József Hegedüs:

# Fiscal and functional decentralization of the Capital City of Belgrade

(Policy paper)

Prepared under the contract with
PALGO Center

Metropolitan Research Institute
Budapest
June 2006

**Table of Content**

# Introduction

Serbia, after the political changes in 2000, has started a reform program including the decentralization of competencies, property devolution and intergovernmental fiscal reform. In spite of the significant progress in local government reforms, several fundamental issues have remained unsolved, among them the financial structure of the intergovernmental system, property relations and the status of the capital city of Belgrade.

Belgrade is the capital city of Serbia and Montenegro, with a population of 1.7 million people, which represents 21 % of the country's total population; however, its economic, political and social importance outstrips that share. The PALGO Center has been playing an active role in the preparation of different elements of the reform process, among them, the preparation of The Law of Capital City of Belgrade. This paper will give an assessment of the current structure in an international perspective, and will discuss the options for reforming the capital city with special consideration to the distribution of competencies and mandates between the City of Belgrade and the city municipalities.[1] The assessment of the current situation is based on the workshop held in Belgrade on 6th of June, and two background papers (Branco, 2006 and DAI, 2006).

The first part of the policy paper will give an overview of the different models of the metropolitan governments, the second part will analyze the current situation and the recent proposals, and the third part will summarize the conclusions and define the tasks the reform committee has to solve.

## 1. Different options for metropolitan governments

We would like to start the overview of the main models of the large cities by pointing out that there is not a one-direction trend in the development of metropolitan governments, but much more a continuous reform process during which cities try to adjust themselves to the new conditions created by globalization. In this process two trends have crystallized: firstly, the efforts to make region-wide policies more efficient, and secondly, the devolution of responsibilities to integrate local neighborhoods into the city. Different urban government structures can serve these two trends.

Capital cities, the centers of political power and administrative authority, are special cases that require special legislation. A country's economic power is frequently concentrated in its capital city, which simultaneously serves as the core of its political identity and legitimacy. Most of the countries in the region introduced special legislation related to capital (and large) cities, not merely because of their special political and economic role, but also because of the overlapping responsibilities of the government and capital cities.

[1] In the paper the city of Belgrade means the city municipality for the whole Belgrade, while the city municipalities indicate the sub-units of Belgrade, which in other countries are called districts, boroughs, or sub-municipalities.

The laws on capital cities define the political and administrative structure of the capitals, and their relation to higher levels of government (regional and central). A special financial and administrative solution is needed because capital cities have a determining role as the leading force in the development of the larger region of the capital city. Strong capital cities can cause political tension, especially in the case when the city government represents the opposition. (For example, Albania after 2002, Budapest between 1998-2002; Addis Ababa after 2004, etc.)

The capital city structure could play an important role in the modernization of intergovernmental relations, especially in case the capital city represents a high share of the population. Their intercity structure could be relatively independent of the national regulation, and in the process of decentralization it either represents innovative solutions or a conservative, centralized model. Typically capital cities have more technical capacities for modernization and reforms than the other local governments in the country.

## *1.1. Two backgrounds in metropolitan governments reforms*

The government structure of urban settlement has been under a constant reform from the turn of the 19. century. We can differentiate two basic backgrounds of the recent government reforms: a, urbanization; b, decentralization in the transitional countries.

Firstly, the factor of urbanization was the most significant factor behind urban government reforms, and in most of the third world countries even today it has the leading role. As a consequence of rapid urbanization, the urban built up areas extended as a process of agglomeration. The new urban clusters were formed where the distinct cities or towns were connected by continuous built-up development, while each city or town continued to act as an independent municipality. The lack of coordination and cooperation between the individual municipalities in the adjacent urban areas raised the need for a new form of government.

One simple solution was the territorial expansion of the central city by annexation, and the formulation of a consolidated (one-tier) government, like the creation of Greater Berlin in 1920, or the amalgamation of Antwerp with seven adjacent municipalities in 1983. However, the resistance of individual municipalities against annexation led to the emergence of metropolitan governments. Under this form of government the individual cities retained their limited autonomy, but area-wide functions (transportation, water service, etc.) were transferred to a new broader level of government made up of representatives of the newly formed area, either directly elected by the general public or indirectly through the representatives of the individual municipalities involved. The creation of Metropolitan Toronto was the first important example of this approach, when the province federated the city of Toronto and its 12 suburbs as a metropolitan corporation in 1953. In the US, most of the urban areas found the metropolitan government structure politically unacceptable because of the limitation it places on local autonomy. Instead cooperation among municipalities was achieved with the creation of special-purpose districts that provide specialized services (transportation, sewage, electricity, etc.) to more than one municipality and are empowered to tax residents of the district for the services provided.

The *second* main factor behind the recent reform in transition countries is the political changes and decentralization. After the transition of the 1990s, large cities represented another type of problem for countries of Central and Eastern Europe and the former Soviet Union. Large cities were part of the centralized, multi-layer public administration (oblast, rayon, micro-rayon). With the collapse of the socialist political system, large cities (especially capital cities) constituted a special political and administrative problem depending on how committed the new political leadership was toward real decentralization. In CEE/fSU countries economic, administrative and political power was concentrated in large cities, and at an immature stage of the emerging democratic system, autonomous large cities could easily have played an un-stabilising political role.

However, political changes were the driving force of the administrative changes in other non-socialist countries as well, like in Portugal. In 1974, after the collapse of the regime, the new government gave autonomy to the municipalities which used to be a de-concentrated unit of the central government, but the sub-municipal units continued to keep their limited autonomy. (The same process took place in Ethiopia after the political changes in 1990.)

