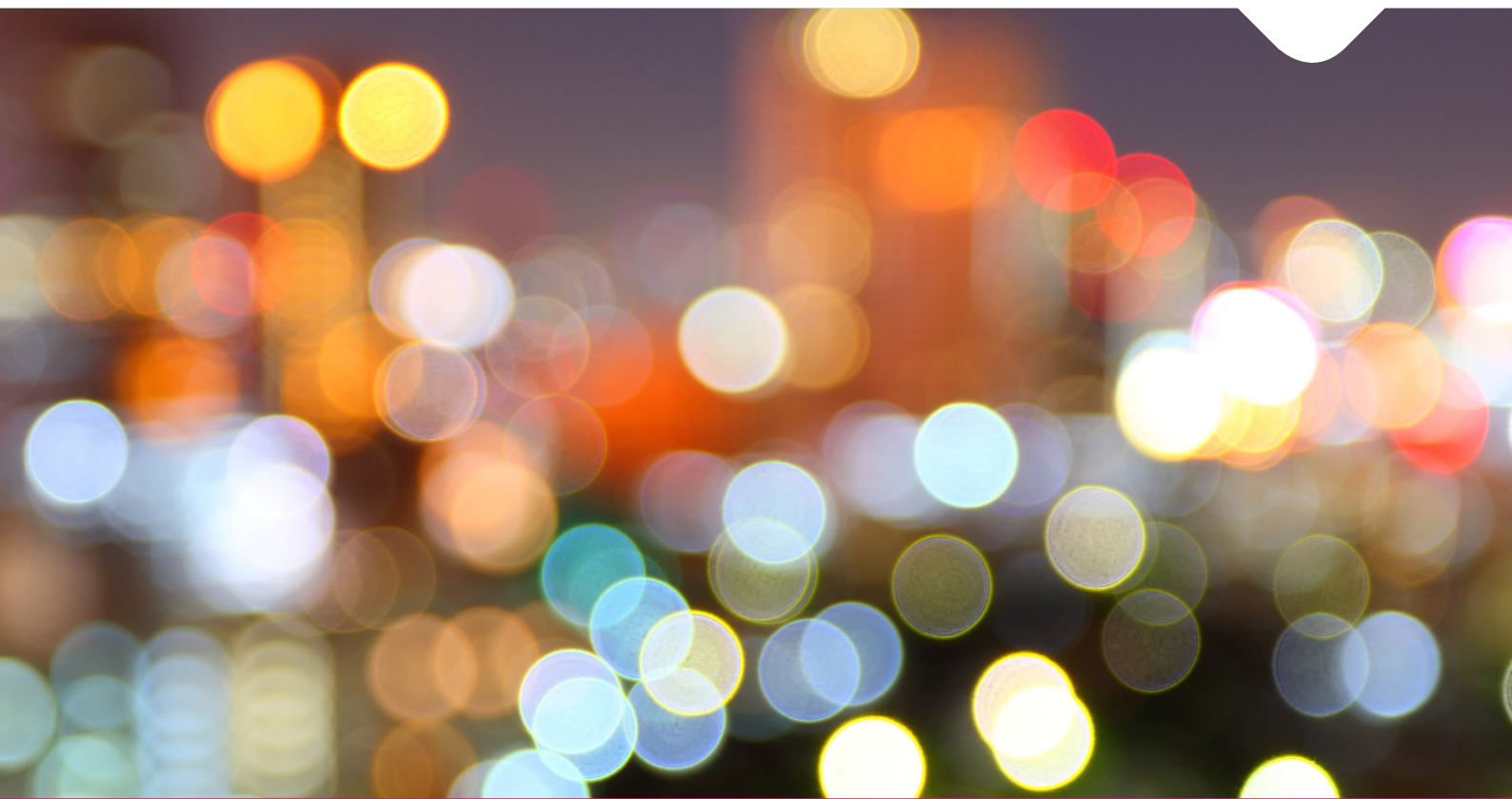


# Inter-municipal co-operation in the Western Balkans



SIGMA Paper No. 70

# Inter-municipal co-operation in the Western Balkans

Inter-municipal co-operation (IMC) has proved to be a constructive and efficient instrument in many EU and OECD countries for solving several issues at the local government level, including the lack of resources, administrative fragmentation, the investment burden of individual municipalities or better and more efficient organisation of public service provision.

