditional, historical, economic, and social ties. They are managed by an Administrator who is appointed by the mayor of the municipality. Administrative units are comprised of towns and/or villages. Towns and cities may be divided into smaller units called quarters (neighbourhoods). As a rule, a quarter can be established in territories with over 20 000 residents.
- In Montenegro, municipalities may have a municipal manager, who: 1) proposes and participates in the preparation and implementation of municipal development plans and programmes that encourage economic development, entrepreneurial initiative and public-private partnerships; 2) provides environmental protection and sustainable development; 3) prepares and manages projects financed from international funds and other sources and monitors their implementation; 4) prepares information and reports on project implementation; 5) establishes and maintains a database of plans, programmes and projects; 6) initiates amendments to regulations that hinder business initiatives; and 7) performs other tasks entrusted to them by the mayor.
- In Serbia, the head of municipal administration is responsible to the municipal council for their work and the work of the administration, in accordance with the statute of the municipality and the act on the organisation of the municipal administration. The municipal administration is formed as a

single body, but more than one municipal administration can be formed for certain thematic areas in municipalities with over 50 000 inhabitants. The municipal administration, as a single body, is managed by the head of municipal administration.

## Human resources

### ***Legal basis for human resource management***

In most Western Balkan economies, issues concerning employees at the local government level are regulated by laws on public officials and civil service, by specific laws on local self-government or, in many cases, by both:

- In Albania, the Law on Local Self-government sets out the rules regarding the level of salaries of employees exercising their duties in these institutions, while the Law on Civil Servants also covers the local government administration in terms of management of civil service positions (i.e. recruitment, mobility and training). Implementation of the law is overseen by the Commissioner of Civil Service, who conducts regular inspections at the municipal level to ensure that the law is appropriately implemented.
- Bosnia and Herzegovina: In the RS, the status and rights of civil servants and employees of local governments are regulated by the Law on Civil Servants and Employees in the Bodies of Local Self-Government Unit. The Law on the Status of the Local Self-Government Unit Officials regulates the status issues of officials of local self-government units. In the FBiH, general civil service laws also apply to the local-level civil service. In the FBiH, besides the Civil Service Law of the FBiH, separate civil service laws are in place in seven of the ten cantons. In two Cantons, special regulations on application of the Civil Service Law of the FBiH are in place, while Central Bosnia Canton has not yet regulated the subject matter.
- In Kosovo, civil servants under both the local and central administration are under the same Law on Public Officials, which is currently the fundamental law that establishes the legal framework for recruitment, promotion and dismissal of civil servants for both levels of administration. General principles and administration of employment of public officials apply to both levels of administration. Each institution employing civil servants, including local administrations, is required to prepare annual and medium-term staff plans in compliance with the budget-planning process. These plans are further co-ordinated at the level of the ministry that drafts the General Plan. The central Human Resource Management Information System (HRMIS) is kept at the ministry responsible for public administration. However, every institution, including local administrations, is required to undertake all processes, actions and procedures related to human resource management through the HRMIS. The Independent Oversight Board for Civil Service is an independent constitutional institution, which ensures compliance with the rules and principles governing the civil service. As such, this institution is also responsible for the local level.
- In North Macedonia, local self-government employees are divided into two groups: administrative officers (state) and auxiliary-technical persons. Administrative servants are employed under the Law on Administrative Servants and the Law on Public Sector Employees. Staff in the planning regions are employed and exercise their rights in accordance with the Law on Labour Relations.
- In Serbia, the Law on Employees in Autonomous Provinces and Local Self-Government Units was adopted in 2016 and is of great importance for the modernisation of public administration. It introduces a new, modern approach to human resource management. One of the most important contributions of this law is the introduction of a standardised system and procedures for employment in all local governments, and thus the approximation of the status of employees in local self-government to the status of civil servants. This is reflected in the harmonisation of the

titles of officials at the state and local level, as well as in the possibility of transferring employees from local government to the state administration and vice versa.

**Table 3. Human resource management of local governments in the Western Balkans**

	Albania	Bosnia and Herzegovina (BiH)		North Macedonia	Montenegro	Kosovo	Serbia
		F-BiH	RS				
<b>Public sector employment: share of public sector employment, of LSGU</b>	30.000 in summary, 27% of total public employees in Albanian administration	n/a	n/a	5.749 in summary; total public administration: 36.433 (16%)	Public sector: 55,428; LSG: 13,235 (24%)	Civil servants: 14,626; LSG: 4,826 (33%); total employment: 347,071	public sector: 602,806; LSG incl. local public enterprises: 88,143 (15%)
<b>Local public administration staff under same Law as central government staff?</b>	partly - common "Law on civil service" and "On the civil servant" (management, recruitment, mobility and training), Law "On local self-government" (salaries);	Yes on the regional level - General Civil Service Laws in seven of the ten cantons as well as the Civil Service Law of FBiH	No - Law on Civil Servants and Employees in LSGU. Civil servants in LGs does not fall within mandate of Central HRM body	Yes - Law on administrative servants and Law on Public Sector employee;	Yes - regulations on civil servants and state employees are applied	Yes - Law on Civil Service and the Law on Salaries in the Public Sector	No - Law on Civil Servants for central level; Law on employees in Autonomous provinces for provincial staff, Law on Local self-government units for local level.
<b>Recruitment based on merit and open, competitive recruitment?</b>	Yes (by Law) - Appropriate competitive procedures are not always performed as required by law.	Yes - e.g. a professional exam for the civil service is a condition for working in a civil service body.	Partly - there is no mandatory standardised procedure for the selection (tests).	Yes	Yes (by Law) - since 2018 testing is done electronically and standardized.	Yes	Yes
<b>Note on salaries</b>	High discrepancy from the central to the local level - salaries vary from 27% to 47% for the same position at the central level	Law on salaries regulates principles and setting ceilings; in practice LGs regulate salaries through respective rule book	Salaries of employees and officials of SG are regulated by Law & a special collective agreement	no wage gap between CS positions in local and central governments	Data on average salary are not available, salaries are determined by the Law on wages in public sector	Paid by the State Budget except the Mayors, LG directors and members of MA, no regulatory framework for salaries.	n/a
<b>Local HRM covered by central HRMIS?</b>	Partly - 2020 only 50% of municipalities were using the platform administrata.al	n/a	n/a	Yes	No - HRMIS platform is not yet technically qualified for LGs	Yes	No - but according to the Law LGs may co-operate with HRMIS

Source: Based on the country overviews (Annex of this report).

### **Expenditure (wage bill)**

**Table 4** shows data on subnational staff expenditure in the Western Balkans. The data corresponds to the compensation of employees at the subnational level (i.e. gross wages and the social contributions paid by employers for subnational staff, which is reported as "staff cost" in subnational budgets and in national accounts). Due to differences in reporting, only high-level comparisons in sub-national staffing and wage-

bills can be carried out. The share of local governments' wage bill varies from 19.19% (Montenegro) to 53.54% (North Macedonia). The reasons for this large variation merit additional research.

**Table 4. Subnational staff expenditure in the Western Balkans (% , 2020)**

Subnational staff expenditure	Share of subnational government expenditure	Share of public staff expenditure	Share of GDP
Albania	23.53	19.90	1.46
Bosnia and Herzegovina	28.35	12.23	1.40
Kosovo	50.20	41.66	4.07
North Macedonia	53.54	37.93	2.77
Montenegro	19.19	9.88	1.29

Source: CFE/GOV/OECD – World Observatory on Subnational Finance and Investment.

In general, significant differences can be observed in salaries between the central and local governments in many Western Balkan economies. This often makes employment at the local government level unattractive. This is the case even when the same laws apply to civil servants at local and central levels. It would require a more detailed evaluation to determine the reasons for the discrepancies in wages between central and local governments even when the same laws apply.