The weight of large cities has become increasingly important in the newly formed countries in the Baltic, the former republic of Yugoslavia, and in the Caucasus. In these new countries the share of the population living in capital cities typically exceeds 20 %, but in some cases even 30 % (32 % in Riga, Latvia; 39 % in Tallin, Estonia; 40 % in Tirana, Albania).[2]

## 1.2. Different models of metropolitan governments

### 1.2.1. Arguments for and against the decentralized structure

There are very strong **arguments for decentralized** governing structures in large cities. Large cities are composed of urban (and sometimes rural/suburban) areas with different social, economic and residential character, thus local preferences can be very different across the various parts of the city. The suburban districts in Belgrade or the outer districts of Budapest struggle with very different problems than their inner district counterparts. The subdivision of large cities with direct political representation (own local governments) allows for more emphasis to be given to the unique features or

[2] To give some other examples, the capital population of the total population (%) is up to 10.0 % Amsterdam, Athens, Berlin, Bern, Bratislava, Brussels, Bucharest, Copenhagen, Kiev, Lisbon, London, Madrid, Monaco, Paris, Rome, Stockholm, Warsaw; 10.1-20.0 % Belgrade, Budapest, Chisinau, Dublin, Helsinki, Ljubljana;Luxembourg, Minsk, Oslo, Prague, San Marino, Sarajevo, Sofia, Tirana, Vaduz, Valletta, Vienna, Vilnius, Zagreb; 20.1-30.0 % Nicosia, Tallinn; 30.1-40.0 % Reykjavik, Riga.. Source: Der Fischer Weltalmanach 2004. Zahlen, Daten, Fakten

particular needs of different urban neighborhoods and – according to the public choice theory – could lead to a better solution in public service provision. In a decentralized system, individual districts based on local self-government will compete with each other in a sense to provide the best local services with the lowest local taxes. Within a fair regulatory framework, this competition will result in better services for the entire city. In Budapest, for example, different inner districts developed different rehabilitation strategies – competing with each other and learning from each other. This competition between districts has lowered the risk of reform failure that a "one program for all" solution always represents. In the same way, decentralized systems have more room for innovative solutions than the typically more bureaucratic organization of a unitary large city. An additional argument for a decentralized system is that the smaller sub-units of the city have greater political legitimacy and increase the accountability of the leadership to their constituency.

Decentralization, however, could **lead to a fragmented city structure**, where citizens living in different parts of the city do not have the same access to public services. The citizens of a large city would expect the same standards for basic services (such as water, electricity, education, social services, etc.), and huge differences would be politically unacceptable. Broad autonomy for districts of large cities could easily result in such differences, which are caused partly by different management approaches and partly by the economic and social background of the sub-city units. A fragmented city structure could increase the social polarization of the city, where the poor are segregated in the worse part of the city. One extreme illustration of such polarization is the practice of some wealthy districts in Budapest offering housing to their poor or problematic residents in other less well off districts, thus "exporting poverty". However, the strongest argument against decentralization is that the provision of most area-wide services is much more efficient in a unitary city (economies of scale). Water services, sewage, public transportation, etc. can be much more easily provided in a one-tier government than in multi-level government structure.

The modernization of the administrative structure of large cities struggles with the problem of fragmentation. The simplest solution is the amalgamation of the peripheral municipalities with the core city to form a single local authority. However, there are other options, like assignment of special responsibilities to an upper-tier local government; creation of a special metropolitan government, to set up special multi-purpose or single-purpose agencies, or any formal or informal contractual solution. Politicians and researchers are divided in this question. For example, Kenneth Davey (1993, p 19) argues, that "it is more questionable whether multipurpose area managements or sub-municipal governments are desirable, except perhaps in very large cities. Both forms of government are complex and costly, involving a new level of administration and changes in relationship departments in the first case and risk of political conflict between the tiers in the second." While others see the decentralized multi-tier city administration as a more advantageous solution.

There is no perfect solution, as the appropriate governing structure of large cities will depend on several specific factors: the nature of public services, the size and location of the city, the history of cooperation among municipalities, and other factors.

The set-up of local self-governments in large cities and the experiences of many countries suggest three types of local self-government in big cities.

1. **The polycentric model** is composed of different numbers of independent municipalities which have the same rights and duties. There is no central authority; the cooperation between municipalities is voluntary. Cities organized according to the polycentric model have difficulty providing basic services of equal quality at an equal price. Planning, especially of the infrastructure, is very difficult, and rivalries between the municipalities may develop.
2. **The unitary model** is “traditional” and composed of a single authority. There are no municipalities below the city level. Cities organized according to the traditional unitary model, through annexation, lose sight of the particular interests of the city’s particular parts. As the city encompasses surrounding municipalities, its administration is increased and thus a bigger centralization of power occurs.

3. **The two-level model** is a combination of the two previous models and is composed of one central authority and a various number of sub-systems, often referred to as blocks. The two-level model theoretically combines the advantages of the previous models, while trying to avoid the disadvantages by having one main municipality and several blocks subordinated to it. However, in practice, their cooperation is frequently called into question due to lack of clearly defined and assigned competences.

### 1.2.2. The polycentric model and regionalization

There are several examples of the polycentric models. In this model independent local governments “decide” to cooperate, and “give up” and transfer certain public functions to a higher level of government in which they have a proper representation. There are very different degrees of cooperation from a strong metropolitan cooperation towards a sectorally fragmented loose cooperation. The most typical cases can be found in the US, where local governments were politically strong and they did not want to give up their autonomy. However, the competition and economic rationality forced them to cooperate, which took the form of special districts. Most of the observers think that this solution is sub-optimal, because of the regionally fragmented structure – for different services belong to different geographical areas, and sometimes it is only for political reasons.

The case of Vancouver represents a relatively strong cooperation among 21 independent local governments. The Greater Vancouver Metropolitan District (GVMD) has a board in which the different local governments are represented and an executive part, which is responsible for the regional planning, environments, waste management, water services, housing, and public parks. (The transportation is managed by another regional agency.) The GVDM provides services for the local governments in the case of water and waste management, and the local governments distribute and organize the services for the citizens. In this case they have the right to set the prices. GVRD has the revenues from user charges (paid through the local governments) and from the property tax which is levied on the basis of the decision of the board. The sectoral decisions are made through specialized committees where both the legislative and executive part is represented. No equalization grant is implemented across the local government in Vancouver at the level of GVMD.

In the EU there is a strong demand for more regional cooperation which has led to very different forms of the metropolitan “government”, and because of the high degree of urbanization the regional cooperation leads to a version of “polycentric” model.

