

Public Service Reform in Serbia

*Snežana Đorđević**

UDK 351.711(497.1)
Pregledni znanstveni rad / review scientific paper
Primljeno / received: 12. 7. 2011.
Prihvaćeno / accepted: 15. 11. 2011.

There is a general tendency in public sector reform in democratic countries to transform the welfare state to the entrepreneurial one. The paper is focused on public sector reform in Serbia, including general political and economic environment. The analysis is based on the studies and empirical research, especially on the two studies (both conducted in 2009), one about the capacities of local government in Serbia, and the other one on local public enterprises in Belgrade. A case study on public enterprises in Belgrade (metropolitan region, the capital of Serbia) shows the state of public sector reform in Serbia: legal and economic environment, organizational and managerial capacities of public enterprises, the way of functioning (professional vs. political criteria), the method of public service provision, citizens' needs, and the quality of public services.

Key words: public sector reform – Serbia, local public services, public enterprise, competition, price, quality, efficiency

1. Public Sector Reforms in the World

During the 1980s, the public sector was reformed in many democratic and developed countries in the world. There are three main reform mo-

* Professor Snežana Đorđević, Faculty of Political Science, University of Belgrade, Serbia (redovita profesorica Fakulteta za političke nauke Univerziteta u Beogradu, Srbija, e-mail: sneska152@gmail.com)

dels (American, Westminster, and Scandinavian) with a specific scope of intervention and manner of implementation. In each of them, the state and local governments left monopolistic position in providing services in a number of fields, making room for including the private and third sectors. The governments established the competitive relationship between the potential providers in order to provide the best quality, availability, adequacy of services to citizens' needs, as well as the lowest prices (Peters, Van Nispen, 1998: 218–221).

The institutions in the public sector are pushed to upgrade the quality of organization and management: financial, budget, project, information, capital, human resource management. They encourage creativity and develop flexibility of offer, procuring upgraded quality of services, greater availability and wider scope of services at lower prices. This process is substantially focused on satisfying citizens' needs and has had good results all over the world.

A wide scope of instruments has been implemented, from classical to the new ones. The governments have shown great flexibility, creating the best institutional arrangements for each project and specific situation. They have also accepted a flexible attitude toward the legislative (regulatory) process in general: they regulate the basic principles and leave it to participatory organizations to regulate certain part of the process based on circumstances and the public interest (deregulation).

Besides deregulation, governments have been using various legal instruments, such as vouchers and contracts (Salamon, 1989: 40–46). Governments also implement economic instruments, such as tax relief, franchises, concession, incubator business centres, free trade zones, business improvement districts, etc. One of the complex instruments is the public private partnership (PPP) for implementing a number of capital projects for which the public sector alone would not have sufficient resources and capacities. Public private partnerships are implemented by contracts, which precisely arrange the relationship between the government, the service providers and the users.

Stimulation of economic development, as a new local government function, has been supported by the state by a number of measures such as subsidies, stimulations, tax relief, etc. for certain new projects that require some time for strengthening and development. Incubator business centre, as a complex instrument, makes possible for new business or programmes to gain strength and to become sustainable.

Voucher system is also an interesting innovation that changes the way of financing public services. Money is not given directly to public instituti-

ons (schools, health or welfare centres) any more but directly to the users (in the form of a voucher) to pay for the service (education, health and welfare, housing etc). Thus, citizens can choose (public choice) public or private institution in which they will buy the service. Through this system, institutions are made to offer the best possible quality of service having in mind the users' needs, and to upgrade the way of delivering services (courtesy, openness, availability, flexibility, transparency, etc).

Nowadays, the private sector delivers various public services, such as garbage collection, disposal and recycling, water production and distribution, gas, electricity etc. It provides private schools, health care centres, welfare centres and institutions, dentist offices, private prisons, and implements large capital projects (building sport and cultural centres, etc.) (Raphaelson, 1998: 90–100).

The state and local governments include a system of standards in each field, and through them, they monitor and measure the quality of services (benchmarking). This system is transparent and friendly, and citizens and public service users can control the quality, efficiency and equality in public service provision, as well as the adjustment of these services to citizens' needs.

In that new environment, the state and local governments must control the total quality of public service provision, control private subjects, and guarantee that the services will not fall under certain quality standards. For that purpose, a number of instruments are used and one of the most important is a good contract with quality control indicators.

2. Comparative Experiences

The reforms of public and communal enterprises are very interesting. The scope and the content of these changes vary, as well as the implemented instruments. The basic purpose of the reforms is an attempt to upgrade the efficiency of public enterprises and the quality of their services, to stimulate reinvestment in technology and the adoption of quality standards. In European countries in transition it also means implementing EU regulations and better use of EU funds and other financial sources (Lorraine and Stocker, 1997: 1–27).