Although IMC is still often thought of as an alternative to the politically sensitive merging of small municipalities, nowadays its use has raised the interest of public administrations whose local governments are medium- and large-sized and that see this instrument as a way to empower local governments, provide them with more responsibilities, ensure sustainability of public services and fuel planning capacities and strategic thinking at the local and regional level.

This paper summarises examples from EU and OECD countries where IMC either has a long-standing history or has recently received increased support and attention. It also provides an analysis of the legislative basis, support and incentives and practical data of IMC in the Western Balkan administrations. The paper offers several recommendations specific to the Western Balkan administrations for how to benefit from IMC.

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# Foreword

This paper provides practical data and information on inter-municipal co-operation (IMC) in the Western Balkan administrations.<sup>1</sup> It also offers recommendations for central administrations on how to promote IMC as a useful and practical instrument for more efficient human and financial resources management at subnational government level and for better service provision. The paper was prepared with a specific focus on the horizontal co-operation of local governments, as a follow-up to a comprehensive study on subnational governments in the Western Balkans, which provides evidence for identifying specific and collective challenges and priorities in multi-level governance issues in the region.<sup>2</sup>

The paper was drafted in consultation with Western Balkan central administrations during the regular assessment of public administrations in the region carried out by SIGMA, which is based on the revised Principles of Public Administration<sup>3</sup> and a new methodology. For the first time, this assessment includes multi-level governance issues, focusing on the institutional and fiscal relations between the central and subnational levels of government.

In addition, the paper was prepared in line with the needs identification for supporting multi-level governance in the Western Balkans carried out by SIGMA in 2022, which aimed to provide an up-to-date and fact-based knowledge compendium on national priorities and challenges in local government reforms in the Western Balkans.

The term “inter-municipal co-operation (IMC)” used in this paper refers to horizontal co-operation among two or more local governments/municipalities that agree to work together on any of the tasks assigned to them to gain mutual benefits. IMC can take different legal forms and can be both formal (contractual) and informal (based on agreement).

IMC is a relationship between two or several local authorities (i.e. entities in the first level of territorial administration) having the status of legal persons, with competences, powers and resources.<sup>4</sup>

When municipalities have many competences, when they are free to organise the delivery of services to citizens and to fulfil administrative responsibilities, there are many occasions when co-operation with other municipalities can bring significant advantages.<sup>5</sup>

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<sup>1</sup> Albania, Bosnia and Herzegovina, Kosovo\*, Montenegro, the Republic of North Macedonia (hereafter, ‘North Macedonia’) and Serbia.

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

<sup>2</sup> Davies, A., et al. (2023), “Subnational government in the Western Balkans”, *SIGMA Papers*, No. 66, OECD Publishing, Paris <https://doi.org/10.1787/8d3249ad-en>.

<sup>3</sup> OECD (2023): The Principles of Public Administration, OECD, Paris <https://www.sigmaxweb.org/publications/Principles-of-Public-Administration-2023.pdf>.

<sup>4</sup> Council of Europe (2010): Toolkit Manual Inter-municipal Co-operation, <https://rm.coe.int/imc-intermunicipal-co-operation/1680746ec3>.

<sup>5</sup> Ibid.

These advantages include:

- Helping to solve issues of fragmentation in local governments (human and fiscal capacity to carry out competences, etc.) as an alternative to the more politically sensitive and less popular solution of amalgamation.
- Achieving investments that would not be pursued by local governments on their own.
- Better serving citizens with more efficient public services.
- Allowing local governments to access greater financial and administrative capacities (e.g. apply for pre-accession funds which are too large for municipalities to receive individually)<sup>6</sup>.
- By concentrating human resources/capacities, increasing the quality of services and decreasing the financial burden, especially for smaller local governments.
- Improving strategic planning through a territorial approach. IMC can be established not only for service provision but also for planning and investment.
- Strengthening advocacy through co-operation among municipalities.<sup>7</sup>

It is important to note that there are also some pitfalls to IMC, including: stability of partnerships, which is often endangered by changes in political leadership, insufficient financial resources rendering IMC initiatives a short-term solution to problems, a complex group of institutions generating an overcomplicated and/or non-transparent institutional network.

