

STRAUSMANN, Jeffrey D.

ON THE MEANING(S) OF „CAPACITY” IN THE LITERATURE AND PRACTICE OF ADMINISTRATIVE REFORM IN TRANSITIONAL COUNTRIES -

Searching for Clarity (with an application to local government in Serbia)

Advice-giving, at least in its recorded form, can be traced to Niccolo Machiavelli's *The Prince*—and probably much earlier. A particular form of advice-giving, however, is of more recent vintage. Here, the author speaks about „capacity building” (hereafter referred to as CB) that involves the provision of technical assistance to organizational units, frequently governments, so that their performance can be improved. The assistance may come from a variety of sources; it may be aimed at different kinds of recipients such as the central government, local governments and non-governmental organizations (NGOs). The assistance can take various forms and, the assistance may emphasize different knowledge and skills intended to enhance capacity. The breath of assistance and its intent to enhance CB is, paradoxically its strength and its weakness. This, in essence, is the argument of the paper.

CB is a term that was used in the late 1970s to describe efforts to improve the ability of local governments in the United States to govern effectively. Over two decades ago Honadle (1986) identified the key elements involved in capacity building. In her model, CB includes the ability to:

- anticipate change
- make informed decisions about policy
- develop programs to implement policies
- attract and absorb resources
- manage resources
- evaluate performance (Honadle, 1986: 13-16).

The above list is not composed of unrelated elements. On the contrary, Honadle described them as a CB system. The system, in many ways, parallels the prototypical policy process where government actions begin with policy design which are then carried out through a series of programmatic activities followed by implementation and, finally, evaluation. The model, while basic in its design, is useful in identifying some of the key elements of CB used in the United States to improve local government performance as has been

very much part of the reform tradition since the 1920s but especially federal block grant programs from the late 1960s through the 1980s. Looking back at this period, CB was essentially about technical assistance efforts to improve the functioning of local governments in several different functional areas such as financial management, human resources and information technology. And, while there were a range of technical assistance providers during this period in the United States the type of provider and the form of assistance varied based on the interests of the parties (see Howitt – Kobayashi, 1986: 199-38). As I will argue below, this tradition of CB – CB as technical assistance – is still very much alive in the transitional countries of Eastern Europe and the countries of the former Soviet Union. What is different, as we try to articulate below, is that CB is now more expansive and includes donor sponsored initiatives that are intended to foster democracy and civil society.

CB in the context of developing and transitional countries does not have a standard meaning. It is a common term associated with efforts to transform the political economies of developing and transitional countries. CB is used to describe regime change since

the demise of communism in Eastern Europe in 1989 and the Soviet Union in 1991. The term is also used to describe a myriad of technical assistance projects funded by international and bilateral donors. But, for donors, CB does not end with technical assistance. Rather, donors have operated on the assumption that, by building capacity, governance systems and, more broadly, civil society, will be enhanced. While there seems to be widespread (tacit) agreement among donors and those who actually implement projects that CB is an essential element of democratic transformation, there is actually less clarity about what the term means and how it relates to broader system-wide goals.

Why is this topic important? The concept of capacity has been part of the lexicon of development administration for many years. Capacity, particularly when paired with other words, evokes a dynamic process whereby one can (implicitly) envision, and even eventually measure, progress from a given state of political, economic and administrative development to an improved level. Building capacity implies an image of starting from scratch where governments learn skills, tools and processes to improve performance (Grindle, 1997: 5-6). Capacity strengthening, in contrast, suggests enhancements to specific elements of government such as human resources or budget processes to move performance from an existing level to a higher level (Grindle, 1997: 7). Notice that capacity whether one builds it or strengthens it, has both descriptive and evaluative elements. While descriptive efforts to explain CB abound in the literature, invariably accounts of CB in specific countries tend to prescribe strategies that are more or less likely to have positive outcomes based on either benchmarking or an assessment by a bilateral donor such as the United States Agency for International Development (USAID) or an international donor such as the United Nations Development Programme (UNDP).

Macro and Micro Dimensions: What capacity is to be built, developed or strengthened?

CB has been applied to both macro and micro levels of transition – and this contributes to some of the conceptual muddle. The reason, in brief, is that CB is interchangeably used to refer to personnel, organizations and societal institutions. Macro level CB is really about institutions and how they shape governance. If CB is linked to governance, it would be conceptually important to include broad societal changes invoking new institutional forms and value transformations that go well beyond specific

management improvements. This macro perspective has been embraced by USAID in a monograph that draws links among improving governance, civil society institutions and the building of administrative capacity at the local level (Brinkerhoff, 1998). Macro dimensions establish a set of necessary conditions that precede specific management interventions. This would suggest that transitional countries would need to have certain preconditions in place if CB interventions are to succeed. These preconditions may include a minimum level of economic development, a threshold of political stability and receptivity of the governing elite to change. Another way to portray macro conditions is the now well known concept of social capital – a set of values and collective behaviors that provide the bedrock from which specific governance enhancements flow (Brinkerhoff, 1998). Macro conditions establish the environment within which capacity, especially local government capacity, can be assessed.