All the countries have developed a strategy to answer the dilemmas of privatization: in which field and for which services, when, and how to combine it with other instruments. General experience is that there are huge differences between various fields and services, and these specifics have to

be taken into consideration. The process of privatization often demands implementation by phases in order to produce good reform results. Some of the most important factors of the process are good legislation, clearly defined procedures, and transparency of work (Public Service, 2000; Salamon, 1989: 1–40; Raphaelson, 1998: 65–70; Salamon, 2002: 1–32; Green, 2002: 339–352).

In the countries in transition, adaptation to market conditions, to competition, and privatization represents a special challenge, together with the attempt to escape the weaknesses such as corruption, new monopolies, and other pathology forms. Fast and poorly planned privatization often leads to the erosion of local property, to increased unemployment, to new monopolies, to lower quality and rise of public service prices, etc.

Upgrading the quality of organization and management of public enterprises demands intensive work with employees. It is always a complex task, and the more so in a country in transition, to have a number of employees dismissed from the service, to be obliged to recruit good experts and managers and to include permanent training for team work.

3. Local Level Experiences

Such reform processes demand considerable investments and, therefore, the question of financing is always important. The manner of financing defines the type of arrangement, as well as the rhythm of changes.

The analyses often show poor capacities of small enterprises and the need for creating public enterprises with a capacity to serve a number of communities. It was a special challenge for transitional countries where each municipality would not give up the control of its own public enterprise. Municipal leadership also worried about possible failure of mutual cooperation and they did not feel easy about the permanent obligation of cooperative planning, providing services, defining the prices and measuring the effects and quality of public services. However, eventually it turned out that the practice of municipal cooperation is rather successful and satisfactory to all the actors and service users.

A rich practice of cooperation between the public and private sectors and of establishing various forms of public private arrangements and partnerships is a refreshing experience. Contracting has proved to be a useful instrument for defining the regime of service provision, for setting the quality standards for monitoring, measuring and evaluation of users' satis-

faction and for limiting prices. There has been a great change in the way a number of countries work (SKGO, 2007: 1–5).

It is a permanent field of education, especially for local government, because they have to define precisely minimal quality standards for each service, the scope of prices, and the rhythm of service provision. They also have to put the private partner, through the contract, in the position to be publicly responsible.

4. Practical Models

There are a number of models for the reform of public and local public enterprises (LPEs). Numerous factors have influence on the final choice of the model in each country, such as local needs and circumstances (SKGO, 2007: 1–5). LPE can be more or less transformed with regard to the legal form and property structure, and the scope ranges from the models that do not have such transformations but only correct the quality of organization and management (Scandinavian countries), to the models that adopt some or occasionally all changes.

In the case of changes of legal form (joint venture, privatization, etc.) the enterprise may have one of the following forms:

- a) Privatization of up to 100 per cent of capital;
- b) Establishment of a new enterprise with public (municipal) capital in the form of shareholder company, in order to function successfully on the market, and to provide services, defined by the contract, to the rest of LPE;
- c) Establishment of a joint venture company with a private partner who has capital, or with some other LPE.

The following three models often appear in practice:

1. Stocks of LPE are not sold, but distributed: 70 per cent to municipality and 30 per cent to employees. This model can forbid further selling of stocks without special permission of certain state institution (but not necessarily).
2. Forty per cent of LPE stocks (connected to vital LPE activities) stay in municipal or state ownership, 30 per cent of stocks are sold to the strategic partner and 30 per cent are distributed to employees and citizens. This model can forbid further selling of

more than 49 per cent of stocks without special permission (but not necessarily).

3. LPE as a stock company negotiates with a private, strategic partner in order to establish a new mutual enterprise from the property of these two subjects. Final relationship of the public and private capital can vary, and the ratio is often 51 : 49 or 49 : 51, mostly depending on the adopted reform strategy in the particular country (SKGO, 2007: 34). Some authors called this model capitalization and some defined it as a form of contract privatization. It is often used in central and eastern European (CEE) countries, causing problems because of the troubles with appropriate assessment of the value of the private partner's property.

For successful implementation of these new models, it is necessary to prepare good regulation and strategy, to define the role of each partner, to foresee possible problems and find optimal solutions. In a number of CEE countries, the establishment of a large, county- or region-based enterprise, with the task to provide a wider scope and better quality of services, has turned out to be great success and has opened access to various financial funds for modernization and development.