Regional governments were criticized for being too large and the cities have lost influence over the decision-making process. A new form of government – the ***city region* –** was offered to replace the dominance of the region. The city region encompasses the administrative area of a city (conurbation) and its hinterland. The extent of a city region is usually proportional to the intensity of activity in and around the main city center. In a German context, the Lander of Berlin, Bremen and Hamburg qualify as city regions because of their historical and constitutional status as 'free cities'. In the United Kingdom, the city regions have been offered as an alternative to Regional Assemblies. In the East Midlands, the three major cities of Nottingham, Leicester and Derby with their connected hinterlands form a city region of 2.6 million people, which has established a partnership including the Government Office of the East Midlands and the East Midland Development Agency with several sub-regional programs.

The governing structure of large cities in the CEE/fSU region has been continuously changing because of macroeconomic and sectoral changes. The importance of ***intergovernmental (city – region – country) cooperation and public-private partnerships*** has increased, especially in the EU accession countries. The new models of cooperation are typically sector-specific. Efficient public transportation, for example, requires the cooperation of the typically state-owned railway, long-distance bus company, and city-controlled local public transportation companies. In the case of privatization, this model has to have a PPP element as well. In Budapest, after 15 years of transition, the Budapest Transportation Association is only now in the first stage of its development, where the transport conditions are standardized in different segments. The Parking Association is another example of intergovernmental (city and district) cooperation in Budapest, which aims to offer standardized parking services and fee system, and sharing the revenues among participating district local governments.

### 1.2.3. Unitary models

In the unitary model, a single local government is responsible for providing the full range of local services and has a geographic boundary that covers the entire urban area. “Large single-tier governments have generally been formed by *amalgamation* (merger of two or more lower-tier municipalities within an existing region) or by *annexation* (appropriation of a portion of a municipality by an adjacent municipality). Since there is only one level of government providing all of the municipal services, there is no need to allocate expenditures among levels of local government (as in the two-tier model).” (Slick, et al 2003, p.30) One of the problems of the unitary model is the constant pressure of the boundary changes, as the beneficiary areas of the public services are expanding

In Canada, Calgary is an example of a one-tier model that has been achieved through numerous annexations; Winnipeg’s Unicity, Ottawa-Carleton, Halifax and Hamilton-Wentworth are all examples of a single-tier model achieved through amalgamation.

"The creation of Metropolitan Toronto in 1953 was an important breakthrough for North American metropolitan government reform. Acting on the recommendation of the Ontario Municipal Board, the province federated the city of Toronto and its 12 suburbs as a metropolitan corporation. The existing municipalities retained their separate existences and a portion of their councillors also served as metro councillors. The metropolitan corporation assumed a wide range of regional functions that have increased over the years. In 1966, in a comprehensive reorganization, the number of municipalities was decreased to 6 and in 1988 the metro councillors became directly elected. These 7 local governments were amalgamated by the province into one city of Toronto beginning 1 January 1998."[3]

### 1.2.4. Two-tier systems

While the conceptual differences are clear between these ideal types, in reality the actual models are not easy to categorize. The governing structure of large cities in CEE-fSU countries tend to move towards a certain kind of two-level model. Nearly every capital city in the region has a second level of government vested with certain rights.

The two-tier systems vary much according to the underlining political structure and the actual distribution of responsibilities. The most important dividing line is that the sub-units (called districts, boroughs or city-municipalities) have the same rights guaranteed by the Constitution or Law on Local Governments as the other local governments, or their rights are subjects of the Statue of the City decided by the elected organs of the city. Both solutions have advantages and disadvantages. With autonomous local governments as sub-units the system could be more transparent and predictable, however less flexible and less equitable; while with sub-units subordinated to the city wide elected organs it is more flexible, but more subject to the political negotiations.

The ***Law on the City of Skopje*** was passed in 2005, after four years of preparation. A major debate prior to the passing of the law was whether the districts in Skopje have the same rights as municipalities in Macedonia, which was one interpretation of the Constitution. The law on Skopje defined the special status of the ten districts and vested them with rather broad responsibilities, including elementary education, social services, local roads and parks, etc. The districts have own revenues (local taxes and user charges), but they have to share these with the city government. The mayors and the council members are directly elected, and a coordinating body comprised of mayors helps to encourage cooperation between districts and the city government.

A good example of a ***weak sub-unit model*** is Tallinn with 438,000 inhabitants. Tallinn has eight districts with very limited autonomy that serve as local, decentralized units of the central city administration. The districts have elected councils, indirectly elected. The Tallinn Statue regulates the relationship between the city government and its districts. It is very significant that the districts' budgets are part of the city budget, as with any other city-level budgetary department. However, the districts have quite broad responsibilities in the areas of education, culture and public maintenance. Districts are also responsible

[3] JAMES LIGHTBODY: Metropolitan Government (http://thecanadianencyclopedia.com/index.cfm?PgNm=TCE&Params=A1ARTA0005263)

for central city services in communal and social areas (i.e. street maintenance, water issues, local business promotion, etc.). The district authorities organize and collect taxes (advertisement tax) on outdoor media in their districts. The districts also have to organize and maintain parks and other green areas of their district.

The **City of Prague** represents an interesting case of the combination of the deconcentrated units and local governments as sub-units. Prague is divided into 15 state administration districts, which overlay the 57 boroughs (city sub-districts). (Between 1990 and 1993, 5 new regional districts were formed, partly from autonomous housing estates.) With a population of 1,214,585 as of 1995, Prague's 57 boroughs range in size from 147,000 to 200 inhabitants, each with its own mayor, elected assembly, district office and budget. The boroughs vary in population and representation, they also differ considerably in land area, financial resources and functions performed. Some city boroughs are so small they exercise few, if any, of the Assigned Powers of state administration. These duties are performed for them by higher aggregations of administration, established by legal regulation of the city assembly in 1994 and comprised of groupings of the 57 sub-districts. Armsongs (1997). Borough mayors tend not to be full-time professionals and cannot cover the wide range of activities that are required. The consolidated budget of the boroughs was 20 % of the total city budget.