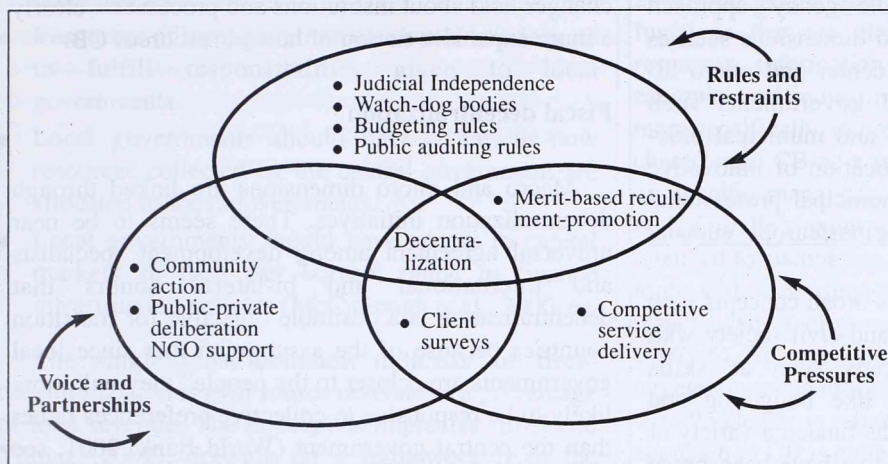
How would interventions presumably influence macro dimensions of capacity? We can answer the question inferentially by noting some of the bi-lateral donor programs and considering both the incentives of the donors and the recipients of assistance. For over a decade donors have financed projects designed to tackle corruption, transparency of governmental processes, rule of law initiatives, political party development and citizen participation. Projects have also targeted economic reforms, especially price liberalization, privatization and banking reforms. Donors have also encouraged the creation of a vibrant third sector and this has led to the proliferation of non-governmental organizations (NGOs) and voluntary organizations. Taken together, we can think of these initiatives as strategies to produce good governance and strong civil societies or, what I am calling macro dimensions of capacity.

What are plausible explanations for donor aid aimed at macro dimensions of CB like those mentioned above? When the donor is a government it seems reasonable to assume that strategic interests will have a major impact on the aid decision. To put it another way, CB is simply one form of foreign aid and will likely be used to advance the donor's national interests. International donors such as the development banks have an interest in supporting economic growth and stability. To the extent that current research demonstrates a positive relationship between macro CB and these two economic objectives it makes sense to support activities that enhance macro CB initiatives.

Macro approaches by their very nature tend to focus on central government ministries and offer either

Figure 1

Three Drivers of Public Sector Reform



Source: World Bank, „Reforming Public Institutions and Strengthening Governance: A World Bank Strategy,” April 2002, p. 7.

implicitly or sometimes explicitly models of democracy drawn from western experience (Wedel, 1998: 16). The building of capacity from this perspective includes major market oriented economic reforms and governmental changes to support them. This is why economic reforms, whether they took the form of „shock therapy” in the early 1990s in Poland and Russia, or gradualism, was eventually followed by a series of donor-inspired governance efforts to raise the profile of administrative reforms in government, tackle corruption, promote the rule of law and support the development of the third sector. Naturally little would change without improvements in personnel; therefore, various workshops and training programs have been financed by donors to affect changes in values and behavior since both are necessary if economic and political reforms are to take root. One severe critic of western aid to Eastern Europe in the 1990s pointed out that these efforts often ignored the innate strengths that existed in the recipient countries; instead, aid targeted selected „favorites” thereby failing to penetrate deeply into the respective transitional societies (Wedel, 1998). One is reminded here of Putnam’s earlier work (1983) on social capital, *Making Democracy Work*. The study shows how some of the elements of civil society are nurtured over very long periods of time thereby giving pause to externally financed donor initiatives that are supposed to redress substantial historical civil society deficits in relatively short order.

The World Bank’s emphasis on str8 measures (<http://www1.worldbank.org/publicsector/indicators.htm>). Descriptive and evaluative indicators are useful

because they allow researchers to search for patterns in the political economy of transition, identify major institutional requirements associated with good governance and provide benchmarks that can be used for assessing progress by individual countries. For example, some development specialists have argued that the creation of a viable non-governmental sector is essential for liberal democracies. Struyk (2002) views non-governmental organizations (NGOs) as central to policies and practices that

devolve responsibilities to lower level governments that, in turn, employ NGOs as local service providers. At the macro level a viable third sector is usually associated with a vibrant civil society. While there is general consensus that NGOs are a positive force in the evolution of civil society, there is less agreement about evaluative criteria to assess NGOs. A mere count of NGOs is clearly a flawed indicator since we now know from the experience of transitional countries that some NGOs may be poorly managed; some are not truly independent from government and sustainability is often a challenge. More broadly, a sobering conclusion of case studies of NGOs in post communist countries states, „In nearly every case the investigators found that the new institutions had weak links to their own societies” (Mendelson – Glenn, 2002: 22).