Public enterprises can make specific contract arrangements with the private partner and the most important of these are:

1. Service Contract, SC – between the provider and the user who define the quality, the price of service, mutual responsibilities of the partners, as well as the activities in special cases.¹
2. Management Contract, MC – between the owner of the enterprise and manager or managerial company that has to provide certain service (managerial expertise, organizational or management services).² It precisely defines the scope of managerial responsibility, as well as mutual rights and obligations.³
3. Leasing Contract (L): Build-Operate-Transfer, BOT or Build-Own-Operate, BOO is the contract that guarantees and precisely

¹ http://www.iec.org/online/tutorials/service_level/

² http://www.4554.com/Glossary/MANAGEMENT_AGREEMENT.html

³ <http://financial-dictionary.thefreedictionary.com/Management+contract>, <http://www.answers.com/topic/lease>

defines the way of using property during a defined period in exchange for the defined amount of rent.⁴

4. Design-Build-Operate, DBO Contracts are contracts by which a private enterprise designs, builds and manages public buildings. Public subject (municipality, city, county) finances the work and is the owner of the building after construction. It defines the price and has the control over the resources (water, for example). The partner enterprise is the technical operator in the process.⁵
5. Design-Build-Finance-Operate, DBFO Contract is a contract by which the private enterprise designs, finances and builds a public building and manages it during a contract-defined period. Public partner is the owner of the building.

The best effects are produced by the models for which the state has developed a strategy for protecting the public interest, with defined rules, obligations and the type of obligatory contracts.

There is a huge variety of contracts in practice.

5. Public Sector Reforms in Serbia

5.1. Political Reforms in Serbia

The results of reform research for the period 2000–2011 have shown the basic reform weaknesses in Serbia, such as poorly developed system of the division of power (checks and balances), weak institutions, weak rule of law, partocracy, a number of monopolies in the economy and political relations, weak civil society, poor quality of management, poor functioning of the system, insufficient decentralization, hierarchy and lack of partnership relations between the state and the local government, lack of strategic planning, weak coordination, poor quality of creation and implementation of public policies, and poor learning from experience, poor efficiency in using resources, marginalization of citizens (insufficient participation), etc. Democratic and devoted political elite and certain time for changes is required for these weaknesses to be removed.

⁴ <http://www.answers.com/topic/lease>

⁵ www.waterpartnership.org/press/articles/WhyPartner.pdf

The election model that let the political parties take away the mandates from the elected members of the National Assembly and local assemblies has primarily caused this situation. It has stimulated obedient political mentality and significantly decreased the autonomy of basic political institutions and subjects. The main institutions of the state (Parliament, the Government, and the Judiciary) are jeopardized and a number of various analyses and documents have pointed out that the election model has to be changed, democratized and adapted to the European standards.⁶

The »tight« mandate obliges the elected members of the assembly to blind obedience to party leadership. President of the Republic (directly elected), who is simultaneously the leader of the most influential party, appoints and dismisses the Prime Minister and the Ministers, thus making the Government sensitive primarily to the interests of party leadership instead to those of its citizens. Such circumstances have created unfavourable environment for modernization of the public sector and public enterprises.

The judiciary has also been made dependent on the executive branch through numerous mechanisms (Constitution, 2006, and laws, 2010). Each subsequent government refused to include the judicial budget as a vital instrument of financial autonomy. The High Judicial Council, which ought to elect and promote the judges and prosecutors based on professional, merit criteria, depends on the party leadership. Along with eminent professors and legal experts, members of Parliament (political parties) and the Minister of Justice are also members of the Council, thus ruining the professional independence of the judicial branch and strengthening party loyalty.

Dependent position of the prosecution bodies hinders the processing of possible criminal activities of the government members. Prosecution happens only with the change of government. The high level of corruption among politicians in all parties has created loyalty between them, which decreases the chances for change. Serbia is an exceptionally corrupted country with the index of 3.5. It is on the 84th place out of 180 countries encompassed by corruption report.⁷ Corruption makes development harder, de-stimulates citizens from paying the cost of transition, and spoils the

⁶ See: Suggestions of Venice Commission, October 2006. Constitution Court made Decision correcting Law on Election (Official Gazette, OG 42/11), procuring free mandate for members of Parliament. The new Law on Local Elections (OG 54/11) has been made by these principles too.

⁷ Similar problem is present in Albania 3.3, Greece 3.5, Bulgaria 3.6, Romania 3.7, Croatia and Macedonia 4.1, Slovakia 4.3, Czech Republic 4.6, Hungary 4.7, etc.

political elite prone to maintain the current state of affairs.⁸ The media, as the public conscience, are largely dependent on tycoons and political interests and influence. This channel of change remains rather narrow.

Non-existent standards of the rule of law and widespread corruption make Serbia a country uncertain for investment. Unreliable contract, as a legal instrument, discourages private subjects from investing and contributing to the development of the public service sector.