> "From the perspective of annual outlays, education and internal administration represent the two most important borough functions, followed by environmental protection and social welfare. In the past, there has been a clear tendency to transfer activities from city hall to the boroughs, not always with a related transfer of financial resources. As a result, the boroughs try to refuse the transfer of these obligations to them. The city administration does not trust that the boroughs will use their financial resources efficiently, and thus disperses them in small amounts and under strict conditions." (Armsongs, 1997)

All 57 boroughs receive financial resources for internal administration, allocated on a per capita basis. In addition, they receive single purpose subsidies to use for specified activities, allocated on a per capita or other formula basis. Boroughs must account to the city hall in detail for all state and municipal budget subsidies. Investment subsidies to boroughs are minimal, and stable or decreasing over time. Boroughs generate their own source revenues through the sale of flats from managed communal housing stock, real estate tax proceeds which are minimal, proceeds from organizations established and managed by boroughs, and miscellaneous local fees. Sub-district budgets are balanced. Cost over-runs are not significant, but the financial situation in some boroughs may be serious and solved by revenue transfers from the city budget.

Budapest is a good illustration for the strong ***sub-unit model*** of two-level government. The capital city has 1.7 million inhabitants and 23 district governments that enjoy the same status and rights as other local governments in Hungary. The city government has different responsibilities (city-wide services such as public transportation, district heating, water, etc.) than the districts (housing, basic health services, education, etc.), and there is no hierarchical relation between the city government and district governments. Districts have their own budgets, their own revenues (including certain local taxes). A revenue sharing scheme radically diminishes the horizontal inequity among the districts.

The districts have their own directly elected mayors and councils, who enjoy sound legitimacy.

In CEE-FSU countries, ***Warsaw*** provides an example when a two-tier fragmented government was changed to a strong centralized mode. Before 2002, the 11 districts in Warsaw had strong independent planning powers and financial autonomy. The level of resources varied strongly between the central (richer) and outer (poorer) districts. Warsaw's council was formally responsible for coordinating metropolitan developments and has investment resources but has no power to implement such programs. The council of Warsaw had therefore to work in partnership with the districts. This process was facilitated for some areawide functions such as public transport and roads by the existence of separate, specialized bodies. In 2002, a new centralized model was introduced, where the new 17 districts do not have real power.

A new element in intergovernmental relations is the ***emergence of regions*** in CEE/fSU countries. The relation between region and large city is a key question, which mirrors the problem of relations between he government structure of a large city and its adjacent urban/rural areas. Typically, large cities have the same rights as regions, as in Warsaw, Prague, and (federation) Moscow. However, in several cases large cities are parts of a region, which again raises the issue of cooperation between the region (not including the large city) and the large city. Some form of metropolitan government can help to integrate the municipal governments of the region.

## *1.3. Integrating smaller neighborhoods*

In the 1980s, after a wave of creating metropolitan governments, the trend towards decentralization intensified. There was a demand to strengthen the local **representation of neighborhoods**, which are typically smaller than districts. The starting point in Europe was the need for public participation in urban rehabilitation programs, which led to the formation of the sub-municipality structure. There are two types of approaches to neighborhoods: (1) the neighborhood initiated organization and (2) the city initiated organization. For example, in Los Angeles, the concept of Neighborhood Councils was approved in 1999. Neighborhood Councils are designed to give community members a forum for addressing issues in their neighborhood as well as the capacity to improve their neighborhoods. A special department, the Department of Neighborhood Empowerment, helps the work of the spontaneously formed neighborhood councils. Amsterdam's first neighborhoods were established in the early 1980s. Amsterdam-Noord and Osdorp were the first to have their own authorities with extensive independent powers, with their own budget and team of civil servants. The idea was that neighborhood authorities like these would contribute to more efficient and effective decision-making, and that people would feel more involved in local government. The experiment in Amsterdam-Noord and Osdorp went well and in the years that followed the number of neighborhood councils increased to sixteen.

Several countries make it possible for large cities to set up **sub-district units** of governments, which can guarantee a higher level of local participation and legitimacy. In Hungary, for example, the sub-local governments in Budapest typically represent homogeneous residential areas having a common history. Their existence (scope of responsibility and finance) depend entirely on district local council decision. The sub-municipalities of ethnic and national minorities are organized under the local governments but not on a residential basis.

### 1.4. Conclusion of the international comparisons

There is no real unidirectional trend in the governance of large cites, as economic and political efficiency can be reached under different governing structures. The basic choice facing decision-makers is whether sub-city units will have the same legal status as local governments in the country, or will their existence depend exclusively on the law of the city. Warsaw (before 2002) and Budapest are examples of the first option, while Tallinn and Prague are examples of the second.

In the first option, the operation of government can be complex and costly, and may involve the risk of political conflict between the tiers. Thus the voluntary cooperation between the two tiers becomes crucial, and the risk of reforms failing due to non-cooperative behavior is high. However, with their incentive structure and closer relation to the voters, local (district-level) solutions are more radical and more efficient. Horizontal inequality among districts has to be diminished by a well-designed equalization grant.

In the second option, the level of decentralization depends on the special design of the sub-city units. The districts have dual accountability (both to the city government, on whom their responsibilities and revenues depend, and to their constituencies). The advantage is political and administrative simplicity, which is guaranteed by the fact that city governments (through financial incentives) can enforce cooperation among district governments. The disadvantage is the dual accountability, and specifically, the weakness of local participation.

An evaluation of the policy options should take into consideration the actual expenditure and revenue assignment of the different levels with special emphasis on how much autonomy the decision-making bodies have. The crucial question on the revenue side is whether the district government has local tax revenues (or user charges) that could contribute to the political accountability of decision-makers, and prevent a one-sided rent-seeking attitude. On the expenditure side, property management is a key issue; namely, whether the district government has autonomy over property management (and at least partly enjoys the revenue from it), or not.

Large city administration in CEE/fSU countries displays wide variation, but in individual cases three factors play a very important role in the formation of the governing structure of large cities.