This paper describes the legislative framework enabling IMC in the region, investigates central administration data collection practices and incentives to support horizontal co-operation at the local level, and provides information on existing IMC practices in the administrations.

To obtain complex and up-to-date data, in some of the administrations thorough surveys were carried out among municipalities.<sup>8</sup> The paper also includes some examples of EU and OECD member countries' experiences with supporting IMC, which might serve as an example for the Western Balkan administrations when considering the different aspects of co-operation: financial incentives, mandatory versus voluntary co-operation, legislation, capacity building, etc. Finally, the paper summarises the key findings in the Western Balkan administrations and provides a list of recommendations based on EU/OECD country practices.

The paper is intended for central administration professionals in the Western Balkans to provide them with a thorough analysis of the state of play in their respective administrations, offer food for thought from other EU and OECD countries, and outline several recommendations when considering strengthening the support for IMC. The paper can also be used by local government associations to understand the importance of horizontal co-operation and more efficient use of resources. The paper will be disseminated and discussed further with regional partners in the Western Balkans.

There are several aspects of the selected topic that were not adapted to the scope of the paper, such as specific guidance to local governments on how to establish IMC, how to overcome financial issues when considering IMC, international co-operation among municipalities to tackle global issues, etc. All of these issues are equally important; however, they would require additional data collection and research, and would change the envisaged purpose and target group of the document.

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<sup>6</sup> OECD (2021), *Better Governance, Planning and Services in Local Self-Governments in Poland*, OECD Publishing, Paris, <https://doi.org/10.1787/550c3ff5-en>.

<sup>7</sup> OECD (2023), *OECD Public Governance Reviews: Czech Republic: Towards a More Modern and Effective Public Administration*, OECD Public Governance Reviews, OECD Publishing, Paris, <https://doi.org/10.1787/41fd9e5c-en>.

<sup>8</sup> These surveys were carried out based on SIGMA capacities as well as the need to acquire more precise data in Albania, Montenegro and North Macedonia.

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## List of abbreviations and acronyms

BiH	Bosnia and Herzegovina	
	BD	Brčko District
	FBiH	Federation of Bosnia and Herzegovina
	RS	Republika Srpska
CBC	cross-border co-operation	
EU	European Union	
EGTC	European grouping for territorial co-operation	
IMC	inter-municipal co-operation	
IMU	inter-municipal union (Poland)	
ITI	integrated territorial investment	
JMA	joint municipal authority	
LAG	local action group	
LSGU	local self-government unit	
MED	Ministry of Economic Development, Montenegro	
MLGA	Ministry of Local Government Administration, Kosovo*	
MLSG	Ministry of Local Self-Government, North Macedonia	
MPA	Ministry of Public Administration, Montenegro	
MPALSG	Ministry of Public Administration and Local Self-Government, Serbia	
NUTS	Nomenclature of Territorial Units for Statistics – Eurostat	
OECD	Organisation for Economic Co-operation and Development	
VAM	Voluntary Association of Municipalities	

# Executive Summary

Inter-municipal co-operation (IMC) has proved to be a constructive and efficient instrument in many EU and OECD countries for solving several issues at the local government level, including the lack of human and financial resources of small local governments, administrative fragmentation, the investment burden of individual municipalities or better and more efficient organisation of public service provision.

Although IMC is still often thought of as an alternative to the politically sensitive merging of small municipalities, nowadays its use has raised the interest of public administrations whose local governments are medium- and large-sized and that see this instrument as a way to better empower local governments, provide them with more -- or more significant -- responsibilities, ensure sustainability of public services and fuel planning capacities and strategic thinking at the local and regional level.

The paper summarises examples from EU and OECD countries where IMC either has a long-standing history or has recently received increased support and attention. It highlights the benefits and challenges of these case studies. It also provides an analysis of the legislative basis, support and incentives and practical data of IMC in the Western Balkan administrations. The paper offers several recommendations specific to the Western Balkan administrations for how to benefit from IMC.