Insufficient decentralization is a special problem:

- Property had not been returned to local governments until September 2011;⁹
- Financial autonomy has been seriously jeopardized through breaching the Law on Financing Local Government, as part of the measures which the Government and the Ministry of Finance prepared against the financial crisis;
- Local government network has not been developed:
 - In 2007, the number of cities grew from 4 to 24 (there is possibility to widen that number to 40 or even 50) but functionally they do not differ from municipalities;
 - Counties are the detached state level, and not local government units;
 - Statistical regions have been established (five; Kosovo is one of them). Vojvodina and Belgrade Metropolitan Region have their elected bodies; the other two form bodies from Government representatives and local government in that region;
- Local government has not been given certain competences in various fields: education, health, welfare, urbanism, economic development;
- The principle of subsidiarity is not implemented in the division of competencies; and
- Local government does not have the necessary mechanisms for functioning, such as inspections, permission to issue municipal bonds, autonomy in giving concessions, etc.

⁸ <http://www.transparency.org/>

⁹ Law on Public Property, OG 72/11

Dependent position of local government and insufficient capacities for providing good and accessible services are still a huge problem, which ought to be solved through public sector reform.

5.2. Reform of Providing Public Services in Serbia – Case Study of Belgrade

Public services in Serbia are provided in an archaic and monopolistic manner, both at the central and local levels. Public enterprises and LPEs offer these services. The Law has limited the share of private capital in LPE to up to 49 per cent.¹⁰ Public enterprises are, according to research data, poorly organized and managed, they have weak production programs, over employment, the prices are not market formed, there are various subsidies, a large amount of funds find their way to the political parties, etc. Having in mind the political influence on public enterprises, the motivation of the private sector to invest is small.

In this context, the attempts at reform have been poor and inclusion of the private sector in this field, in order to upgrade the scope and quality of services, is exceptional and rare (Đorđević, 2009).¹¹

A sound legal environment is a basic precondition for proper functioning of the local public enterprises. LPE leaderships mostly stress that the environment is inadequate, causing a number of problems in everyday life. They demand changes of the existing and adoption of new laws.

There are two groups of laws:

Laws that regulate LPE's status, property, organization, and election of bodies, pricing, the procedure of paying for services, etc., and these are the Law on Public Enterprises and Performing Affairs of Public Interest, the Law on Public Property, the Law on Prices. Respondents indicate that

¹⁰ Law on Public Enterprises and Performing Affairs of Public Interest, OG 25/00, 25/02

¹¹ In the implementation of the project *Upgrading the Capacities of Political Institutions in Belgrade* (2009) research of public enterprises was conducted. The questionnaire comprised the questions in the following fields: a) Developmental strategy, b) General environment, c) Reorganization and modernization of work, d) Market activities, subventions, e) Election of director and management board, f) Reform and process of modernization. Eight enterprises took part in the research 8: Belgrade Roads, Belgrade Water, Public Housing, Public Traffic Enterprise, Funeral Services, Power Supply Enterprise, and Sava Center (congress centre).

the return of property, as a precondition for their work and material obligations of LPE, is an absolute priority. It is also important to improve the regulation of payment of users' debts, which are a real burden to LPE's financial functioning.

The other group of laws regulates specific activities of each LPE. Their scope is wide and includes the Law on Public Roads, Construction Law, the Law on House Maintenance, the Law on Energy, etc. All these laws need to get simplified procedures and modernized standards.

5.3. Institutional Environment

The representatives of LPEs have pointed out that the courts, the inspectorate and the police as subjects whose work highly influences their work. General attitude of the respondents is that the courts are »ineffective and unacceptably slow« (the backlog includes cases initiated 15 years ago), causing great troubles and costs for LPEs. They have stressed the problem of poor professional performance of judges, as well as the problem of impossible implementation of judicial decisions based on inadequate penalties, state institutions unprepared for teamwork (police and communal inspection), etc.

The work of inspections is evaluated as better, but there are also some problems: in a number of fields there are no inspections and they are important (further decentralization). The existing inspections do not have sufficient competences and they lack inspectors. It is especially stressed that inspectors ought to get the right to impose fines (the amounts have to be higher), to establish the identity of the violators, to have access to buildings in order to perform control. The establishment of the communal police in Belgrade (2010) is a good example of what is being demanded. The problems of insufficiently trained inspectors and poor cooperation between various inspectorates (communal, trade, health, financial) have also been stressed.

In public sector reforms in the world this type of public servants (street level bureaucracy, such as police officers or inspectors) are of special importance because they are in everyday contact with citizens and they are the mirror of the government. On the base of their behaviour, courtesy, empathy to citizens' needs or troubles, and efficiency in work, citizens judge the system as a whole. It is very important to pay attention to their permanent education and training.