Some key points regarding the definition of salaries at the subnational level:

- In North Macedonia, civil servants working at central as well as local government level are regulated by the same law, the Law on Administrative Servants. Therefore, they are supposed to have the same salary, as stipulated in the law, based on their respective positions. However, the data suggests significant differences in salary levels.
- In Serbia, there is also a difference between the average salary of public employees at the central level and the local level, but it is not so striking.
- In other countries, the law on salary only regulates the principles and sets ceilings, as in BiH for example, where municipalities regulate the salaries of their employees through the respective rulebooks.
- In Albania, the municipal council is the competent body that approves the maximum number of employees in the municipality and the level of salaries for employees and other persons, elected or appointed in accordance with the legislation in force. For mayors, deputy mayors and secretaries of the municipal council region, the salary ceilings are defined by decision of the municipal council. The mayor, pursuant to the decision of the municipal council, approves the structure, staff, and salary categories/classes for each civil service position. Salaries vary from 27% to 47% for the same position at the central level for small municipalities, to 53% to 89% for Tirana. With such differences in terms of "pay for the same job position", the current salary scale is not considered attractive. Small municipalities are therefore facing difficulty in employing skilled staff with relevant experience. The government is planning to review the salary system for the local government to ensure equalisation based on the principle of *equal pay for equal positions*.<sup>21</sup>

A central HRMIS also covering local governments is present in some Western Balkan economies, for example:

<sup>21</sup> See country overview for Albania in Annex of this report.

- In Kosovo, local governments are required to undertake all processes, actions and procedures related to human resource management through the HRMIS.
- In Montenegro, local governments are obliged to submit data to the HRMIS, although the platform still lacks technical functions for them. Each local government runs its own information system, and they vary in quality.

## **Recruitment**

The legal requirements for recruitment to the local public administration in all countries define merit-based, professional, open and competitive recruitment, but they often differ significantly in practice. In some situations, separate regulations exist for subnational governments and/or the subnational government has autonomy in terms of hiring. In other situations, the same regulatory framework exists for both central and subnational recruitment, in which case the issue is often that a lack of resources or capacity restricts compliance. A more detailed review of practices in each country would be required to draw conclusions about the quality of recruitment practices. However, the country overviews in the Annex of this report provide some information on specific approaches and challenges:

- In Albania, a common legislative framework exists at the central and local level. However, observance of civil service legislation rules at the local level is problematic, especially in municipalities with a limited number of inhabitants. This is largely due to limited HR management capacity in the municipalities, the informal approach to recruitment processes and the use of employment contracts to fill civil service positions.
- In the RS (BiH), local government civil servants do not fall within the mandate of the central HRM body (ADU RS). The mayor appoints an employment commission.
- In the FBiH, the situation is complicated because separate civil service laws exist in seven of the ten cantons
- In Montenegro, the Law on Local Self-Government regulates conditions for employment in local government bodies, professional services, special services, recruitment procedures, etc. Since 2018, an electronic and standardised testing procedure has been introduced to overcome political interventions and ensure that the legal requirements of merit and open, competitive recruitment are met.
- In North Macedonia, the same rules apply for both central and subnational recruitment. Both civil servants from the local and central level are connected in a network of organisational units for human resource management. The employment procedure begins with a public announcement through the Central Administration Agency.
- In Serbia, a job in the local civil service can be filled when two conditions are met: 1) the job is provided for by the Rulebook; and 2) the recruitment is provided for by the Personnel Plan for the current year. When both conditions are met, the head of the body, service or organisation decides whether it is necessary to fill the position.

Most of the central HRM bodies provide training and other support for local government in the area of human resource management, covering at least training, professional development and capacity building. This support often means having access to the same courses and materials as are provided for civil servants at the central level, but can also be tailored training. Moreover, the support can be provided by various bodies, such as HR bodies, schools, public administration and local government associations (LGAs), sometimes in combination. Some examples:

- The Civil Service Agency of FBiH supports the process of hiring for local governments only on request and provides professional assistance to civil service bodies. Furthermore, it organises professional education and training for the employees of local governments.

- The Kosovo Institute of Public Administration ensures initial, continuous as well as mandatory and optional training and professional development for all civil servants, including those at local level.
- In North Macedonia, the Central Administration Agency is also responsible for announcing job vacancies, running selection procedures, and handling complaints and objections, as well as conducting exams. Thus, the same selection procedure applies for administration staff at central and local levels.
- In Serbia, cities and municipalities have access to a wide range of seminars or workshops through the National Academy of Public Administration, together with the Council for Profession Development of Local Government and the Ministry for Public Administration.

# Competences of local governments and service delivery

There is great variation regarding the scope of local government responsibilities and competences. The definition of the terms and the specific municipal tasks associated with them differ. The main distinction is between:

- a) competences assigned to local governments by law (*own/exclusive*)
- b) competences of the central government delegated to or shared with local governments (*delegated*).

In the Western Balkans, own/exclusive competences are, in some cases, enshrined in the Constitution, but mostly they are assigned to local governments by separate laws and by-laws. Moreover, there are also competences of the central government that are delegated to or shared with the local governments (known as *delegated* competences). As mentioned above, regions in most Western Balkan economies are not administrative units, do not have a legal personality and are established mainly for purposes of planning and implementation of regional development policy.

Based on the country overviews, there is great variation regarding the scope of local government responsibilities and competences. The definition of the terms and the specific municipal tasks associated with them differ. Table 6 summarises local government competences and distinguishes between competences assigned to local governments by law (*own/exclusive*) and competences of the central government delegated to or shared with local governments (*delegated*). Table 6 provides insights on the breakdown of competences in selected areas.

In general, own competences are defined either by the Constitution or by a principal law on self-government. As such, the range of own or exclusive services is relatively clear. Delegated services are more complex because they derive from a large number of legal sources, cover a wide range of policy areas and evolve over time. In most of the Western Balkans region, delegated services refer to services that the municipality performs on behalf of the central administration, according to a standard procedure and delivering a standard service. Social assistance payments, for example, are often delegated to the local government in the Western Balkans. The system appears complex because delegated competencies are often, in fact, shared between the municipality and the central government. Moreover, there are frequent complaints that delegated competencies are unfunded and/or that the services are provided to different levels from one municipality to another. The Table gives an indication of the challenge in understanding the breakdown in competences, given the frequent situations in which responsibilities are shared or broken down within a sector in an unclear way. Albania decided in 2015 to make a clearer distinction between own and delegated competencies by abolishing shared competencies. Recently, the problem is managing delegated services has been addressed through simplification and digitalisation initiatives, which help to map, streamline and harmonise service procedures in the areas of delegated competence.



Table 5. Competences of local governments by key performance area

	Albania	Bosnia and Herzegovina – Federation of Bosnia and Herzegovina	Bosnia and Herzegovina – Republika Srpska	Kosovo	North Macedonia	Montenegro	Serbia
Local economic development	O	O	O	O	O	O	O
Land use and spatial planning	O	O	O	O	O	N/A	O
Environmental protection	O	O	O	O	O	N/A	O
Water supply, sewage, disposal, local roads	O/D	O	N/A	N/A	O	D	O
							O
Education	O/D	O	O	O	O	N/A	O
Health	O	O	O	O	O/D	N/A	O
Social assistance and care functions	O/D	O	O	O	O	D	O
Public safety (protection of civilians and property)	O	O	O	O	N/A	N/A	O
Sports and culture	O	O	O	O	O	O	O

O = own/exclusive/statutory/original competence. D = delegated or shared competence. N/A = not assigned.

Source: Based on the country overviews (Annex of this report).