## Lessons learnt from EU and OECD practices in inter-municipal co-operation

### **Key messages:**

- IMC may support the provision of local government functions, especially if there is territorial fragmentation. It may help subnational governments benefit from economies of scale, increase their capacity to manage services or support co-ordination among neighbouring local governments.
- Successful IMC is often supported by incentives provided by the central or other level of government (EU, regional). These incentives might be: financial (e.g., grants available for IMC, specific own revenue earmarked for IMC only) or functional (possibility of transferring responsibility for certain functions by establishing an IMC institution), or a combination.
- IMC requires an enabling environment, in which multiple legal options of co-operation are possible. Municipalities should enjoy considerable autonomy in decisions concerning details of co-operation arrangements.
- Another condition of successful IMC is a high level of trust among local governments. Policies that help build trust are also policies that enhance effective IMC.
- IMC helps with service delivery or co-ordination of planning functions, but it is not a “magic wand” that solves all problems effortlessly. It may produce organisational problems by complicating decision-making and accountability.

## Practicing inter-municipal co-operation in the Western Balkan region

### **Key findings:**

- In general, IMC in the Western Balkan administrations, both its legislative framework and practical implementation, has yet to be developed and fully supported by the central governments. All administrations, both the central government and the local governments, perceive IMC as a useful instrument for sharing resources and collaborating, however, it is still mostly based on external donor funding.

- The central administrations do not systematically collect information on IMC initiatives. **The lack of data hampers both the dissemination of good practice and well-targeted financial and methodological support.** Establishing a dissemination method supported by actual data or a register that would collect data, then systematise, analyse and disseminate information on IMC would benefit both the central and local governments. In addition, if municipalities do not have real spending and taxing powers, there may not be inherent incentives to collaborate.
- **Legislation on supporting IMC differs**, but all countries surveyed allow for horizontal co-operation among local governments. In some cases, a more descriptive and enabling regulation or methodology would facilitate establishment of IMC, allowing municipalities to better understand how to form co-operation, determine the rights and duties within such joint projects and ensure their efficient functioning. Introducing semi-compulsory forms of IMC may also be the solution to high fragmentation or deepening disparities.
- **There is a lack of motivation among local governments to use existing models of IMC.** Despite various initiatives, municipalities in the region have not yet been able to develop their territory's potential regarding assets (e.g. tourism), natural resources (e.g. forestry, seaside, etc.) and other opportunities. Disseminating good practices among municipalities, providing special funds supporting IMC and training for capacity-building may fuel the interest of local governments.
- **The financial resources for IMC initiatives are short-lived, insufficient, and focused on external funding.** Many municipalities (especially small ones) have a budget that is sufficient only to pay salaries and cover main expenses. The available financial resources make it impossible for them to engage in co-operation where new tasks and management costs would need additional resources.<sup>9</sup> (There is a need for special financial tools for engagement in costlier actions (creation of new public services, infrastructure, sports or cultural facilities, etc).
- **Lack of human resources and expertise causes unwillingness to start new projects in addition to mandatory tasks.** This is a strong obstacle for developing not only IMC but the functions of local self-government units (LSGUs) in general. Small municipalities in the region have few employees, with low salaries and often poor professional skills. Capacity building, training and the pooling of experts across municipalities are important to strengthen human resources for better IMC.
- **Lack of co-ordination among the central and local governments, as well as among local governments initiating projects, slows down the support for and development of IMC.** Open communication, providing information online and including representatives of the local governments in decision-making would enhance co-operation among the central and local levels.

#### ***Summary of inter-municipal co-operation in the Western Balkan administrations:***

- **Albania.** IMC is regulated by general provisions in the Law on Local self-government. The central administration collects some basic information from municipalities on their IMC initiatives via the Agency for the Support of Local self-government but does not provide methodological guidance or financial incentives to further support the establishment of local partnerships. Most municipalities (37 out of 61) participate in IMC, but the forms and duration of these initiatives are very different, often making it difficult to better disseminate IMC across the country, where a few clear models would help to do so. Better co-ordination – both vertical and horizontal - more specific regulations on the forms of co-operation and sustainable financing would undoubtedly promote IMC among Albanian municipalities.