LPEs rarely adopt a strategy and even when it is adopted, they do not use it as an important document. The strategy is often created by someone outside the enterprises (domestic or foreign), while citizens often do not participate in its creation, and are denied the opportunity to express their needs. LPEs do not have a modern management to identify the standards of services, to control, measure, and correct the weaknesses. Therefore, the strategy is not useful in their work. Although the obsolete functioning ruins the implementation of strategy, the respondents (obviously unconscious of the objective cause) have identified lack of finances as the main cause of problems.

5.4. Most Important Problems in the Functioning of LPEs

The most important problems in the functioning of LPEs stressed by respondents are:

- Poor quality of laws, inadequate regulations and procedure;
- Insufficient communication and coordination with other LPEs in the city;
- Poor cooperation with city bodies (city government influence on the functioning of the LPE without responsibility for consequences);
- In financial field: nonmarket prices for services, lack of resources for modernization and development; and
- Ineffective judicial branch (Đorđević, 2009: 342).

5.5. Reorganization and Modernization

LPEs in Serbia have still not been modernized. They have not accepted market-oriented performance and they are still burdened with a number of social functions (lack of market prices, various subsidies), with additional burdens of political parties' influence on appointing leadership, on substantial material donations to parties, etc. Even so, all LPEs are in some phase of reorganization mostly with departments for marketing, sales, engineering, maintenance, public procurement and human resources.

A number of LPEs have made efforts to use the potentials of information technology in their work and they have established:

- Information system for all organizational units in an enterprise;
- Information data bases of users and connection with potential users over web page. Users are offered insight in the work of the enterprise and the possibility of e-paying;
- Call centre (for information and help in case of malfunction);
- Public Traffic Enterprise has a programme of monitoring vehicles, light signalization, and modern system of cameras;
- Belgrade Electricity Enterprise has an e-management system that performs automatic measurement, regulation, management and monitoring of the city heating systems (Đorđević, 2009: 344).

5.5.1. *Employment Policy*

The Law on State Administration and the Law on State Servants have been adopted in Serbia; including the merit system in employment, career advancement, and remuneration process. This reform process has not been applied to the public enterprises or to local governments. Even the adopted laws are highly jeopardized by the influence of political criteria.

LPEs have reorganized all their units: some have been merged, and some have changed their purpose. They have analysed the structure of job positions, the quantity of work at each position, as well as for each employee. The analysis has shown that all LPEs have the problem of over employment. Layoffs are a politically sensitive issue and each government avoids this measure. Instead, the party in power additionally employ their party members, making the situation even more difficult. In the LPEs where leadership had enough strength to fire an employee, the programme of voluntary discharge with redundancy payment is used.

Employees often have inadequate educational level or professional orientation. There is a lack of college-educated employees, lack of knowledge about modern technology in the field, about management, marketing and communication with citizens.

Many LPEs have made efforts to upgrade the quality and efficiency of their performance. They have introduced ISO standards in the system of quality management and environment protection. They have the policy of devotion to quality in work based on the users` needs. They produce efficiency by clear division of work, by implementing personal responsibility and education of employees, by upgrading the quality of performance, by verification of products by modern quality evaluation etc.

Not one LPE has mentioned that they ask users about their satisfaction with the quality of services. This is a good indicator that the whole public service sector in Serbia has to undergo serious reform.

5.5.2. *Functioning on the Market vs. Subsidies*

The issue of public enterprises' functioning on the free market is very important, but it is rarely opened in public. A number of public officials have an attitude that, regarding the public nature of services, they could not or ought not to be influenced by the market. This attitude hides the interest of political parties to leave public enterprises as part of their political spoils, which provide them with substantial resources and numerous privileges.

Such a political environment is not convenient for public debate on topics that are of crucial importance for the reform content:

- Which area is adequate for privatization?
 - In which fields is privatization adequate? (in the field of public transport the private sector is included: it is being debated about garbage collection);
 - In which fields are there some »natural« limits, based on the nature of the service, market unattractiveness, and other specificities? (for example, public sector monopoly on water sources);
 - Possibility of privatization of one part of the enterprise (production, distribution);
 - Possibility for creating a package of more or less attractive services (combining unattractive wastewater treatment with water supply);
- Which space is there for including competition and which instruments are to be used? The importance of contract, permanent competitions, commission for job distribution, including standards in each field of services, the creation of system indicators, permanent monitoring, and measuring the quality of services;
- How to ensure greater transparency of performance and stronger influence of users on the quality and the price of services?

This raises the issues of market size for each service, of the number of users, of pricing policy, of subsidies, of the possibility of competition, of

the quality of services, of measuring losses in the system, of possible transparency of work and finances, of the manner of payment for services etc.

The number of users, as well as the profit of LPEs, varies depending on the sort of service. Belgrade is a large market (two million inhabitants) and in most service fields it is possible, on the base of economy of scales, to include the market principle into work (public transport has 478 million travellers per year, public housing has 14,000 buildings with 260,000 flats, Belgrade Electricity has 3,496 gas users, 31,000 warm water users and about 289,000 heating users) (Đorđević, 2009: 352).