Table 6. Breakdown of local government competences in selected areas

	ALB	BiH_FBiH	BiH_RS	XKV	MKD	MNE	SRB
<b>Education</b>							
Maintenance of preschool facilities	X	X	X	X	X		X
Payment of preschool wages	X	X	X	X	X		X
Maintenance of primary school facilities	X	X		X	X		X
Payment of primary school teachers' wages				X	X		
Maintenance of secondary school facilities	X		X	X	X		X*
Payment of secondary school teachers wages				X	X		
Maintenance of special art or sport schools	X		X	X			X*
Wages in special art or sport schools				X			
<b>Health</b>							
Maintenance of primary healthcare (ambulatory) facilities	X	X	X	X			X
Payment of primary healthcare wages				X			
Maintenance of secondary healthcare facilities (first-tier hospitals)		X		X			
Payment of secondary healthcare wages				X			
<b>Culture and sports</b>							
Maintenance of youth houses or houses of culture	X	X	X	X	X*	X*	X*
Payment of wages in youth houses or houses of culture	X		X	X	X*	X*	X*
Maintenance of libraries	X	X	X	X	X*	X*	X*
Payment of wages in libraries	X			X	X*	X*	X*
Maintenance in museums	X	XC	X	X	X*	X*	X*
Payment of wages in museums	X		X	X	X*	X*	X*
Maintenance of theatres and cinemas	X	XC	X	X	X*	X*	X*
Payment of wages in theatres and cinemas	X	X	X	X	X*	X*	X*
Maintenance of local sports facilities	X	X	X	X	X*	X*	X*
Payment of wages of local sports staff	X		X	X	X*	X*	X*
<b>Social care</b>							
Maintenance of orphanages		XC	X	X			
Payment of wages in orphanages			X	X			
Maintenance of homes for the elderly	X	XC		X	X	X**	
Payment of wages in homes for the elderly	X			X	X	X**	

Maintenance of homes for people with disabilities	X	XC	X	X*		X**	X*
Payment of wages in homes for people with disabilities	X		X	X*		X**	X*
Social welfare payments made to individuals or households		XC	X			X**	X*

*X\** - These institutions could be formed by both the state and the municipalities. If municipalities formed these institutions, their obligations are maintenance and wages from municipal budgets.

*X\*\** - These are state competences, but very often municipalities provide some logistical support and rooms/buildings for these purposes and pay for their maintenance.

*XC* – Service responsibilities, which are shared with the cantons.

Source: Adapted from NALAS Fiscal Decentralisation Report, 2018, [http://nalas.eu/Home/Download/FD\\_rep2018x](http://nalas.eu/Home/Download/FD_rep2018x).

Based on the overviews and other comparative reports on the Western Balkan region,<sup>22</sup> in the area of competences of local governments, the following key findings stand out:

- In all Western Balkan economies, local governments have own/exclusive competence in the fields of local economic development, urban and spatial planning and environmental protection.
- In most of the Western Balkan economies, apart from the RS (BiH) and Kosovo, local governments have some form of competence in maintaining the local technical infrastructure (e.g. water supply, sewage, waste disposal and local roads). In Albania, the FBiH, North Macedonia<sup>23</sup> and Serbia, municipalities are also responsible for the provision of local public transport.
- Except for Montenegro, most of the Western Balkan economies have own competences in education, at least regarding the provision of preschool education.<sup>24</sup>
- There is a degree of asymmetric distribution of competences among municipalities in Kosovo, which is based on the fact that municipalities with a Serbian majority have enhanced competences in the fields of health, education, public safety and culture.
- The degree of decentralisation of competences in the social sector in North Macedonia and Kosovo is very high.<sup>25</sup> In Kosovo, municipalities with a Serbian majority are responsible even for the provision of university education and secondary health care.
- Local governments in Montenegro appear to have the least extensive set of own competences, with no competence in the fields of health, education and public safety, limited competence in social services, and only shared competence for maintaining the technical infrastructure. Compared to the other Western Balkan economies, which have at least a few competences in the social sector, Montenegro has a low level of administrative decentralisation. This is also related to the fact that municipalities in Montenegro derive large parts of their revenues from their own resources. Financing the cost-intensive social sector services would not be possible for them.<sup>26</sup>
- Due to the decentralisation reform in Albania, several costly functions in the field of social services, education and technical infrastructure (e.g. irrigation and drainage) were transferred to local governments after 2015. Since investment and regulation remain under the discretion of the central government, the continued underfunding of some of these new competences poses a problem.

Regarding the **provision of public services**, the following can be concluded:

<sup>22</sup> NALAS Fiscal Decentralisation Report, June 2021, 8th Edition, pp. 23-24, [http://nalas.eu/Home/Download/8\\_FDR](http://nalas.eu/Home/Download/8_FDR).

<sup>23</sup> NALAS Fiscal Decentralisation Report, 2018, p. 131, [http://nalas.eu/Home/Download/FD\\_rep2018x](http://nalas.eu/Home/Download/FD_rep2018x).

<sup>24</sup> NALAS Fiscal Decentralisation Report, 2018, p. 24, [http://nalas.eu/Home/Download/FD\\_rep2018x](http://nalas.eu/Home/Download/FD_rep2018x).

<sup>25</sup> NALAS Fiscal Decentralisation Report, 2018, pp. 34 and 131, [http://nalas.eu/Home/Download/FD\\_rep2018x](http://nalas.eu/Home/Download/FD_rep2018x).

<sup>26</sup> NALAS Fiscal Decentralisation Report, June 2021, 8th Edition, p.144, [http://nalas.eu/Home/Download/8\\_FDR](http://nalas.eu/Home/Download/8_FDR).

- In the Western Balkans, public services are either provided through the own organisational units of local governments, through public enterprises, by outsourcing services to third parties or using instruments of public-private partnership (PPP). According to the overviews in the Annex of this report, an increasing number of projects and public services provided through PPP can be observed in Serbia and Albania.
- In Montenegro, for example, the Law on Electronic Government (2020) applies also to local self-government bodies, local government bodies, and special and public services in the sense of the law governing local self-government when they use information and communication technologies in performing tasks within their competence.
- In Serbia, local governments offer their services on the central e-Government portal,<sup>27</sup> but they also often have their own web pages focused on local service delivery. Several local governments have implemented a system of swift submission of complaints and requests related to specialised local services, particularly utilities (e.g. waste disposal, public transport and road maintenance), known as “48-h System”. Moreover, they provide in-person services, which they are increasingly organising as one-stop-shop service halls, often created in collaboration with central authorities, that provide services in a deconcentrated manner (in the territory). So far, such one-stop-shops have been established in 14 local governments.
- Inter-municipal co-operation for providing public services is most common in the areas of waste management and water management (landfills, drainage, irrigation, sewage, etc.). In North Macedonia, inspection units or fire protection are carried out inter-municipally.

When determining the degree of decentralisation, a substantial gap between legally assigned competences and the local governments’ actual regulative powers and financial resources can very often be detected. The delegation of competences towards the local governments is therefore not always linked to greater autonomy. Sometimes, the provision of competences is hindered due to these discrepancies between legal duties and actual financial resources and regulative powers.

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<sup>27</sup> <https://euprava.gov.rs/>

# Fiscal autonomy and financial management of local governments

In the Western Balkans, local financial management is regulated by a number of legal acts, which in some cases include the Constitution,<sup>28</sup> Laws on Local Self-Government and Laws on Financing Local Self-Governments, as well as laws on the budget, property taxes, personal income taxes and other sectoral legal acts.