The first factor is the political choice in relation to the political decentralization of the large cities and their sub-city districts. In some cities in the region, mayors are not directly elected, and the government retains some degree of discretion on the political control of the large (especially capital) city. However, a basic political question independent of the chosen model is the territorial structure of the city. Territorial changes (number of districts, change of the border, etc.) typically require changes in the Constitution.

The second factor concerns the existing institutions and institutional solutions. In the decentralization process, it is very rare that new institutions are built up from scratch: the typical solution is the step-by-step modification of the existing system. Therefore, the development of systems is mostly pragmatic and evolutionary. And in this respect sometimes the law or the implementation of the law changes the institutional structure.

The third factor is the sector-by-sector structural changes in responding to the challenges of transition, accession to the EU, and globalization trends. Sectoral changes influence decentralization by redefining the role of the different levels of government and the private sector. For example, the privatization of the primary health sector (GP) in Hungary practically diminished the role of the local governments in this area.

# 2. Analysis of the present organizational structure of city of Belgrade

## *2.1. Conclusions of the background studies*

The present organizational structure of the city of Belgrade reflects the transition stage of reform process in the intergovernmental fiscal relations in Serbia. There are problems which are related to the unfinished decentralization such as the uncompleted property transfer, for instance.

On the basis of the background papers (Branko, 2006; DAI, 2006) and the field visits, we can summarize the main characteristics of the present structure as follows:

1. Belgrade has a special status defined in the Law of City Belgrade, and the status of sub-municipal local governments depends on the Statue of Belgrade.

> „By its Statute, the city of Belgrade regulates the distribution of competences between the city and city municipalities, organizations, and activities of organs, as well as other issues of interest for the city of Belgrade.“ (Branko, 2006, p2.)

2. The city has a decentralized two-tier political structure (16 city municipalities with directly elected mayors and council), but almost every function is centralized, city municipalities have basically no roles. Approximately 8 % of the total city expenditures are spent through the city municipalities, most as wages of the employees. For comparison: in Budapest more than 50 % of the total expenditures are spent by the districts, which are equivalent to the city municipalities. In Prague, which represents a more centralized model, the same share is about 20 %. Though the government structure of the city of Belgrade belongs to the two-tier model, it is much closer to the unitary model as most of the local functions are basically delegated functions (e.g. registry, etc.)

3. The difference between the urban city municipalities and the rural (outer) city municipalities makes the regulation more complicated. It is interesting that the typical regional functions like water, waste management are the responsibility of the “rural” city municipalities. This fact represents the “path dependency” effects, that is, the actual institutional relations determine the allocation of tasks, not the need for a metropolitan government. The outer city municipalities have almost the same functions as local governments under the umbrella of the city of Belgrade. The budget does not reflect this

fact, because most of the budgetary consequences of these functions are off-budget expenditures (water, waste management, etc.) However, a certain part of the communal expenditures are accommodated in the budgeting process.(Branko, 2006, p8)

4. The budgetary system is complicated with several “ad hoc” elements based on individual negotiations. (See Branko, 2006) The best example is the position of the 3 inner city local governments which have more own revenues from the rent income of the business premises than their expenditure needs. Thus the solution is that they are contractually forced to spend their revenues on financing tasks which are in the competence of the city municipality of Belgrade (like education, culture, sports, etc.). The revenue assignment (sharing the property taxes, and the local communal tax) depends on expenditure needs, that is, it works like an element of the transfer system. If the city of Belgrade can individually define the sharing rates for the local governments, it does not differ substantially from a transfer. For example, the inner city municipal governments have 0 % shares, while the outer city municipalities have 100 % shares from these taxes. Using revenue assignment as an implicit transfer makes the budgetary system less transparent.

5. There are vertical and horizontal imbalances in the fiscal structure of the city, which are partly balanced by the transfer system. The analysis of the expenditure level (Branko, 2006) showed the irrational elements of the system. However, the analysis did not take into consideration the “off-budget” expenditures.

### *2.2. A proposal for improving the allocations*

There is a proposal for improving the budgetary structure of the city of Belgrade using a more transparent system. (Branko, 2006b). The proposal basically does not suggest any changes in the expenditure assignment of the city of Belgrade and the city municipalities. According to this, the council of the city of Belgradw will have a decisive power over the districts (city municipalities), and make decentralization difficult. Thus this model conserves the ***strong city and weak district*** relation. Its aim is to improve the grant allocation in order to terminate the imbalance between the city municipalities caused by the revenue assignment.

## 3. Alternative solutions for Belgrade

### *3.1. The basic options*

The overview of the international experiences proved that there are several models for large city administrations, and even in the European trends the effects of “path dependence” (the historical tradition, legal constrains and institutional background) have a determining factor. Though the discourse on the future of the capital city Belgrade is dominated by the plan to strengthen the city municipalities under the basic structure of the two tier model, it would make sense to sketch some specific alternative models for long term consideration. We can define three basic options:

### 3.1.1. Option1: metropolitan government structure with autonomous amalgamated central municipalities and individual "outer" municipalities

Regionalization is an important trend in EU countries. Serbia in her preparation for the accession to the EU has to consider the options for regionalization. The recent plan is to create 6 regions, out of which one would be the region of Belgrade and its surrounding area.

> The proposed six region would be: Vojvodina (capital city: Novi Sad), population: 2,031,974 , Kosovo (capital city: Pristina), population: 2,000,000 (est.), Sumadija (capital city: Kragujevac), population: 1,252,091, Podunavlje (capital city: Nis), population: 1,521,732 , Podrinje (capital city: Uzice), population: 990,072 , Belgrade City Region, population: 1,465,106[4] (Source: http://en.wikipedia.org/wiki/Regions_of_Serbia)

This are would be too big to incorporate into one city, thus it raises the possibility for a kind of metropolitan government. The 10 inner city municipalities could be amalgamated into one local government: the city of Belgrade (with a population of 1,3 million ), and the outer city municipalities supplemented with municipalities in the region could become independent local government, which would have almost the same status as any other local government in the country. The metropolitan government of Belgrade (with directly or indirectly elected council) would be responsible for regional planning and services which have a beneficiary area including more than one local government. Planning and regulative functions could belong to the metropolitan government, but the service function could be provided directly as well as indirectly through private or other local government owned public services provider. The metropolitan government would have its own separate or shared tax revenue and user charges, and besides taking care of regional planning and services it could play a role in fiscal equalization among different local governments. The individual local governments will have own revenues and expenditures, they will be responsible for all services not taken by the metropolitan government. The city of Belgrade could have districts (the present inner city municipalities) but they will have limited autonomy. They would have similar functions like the districts in Prague, while the autonomy of the smaller neighborhood units can be increased.