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<sup>9</sup> Generally, IMC is thought of as a means to use resources more efficiently. However, there are more aspects to consider. First, if some LGs have funding for basic salaries only, they have almost no resources for service provision, so in particular for provisions through IMC (even if it is going to be cheaper than independent provision). Second, even if IMC can create savings, funding is still needed to initiate IMC, and this funding may be lacking. Third, weak understanding and weak support for IMC often creates the expectation of special financial support that would make them willing to engage in IMC.

- **Bosnia and Herzegovina (BiH).** There are different practices and support for IMC in the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS). The FBiH has a general legislative framework, which should be taken over and specified by the cantons, who oversee local self-government; however, this is not always the case. The Republika Srpska has a more specific regulatory basis for supporting IMC. Even though the legislation does not hinder IMC, the lack of information, knowledge sharing and central co-ordination causes a low degree of active participation of local governments in IMC. The currently functioning IMC initiatives are dependent on external donor funding.
- **Kosovo\*.** Despite the specific legislation on IMC, this mechanism does not seem to be widely used among municipalities. Although the central government provides some funds<sup>10</sup>, the amount appears to be very small and does not encourage municipalities to apply. In addition to legal and regulatory frameworks, the central administration of Kosovo\* provides technical assistance and capacity-building support to local governments. The Ministry of Local Government Administration (MLGA) and other government agencies offer training programmes, workshops, and other capacity-building initiatives to strengthen the capacity of local governments to engage in IMC. The MLGA, in co-operation with the Association of Kosovo\* Municipalities and international organisations, organises regular meetings and conferences where local government officials can exchange ideas, share experiences, and discuss challenges.
- **Montenegro.** IMC initiatives are primarily based on external funding. Based on a recent survey, 15 municipalities out of 25 have IMC initiatives. Municipalities consider it a very useful and efficient tool for pooling resources and providing services more efficiently. Nevertheless, they use it only when there are donor-funded projects. The legislation provides a broad description for co-operation, allowing municipalities to create co-operative arrangements on a voluntary basis in the areas where they have primary jurisdiction. The central administration does not provide incentives for IMC; however, both the Ministry of Public Administration (MPA) and the Ministry of Economic Development (MED) focus on this issue. The MPA has just finalised a thorough functional analysis of local governments, while the MED prepared a new strategy for the regional development of Montenegro that was adopted by the Government.<sup>11</sup>
- **North Macedonia.** Based on a survey conducted in 2023 among 80 municipalities (46 or 58% responded), 28 (61%) of them answered that they had established some form of inter-municipal and/or cross-border municipal co-operation in the past three years. The most recent examples of established IMC include joint administrative bodies for joint implementation of responsibilities related to collection of tax and inspection supervision, joint implementation of competence in protection and rescue, co-operation for digitisation of municipal services, development of agriculture. North Macedonia is one of the few countries that has a specific law on inter-municipal co-operation. The law introduced the obligation of the Ministry of Local Self-Government (MLSG) to keep records on IMC established in the country, however, this has not been put into practice. The central administration does not provide funds for IMC; municipalities finance it mainly from their own budget.
- **Serbia.** Although Serbian local governments are relatively large in terms of both population and area, the central administration is keen on looking for options to better support IMC on a voluntary basis and the need for IMC is based on the possibility of achieving economies of scale. Serbia has regulated IMC in detail and prescribes the binding content of the agreements. The aim of the IMC as a voluntary pooling of resources (organisational, material and personnel) of several LSGUs for the joint performance of tasks is to make the services of local self-government better and more cost-efficient. The central administration provides training and, in all public calls published by the MPALSG for the allocation of funds from this Fund, IMC is stated as an additional criterion. According to records kept by the Ministry of Public Administration and Local Self-Government (MPALSG) since 2018, the total number of IMC agreements is 47. The basis of IMC is always a contract between two or more local governments. The most common IMC agreements include communal activities (joint management of communal waste, concession of the performance of animal hygiene activities), and reduction of the risk of disasters and floods.

<sup>10</sup> The current funding programme offered by the MLGA for IMC reaches the value of EUR 900 000 annually.