Fiscal autonomy, fiscal responsibility and revenue predictability are the basis of any local government financing system and the basic requirement of local self-government. Significant changes in the area of original and assigned revenues and an unclear transfer system can have a negative effect on the predictability of local government budget revenues, and can negatively affect the success of local fiscal policy and revenue management, as well as planning processes in local governments. Satisfactory financial autonomy implies that there is a proportional relationship between the local self-government's financial resources and its duties, functions and competences, and that decision-making power is balanced between the expenditure and revenue sides. In this context, local self-government units have the right to administer local taxes following the provisions of the legislation in force. However, the situation in the Western Balkans greatly varies in relation to fiscal autonomy. Some examples:

- In Albania, through the legal framework, the council of the local self-government unit has the right to determine the tax base and tax level and may increase or decrease by 30% the indicative level of the property tax for every applicable category of taxpayers.
- In Kosovo, in terms of autonomy, the mayor of a municipality may, with the approval of the municipal assembly, transfer an amount provided under one appropriation of that municipality to another appropriation of the municipality. However, if it involves transfers from one specific operating grant to another, the Minister of Finance, Labour and Transfers needs to approve that request or, if the amount is larger than the percentage stipulated in the Law on Public Financial Management and Accountability, it needs approval of the Government or the Assembly. Furthermore, no transfer of salaries can be done without the approval of the Minister and, if applicable, the Government or Assembly.
- In North Macedonia, according to the Law on Financing of Local Self-Government, local governments do not have fiscal autonomy in terms of their ability to “decide” and impose taxes in order to independently raise revenues from their communities. The councils of the municipalities and the City of Skopje can independently determine the property tax rate within the frame set in the Law on Property Taxes. Autonomy in executing/implementing the budget lies with the mayor and the council. After adopting the budget, the municipal council makes a decision on budget execution, while the mayor of the municipality is responsible for budget execution and submits quarterly reports to the Ministry of Finance and the municipal council. Own revenues that local governments collect from citizens, however, are revenues that enable full realisation of the concept

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<sup>28</sup> e.g. Serbia.

of functional and financial-economic independence (i.e. the municipal administration and the council independently determine and collect them).

## Local government revenues

A crucial issue in multi-level governance is the revenue structure of local governments and the capacity of local governments to exercise discretion in the use of funds. In Western Balkan economies, grants and subsidies remain the main source of revenue (43.4% on average in 2020), followed by taxes (35.5%), tariffs and fees (18.2%), property income (e.g. interests, dividends from corporations and royalties from assets) and other (e.g. social contributions). These figures differ largely among countries (Table 7). Bosnia and Herzegovina and Montenegro mostly rely on taxes, while Albania, North Macedonia and Serbia primarily depend on grants and subsidies, and Kosovo on tariffs and fees. However, revenue afforded to subnational governments in the Western Balkans is not always sufficient to cover their legally assigned responsibilities (KDZ, 2022<sup>[10]</sup>). This risks leading to unfunded or underfunded mandates (OECD, 2019<sup>[3]</sup>).

**Table 7. Subnational government revenue breakdown in the Western Balkans (% , 2020)**

Subnational government revenue	Taxes	Grants and subsidies	Tariffs and fees	Property income	Others
Albania	19.3	73.9	6.6	0.2	0.0
Bosnia and Herzegovina	55.3	16.8	25.1	2.9	0.0
Kosovo	39.5	7.1	53.4	0.0	0.0
North Macedonia	23.0	71.1	4.1	1.8	0.0
Montenegro	39.6	13.4	12.3	6.9	27.8
Serbia	12.4	78.3	7.4	1.9	0.0

Source: Based on national accounts.

In terms of autonomy, municipalities generally have discretion over the use of own revenues (taxes and fees) and some discretion over assigned revenues (common taxes shared with the central government), but then much less discretion over the use of grants and subsidies and other external income, notably donor funding. In practice, municipalities have some discretion over the first two categories and no discretion over the use of revenues transferred from higher levels of government:

- In Bosnia and Herzegovina, from the aspect of centralisation of the fiscal system, it is important to note that municipalities and cities cannot influence the amount of any of these revenues (except for some local taxes). For now, local governments cannot influence the level of existing taxes, or even those that belong entirely to the local community.
- Kosovo has nationally collected taxes, and municipalities receive both shared and own-source revenues. However, own-source revenues have been relatively low, on average 1.2% of GDP in recent years (2018-2020), only 16% of total local-level revenues. The budget at the local level is limited and highly dependent on central government grants.
- In North Macedonia, in the first three quarters of 2020, own revenues of municipalities decreased by 17.85% compared to the same period in previous year and were lower by EUR 24.6 million. The decrease is caused by a decline in revenues collected through property taxes, taxes on specific services and business activities. This reduction is largely caused by the effects of COVID-19, due to reduced economic activity at the local level.

- In Serbia, in the structure of revenues and receipts of local governments, the most significant are assigned revenues (about 40%) and own revenues (about 35%), while one-fifth of revenues and receipts come from transfers from the central government.

**Table 8. Local government revenues in the Western Balkans**

	<b>Own taxes</b>	<b>Shared taxes</b>	<b>Grants and transfers from central government</b>	<b>Fees and charges</b>	<b>Borrowing</b>
ALB	-Property tax	-Property transfer tax -Personal income tax (PIT) -Vehicle circulation tax -Mineral rent -Small business tax	-Conditional grants for delegated functions (Regional development funds, funds from ministries) -Unconditional funds for exclusive functions of local governments (LGs)	-Own local fees and charges for local services (besides own taxes most relevant own revenue)	Allowed No share indicated
BiH_FBIH	-Property tax -Property transfer tax	-Final consumption tax (=indirect tax) -PIT	-Unconditional grants Share: 14.75% of LG revenues, 2020	Share: 34,3% of LG revenues, 2020 (very heterogeneous due to lack of regulation for collection)	Allowed Share: 4,9% of LG revenue, 2020
BiH_RS	-Property tax -Property transfer tax	-Final consumption tax (=indirect tax) -PIT	-Unconditional grants Share: 13.21% of LG revenues, 2020	20,77% of LG revenues, 2020 (very heterogeneous due to lack of regulation for collection)	Allowed Share: 15.4% of LG revenue, 2020
XKV	-Property transfer tax		-Unconditional grants (general grants = 10% of the total budget revenues of the central government) -Conditional grants: education grant and health grant Share: 86% of LG revenues, 2020	-Revenues from construction permits, fees for health and education services	Allowed No share indicated
MKD	-Property tax (property transfer tax, inheritance and gift tax)	-PIT - Value-added tax (VAT)	-Conditional grants for education (primary and secondary), cultural institutions, kindergarten, fire protection,	-Utility fees -Administrative fees -Other local fees - Revenues from construction permits	Allowed Share: About 2% of LG revenues

			elder care (retirement homes)  -Unconditional grants (General Grant = 4.5% of VAT from the central government, Regional Development Fund) Share: Nearly 70% of LG revenues, 2020 (big differences between rural and small and urban and bigger municipalities)	- Fee for the use of mineral raw materials - Concessions	
MNE	-Property tax -Surtax on PIT (municipality may prescribe up to 13% of the tax liability, and capital city up to 15%)	-Property Transfer tax -additional revenues from state fees	-Conditional grants for financing investments Share: only 1% of total LG revenues, 2020.	-Local administrative charges and, local communal charges -Land development fee, fees for the use of municipal roads -Revenues from sale and rent of municipal property, etc.	Allowed Share: 5.16% of total LG revenues in 2020
SRB	-Property tax Share: 15.8% of LG revenues, 2019	-PIT Share: 38.1% of LG revenue, 2019	-Unconditional funds (grants and transfers) Share: 18% of LG revenue, 2019	-Local fees and charges	Allowed Share not indicated

Source: KDZ Centre for Public Administration Research, based on the six Western Balkan Overviews (Annex of this report), 2022.