USAID, in some of its literature, mirrors the perspective of the World Bank takes an expansive view of CB by intertwining both macro and micro dimensions. In fact, USAID portrays local governments as the building blocks of democracy and civil society. Consider the following from the website of USAID’s Local Government Center:

“The democratization agenda speaks of free elections, the protection of human rights, openness and transparency in the workings of government, the active participation of an informed citizenry, and the accountability of public officials to their constituents. These qualities assume their most immediate form in cities and towns, where government functions in immediate proximity to the people and organizations it serves” (http://www.usaid.gov/regions/europe_eurasia/

dem_local_gov/brascii.htm). The USAID statement goes on to describe several attributes of effective local governments and it summarizes the agency's approach to CB by including broad macro dimensions such as legal and policy reform at the center and micro dimensions aimed at municipal governments such as professionalization of personnel and municipal practices, the identification and replication of innovative practices, and the creation of municipal professional associations (www.usaid.gov/regions/europe_eurasia/dem_local_gov/brascii.htm).

USAID's portrait of CB lumps broad concepts such as the promotion of democracy and civil society with specific local government needs such as skills development in specific areas like budgeting and financial management. USAID has funded a variety of projects for more than a decade that have been broad gauge and others that are narrowly targeted. The list is quite extensive and includes specific housing programs in several countries, citizen participation, strategic planning, and financial administration. Despite over a decade of projects there is no model linking macro and micro dimensions of capacity in a conceptually elegant way. One veteran development administration specialist was particularly critical of the expansive use of CB and argued that CB is fundamentally about human resource management – specifically, improving the skills and quality of government personnel (Cohen, 1995). Cohen went further to draw the direct connection between personnel and performance. „Given limited resources and the pressing problem of improving governmental performance, it is essential to target capacity building on specific types of personnel” (1995: 411). From his perspective CB should focus on the recruitment, training and retention of skilled personnel for strategically placed government organizations if performance is to be improved.

There is no doubt among both scholars and practitioners in development that improving human resources is a key element in CB. But human resources management as the key CB challenge is not without its conceptual and operational problems (Honadle, 2001). Measures such as educational achievement as a proxy for the quality of human resources have been used to gauge CB; however, using education as a crude indicator for quality in Eastern Europe would misdiagnose CB needs since formal levels of education are actually high by international standards. Donors have quite rightly observed human resource deficits in the region. Yet, while many technical assistance projects have tried to improve the quality of

government personnel in the region, they have gone beyond skills development to try to change value changes held about institutions and processes – clearly a more expansive notion of human resources CB.

Fiscal decentralization

Macro and micro dimensions are linked through decentralization initiatives. There seems to be near universal agreement among development specialists and international and bi-lateral donors that decentralization is a desirable objective for transition countries because of the assumption that since local governments are „closer to the people” they will more likely to be responsive to collective preferences rather than the central government (World Bank, 2001; see Blair, 1998 for a description of USAID efforts in six countries. For a critique of decentralization see, Azfar et al., 1999). A host of positive attributes are associated with decentralization including enhanced accountability, a closer correspondence between willingness-to-pay for services and the higher likelihood that corruption will be controlled in decentralized systems than in centralized systems (see Azfar, et al, 1999). Returning to figure 1, decentralization is at the center of the overlapping concentric circles and this indicates that the various drivers that promote public sector reform should also foster decentralization.

Strategies to advance the process of decentralization have been advocated by international and bi-lateral donors for over a decade (see Cohen – Peterson, 1999). Projects vary, of course, but they all tend to have the objective of strengthening the role of local governments in public affairs and encouraging local governments to be „laboratories” for democracy. Yet, even though there is consensus about the goal of decentralization, there is less agreement about the actual measures that reveal progress (or lack thereof) toward the goal.

Fiscal decentralization shows more promise. Prescriptions about the optimal characteristics of a sound intergovernmental fiscal structure have permeated public finance for over four decades and have served as the bases for specific recommendations to transitional countries. Consider the following list that is taken from a final report on municipal finance reform proposals for Bulgaria, authored by researchers from the Urban Institute and financed by USAID:

- Local governments should have adequate own source revenues.

- Local resources should include local taxes and fees; local governments should set their own rates for taxes and fees.
- Resources of local governments should be adequate to fulfill responsibilities given to local governments.
- Local governments should have a say in how resources collected by the central government are allocated to local governments.
- Local governments should have access to capital markets so they can borrow funds to finance infrastructure projects (McCullough et al., 2000: 6).

The single most common indicator of fiscal decentralization is own source revenue as a percentage of total revenue. The concept is imprecise. Ebel and Yilmaz (2002), drawing on a framework from the Organization for Economic Cooperation and Development (OECD), show that subnational revenues can be organized into three categories – tax revenues, non-tax funds and intergovernmental grants. Next, it is important to determine whether local governments have significant control over the tax base and the tax rate. If the answer is in the affirmative, we can say that local governments have control over own source revenues. Ebel and Yilmaz review the revenue structure of six transitional countries and show that subnational governments have little control over their fiscal destinies (2002: 9). Since fiscal decentralization is so widely touted as a positive goal to strive for in transitional countries, more fiscal autonomy, as measured by the percentage of revenue that is controlled by local governments is an indicator of improved capacity.