With regard to pricing policy, the Law has enabled the Government to limit the prices of some services. The Government and Belgrade government subsidise the poor. Therefore, only some LPEs apply market principles in forming their prices, or market prices are possible only for certain services. For example, Sava Centre has 100 per cent market prices, the prices in Public Roads and Waterway are 90 per cent market value, and Belgrade Electricity commands market prices for companies and 80 per cent for citizens. Ticket prices in city transport are only 55 per cent of their market value and Public Housing charges four times less money than market value. The difference between the existing and the market price is covered from the City budget in the form of various subsidies.

LPE's management calculates the costs and analyses the price structure. Therefore, they are aware of the market prices of their services. The LPE system of charging for provided services in Serbia has efficiency in mind. In comparative studies, this system is often considered as an important element of public private arrangement and as an instrument which public partner uses to push the private partner to provide good quality, scope and rhythm of services. In Serbia, there are mostly public partners and rarely private.

Some LPEs charge the users directly (bus tickets, concert tickets) and some charge all the citizens on monthly basis (Public Housing, Belgrade Electricity).

Success in this process also varies between enterprises and the best results are achieved in Waterways (almost 100 per cent), Sava Centre and Public Transport (95 per cent) and Funeral Enterprise (91 per cent). The situation is satisfactory in Public Housing (85 per cent) and Belgrade Electricity (80 per cent), while the lowest payments are found in Belgrade Roads (64 per cent). The respondents see a solution to the payment problems in better regulation and more severe sanctions.

The level of subsidies also varies, depending on the type of service but still one can identify a system of voluntarism. For example, Belgrade Roads

receive no subsidies. Belgrade subsidises Sava Centre with three to four per cent of the total yearly income of its LPE. Funeral Enterprise receives 5–7 per cent subsidy for financing the maintenance of graveyards. Public transport earns only 54.7 per cent of its income and 45.3 per cent comes from the Belgrade budget. The City also pays 50 per cent of the price for heating for the poor, and additionally subsidises direct investments that amount to 6 per cent of the annual income of this enterprise (Đorđević, 2009: 354).

LPE representatives consider subsidies to be a common practice in the world, and therefore perceive them as an acceptable way of financing. They do not consider the possibility to decrease subsidies because it is not part of the national strategy.

5.5.3. *Modernization of Work*

Most respondents consider that privatization is not a good solution, because public services should not be seriously influenced by the economic logic or the market. The representatives of Public Transport, Belgrade Electricity, and Funeral Enterprise consider that some organizational units can be privatized, but not the whole enterprise. At the same time, they consider public private partnership to be an adequate way of providing services. Public Transport has even had very good experience with such an arrangement.

With regard to including competition in the field of services where enterprises have a monopolistic position, 40 per cent of respondents consider this idea inadequate. They have a similar attitude regarding the proposal that the City of Belgrade makes public competition open to private and public enterprises, as well as regarding the proposal that the City (and the municipalities in Belgrade) define the standard of service quality, and, consequently, to control the quality of provided services. Public officials have shown greater understanding (80 per cent) for the proposal that the City should demand corrections in case of lowering the standards defined by contracts (Đorđević, 2009: 355–358).

5.5.4. *Recruitment of Managers*

The appointment of the director and management board of a LPE is an important factor in the management system. Today, political parties appoint these bodies more often according to political than professional criteria.

All respondents are generally in favour of changing the appointment procedure in order to strengthen professionalism, upgrade the quality of work, transparency and responsibility of each employee, body and the whole enterprise. Most respondents accept that Commission, consisting of eminent experts in the field, should lead the appointment procedure and that this procedure should include public competition for candidates applying for the posts of director and members of the management board.

It is acceptable to most respondents that, based on prepared Commission's conclusion, the Mayor appoints the Director of the LPE and its assembly – members of the management Board.

It is quite acceptable that:

1. Director is obliged to submit a Report on the performance of the LPE every six months and to put it on the web site,
2. Management and Monitoring Board must regularly (every six months) submit a Report on their work and put it on the web site,
3. These reviews are the base for the control of the LPE's performance and the quality of services.

In conclusion, the representatives of LPEs stress that:

1. The state must return the property to local governments and LPEs, as a precondition for normal functioning.
2. If we want autonomous functioning of local public enterprises, it is necessary to decrease the dependence of the city on the state (but also of the municipalities on the city) (giving concessions, procurement, the pricing policy, etc).
3. It is necessary to make a study on LPEs in Belgrade, in order to identify fields eligible for privatization, those eligible for PPP arrangements, franchise, concessions etc.
4. The Government ought to prepare a model that would provide for competition in the field of public services, for transparency of work, for citizens' participation in the creation of service package and evaluation of provided services.