Montenegro's intergovernmental financial system is unique to the region. Local governments derive almost 50% of their total revenues from own sources, which means that local governments in Montenegro are the most fiscally decentralised local governments in the Western Balkans. Kosovo, on the other hand, is the most fiscally centralised, despite being the most administratively decentralised: 86% of local government revenues in 2020 were grants and transfers from the central government. The same is true in North Macedonia. Although it has a highly decentralised public sector from a functional perspective, local government revenues are dominated by grants and transfers from the central government, with a share of 70% in 2020.

Unconditional grants from the central administration appear to play an important role in the composition of local government revenues in the Western Balkans. The share of unconditional grants in the total revenues of local governments has steadily increased in recent years. As these grants are often not clearly regulated by law and their amount may change from year to year, sustainable local funding may be at risk. This may hinder proper budgeting, especially multi-year budgeting. This is apparent in the Serbia overview, as revenue predictability for Serbian local governments is weak, due to an unclear transfer system.



Local business taxes are not a source of local government revenues in the Western Balkans, except in Albania, where local governments receive 10% of the national Small Business Tax. In addition, in Montenegro, municipalities may prescribe to legal and natural persons who perform activities on its territory the obligation to pay a surtax on personal income tax at the rate of up to 13% of the tax liability. In North Macedonia, municipalities also receive 3% of personal income tax.

## Fiscal equalisation

The fiscal equalisation systems of the Western Balkans show large variations and are not comparable.<sup>29</sup> Their mechanisms each contain a complex set of criteria and an equally complex mode of calculation. A more in-depth review would be required to ascertain the extent to which these mechanisms are successful in achieving their goals with respect to ensuring that each municipality has adequate resources and also promoting some levelling up, if that is also a stated objective. It would also be useful to review the different incentives that the systems generate. As a general conclusion, it is clear that legal safeguarding, institutionalisation and involvement of local governments or LGAs in the fiscal equalisation process need to be expanded. The issue of regular adjustments to the share of shared taxes and unconditional grants should also be further developed, in the interests of planning local government finances. Some details:

- In Albania, fiscal equalisation is based on personal income tax, annual tax on used vehicles and real estate transfer tax, which are collected by the central government and transferred to local governments. Revenues that local government revenues collect themselves are not affected by the equalisation system, thus avoiding any kind of disincentive in tax collection.
- In Bosnia and Herzegovina, three almost separate fiscal systems exist for the FBiH, the RS and the Brčko District (BD).<sup>30</sup> Indirect taxes are the most important source of revenue. The State of BiH collects and allocates the taxes to the State of BiH, the two entities (FBiH and RS) and the BD, according to a formula stated in the Law on Indirect Taxation in BiH. The final consumption tax is the most important indirect tax and thus the most important fiscal equalisation mechanism (horizontal/vertical). Currently, the municipal level in the RS participates, with 24% of the indirect tax revenues distributed in that entity, as does the municipal level in the FBiH, with 8.42%.
- In Kosovo, the local government financial system is dominated by central government grants. For municipalities, the applicable grant amounts are calculated in accordance with the formulae stipulated in the Law on Local Government Finance and are approved together with the Grants Commission. The municipal budget is integrated into the national budget to be approved by the Parliament.
- Montenegro has an evolving equalisation system, which provides about 13% of the local revenue. Fiscal equalisation is implemented through the Equalisation Fund, which allocates resources to "underdeveloped" municipalities according to defined criteria.
- In North Macedonia, three fiscal equalisation instruments are in place. The Performance Fund is for municipalities that achieve positive results and have a higher realisation of their own revenues. The Equalisation Fund provides funds for municipalities with lower revenues. The current allocation of VAT revenues corresponds to the equalisation of fiscal disparities for all municipalities that are considered to have no capacity for tax revenues. The LGA (ZELS) is a member of the established working group for the process of implementing the fiscal strategy (2020-2026). North Macedonia's system of allocation of transfers refers to the general idea of fair distribution of funds and the transfer of financial resources to and among local governments, with the aim of mitigating regional

<sup>29</sup> In the case of BiH, this is related to the specific constitution of the country.

<sup>30</sup> NALAS Fiscal Decentralisation Report, 2018, [http://nalas.eu/Home/Download/FD\\_rep2018x](http://nalas.eu/Home/Download/FD_rep2018x).

differences in fiscal capacity and expenditure needs. The proposed framework has formalised that most funds are allocated to municipalities with a greater need for capacity charges and lower revenue.

- In Serbia, property tax and personal income tax are the most relevant revenues for local governments. In addition, local governments also benefit from central government transfers. However, revenue predictability for local governments is weak. Significant changes in original and assigned revenues and an unclear transfer system have a negative impact on local government financial management and finances. This area is a priority target for reforms foreseen in the Programme for Local Self-Government System, and the Commission for the financing of Local government recent restarted its work.

In general, the nature, functioning and negotiation of the fiscal equalisation systems in the Western Balkan region would merit additional research, as they are clearly a crucial element of the overall local government financial management system, given the broad scope of competences and limited revenue-raising capacity of local governments in the region.

## Public investment, procurement and public-private partnerships

As mentioned in the previous chapter, subnational governments in the OECD are responsible for more than half of all public investment, but with significant differences from country to country. In the Western Balkans, in 2020 the share of subnational governments in overall public investment varied from 16.1% in Serbia to almost half in Kosovo (43.7%) and North Macedonia (44.9%) (Table 11). In 2020, all Western Balkan economies remain below the OECD average of 55% and of EU countries in this area, reflecting the smaller role that subnational governments play in supporting public investment relative to central governments in the region.

**Table 9. Subnational public investment in Western Balkans, 2020**

2020	% GDP	% public investment	% subnational expenditure
Albania	1.5%	20.0%	23.4%
Bosnia and Herzegovina	1.0%	18.9%	19.7%
Kosovo	2.2%	43.7%	26.6%
North Macedonia	0.9%	44.9%	17.4%
Montenegro	2.0%	41.6%	30.2%
Serbia	0.9%	16.1%	8.3%

Source: Author's elaboration based on national accounts.

Local governments in all Western Balkan economies can use public-private partnerships (PPPs) and rely on laws for PPPs or public procurement legislation, including PPP rules. However, in all of them, PPP projects in local governments represent a relatively small share of the entire contract value compared to contracting authorities at the national level. Exceptions to this are Serbia and to some extent Albania. However, in all Western Balkan economies, PPP seems to be applied for public service delivery and infrastructure in local governments. Examples in Albania mainly refer to waste management, in

Montenegro to economic and transport infrastructure,<sup>31</sup> in North Macedonia to street lighting and public buildings,<sup>32</sup> and in Serbia to public transport.

Table 10 presents the status of procurement and PPP regulations and the related oversight bodies. Since public procurement and PPPs play a crucial role for municipalities in the European Union and in programmes for preventing corruption, this area requires more attention.

**Table 10. Public procurement and public-private partnerships**

	Allowed	Regulation	Areas	Oversight
ALB	y	Law on PPP	Waste management	To be agreed on with the central government (Ministry of Finance)
BiH_FBIH	y	Law on Public Procurement (not aligned with EU-legislation 2014)	N/A	Public Procurement Agency (PPA) of BiH; Procurement Review Body (Parliamentary Assembly BiH). Opinions of the PPA are not binding
BiH_RS	y	Law on Public Procurement (not aligned with EU-legislation 2014) Law on PPPs (2009/2011)	N/A	See F-BIH
XKV	y	Law on Public Procurement	N/A	Public Procurement Regulatory Commission Public Review Body Ministry of Local Government Administration and Ministry of Finance for PPP
MKD	y	Law on Public Procurement <sup>33</sup>	N/A	Bureau for Public Procurement needs to be involved Ministry of Economy
MNE	y	Law on Public Procurement	N/A In 2020, municipalities spent 60% of budget funds for public procurement.	In the absence of a PPP unit, the Commission on Concessions within the Ministry of Economy
SRB	y	Law on Public Procurement (2019), Article 9, Law on Communal activities	Examples on public transport (Nis, Belgrade)	Public Procurement Office

Source: Based on country overviews (Annex of this report).