Local government capacity

At first blush the concept of capacity seems to be more straightforward when we focus specifically on the core functions of local government that would enhance their performance. In one form or another, the functions turn on effective management practices and this would apply to local governments anywhere, not only governments in developing and transitional countries. Consider a study financed by the Pew Charitable Trusts that was conducted by researchers at the Maxwell School of Syracuse University known as the New Jersey Initiative. According to the study, management capacity is „government's intrinsic ability to marshal, develop, direct and control its human, physical, and information capital to support the discharge of its policy directions. That is, management capacity concerns the

extent to which a government has the right resources in the right place at the right time” (Maxwell School, 2002: 9). Notice that the statement hints at specific functions that are elements of management--human resources, information technology, local finance, for example--and indicators that can show movement or, more specifically, improvement. This framework would characterize CB as a process of targeted interventions on specific management functions. This is consistent with Grindle's point: „the term capacity building is intended to encompass a variety of strategies that have to do with increasing the efficiency, effectiveness, and responsiveness of government performance” (Grindle, 1997: 5). So, even though the New Jersey Initiative targeted municipalities in the state and New Jersey and Grindle clearly is referring to developing countries the approach to CB is quite similar. The approach has three logical stages. First, a model is developed that identifies core competencies central to local government capacity. Second, indicators for each core competency are developed and used to assess progress between two time periods for each competency. Third, an overall assessment is provided that gives a summary estimate of local government capacity for the municipalities under review. In principle, this allows for comparison across municipalities and over time. Technical assistance projects funded by bilateral donors have emphasized core competencies as the fundamental feature of CB. The final reports of several USAID funded projects in Eastern Europe over the past decade show a predictable approach to international development. The diagnostic initial step surveys core competencies followed by a plan for remediation. The goal is generally to enhance the skills of local employees through a series of interventions – workshops, train-the-trainer programs, and pilot projects – intended to enhance local government performance.

An intriguing paper from a researcher at the World Bank suggests that the lack of integrity at the local level hampers CB (www1.worldbank.org/wbiep/decentralization/topic_13). Building integrity is not about building skills but, rather, instilling values. According to this perspective CB should focus on integrity enhancing mechanisms – reducing corruption by instituting measures such as transparency and accountability processes, financial disclosure requirements, competitive bidding and other mechanisms associated with open government. What is important about this perspective is that it shows how CB and integrity are intertwined in any serious efforts to improve government performance.

While the notion of linking capacity to integrity is appealing, it does not enhance conceptual clarity since it brings us back to a macro perspective about CB. If capacity is about fundamental values such as integrity, then CB would really be about the long term gestation of significant value changes that should be preconditions of specific operational improvements to organizations, personnel and their performance. There is some logic in this perspective. Consider the issue of corruption. There are two ways one could think about corruption. Corruption could be approached as a series of „technical” challenges involving pay levels, accountability measures and enforcement mechanisms. Alternatively, corruption can be viewed at the macro level as a problem of societal values that would need to change before operational measures would likely succeed. Interesting work by Miller, Grodeland and Koshechkina (1998) shows that the giving of „gifts” to government employees – a more neutral word than bribes – is widespread in Eastern Europe and accepted as a routine way of doing business. Indicators such as Transparency International’s corruption index or the European Barometer Survey do help to gauge changes in societal values but these measures do not inform the impacts of governmental efforts to reduce corruption at the operational level.

Financial management and CB

It is easier to discern bi-lateral and international donor support for specific operational CB efforts in the area of financial management. Financial management is on every organization’s CB list and a review of projects throughout the region shows consistency in topics and approaches. For the purposes of this paper we define financial management as a system through which governments „levy taxes to operate and use tax money to fund public functions with strict management through budgeting and appropriating, checking and controlling, and reporting and auditing” (The New Jersey Initiative: 33). The following criteria have been used to assess financial management practices at the local level in the United States:

- Government has a multiyear perspective on budgeting.
- Government has mechanisms that preserve stability and fiscal health.
- Sufficient financial information is available to policymakers, managers, and citizens.
- Government has appropriate control over financial operations (New Jersey Initiative: 13)

Financial management practices in countries of transition rarely meet the standards above. Rather, consultants have tended to focus on core competencies that include budget process guidelines, the elements of financial transparency, and selected practices surrounding capital budgeting decisions and infrastructure financing. In countries where local officials have little experience with financial management practices, consultants have worked with local associations, pilot cities, initiated train-the-trainers workshops and conducted training sessions to initiate local government personnel in the key elements of a local government budget process from budget preparation, review and legislative approval. Clearly, the role of the local legislative body was crucial since elected legislators tended to have very little experience with their roles and responsibilities in making appropriations decisions and monitoring expenditures of line agencies.

Even with a supposedly technical subject area like financial management, the line between skills development and the broader conceptual qualities of CB is blurred. Specifically, the concepts of accountability and transparency have been new concepts in most transitional countries; therefore, the challenges are not only related to lack of knowledge and lack of skills but, in addition, one of mindset and orientation. Fiscal decentralization is instructive here because local governments in many countries remained very dependent of central government resources throughout the 1990s. While the experiences throughout Eastern Europe and the countries of the former Soviet Union vary during this period, suffice it to say that most countries passed legislation that, in principle, increased local government autonomy, but the actual implementation of the legislation varies greatly from country to country. Implementation of fiscal decentralization initiatives has been influenced both by the knowledge and skills of local government personnel and political will.