<sup>11</sup> [Strategija regionalnog razvoja Crne Gore 2023-2027 \(www.gov.me\)](http://www.gov.me).

# 1. The context of inter-municipal co-operation

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Inter-municipal co-operation is a widely used mechanism for making the provision of local government services more effective and efficient. This chapter provides an overview of the motivations, advantages and challenges of inter-municipal co-operation. It presents the different forms it can take, elaborates on the potential benefits of horizontal co-operation at the local level, and indicates some of the barriers that these partnerships face.

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Decentralised governance implies the adoption of different subnational institutional arrangements to achieve economic and social development, through differentiated roles in service provision and policy implementation at different territorial levels. Within this setting, municipalities should be able to increase their capacity to better decide, organise policies, and deliver their services. This process requires complementarity between formal, vertical co-ordination and horizontal governance capacity through co-operation. **Inter-municipal co-operation (IMC) can be understood as the horizontal co-ordination of a set of interdependent local governments to collectively provide services and/or implement one or more public policies without the existence of a strong hierarchy among the local units involved.**

IMC is a phenomenon that, over the years, has become increasingly prevalent in Europe<sup>12</sup>, often to address common challenges affecting municipalities. One of the most common and obvious challenges has been insufficient resources to deliver services or to fulfil formal obligations, with IMC expected to bring about efficiency through economies of scale. IMC also allows local governments to sidestep investment constraints. As a result, they are able to invest at the right scale, reducing the fragmentation and duplication of public investment and taking advantage of any surplus. This is underlined in the OECD Council Recommendation on Effective Public Investment Across Levels of Government, dedicated to co-ordination challenges.<sup>13</sup>

However, IMC has also served as an instrument of policy and service delivery co-ordination for central governments. Over time, co-operation practices have served to address different objectives, such as seeking joint economic development in a globalised competitive world, improving the implementation of public policies in specific territories or political unity to confront other actors, joint planning and co-ordination to address a lack of institutional capacities, and more firmly in providing public services. The co-operative formulas have therefore been diverse, and, through them, municipalities have been able to face several tasks and even engage in new ones.

This evolution in the institutional landscape of local governance has shown that local governments no longer only deal with their own competences, but also act collectively with other local governments and gather agents from other sectors to participate in the implementation of policies, in the mobilisation of resources to address demands and to meet the expectations of their communities. Despite the consequent heterogeneity of institutional forms, joint solutions are in place, mutual support is provided, and consensual strategies are generated.

Discussions on local government reforms often concern two significant questions: fragmentation and financing. The first topic relates to many issues (territorial, administrative division, competences, etc.), but importantly it encompasses the capacity of local governments and efficiency while exercising their competences. This brings forward the debate on small versus sufficiently large municipalities. Local government reforms are sensitive both for political representatives and citizens as they might directly interfere with political ambitions on the one hand (whether you have support at the local political level), or day-to-day functioning on the other hand (who provides services). These often stand as impediments

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<sup>12</sup> OECD (2017), *Multi-level Governance Reforms: Overview of OECD Country Experiences*, Edited by Chatry I. and Hulbert C., Multi-level Governance Studies, OECD Publishing, Paris, <https://doi.org/10.1787/9789264272866-en>.

OECD (2019), *Making Decentralisation Work: A Handbook for Policy-Makers*, OECD Multi-level Governance Studies, OECD Publishing, Paris, <https://dx.doi.org/10.1787/g2g9faa7-en>.

OECD (Forthcoming) "Inter-Municipal Co-operation in OECD: Bridging Opportunities to Action" (CFE paper on IMC).

<sup>13</sup> <https://www.oecd.org/regional/regional-policy/recommendation-effective-public-investment-across-levels-of-government.htm>

behind any initiative to change the long-standing local government system in a country, although this change might be for the better.

The issue of varying capacity of local governments is important and there are various ways to help mitigate differences and build better capacities. These do not have to include measures interfering with local government autonomy, such as amalgamation, or be complicated in nature, such as asymmetric decentralisation. One of the simpler ways to help local governments provide better services, build capacities, and promote local growth is to join different forms of local partnerships.