<sup>31</sup> Public-Private Partnership Analysis, 2017, <http://www.mans.co.me/en/wp-content/uploads/2017/06/Montenegro-PublicPrivatePartnershipAnalysis.pdf>.

<sup>32</sup> Public-Private Partnership in the Republic of North Macedonia, 2020, [https://economy.gov.mk/Upload/Editor\\_Upload/JPP/fatmire/PPP%20Diagnosti%20report%20final%20eng.pdf](https://economy.gov.mk/Upload/Editor_Upload/JPP/fatmire/PPP%20Diagnosti%20report%20final%20eng.pdf).

<sup>33</sup> Public-Private Partnership in the Republic of North Macedonia, 2020, [https://economy.gov.mk/Upload/Editor\\_Upload/JPP/fatmire/PPP%20Diagnosti%20report%20final%20eng.pdf](https://economy.gov.mk/Upload/Editor_Upload/JPP/fatmire/PPP%20Diagnosti%20report%20final%20eng.pdf).

## Local financial management

In all Western Balkan economies, regulatory frameworks are in place for local government budget planning, budget execution and monitoring, treasury and debt management. The overviews, however, reveal that, despite the legal frameworks, the lack of clear provisions for implementation often hinder effective budget performance of local governments.

All local governments are required to draft both annual and three-year budgets based on concrete procedures for local government budget preparation. The quality of guidelines and instruments for budget drafting varies throughout the Western Balkans. In general, the mayor is responsible for drafting the budget. In Kosovo, budget preparation management is carried out by the chief financial officer of the municipality, who submits the draft version to the mayor.

Local governments need to submit their draft budgets to the ministries of finance for opinion and recommendation. In addition, in all Western Balkan economies, local governments are obliged to hold public consultations/hearings on the draft budgets. However, there is no indication of how or even if citizens' opinions are to be considered in the budgets. Final local budgets are approved by the local assembly/council. In Kosovo, local government budgets also need to be approved by the national parliament, as local budgets are part of the national budget.

Regarding local budget execution, both internal and external monitoring and audit are required in all Western Balkan economies. Supervision of the implementation of the law on public internal financial control applies to all levels of government. In this context, the central harmonisation unit within the ministries of finance plays a crucial role as the responsible state body for internal audit and financial management policies. Local governments are required to submit their annual reports to this body.

Treasury and debt management is regulated by law in all Western Balkan economies and applies to all levels of government. Local government treasury management procedures described in the respective overviews show that treasury management at the local level seems to be standardised, although some differences can be detected (see Tables 10 and 11, economic and functional classification of expenditure).

Debt and borrowing at the local level appear to be allowed in almost all Western Balkan economies, with certain restrictions depending on the current local government revenues. In addition, long-term loans need to be approved by the ministries of finance in all Western Balkan economies except for North Macedonia. There, municipal councils approve long-term borrowing, after a public hearing in the municipality. However, borrowing may not exceed 30% of the total revenues of the current operating budget of the municipality in the first fiscal year.

# Horizontal and vertical co-ordination and co-operation

This section provides an overview of both vertical and horizontal relations and co-ordination, highlighting the role of LGAs in this context. Vertical relations also include the oversight function (supervision and control) of higher levels of government, except for financial relations. Regarding horizontal co-operation and co-ordination, the focus is on inter-municipal co-operation.

## Vertical co-ordination and co-operation: support and participation in policy making

Kosovo and North Macedonia have ministries exclusively dealing with local self-government, while in the other Western Balkan economies, local self-government agendas are integrated into other ministries (Table 11). In general, the central government provides different forms of participation for local governments in the policy-making process. One option is the inclusion of local governments in governmental bodies focusing explicitly on matters of local governance. Another option is the participation of local governments in regular councils or working bodies of the central administration. Very often, local governments participate in the policy-making process through LGAs.

Among the Western Balkan economies, Albania, the FBiH and the RS have separate committees for the local government within the parliament, where they are involved in the preparation of laws. North Macedonia and Serbia do not have similar specific bodies, but local governments can contribute to drafting laws in governmental working bodies through their LGAs.

Montenegro seems to have no regular form of participation in policy making for local governments. Currently, LGAs can submit amendments to draft laws and laws to the Council for Public Administration Reform. However, there is a legal obligation for the state administration bodies to submit draft laws and other pieces of legislation to municipalities for consultation, if they are regulating municipal matters.

Kosovo has no specific bodies for policy participation of local governments. An indirect form of participation is local government membership in the Grants Commission.<sup>34</sup>

In all Western Balkan economies, except for the RS and Serbia,<sup>35</sup> institutions regarding the co-ordination of EU-related matters at the local level have been established. With EU Units in every municipality, Albania performs this co-ordination in a very decentralised manner. The FBiH, Kosovo, Montenegro and North Macedonia have established one body at the central level to co-ordinate EU-related issues with the local governments.

<sup>34</sup> The Grants Commission contributes to policy making at the central level through budgetary reviews and proposals.

<sup>35</sup> In Serbia, part of EU-related matters on the local level is co-ordinated by the Ministry for Public Administration and Local Self-Government, especially through projects with the Standing Conference of Towns and Municipalities, and another part of EU-related matters is within the scope of competence of the Ministry for EU Integration.

The involvement of the local level in legislative processes is regulated differently and, in several instances, subject to more informal procedures, which are not binding for the national government. Possibilities should be considered for more formal integration of the local level in procedures for initiation and preparation of legislation.

**Table 11. Co-ordination and local government participation in policy making**

	<b>Ministry responsible for co-ordination</b>	<b>Bodies enabling participation in policy making at central level</b>	<b>Bodies co-ordinating issues related to EU integration with LGs</b>
ALB	Ministry of Interior with Agency for Supporting Local Self Government (ASLG)	Consultative Council as platform between the CG and the LGs Subcommittee "On Local Government" as part of the Parliamentary Committees	"EU Units" in every municipality co-ordinated by the ASLG
BiH_FBIH	Ministry of Justice	Commission for Local Government within the F-BiH Parliament	Commission for Local Government within the F-BiH Parliament
BiH_RS	Ministry of General Administration and Local Self-governance	Local Government Committee within the RS National Assembly.	N/A
XKV	Ministry of Local Government Administration	No specific bodies The Grants Committee is the voice of local government policy making, lobbying at the central level through budgetary reviews and proposals.	Department of European Integration and Policy Co-ordination - Ministry of Local Government Administration
MNE	Ministry of Public Administration, Digital Society and Media	No specific bodies At the Government's Council for Public Administration Reform, the Union of Municipalities can submit amendments for draft laws and laws.	National Instrument for Pre-accession Assistance office of Montenegro
MKD	Ministry of Local Self-Government	Participation at National Council for Regional Development and eight councils for development of planning regions Commission for monitoring the financing system of local self-government Association of Municipalities (ZELS) in governmental Working Groups drafting laws.	Joint Consultative Committee between North Macedonia and the Committee of Regions of the European Union
SRB	Ministry of Public Administration and Local Self-Government	No specific bodies; Working groups drafting laws usually include members of the Standing	The EU-Serbia Joint Consultative Committee is a civil society platform established

		Conference of Towns and Municipalities	between the European Economic and Social Committee and the civil society of Serbia (social partners and other civil society organisations).
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Source: Based on country overviews (Annex of this report).