The case of Serbia

In this section I use the case of Serbia to illustrate some of the dimensions of CB that have been identified in the previous sections. Serbia is hardly the typical transitional country given its history since 1991; nevertheless, current attention to the country by bi-lateral and international donors mirrors efforts that have been made in other, more stable, countries. This section describes the history of local governments in Serbia and then describes and analyzes selected CB efforts.

Serbia has a long and complicated history. Suffice it to say that, for the purposes of this paper, I will be focusing on one republic in the latest incarnation of the country that is now called Serbia and Montenegro. Serbia and Montenegro is a federal republic with a parliamentary form of government with a relatively strong, directly elected President in each republic.

The history of Serbia is marked by distinct oscillations between periods of vitality of local governments, and times when local autonomy was stripped by a highly centralized state. For example, during the period of Ottoman rule, minimal local authority existed mostly at the village level. But, given the difficulties of ruling a large empire, the Turkish rulers appointed local individuals to manage specific tasks such as tax collection. This modest amount of local authority, primarily a matter of convenience for the Ottoman rulers, provided a modicum of self governance that continued after the demise of the Ottoman Empire.

Although the 19th century witnessed fluctuations in local government autonomy, it was not until the creation of the Kingdom of Yugoslavia in 1918, that local self-government underwent a series of structural changes that, in the broadest sense, established municipalities as we know them today. Through new laws and decisions by King Aleksandar, local self-government moved from a three-tier organizational structure between 1921 and 1929, to a hierarchy of administrative regions in 1929 (region, county and municipality). In 1934, city municipalities were officially differentiated from other types of municipalities. While municipalities were officially recognized, their power was greatly limited. Municipal assemblies depended on the approval of the two higher administrative levels to make financial decisions. Furthermore, municipal leadership could be disbanded by the decision of a higher administrative region head.

After World War II and the creation of Marshall Tito's federal political structure, local autonomy experienced a renaissance in socialist Yugoslavia. This was done to accommodate the political realities of the republics with their variation in religions, ethnicities and different levels of economic development. The People's Liberation Committees, the basic units of local decision-making during World War II, became the post-war building blocks of local self-government. A 1952 law officially established the People's Committees, bicameral entities with local decision-making power. Advisory subcommittees were formed to handle areas of local public concern such as education, health, and agriculture. For the first time, referenda were introduced as an official way of

gauging public opinion and local budgets were funded both through local taxes and state transfers.

Tito's brand of socialism encouraged, at least at a superficial level, some support for the ideological principle of the „vanishing state.” People's communes, not local governments per se, were the basic organizing units of society. In this communal system, governance happened from the bottom up, instituted and led by the citizens themselves. Citizens participated through referenda and the formation of citizen action groups. Neighborhood organizations were introduced at the sub-municipal level. While the authority of these local units was limited, the neighborhood organizations provided another conduit for public participation in local government.

The Yugoslav federation broke apart in 1991 and war ravaged the former Yugoslav states through most of the decade – a history that is familiar to informed readers of current events. There is no need to dwell on the Milosevic era other than to point out that political power was highly centralized thereby eviscerating any of the vestiges of Tito's decentralization efforts. While municipalities still remained the main form of local government, they had very little real authority. During this period, the Serbian government passed two laws on local self-government, one in 1991 and one in 1999. Unfortunately, neither one truly protected the rights of local self-government. For both laws, the municipality was seen not as an autonomous unit, but rather as an extension of the central government's power. The laws did little to differentiate between the powers originating in the local government and those transferred to it from the state. Local governments operated within the powers explicitly allowed them by the central government, and the government of Serbia had the power to dismiss the municipal assembly and invalidate local statutes.

The outcome of the 2002 elections signaled the most recent turnaround in the status of Serbian local government. Democratization efforts following Milosevic's political demise have once again reemphasized the importance of strong and transparent local government. Following a decade of war, state-level corruption, international sanctions and economic decline, Serbia is once again turning toward an earlier tradition of community participation and self-government. A new Law on Local Government was passed in February 2002 giving greater authority to local government, and establishes the legal process for appointing municipal and city officials. The law decentralizes state power and brings Serbia one step closer to European standards of governance. The law

that took effect on March 6, 2002, gives mayors and municipal heads greater authority, allows the formation of national minority councils in municipalities with ethnically mixed populations, and introduces the ombudsman institution to local self-government. The law takes initial steps toward reforming Serbian institutions and governmental relations, but the actual process of reform is still tentative making this law transitional at best.

Characteristics of Serbian Municipalities

Most Serbian municipalities follow a typical design of an urban center surrounded by a number of village centers. The capital city of Belgrade (2 million inhabitants) and the cities of Novi Sad (300,000), Nis (250,000) and Kragujevac (170,000) are officially distinguished as cities. City status entitles the four jurisdictions to a greater share of federal tax revenues than other local governments.