IMC is part of the system of local self-government and a way of decentralising public service provision, which implies different forms of interaction among LSGUs. IMC is one of the most important reform directions for the functional improvement of local self-government, which has the potential to significantly improve the quality of life of citizens and make local services more economical. IMC is usually a voluntary agreement between at least two LSGUs to work together on any of the tasks under their jurisdiction. There are also compulsory types of co-operation. In both cases, the purpose of IMC is to gain mutual benefits (human, organisational and material resources) and to enhance the effective provision of services to citizens.

The European Charter on Local Self-Government establishes the right of local authorities to co-operate and be part of associations. Article 10 of the Charter stipulates that local authorities have the right to co-operate and to form consortia with other local authorities to carry out tasks of common interest (within the framework of the law). Moreover, local authorities can have their own association, or to be part of an international association. Also, they can co-operate with local authorities in other countries as well. The provisions of the Charter are quite broad and leave room for different forms and levels of co-operation between local authorities both in the same country and abroad.

IMC can also provoke further optimisation, both territorial and functional. In most cases, it seems to be a more natural first step to encourage local governments to co-operate and co-ordinate at the local level than to decide on a more far-reaching reform (e. g. amalgamation) without considering the future role of local governments.

This topic has been for the focus of many studies and recommendations. The advancement of local governance and the evolution of good governance principles have exposed municipalities to an increasing demand for (a) greater efficiency and effectiveness in executing their functions and (b) the adoption of European standards in service delivery.

One of the important motives of establishing IMC is the expectation of cost saving due to economies of scale. However, IMC brings also additional costs, for example, related to organisation and management of the co-operation. Academic studies investigating the issue are vary in their conclusions on whether cost savings really occur. A very interesting summary of these findings, based on comparison of several dozens of studies conducted in various countries, suggests that cost saving as a result of IMC is frequent, although there are also studies that conclude the contrary<sup>14</sup>. According to this study, the likelihood of cost saving is especially high when:

- co-operating municipalities are really small;
- co-operation is clearly focused on one sector (service) rather than diluted among various areas;
- co-operation has been established based on a bottom-up voluntary decision, instead of being imposed by central government.

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<sup>14</sup> Based on: Bel, G., Sebo, M. (2019) Does Inter-Municipal Cooperation Really Reduce Delivery Costs? An Empirical Evaluation of the Role of Scale Economies, Transaction Costs, and Governance Arrangements, *Urban Affairs Review* 57(1).

A recent study of IMC institutions in Italy suggested that it can take time to achieve cost savings in small municipalities, in order to offset higher co-ordination costs and rationalise the service supply network. **Cost savings may also be made possible by the heterogenous composition of the members of IMC initiatives, with the inclusion of at least one large municipality.**<sup>15</sup>

There are two main approaches to IMC, **voluntary** and **obligatory**.<sup>16</sup> Some countries provide for compulsory or/and semi-compulsory co-operation<sup>17</sup> (France, Italy, Portugal, Spain, Switzerland). These are based on criteria such as population thresholds or geographical features (mountainous areas). In some European countries, the central governments have the right to initiate municipal co-operation for service provision to improve their quality and efficiency in particular areas (such as water management, etc.). Examples of such provisions can be found in Austria and partially in France. In France, the establishment of IMC (i.e. *communauté urbaine*) is mandatory for some large cities such as Bordeaux, Lille, Lyon, and Strasbourg.<sup>18</sup> The forms of co-operation, the powers that may be exercised and the rules that apply are set out in detail, leaving the municipalities with no choice. Some countries stipulate a minimum period of co-operation, others require the dissolution of co-operation arrangements in certain situations or impose withdrawal requirements.<sup>19</sup> Some countries have both voluntary and compulsory co-operation mechanisms among municipalities (Switzerland).

**Table 1. Examples of various IMC forms**

Formality	Type	Description
Informal	Information Sharing	Municipalities share data and best practices.
Informal	Joint Committees/Task Forces	Temporary groups established for specific projects.
Informal	Memorandum of Understanding	Non-binding agreement outlining shared goals and cooperation methods.
Formal	Contractual Agreements	Formal agreements outlining services, responsibilities, and finances.
Formal	Consortia	Separate legal entity for joint service delivery (e.g., waste management).
Formal	Joint Powers Agreements	Municipalities share statutory authority for a particular function.