### 3.1.2. Option2: two-tier system with more autonomous and stronger city municipalities (with the possibility to employ the neighborhood model)

The second option, which is supported by the present proposals, is a two-tier system, where the city-municipalities will get more functions than they presently have. Though the legal existence of the city municipalities will define by the Law on Capital City Belgrade, the actual responsibilities and revenues including the equalization transfers will be defined by the Statue of the City. This means that it would be easier to modify the expenditure and the assignment of the city municipalities to compare the situation where

[4] This figure less than the population of Belgrad, which seems to be a contradiction. It is not an official proposal.

the Parliament has to decide. However, this flexibility could have a drawback when the tasks and revenues of the different city municipalities are the subject of individual political negotiation, and the system loses its transparency and predictability. The city municipalities should have own revenues among the limits decided by the city council of Belgrade (limited revenue autonomy) and should have substantial discretion over the expenditures (expenditure autonomy). Probably it is inevitable to regulate separately the inner city municipalities and the outer municipalities. The transfer system has to take care of both vertical and horizontal inequities. (This model will be discussed in more detail later.)

### 3.1.3. Option3: unitary model with de-concentrated districts and autonomous neighborhood system

The third option is a unitary model, which is very close to the real operation of the present system. (Actually, the 8 % share in the total budget represents mostly the cost of the delegated services, the city municipalities.) According to this model, the city municipalities do not have own revenues (local taxes) and will have limited expenditure autonomy, and they will be basically responsible and accountable to the city council, except some limited resources assigned to them for specific programs. (For example, a rehabilitation fund could be assigned to them.) The outer city municipalities could keep their broader responsibilities, but the city of Belgrade will have more control over these activities. Beyond this more centralized model, the city could support the neighborhood development, through the city-municipalities. The neighborhood would more actively participate in the planning and budgeting process in terms of reviewing and designing. The neighborhoods would have limited own revenues and will have full discretion over their expenditures.

## *3.2. The improved two-tier system*

The first starting point of the proposed two-tier system is that the Law on Belgrade will fix only the most important elements of the system, and the details will be given in the Statue of the City decided by the elected council of the city of Belgrade. Secondly, an additional principle is that city municipalities should become real local government units with limited revenue autonomy and extended expenditure autonomy in services they are responsible for. Thirdly, the present differences between the inner and outer city municipalities will remain for a while, which justifies different expenditure assignment for the two types of local government. (The revenue side will not necessarily be different, as the inter-city transfer system could take care of the differences in the tasks.)

We will discuss three issues: the allocation of responsibilities, the revenue assignment and the transfer system. The proposal given in this policy paper should be taken with caution, as it is based on limited resources.

### 3.2.1. Inter-city allocation of functions

The inter-city allocation of functions depends first of all on the fact how the functions between the central government and the local governments are allocated, as the city has the right to make decisions on functions which are assigned to it. Typically the Law on Local Governments defines general areas of allocation, which are specified in the sectoral laws and sectoral regulations. The experience in the countries of transition shows that the sectoral allocations have been constantly changing in the period of structural adjustment. The privatization, decentralization and the restructuring of the service sectors makes it necessary to reorganize the responsibilities of the different levels of governments. There are general principles of efficient expenditure assignment, like

- economic efficiency which takes into consideration the effect of economics of scale; spill over effect, the administrative cost and economic incentives
- equity issue, which tries to give access to the same level of public services for everybody independently of their income position and location
- subsidiarity principle which says public matters ought to be handled by the smallest (or, the lowest) competent authority

However, the concrete decision should pay attention to the political and institutional tradition, like how certain services are organized today, and what are the political, administrative and technical possibilities and costs of the reorganization.

A sector by sector analysis is needed to make the right decisions. One of the most controversial areas is regional and urban planning. It is clear that is should be a city-wide responsibility, but – as it is generally accepted – the lower level of government (and other stakeholders) should have some say in the planning process. There are different solutions. The city government could zone its various metropolitan areas for specialized activities, such as the central business district, city parks, and industrial parks, residential development, tourist area etc. but it should based on a city-wide consensus well documented and argued justification. At the city-municipality level, however, the government would authorize (permit) in the framework of the general plan the concrete projects following the interest of their citizens. This division of planning power of the two-level governments – because the same area is under the control of two authorities – could easily lead to conflicts which have to be solved.

The other solution would be to assign areas where the city level of government has the full right to make planning decisions, and areas where the city municipalities have the right to make decisions following certain general rules (e.g. zoning, building codes, etc.)

Designing the allocation of responsibilities, each area needs analysis of the present situation and the evaluation of the different options. Let us see the responsibilities of public roads, for instance. Here again different solutions can be implemented. One possibility is just to give the task to the city level municipality, which has the drawback that local preferences are not taken into consideration. The other solution, however, would be that main roads would be managed by the city-wide municipality, but the local roads will be under the responsibility of sub-municipalities. In Budapest, this allocation of services led to a conflict between the sub-municipalities and the city municipality, as the districts were complaining that the city financial policy neglects the maintenance of the main road (against the big spectacular investments), and the citizens of their constituency expect the district government to invest into the main road to provide basic services.

Defining expenditure assignment a careful differentiation needs to be made between the responsibility of services and provision of services. Responsibilities include the regulatory elements (price setting, public procurement, etc) and a guarantee that the service will be provided, and does not include directly the service provision. For example, in public housing there are different questions: 1.who will set the rents, 2. who assigns the new tenants (allocating the vacancies) and the 3. who will manage the stock (including fee collection and maintenance). There is a tendency that these functions are separated: the price regulation is in the hand of the city-wide municipality, the allocation is district responsibility, and the management is in the hand of the private (or non-governmental) sector. The same argumentation can be applied to other services, like water, waste management, etc.