Serbian municipalities are rather large in comparison with other European municipalities and have on average 60,000 inhabitants. By comparison, French municipalities have, on average, 1,500 inhabitants, German 5,000, Swedish 20,000 and British 40,000 inhabitants. Municipalities in Vojvodina, the northern Serbian province, are on average more economically developed than other Serbian municipalities due, in part, to the historical influence of the Austro-Hungarian Empire that had fairly developed standards of urban governance processes including various forms of citizen participation. In contrast, municipalities in the middle and western parts of Serbia are not as well spatially arranged and vary more by wealth and type of economic activities. Čačak and Gornji Milanovac, for example, are economically successful cities of small and medium enterprises with developed entrepreneurial culture, while Užice, Kraljevo, Kragujevac and Smederevo are industrial and service cities (all in decline). Going further east and south, we find the least developed Serbian municipalities. There, the remnants of the Turkish Empire's rule are still evident in the architectural and cultural traditions of the land. Light industry is dominant in this region. Niš is the most developed industrial, university and service center. Leskovac, Pirot and Vranje are smaller but well developed centers. On east Majdanpek and Bor are mine centers and Negotin has developed chemical industry. Novi Pazar in the southwest is traditionally famous trade center with dominant Bosnian population, in which economy of small and middle enterprises blossom.

Under the new law on municipalities governments have a wide range of service obligations; however, there is a lack of clarity as to what functions are obligatory and which ones are optional. The present scope of local government services is mostly identical to classical functions: water and gas supply, sewage system, cleaning, collecting and waste disposal, central heating, public transport and infrastructure, kindergartens; primary education and health care, housing, planning and urbanism, cultural institutions (museums, library and theaters); social support, environmental protection, sport and recreation and economic activities. In order to realize all these competences successfully local government needs permanent and adequate sources of finance. Fiscal and financial autonomy is at the very core of local autonomy. The Serbian parliament passed legislation that is aimed at clarifying the nature of municipal property and specifying the budgetary conditions of municipalities in the country. While the legislation is intended to outline the fiscal character of local governments in Serbia by making finances more transparent, the key problem of financial autonomy for local governments remains a most pressing problem since the fiscal structure is still centralized. Municipalities still do not have their own property (and therefore are not legal entities), and do not have the authority to create and raise municipal taxes. Pricing and fee setting for local government services are haphazard at best, nor is there a rational way to sort out financing responsibilities between the central government and the local governments when central government agencies use municipal services like buildings, roads, water and sewage, and electricity, without any budgetary offsets for the municipalities.

Local government revenues can be grouped into two categories, own source revenues and shared revenues. Own source revenues include communal taxes such as taxes on building space, fees for using municipal capital stock and income from economic activities and services. Shared taxes are all taxes that are shared between the central government and local governments. The most important are the sales tax and the income tax. They alone make up more than two-thirds of local budgets. Other taxes include taxes on property, on inheritances and gifts, and traffic fees.

Total revenues for all municipal budgets in Serbia for 2002 were 450 million EUROS. Given the size of Serbian municipalities, on average, the budgets of Serbian municipalities are 150 to 200 times smaller than those of municipalities in Western Europe. During the decade of the 1990s municipal budgets continually

eroded and, by almost any measure, have been insufficient to cover basic citizens' needs. In 2001, the budgets were doubled through the inclusion of taxes on sources previously considered to be part of the „gray economy” (taxes on cigarettes, alcohol and selected luxury goods), and through adjustments because of inflation.

On the expenditure side, municipal budgets are barely able to support basic communal services; capital projects have been ignored for years. Even the maintenance costs of basic infrastructure such as water and sewers, public buildings, streets and roads, and public transportation are severely underfinanced. The same pattern applies to primary education, health care, cultural events and social assistance where needs invariably outstrip available resources.

Developing Local Government Capacity for Municipalities in Serbia

Given the conditions of local government in Serbia described in the previous section, it is not surprising that bilateral and international donors are now funding CB initiatives. The Serbian Local Government Performance Program (SLGRP) is a four-year program initiated in October 2001 by the consulting firm Development Alternatives, Inc. (DAI), under contract to USAID. Funded at \$24.7 million, SLGRP expects to work with fifty Serbian municipalities „to improve municipal management and capacity in the following areas: Citizen Participation, Information Technology, Financial Management, and Communal Enterprise Management” (About SLGRP, n.d.). SLGRP's goals also include strengthening the Standing Conference of Towns and Municipalities, the Yugoslav municipal association, and support for policy reform. The areas of CB are as follows:

Financial Management – defined as the ability of local government to set public service fees, adopt local tax levy rates, and implement local policy to meet needs of the local populations. Included in this area are financial management tools such as accountability and transparency (Serbian Local Government Reform Program, www.slgrp.usaid.org.yu, January 16, 2003).