6. Conclusion

Serbia has yet to reform and modernize its public service sector in the sense of moving from the authoritarian and partocratic to democratic and

participatory governance model. It also has to ensure higher professionalisation, citizens' participation and transparency of work. This process should upgrade the quality of organization and management, should make privatization possible, include competition, charge market prices whenever possible, and should include citizens in the process of services evaluation.

So far, this process has been postponed and burdened by political parties' ambitions to have LPEs as part of political spoils obtained at elections. The attitudes of LPEs' representatives show their adaptation to the environment of party state and are a good indicator of the lack of strategic reforms in this field.

Belgrade should be the forerunner in the reform of public services and LPEs, in including competition, in giving concessions, in issuing municipal bonds, in privatization, and in the creation of public private partnerships.

The property that has just been returned to LPEs is a good base for further upgrading of their autonomy and the quality of their work. The idea is to make them market-efficient enterprises. It is of huge importance to include the standards in each field. There should be the transparency of work and performance measurement and evaluation, which would in turn provide citizens with the idea of the quality of services and prices, and which would influence on the final package of services on the base of their own needs.

With the process of democratization of society, it would raise the conscience that citizens' needs are the basis for the creation of service package, and users' satisfaction is the main indicator of LPEs' success.

The prices have to be formed on market basis without political interventions (subsidies should remain only if necessary). The change of the election procedure for directors and members of management boards, in the sense of strengthening the professional instead of political criteria, is a very important part of the reform.

It is of crucial importance to pay attention to three groups of issues:

- a. The legal order, form of organization, and legal acts are interconnected with the implemented model.
- b. The model of price calculation is decisive for success (or failure) of each implemented model.
- c. Better performance is necessary in order to upgrade the quality, efficiency, and organization especially in cases of inter-municipal or regional cooperation.

It is also important to avoid some of the most frequent errors (Đorđević, 2008: 262–297):

- Avoid blind copying of foreign models, without gradual monitoring of changes. Gradual inclusion of the private sector in communal affairs can contribute to widening the scope of services and to upgrading performance efficiency (but it is not obligatory for upgrading the quality of services) (SKGO, 2007: 22– 23).
- Avoid selling public property without good tender or regulatory procedures. Avoid contracts that are good for the new owner and bad for the users, which was often the case in transitional countries.
- Both the process of privatization and the strategy must be carefully prepared. It is necessary to create good legislation, to form a regulatory body, and to avoid uncontrollable processes. If it is not done so, many earlier natural monopolies become private monopolies through which the new owners (domestic or foreign) protect themselves from the competition.

The political elite in each country has to accept the cost of losing huge material resources through emancipation of the LPEs. This reform can be a good indicator of political elite's maturity. Implementation of objective standards in the work of political elite eliminates non-transparent performance, various forms of corruption and similar pathologies.

It would be a great challenge for the state and local government to provide a certain level of service standards and to protect the public interest. This must be a permanent obligation of the public sector, which must develop various skills, tools, and techniques for this kind of performance.

References

- Đorđević, S. (2008) *Governments in Action: The World of Public Services*. Belgrade: Čigoja štampa
- Đorđević, S. (2009) Content, Alternatives and Challenges in Reform of Public Enterprises. In: V. Pavlović, S. Orlović (eds.) *Belgrade – European Metropolis*. Belgrade: Čigoja štampa
- Green, D. J. (2002) *Cities and Privatization, Prospects for the New Century*. Upper Saddle River: Prentice Hall
- Lorraine, D., G. Stocker (eds.) (1997) *The Privatization of Urban Services in Europe*. London: Pinter

- Peters, B. G., F. van Nispen (eds.) (1998) *Public Policy Instruments, Evaluation the Tools of Public Administration*. Cheltenham, Northampton: Edward Elgar Publishing
- Public Services (2000) *Public Services through Private Enterprise: Micro-Privatization for Improved Delivery*. Intermediate Technology Publications
- Raphaelson, H. A. (ed.) (1998) *Restructuring State and Local Services: Ideas, Proposals, and Experiments*. Westport: Praeger Publishers
- Salamon, M. L. (ed.) (1989) *Beyond Privatisation: The Tools of Government Action*. Washington: The Urban Institute Press
- Salamon M. L. (ed.) (2002) *The Tools of Government: A Guide to the New Governance*. New York: Oxford University Press
- SKGO (2007) Working group for transformation local public enterprises: Transformation local public enterprises in the Republic of Serbia – to more efficient producing of LPE and development of local infrastructure, www.skgo.org/pages/