The decision on allocation should be based on a comprehensive sector analysis, because without it the proposal would just legitimize the present allocation of services. The present proposal seems to follow the actual allocation. It is not easy to argue against it because to justify restructuring a full knowledge of the sector is needed. The following table shows one scenario of the allocation of services. We can differentiate two types of task allocation: 1. devolution (revenue with limited autonomy, expenditure autonomy, and full political accountability to the constituency); 2. delegation (limited expenditure autonomy with limited incentives, and dual political accountability) control (performance measurement, performance contract).

The political problems in the allocation of the competencies were typically connected to the ownership of the facilities and “enterprises” tied to the competencies. The transfer of state property tied to the municipal services should be completed.

**Table 1 Allocation of Functions among the central government, city of Belgrade, inner city municipalities and outer city municipalities (Y: devolved; D: delegated)**

| **General administration** | **Central Government** | **City of Belgrade** | **Inner city municipalities** | **Outer city municipalities** |
|---|---|---|---|---|
| Security, police | Y | | | |
| Municipal police | | Y | | |
| Fire protection | | Y | | |
| Civil protection | | Y | | |
| Justice | Y | | | |
| Civil status register | | | Y | Y |
| Statistical office | | Y | | |
| Electoral register | | | Y | Y |
| Tax administration | Y | Y | D | D |
| **Education** | | | | |
| Pre-school education | | | Y | Y |
| Primary education | | | Y | Y |
| Secondary education | | Y | | |
| Vocational and technical | | Y | | |
| Higher education | Y | | | |
| Adult education | Y | | | |
| **Public health** | | | | |
| Hospitals | | Y | | |
| Health protection | | | Y | Y |
| **Social welfare** | | | | |
| Kindergarten and nursery | | | Y | Y |
| Family welfare services | | | Y | Y |
| Welfare homes | | Y | | |
| Social security | Y | | | |
| Other: benefit programs | | Y | | |
| **Housing and town planning** | | | | |
| Housing | | | Y | Y |
| Town planning | | | Y | Y |
| Regional/spatial planning | | Y | | |
| **Environment, public sanitation** | | | | |
| Water & sewage | | Y | | D |
| Refuse collection & disposal | | Y | | D |
| Cemeteries & crematoria | | Y | | D |
| Environmental protection | | Y | | |
| Consumer protection | | Y | | |
| **Culture, leisure & sports** | | | | |
| Theatres & concerts | | Y | | |
| Museums & libraries | | Y | | |
| Parks & open spaces | | | Y | Y |
| Sports & leisure | | Y | Y | Y |
| Culture other | | | Y | Y |
| **Traffic, transport** | | | | |
| Roads | | Y | | |
| Local roads | | | Y | Y |
| Public Transport | | Y | | |
| Airports | Y | | | |
| Parking | | Y | | Y |
| **Economic services** | | | | |
| Gas | | Y | | |
| Heating | | Y | | Y |
| Water supply | | Y | | |
| Agriculture, forests, fishing | | Y | | |
| Electricity | | Y | | |
| Economic promotion | | Y | | |
| Trade & industry | | Y | Y | Y |
| Tourism | | Y | Y | Y |
| Other economic services | | Y | Y | Y |

### 3.2.2. Inter-city revenue assignment

The inter-revenue assignment starts from the taxes and fees assigned to the city of Belgrade given by the Law of Local Government Finance. The decision makers on the design of the revenue assignment are in a relatively easy situation because they can put the rules of allocation in the statue of the city.

**Table 2 Types of municipal revenue and the allocation principles**

| Type of revenues | Allocation principles |
|---|---|
| 1. transfers: | |
| i. grants | The city municipality will get or collect it, and it goes to the common pool |
| ii. shared taxes | |
| 2. local taxes | It can be separately assigned ,"piggy backed" or shared, in the latter case the tax rate is jointly decided |
| 3. user charge, fees and fines | Whoever has the responsibility collects the payments |
| 4. revenue from the property (selling and renting the property) | The owner should have the right to collect, but a sharing rule can be applied |

There are different options in inter-city revenue assignment. It is very important that the city municipalities have to have certain revenue autonomy, and to increase their political accountability certain part of their revenue should come from the payment (taxes, user charges and fees) of the households living in their constituency where the local government has the right to set the rate. It is not a good solution if the rate is defined by the city municipality of Belgrade, and the revenue goes entirely or partly to the city municipalities. The beneficiary of the revenue has to have a political responsibility. The simplest solution is the separate tax assignment, but for the sake of efficiency the tax collection should be centralized. The "piggy-back" solution is a special case of sharing, because above the tax rate levied by the city municipality of Belgrade, the sub-municipalities have the right to levy their own rates (according the limitations set by the Law on Local Taxes or Law on Local Government Finance). The third solution is sharing tax, but in this case the political responsibility should be shared as well.

The revenue from property and user charges should be basically go to the level of local government who is owner or responsible for the services. However, some sharing schemes can be use in these cases as well.[5] For example, the revenue from privatization or the office spaces can be shared with the city municipality of Belgrade in order to fill the fund for equalization.

[5] In Budapest, the revenue from housing privatization was shared 50-50 % between the municipal level and district (sub-municipal) government.

### 3.2.3. Inter-city grant structure

There are two grants the city municipality of Belgrade has to implement in the inter-city fiscal system. The first type is a specific or block grant supporting city-wide programs which are implemented by the city municipalities. The grants give incentives for implementing certain programs. The specific grant defines exactly the eligible uses of the transfer, while the block grant defines only the area of the uses. (For example, housing block grants could be used for rehabilitation, new investments according to the priorities of the sub-municipal government, but only in the housing area.)

The second and probably more important type of the grant is the equalization grant, which equalizes the differences between the expenditure needs and revenue capacities.