Communal Enterprise – defined as working on „improving the management, technical operations and public relations of the communal enterprises through training and technical assistance, while at the same time capitalizing on opportunities to reform policy and fostering linkages to sources for capital project funding.” SLGRP hopes to accomplish this by:

- 1) Conducting Management Training
- 2) Improving Operations and Maintenance
- 3) Increasing Public Accountability
- 4) Establishing Community-Based Service Standards
- 5) Increasing Access to Technical Developments in Operations

Information Technology – LGRP is enhancing IT support for everyday functioning of Serbian municipalities. It does so by:

- upgrading data management and communication systems in local government;
- establishing a national internet-based municipal information system;
- providing municipal management software training municipal staff in basic information technology applications (http://www.slgrp.usaid.org.yu/eng/six_areas/inf_technology.html).

Citizen Participation – is defined as „including citizens in decision-making and of ensuring that municipal government is a service-oriented operation. Citizens and NGO's should feel that municipal government is accountable to them. The citizen participation is supposed to increase citizen satisfaction with and confidence in their democratic municipal governments, as measured by changes in specific attitudes about the municipality's overall performance, openness, and inclusiveness in decision making” (http://www.slgrp.usaid.org.yu/eng/six_areas/asc_dev_elopment.html).

Association Development – refers to the effort to support the Standing Conference of Towns and Municipalities of Yugoslavia. „As the organization of local governments, the Standing Conference can become a major instrument for increasing the capacity and competence of local governments, their leaders and staff.”

Policy Reform – means „to support the development of institutional, advocacy, and policy research environment that will facilitate the continuous improvement of Serbia's system of local democracy, including the further decentralization of public services to appropriate levels of sub-national government. The Policy Reform Team exists to improve the abilities of all relevant stakeholders to engage in informed and constructive policy analysis, formulation, and debate” (http://www.slgrp.usaid.org.yu/eng/six_areas/pol_reform.html).

The areas selected are part of a program put together by DAI under contract to USAID for a multiyear

project aimed at improving the capacity of local governments in Serbia. The SELGRP project has a straightforward logic that combines efforts to promote policy reform, provide training and technical assistance, build capacity and enhance the ability of local governments to advocate on their collective behalf in national politics. Fifty local governments are expected to participate in the program by 2005. A careful look at the structure of SLGRP illustrates the interaction of macro and micro dimensions of CB and descriptive and prescriptive components as well. This is illustrated in *figure 2*.

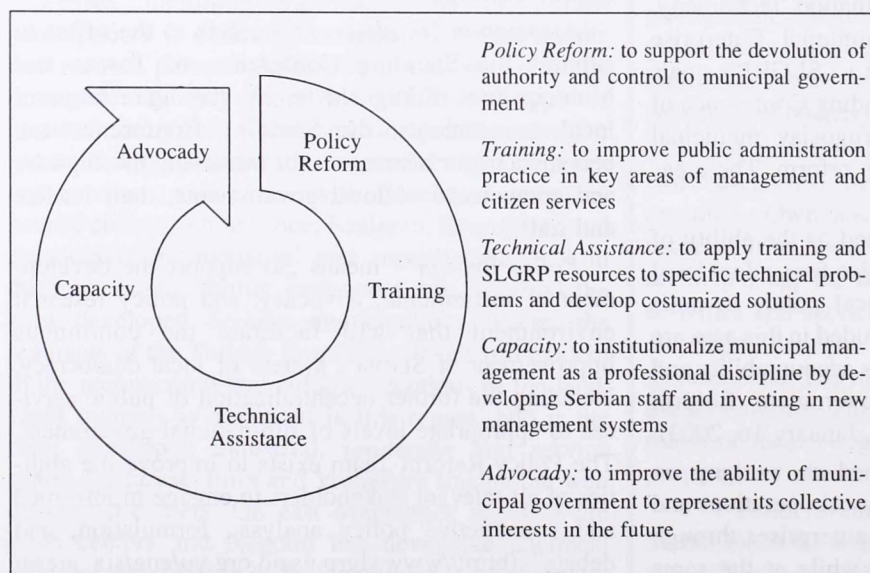
It would be a stretch to call this a model. Rather, SLRP seems to combine many of the features of CB that have been outlined throughout this paper. For example, the project, like many projects that have been funded throughout Eastern Europe and the former Soviet Union over the past twelve years, presumes that decentralization is a prerequisite for democratic transition. This is what the overriding policy reform is all about. Everything that follows from this belief is designed to help Serbian officials and citizens at the local level develop both the political and technical capacity to govern effectively. To accomplish this broad goal, SLGRP tries to facilitate a change in political culture while providing concrete skills to local government employees. A simple example comes from the area of financial management which, in the

SLGRP framework, includes the introduction of public budget hearings as an integral part of financial management. Clearly what the project is trying to do is to nurture democratic values by changing the ethos of public officials – by implementing mechanisms that advance transparency and accountability. This is seen in the following testimonial of the head of the Economy Department of Loznica who commented, „The most important thing SLGRP taught us is that everyone must take part in the strategic planning process. That means all parties – those in power and those that are not...and all the citizens” (SLGRP Newsletter, Issue No. 2 December 2002 – March 2003, p. 5).