## Oversight and accountability

### **Oversight**

Control of the executive bodies by the assembly is an important feature of representative government and internal control mechanisms:

- In Montenegro, local governments are under the scrutiny of local parliaments. Besides electing and dismissing the President and Vice President of the Assembly and the President of the Municipality, the Municipal Assembly: 1) appoints and dismisses members of public service management bodies; 2) considers and adopts the report on the work of the mayor and the work of bodies and services; 3) considers the report on the work of public services founded by the municipality; and 4) considers the report on the implementation of the recommendations of the State Audit Institution.
- In Serbia, the Law on Local Self-Government stipulates that the mayor and the municipal council regularly report to the municipal assembly, on their own initiative or at its request, on the execution of decisions and other acts of the municipal assembly. Also, an important aspect of the control over working bodies, public companies, institutions and other bodies and services of local self-government is the determination of the obligation to discuss the work of working bodies in assembly sessions.

A multitude of different bodies at the central level are involved in the supervision and control of activities and performance of governmental institutions and local government organisations. First, ministries responsible for local self-government<sup>36</sup> supervise and assess the legality of acts and activities/operations carried out by for local governments. These ministries can also have a co-ordinating role.

Furthermore, the sectoral ministries are responsible for supervision and control in the area of their competences. Some examples of oversight responsibilities of ministries and other public administration bodies:

- Concerning urban development, national (and regional) urban plans and strategies and the respective plans and activities of the local governments must be harmonised. This is normally co-ordinated and supervised by the state administration body responsible for regional development affairs.
- The municipalities in North Macedonia are autonomous in executing their competences. However, the central government carries out supervision including of the legality of their work. Supervision over the delegated competences is performed by the state administration body that delegated these responsibilities in the first place. Another instrument for oversight covers the procedures for

<sup>36</sup> For example, in Albania the Ministry of Interior, with the Agency for Supporting Local Self Government, is responsible for the co-ordination of multi-level governance. In Montenegro, inspection and supervision of the implementation of the Law is done by the Ministry of Public Administration.

adopting acts of the municipalities and is performed by the State Inspectorate for local self-government. Surveillance of the legality and financial work is performed by the Ministry of Finance.

- In Montenegro, local self-governments are under the external supervision of the Protector of Human Rights and Freedoms (Ombudsperson), the Agency for Personal Data Protection and Access to Information, and the State Audit Institution. The Ombudsperson independently takes measures to protect human rights and freedoms when they are violated by an act, action or omission of state bodies, state administration bodies, local self-government bodies, local services and other holders of public authority.
- In Kosovo, the Ministry of Local Government Administration (MLGA) is the main body that monitors and supervises local governments. Based on the Law for Local Self-Governance, the objectives and principles of administrative review focus on strengthening the capacity of local governments by ensuring that they fulfil their responsibilities, through counselling and support. Depending on the activity that takes place at the local level, the supervisory powers are exercised by the ministry responsible for that area, and the MLGA has a co-ordinating role in the process. It is the basic link that enables the process of assessing the legality of municipal acts. The MLGA has built an advanced monitoring system that is supported in two ways: through monitoring with direct participation in municipalities and through electronic monitoring carried out in several different forms.
- In the FBiH, administrative control of the activities of local self-government units is done by the competent FBiH and cantonal authorities within their respective competence areas in cases stipulated by the Law. Administrative control of the activities of the local self-government units does not restrict the right of local authorities to independently manage public affairs falling within the scope of their competence, in line with the law. Control of the exercise of competence of local self-government units is restricted to the control of the legality of conducted activities.
- In the RS, the Ministry of Administration and Local Self-Government performs administrative and other professional tasks relating *inter alia* to administrative control, inspection in the domain of administration, second-instance administrative dispute resolution, suspension of execution of the decisions of bodies of the local self-government units, administrative control of the operations of the local self-government units and legality of the acts. Here too, control of the exercise of the competence of the local self-government units is restricted to control of the legality of conducted activities.

Furthermore, supreme audit institutions perform the audit of public institutions, including at the local level, focusing on budget execution, compliance and efficiency. In addition, local governments are under the external supervision of the Protector of Human Rights and Freedoms (Ombudsperson), which acts when human rights are violated.

### **Accountability**

A broad variety of laws and regulations define the duties of local governments in the areas of accountability, transparency, and access to information. In general, the executive bodies of local governments have to submit regular reports to the legislative and supervisory bodies on their work and the work of the administration, as well as on the condition of the municipal property. Montenegro and Kosovo provide illustrative examples of the kind of reporting that local governments must engage in:

- In Montenegro, all users of funds from the national budget of Montenegro are obliged to submit an annual report on activities for the implementation and improvement of management and control to the Directorate for Central Harmonisation of the Ministry of Finance and Social Welfare. This also applies to the local governments. Furthermore, municipalities are obliged to report to the Ministry of Finance on a quarterly basis on total realised receipts and expenditures, as well as on outstanding liabilities and budget indebtedness. These quarterly reports must be published on the



local governments' websites. Also, in case the budget is not adopted and an interim budget is used, municipalities must publish reports on revenues and expenditures.

- In Kosovo, an administrative instruction for the Transparency of Municipalities issued in 2020 strengthens transparency at the local level. It states that municipal assembly and committee meetings must be open to the public and to media representatives. Furthermore, all decisions issued by the municipalities must be published on their website. In terms of budget transparency, municipalities are obliged to publish quarterly financial reports, the Mid-term budget framework, national audit reports and procurement decisions. The instructions state that there has to be a meeting with citizens at least twice a year on issues/topics of public interest. All acts that concern issues of public interest also have to be put to public consultation.

Citizen participation in key decisions is often mandatory (e.g. budgets or strategic documents), but the forms of participation vary, from referendums, citizen initiatives and petitions to public consultations and the “empty chair institute” in the municipal assemblies in Montenegro, community forums and other participatory bodies in North Macedonia, and mandatory meetings with citizens on issues for public interest held at least twice a year in Kosovo. In Albania, different community structures, such as an elected board and head of the village, are foreseen by law. Local governments are bound by law to ensure public participation, appoint a co-ordinator and organise public consultation hearings during the preparation of the budget or other strategic documents. However, these procedures are not always applied.

Local governments must guarantee participation and public access to information. In principle, all meetings and sessions of municipal councils/assemblies are open to both the public and the media. Information and public consultation in the process of preparing legislation is mandatory in most Western Balkan economies.

### Horizontal co-ordination and co-operation: inter-municipal co-operation

Municipalities in all Western Balkan economies are entitled to co-operate with one another for the purpose of jointly performing tasks of common interest within their competence. The degree of regulations varies. In Kosovo and North Macedonia, specific laws exist on inter-municipal co-operation (IMC) that define in detail the areas and possible forms of co-operation, procedures, financing and monitoring. In other countries, the Law on Local Self-Government is the basic legal framework for inter-municipal co-operation. These are sometimes supplemented by sectoral laws providing normative solutions for the establishment of inter-municipal co-operation and the Law on Communal Activities, as in Montenegro.

IMC most often takes place in the areas of waste disposal and water supply. Generally, IMC in the Western Balkans seems neither widely established nor highly institutionalised. Long-term IMCs are still the exception, since co-operation is mostly limited to individual projects based on contracts or to informal co-operation (i.e. occasional co-ordination and exchange of information). The BiH overview states that due to the lack of finances within local governments, local governments usually do not use their scarce resources for joint purposes or joint projects within IMC arrangements. Thus, most IMC arrangements are initiated and heavily financed from outside (i.e. by donors). In Kosovo, IMC is more established due to the financial support of Kosovo and the ministries in respective fields, which supplements the budgets of municipalities and the contributions of international donors.