What are the steps in designing the equalization grant[6]:

***Define the envelope (or pool of the grant)***

The city municipality of Belgrade has to define the total pool, which can be allocated among the city municipalities. Typically it is defined as a "residual factor", which means that the pool is defined as the difference between the total exclusive revenue of the city municipality of Belgrade minus the expenditure needs of the city of Belgrade. The weak point in this procedure is the calculation of the expenditure needs of the city municipality of Belgrade. There is a chance that the city administration will "favor "the city-wide expenditures, so it very important that the expenditure needs should be well justified and presented to a committee in which the city municipalities are represented.

***Measure the expenditure needs of the city municipalities.***

The simplest methods to measure the expenditure need for city municipalities is by basic services of different sectors. The task is to estimate the net effective recurrent costs for different services. The net recurrent cost includes direct cost (wages, salaries, current cost and services) and indirect cost (overhead wage and service cost) minus the fees and charges related to the services. This could be a very complicated exercise, but using proxies can be simplified to a great extent.

***Measure the revenue capacity of the city municipalities.***

The measurement of the revenue capacity presumes the existence of well-justified revenue information based on the established inter-city revenue assignment. The measurement of revenue capacity can be improved step by step after the system has been set up. In the first stage very simple proxies have to be used (e.g. estimated per capita revenues).

***Calculate the actual grant***

The actual grant should be the difference between the expenditure need and revenue capacity, but typically the total differences are larger than the total pool. In this cases, one reasonable solution is to allocate the "shortage" proportionally, that is each local government will get the same proportion. What will happen, if one city municipality has more revenue capacity exceeding its expenditure needs?. In this case, one solution is to

---

[6] The problem of the capital and operation expenditures is not explored here, but the approach should follow the same logic.

leave as it is (this city municipality will not get a grant), or to force it to pay taxes back to the common pool. Because politically it is quite complicated, this problem should be solved in the revenue assignment (and the expenditure assignment).

# 4. Conclusion

In the paper we offered three basic models for the administrative structure for the city of Belgrade, though the background papers and the existing proposals supported the two-tier government structure with relatively strong central (city-wide) administration. The other two models (the unitary model and the metropolitan-polycentric model) could serve as benchmarking.

The first decision the reform task force has to make is a policy choice on the political structure of the city (territorial consideration, region-city-district relation). If the decision is the two-tier system, efforts should be made to change the present system towards increasing the autonomy of the sub-municipality level as long as it does not violate the efficiency of the whole city (economics of scale, spillover effects).

The hard task is the definition of responsibilities of the different levels of governments. The expenditure assignment should be based on the analysis of the different service sectors of the city using the subsidiarity principle – which tasks can be transferred to the lowest level of government. The proposal should be pragmatic and evolutionary.

The next step is to define the revenue assignment of the city and districts (based on the law on local government finance). Giving some revenue autonomy to the lowest level should be considered without risking the creation of high inequity in the city.

On the basis of the allocation of tasks and revenue assignment, a budget system has to be worked out including an equalization element. That is the grant system should be based on the difference of the expenditure needs of the different government units and their revenue capacity.

Finally, we propose considering the possibility of the neighborhood association as a sub-district unit with limited local responsibility.

# 5. Bibliography


Armstrong, Regina (1997): Administrative Districting in Cities of The Czech Republic, City of Ostrava Case Study. Prepared for East European Regional Housing Sector Assistance Project, Project 180-0034, U.S. Agency for International Development, ENI/EEUD/UDH, Contract No. EPE-C-00-95-001100-00, RFS No. 404, The Urban Institute. Washington. www.urban.org

Balás, G. and Hegedüs, J. (2004): Intergovernmental Transfers in the Municipality of Budapest in: Intergovernmental Finance in Hungary: A decade of experience (1990-2000) (edited: M. Kopányi, S. E. Daher, D. Wetzel) LGI/WBI, 2004, pp 183-201

Bennett, Robert J. (1997): Government in Post-Socialist Cities, Discussion Papers, No. 2. Published in 1997 by the Local Government and Public Service Reform Initiative, (affiliated with the Open Society Institute)

Bertaud, Alain and Marie Agnes (2000): The Spatial Development of Warsaw Metropolitan Area. Comments on “Warsaw Development Strategy until the Year 2010”, prepared for the World Bank, June11, 2000, revised Dec 2000 (E:\Ab_Articles\Warsaw Spatial development\Warsaw_report_7.doc

Bourne, Larry S. and Gertler, Meric S. (2003): Vibrant Cities and City-Regions: Responding to Emerging Challenges. A paper prepared for the Panel on the Role of Government by Enid Slack, Enid Slack Consulting Inc. August 13, 2003

Branko,2006: Financing of the city of Belgrade and of Belgrade municipalities (manuscript, 2006)

Branko,2006b: Proposal for revising the system of financing of the city of Belgrade and of city municiplities (manuscript, 2006)

Coudroy De Lille, Lydia (2005): Metropolization: Local Development and Government in Poland. Université Lumière-Lyon 2 & Centre Géophile - Ecole Normale Supérieure de Lettres et Sciences Humaines de Lyon. OCDE International Conference 6-7 June 2005, Trento. (power point presantation) https://www.oecd.org/dataoecd/56/38/35125185.pdf

Davey, Kenneth (1993): Elements of Urban Managemenet, Urban Managemenet Program by The World Bank

Hegedüs, József: Large City Administration in: Decentralization Briefing Notes (ed.: R. Ebel and G. Péteri), 2006, LGID, OSIS

Levitas, Anthony: Reforming Serbia’s Local Government Finance System. Journal of Public Administration, 28: 147–178, 2005. Copyright © Taylor & Francis Inc. ISSN 0190-0692 print / 1532-4265 online. DOI: 10.1081/PAD-200044550. Development Alternatives Inc., Bethesda, Maryland, USA

McFarlane, Susan (2001): Building Better Cities: Regional Cooperation in Western Canada. Canada West Foundation. October 2001

City Wide Neighborhood Governance and ‘Neighborhood College’ Initiative in Hampton, Virginia, USA. Hampton Neighborhood Office, 22 Lincoln Street, Fifth Floor, Hampton City Hall, Hampton, Virginia, USA 23669. www.hamptionneighborhoods.org

DAI, 2006: Financial structure of city of Belgrda, DAI, 2006