Clearly SLGRP takes an expansive view of CB. Capacity is viewed not only as a series of specific skills building initiatives for local government employees but, rather, a broad effort to transform governance at the local level in Serbia. Again, testimonials provide a clue to SLGRP’s orientation. In the project’s December 2002 – March 2003 newsletter there is an article with the heading, „Fear of the window clerk tops list of citizen concerns” (SLGRP Newsletter Issue No. 2 December 2002 – March 2003, p.1). The image, to anyone with experience in Eastern Europe and the former Soviet Union is clear: It is the image of a rather low level municipal employee who is supposed to provide „front line” service to citizens who simultaneously exerts arbitrary power, indifference to service and performance, and even incompetence – with little or no oversight from superiors. Given this reality SLGRP has, as one of its goals, the intention to change this culture. The story continues, „Since the very essence of democracy lies in the decentralization of authority and increased community control, it is local government which must provide the greatest degree of transparency and accountability” (SLGRP Newsletter, Issue No. 2: December 2002 – March 2003, p.1). It is not surprising, therefore, that the most recent issue of the project’s newsletter has announced the opening of the first citizen assistance center in Serbia in Zrenjanin City Hall to improve the quality of services to residents by spe-

Figure 2

Serbia Local Government Reform Program



Source: Serbia Local Government Reform Program, „Program Implementation Update – One Year Later,” Development Alternatives, Inc., contract: EEU-1-00-99-00012-00, Task Order 803, processed, nd.

eding up the process of providing documents, eliminating the physical barrier between employee and citizens and inculcating the value of service in government employees. What is important about these recent efforts is not the effectiveness of the initiatives, since it is much too soon to assess their impact, but the logic behind them. SLGRP, like many USAID funded projects in the region approaches CB broadly and seems to draw (implicit) connections among systemic decentralization goals, very specific skills training and the ultimate goal of building civil society.

Is Serbia Different?

The recent history of Serbia suggests that building capacity at the local level would be different from the experiences in Eastern Europe and the former Soviet Union. While there is no single transition trajectory, the sad history of the former Yugoslavia during the 1990s, especially the rule of Slobodan Milosevic, the ethnic cleansing in Kosovo, the subsequent NATO bombing of Serbia, the popular uprising against Milosevic following his attempt to steal an election followed by the ongoing war crimes trial in the Hague would all suggest that Serbia's challenges are different and more complicated. Yet, the CB effort as illustrated by the SLGRP project follows a well established framework. The project adapts conceptual approaches and training methods that have been used throughout the region for over a decade to the Serbian local context. The project appears to be a blend of conventional wisdom, or what might be called a „CB transition paradigm” with its embedded „best practices” derived from previous CB projects in other transition countries. CB personnel tend to move around from one transition country to another; therefore, it is hardly surprising that concepts and methods represent knowledge transfer by default. Similarly, CB methods tend to be repeated across the region – workshops with local government participants, pilot cities as learning cases and train-the-trainers programs.

Like earlier USAID funded projects, the approach to CB in Serbia is multifaceted, includes macro and micro dimensions, and combines skills development with broad normative objectives. Certainly, at the rhetorical level, the Serbia project is consistent with USAID's strategy to enhance governance, stimulate democratic practices at the local level and nurture civil society. It is too soon, of course, to assess the project directly. What is clear is that the approach is not new or especially unique to Serbia. Of course Serbia has many features found in other countries in the region –

opaque administrative practices, low basic skills of government employees, high levels of corruption and no substantial history of democratic values. CB in Serbia is aimed at improving all of these features of governance. Democratic values clearly shape the specific goals of developing a professional association of Serbian municipalities so that they lobby the central government on their collective behalf. Similarly, instituting open budget hearings and „one-stop shopping” processes in selected municipalities are designed to enhance transparency and responsiveness. Who can quibble with these innovations?

In sum, this paper's excursion into the concept of CB highlights the imprecision of the term. But more important than conceptual elegance is the fact that projects aimed at enhancing capacity really have had very broad and sometimes unclear goals. CB suffers from the classic „chicken and egg” problem. Should externally funded change agents try to focus on initiatives that try to shape core values in the expectation that improvements in government performance will eventually follow? Or, conversely, should the focus be the other way around – attention on technical improvements with the expectation that raising skills will cumulatively lead to value changes? One could interpret this observation as a sequencing dilemma. But it is more than this. At root, CB really is about the accumulated knowledge that, in principle, comes from years of experience in developing and transitional countries. But, if there is any truth to my argument, the cumulative knowledge is very limited at best. Fiscal decentralization is a good example. While there is widespread agreement that fiscal decentralization is a desirable objective, there is actually little empirical evidence about the administrative requirements that are necessary conditions for successful decentralization initiatives. Finally, CB is practically silent about the role leadership plays in steering transitions. This is not merely an oversight. Rather, it stems, in part, from the structure of CB projects that try to instill „hard” skills. Yet, more and more evidence shows that leadership affects whether or not change will take root.

Nation building, or more accurately, regime transforming initiatives obviously take years – well beyond the funding commitments of bilateral and international donors. This would not, in itself, be problematic if expectations are consistent with political and economic realities. Conceptual precision may be an elusive goal to strive for in the world of donor funded CB projects. Yet, improving conceptual clarity may have the value of bringing project expectations in line with what is feasible in the medium term.

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