Legal sources

- Construction Law, OG 72/09
- Law on Public Roads, OG 101/05
- Law on Energy, OG 152/08
- Law on Election, OG 42/11
- Law on Local Elections, OG 54/11
- Law on House Maintenance, 26/01
- Law on Prices, OG 79/05
- Law on Public Enterprises and Performing Affairs of Public Interest, OG 25/00, 25/02
- Law on Public Property, OG 72/11
- Law on State Administration, OG 79/05
- Law on State Servants, OG 79/05
- Suggestions of Venice Commission, October 2006, www.osce.org/odihr/83356

Web sources

- http://www.iec.org/online/tutorials/service_level/
- http://www.4554.com/Glossary/MANAGEMENT_AGREEMENT.html
- <http://financial-dictionary.thefreedictionary.com/Management+contract>, <http://www.answers.com/topic/lease>
- <http://www.answers.com/topic/lease>
- <http://www.waterpartnership.org/press/articles/WhyPartner.pdf>
- <http://www.transparency.org/>

PUBLIC SERVICE REFORM IN SERBIA

Summary

During the 1980s, the public sector in many democratic countries in the world was reformed (transformation from the welfare to entrepreneurial state). Three main models have been developed: American, Westminster and Scandinavian model. Each of them has a specific scope of intervention, the manner of implementation, and various results in different countries. The reform of local public sector is especially interesting and indicative part of these processes. The article analyzes these processes in Serbia as a transitional and one of the former Yugoslav countries. The analysis is focused on all the challenges, problems and the roots of the resistance towards and the boundaries of this important reform, which demands democratization as well as modernization and upgrading the quality of management in the whole system. The study has shown that general political and economic environment, political climate, democratic values and citizens' participation are important factors of (poor) public (and especially local) service sector reform. The base for this study is a number of studies on different reform aspects, and extensive empirical research, such as the Research on Capacities of Local Government in Serbia, 2009, and the Research on Local Public Enterprises in Belgrade, 2009. The final part of the article is a case study on public enterprises in Belgrade. It is especially indicative because Belgrade is a metropolitan region and the capital of Serbia with two million inhabitants. It also has good economic, political, educational, and managerial potentials and should be the forerunner in the public sector reform. The case study shows poor quality of reform in this field, analyzing all the important reform aspects, such as general legal and economic environment, organizational and managerial capacities of public enterprises, the way of functioning (professional vs. political criteria), the method of public service provision, focusing on citizens' needs, and the quality of public services.

Key words: public sector reform – Serbia, local public services, public enterprises, competition, price, quality, efficiency

REFORMA JAVNIH SLUŽBI U SRBIJI

Sažetak

Tijekom 1980-ih, mnoge su demokratske zemlje reformirale svoj javni sektor (promjena iz države blagostanja u poduzetničku državu). Razvijena su tri modela – američki, westminsterski i skandinavski model. Svaki od njih ima određeni raspon intervencije, način primjene te različite rezultate u različitim zemljama. Reforma lokalnog javnog sektora posebno je zanimljiv i karakterističan dio tih procesa. Rad analizira spomenute procese u Srbiji, kao zemlji u tranziciji i jednoj od zemalja nastaloj raspadom bivše Jugoslavije. Analiza je usredotočena na sve izazove reforme, probleme, te posebno na korijene otpora prema njoj, kao i na njene granice. Reforma zahtjeva demokratizaciju, modernizaciju i podizanje kvalitete upravljanja u cijelom sustavu. Studija je pokazala da su politički i gospodarski okoliš, politička klima, demokratske vrijednosti i (ne)sudjelovanje građana u odlučivanju važni čimbenici (loše) reforme javnih (a pogotovo lokalnih) službi. Temelj ove studije su brojne prijašnje studije o različitim vidovima upravnih reformi, kao i opsežna empirijska istraživanja, primjerice Istraživanje kapaciteta lokalne vlasti u Srbiji 2009. i Istraživanje lokalnih javnih poduzeća u Beogradu, 2009. Završni dio rada je studija slučaja koja se bavi javnim poduzećima u Beogradu. Ona je posebno važna jer je Beograd metropolitansko područje i glavni grad Srbije s dva milijuna stanovnika. Ima dobre gospodarske, političke, obrazovne i upravljačke potencijale te bi trebao biti predvodnik reforme javnog sektora. Studija je pokazala lošu kvalitetu reforme javnih službi analizirajući sve bitne vidove reforme, kao što su opće pravno i gospodarsko okruženje, organizacijski i upravljački kapaciteti javnih poduzeća, način funkcioniranja (profesionalni kriteriji nasuprot političkima), način pružanja javnih usluga, usredotočenost na potrebe građana i kvaliteta javnih službi.

Ključne riječi: reforma javnog sektora – Srbija, lokalne javne službe, javna poduzeća, konkurencija, cijena, kvaliteta, efikasnost