**Table 12. Inter-municipal co-operation**

	<b>Allowed</b>	<b>Legal basis</b>	<b>Rights and restrictions</b>	<b>Areas of IMC / examples</b>
ALB	Yes	Law on LSG	IMC as well as with institutions of the central government in form of agreements, the establishment of distinct legal persons or "joint powers authorities". No more specific regulations.	Waste and water management, fire protection, drainage and irrigation
BiH_FBiH	Yes	Law on principles of LSG in FBiH	IMC for the purpose of performing the tasks of common interest in performing their duties. No more specific regulations.	Water supply (sporadic cases); Joint projects: water supply, sewage, tourism promotion.
BiH_RS	Yes	Law on LSG in the RS	IMC in form of agreements for the purpose of performing the tasks of common interest. Also, one local government unit (LGU) may perform certain tasks for other LGUs on behalf. No more specific regulations.	Water supply (sporadic cases); Joint projects: water supply, sewage, tourism promotion; Joint provision of several services through associations in Eastern Herzegovina.
XKV	Yes	Law on LG, Law on IMC	Several IMC forms, such as joint-working bodies, administrative bodies, public institutions, public enterprises and public-private partnerships.	N/A
MNE	Yes	Law on LSG; Sectoral Laws Law on Communal Activities	Specific associations of municipalities; No inter-municipal co-operation in the implementation of delegated competences	Internal audit activities, city architect, regional sanitary landfill, composting and collection of selective waste, wastewater treatment, Regional Park Sinjajevina, Regional Business Center.
MKD	Yes	Law on LG, Law on IMC	Informal through common meetings or through ZELS, but also formal as defined by the Law; establishment of common bodies, public enterprises or shared administrative bodies or public institutes.	Inspection administrative bodies, fire protection, regional development centres, internal audit bodies, tax collection.
SRB	Yes	Law on LSG	Works in the field of communal activities are jointly performed on the basis of the agreement on co-operation of local self-government units, in accordance with the law governing communal activities. This also implies the assignment of the performance of certain tasks within the scope of original competences to another local self-government unit or a company, institution, and other organisation of which it is the founder.	Waste management, flood defence, internal audit activities.

Source: Based on country overviews (Annex of this report).

### ***Role of local government associations***

The role of LGAs in the region has grown steadily over the past few decades, and today these organisations are relatively strong actors and stakeholders in the policy-making and public governance systems. The main task is representing the interests and needs of local governments at the central level.

Table 13. Role of local government associations

	LGA	Member of / Participation at central level	Main tasks and rights	Provided support for their members (LGs)
ALB	AAM ALA	Platform of Negotiation; the Consultative Council.	Representing the elected officials of the LGs on different platforms; Collecting feedback from LGs on legislation or strategic documents.	Provision of training for LGs,
BiH_FBIH	SOGFBIH	Commission for Local Government within the F-BiH Parliament.	Legal representative of LGs; Prepare drafts of laws and amendments; Give opinions and propositions regarding public revenue sharing; Co-operation.	Advocacy, information, training
BiH_RS	SOGRS <sup>37</sup>	Local Government Committee within the RS National Assembly.	Aims to fulfill common interests; Co-operation, exchange experience and act together.	Advocacy, information, training.
XKV	AKM	Represents LGs in Kosovo Assembly, the Prime Ministers' Office to the Line of Ministries.	Improvement and implementation of legislative structures of SG; Stimulation of decentralisation; Lobbying	Capacity building through training, peer to peer training and best European practices.
MNE	UMMo	Advisory Council for Public Administration Reform; Working groups for the preparation of the IPA.	Suggestions on proposals for laws, action and strategic plans; Involvement in the programming of trilateral cross-border co-operation programmes.	Model of the Local Action Plan; Provision of training (e.g. on communicating the EU-integration process); List of local self-government competencies.
MKD	ZELS	Working teams for proposing amendments and drafting the laws; Regular meetings with the Prime Minister and other Ministers.	Initiate adoption, amendment and supplementing of laws and other legal documents; Co-operate on the adoption and implementation of laws etc. Knowledge transfer (e.g. conferences, workshops) and even developing a network of co-operation.	Providing information (e.g. literature, studies) and data to LGs; organising and financing training.
SRB	STCM	Working groups on policy papers or draft laws; involved in nearly all legislation processes and planning activities.	Improving the position and operation of local self-government, building up line-committees and networks.	Implementation of internationally funded projects; training, workshops and similar events (e.g. new legislation).

AAM: Albanian Association of Municipalities; ALA: Association for Local Autonomy; SOGFBIH: *Savez Općina i Gradova Federacije Bosne i Hercegovine* (F-BiH); SOGRS: *Savez Općina i Gradova Republike Srpske* / Association of Municipalities and Towns of the RS; AKM: Association of Kosovo Municipalities; UMMo: Union of Municipalities of Montenegro; ZELS: Association of the units of local self-government in North Macedonia; STCM: Standing Conference of Towns and Municipalities

Source: Based on country overviews (Annex of this report).

The LGAs participate in policy making at the central level as members of national decision-making bodies and within working groups. Their co-operation and involvement is usually based on specific agreements or memorandums rather than on laws. Because the co-ordination is often based on informal arrangements rather than formal agreements (even where regulations exist), the level of influence of the LGAs is not guaranteed, and, while the LGAs play a stronger role than in the past, there is still room to consolidate or institutionalise their role further.

<sup>37</sup> Memorandum on Co-operation with the Government of RS and its Ministries, National Assembly of RS and its boards, as well as with other Republic bodies, organisations and institutions. The Association has signed memorandums/agreements with the Tax Administration Office of RS, the Chamber of Commerce of RS, the Fund for Environmental Protection of RS and the Standing Conference of Towns and Municipalities of the Republic of Serbia.

## Annex: Overviews of the Western Balkans

The annex of this document, containing overviews of local self-governance in Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia, is available at the following link:

[www.sigmaweb.org/publications/SP66-Annex-subnational-government-Western-Balkans.pdf](http://www.sigmaweb.org/publications/SP66-Annex-subnational-government-Western-Balkans.pdf)

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# The SIGMA Programme

SIGMA (Support for Improvement in Governance and Management) is a joint initiative of the OECD and the European Union (EU), principally financed by the EU. SIGMA has been working with partner countries on strengthening public governance systems and public administration capacities since 1992.

In partnership with the European Commission (EC) Directorate-General for Neighbourhood and Enlargement Negotiations (DG NEAR), we currently work with:

- Albania, Bosnia and Herzegovina, Kosovo\*, the Republic of Moldova, Montenegro, the Republic of North Macedonia, Serbia, Türkiye and Ukraine as EU candidate countries and potential candidates; and
- Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Jordan, Lebanon, Morocco, Palestinian Authority<sup>1</sup> and Tunisia as EU Neighbourhood countries.

SIGMA provides assistance in six key areas:

1. strategic framework of public administration reform
2. policy development and co-ordination
3. public service and human resource management
4. accountability
5. service delivery
6. public financial management, public procurement and external audit.

SIGMA reviews and gives feedback on:

- governance systems and institutions
- legal frameworks
- reform strategies and action plans
- progress in reform implementation.

SIGMA provides:

- advice on the design and prioritisation of reforms
- methodologies and tools to support implementation
- recommendations for improving laws and administrative arrangements
- opportunities to share good practice from a wide range of countries, including regional events
- policy papers and multi-country comparative studies.

For further information on SIGMA, consult our website:

[www.sigmaweb.org](http://www.sigmaweb.org)

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<sup>1</sup> Footnote by the European External Action Service and the European Commission: this designation shall not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of the European Union Member States on this issue.