<sup>15</sup> Vidoli, F., Quintilliani, F., Ivaldi, G., Marinuzzi, G., Porcelli, F., Tortorella, W. (2023) Do municipal unions improve cost efficiency for the social function? A quasi-experimental endogenous stochastic frontier approach, *Journal of Regional Science*, DOI: 10.1111/jors.12673.

<sup>16</sup> [OECD-WOFI \(sng-wofi.org\)](https://doi.org/10.1787/9789264272866-e), OECD (2017), *Multi-level Governance Reforms: Overview of OECD Country Experiences*, Edited by Chatry I. and Hulbert C., Multi-level Governance Studies, OECD Publishing, Paris., <https://doi.org/10.1787/9789264272866-e>

<sup>17</sup> Semi-compulsory IMC refers to arrangements where the allocation of grants is dependent on the establishment of joint co-operation among municipalities and/or other partners. Usually, the government provides funding provided that municipalities submit a joint project. In this case, local governments are not obliged to enter into partnerships, but the incentive is so strong that most of them actually do. It can also be introduced as a solution to the case of non-functioning local governments (case of Serbia).

<sup>18</sup> Purely from a formal point of view IMC is not compulsory in the legal sense for all municipalities in France. However, incentives to do so, and dis-incentives for staying outside, are so strong, that in practice it becomes compulsory.

<sup>19</sup> Council of Europe (2008), *Inter-municipal co-operation: Manual of the European Committee on Local and Regional Democracy*.

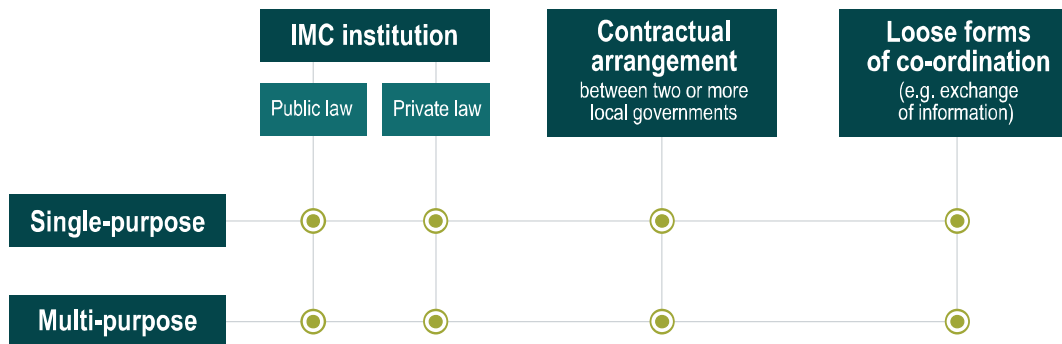


<b>Formal</b>	Associations	Voluntary membership organisations for municipalities with shared interests.
<b>Formal</b>	Local Action Groups (LAGs)	Partnerships for implementing territorial development strategies.
<b>Formal</b>	European Grouping for Territorial Cooperation (EGTC)	Legal entity for cross-border cooperation between municipalities in EU.
<b>Formal</b>	Integrated Territorial Investments (ITIs)	EU initiative for collaborative territorial development projects.
<b>Formal</b>	Joint Tenders	Municipalities issue a single tender for goods, services, or works.
<b>Highly Integrated</b>	Municipal Unions	Merger of municipalities with a unified government.
<b>Highly Integrated</b>	Annexation	One municipality absorbs another, assuming all its powers.

Source: SIGMA

The forms of IMC are diverse, both among and within individual countries. They range from having informal, loose formats to newly created institutions similar to a new local government unit. They may be single- or multi-purpose. Their construction may be based on public or private law, as in the case of inter-municipal companies. This variation is briefly summarised in the table below. In practice, their availability depends on national legislation that defines the forms of collaboration allowed. In some countries regulations are lenient, leaving a lot of space for local government invention, while in others the available forms are strictly defined by the law and no other forms are allowed.

**Figure 1. Variety of available forms of inter-municipal co-operation**



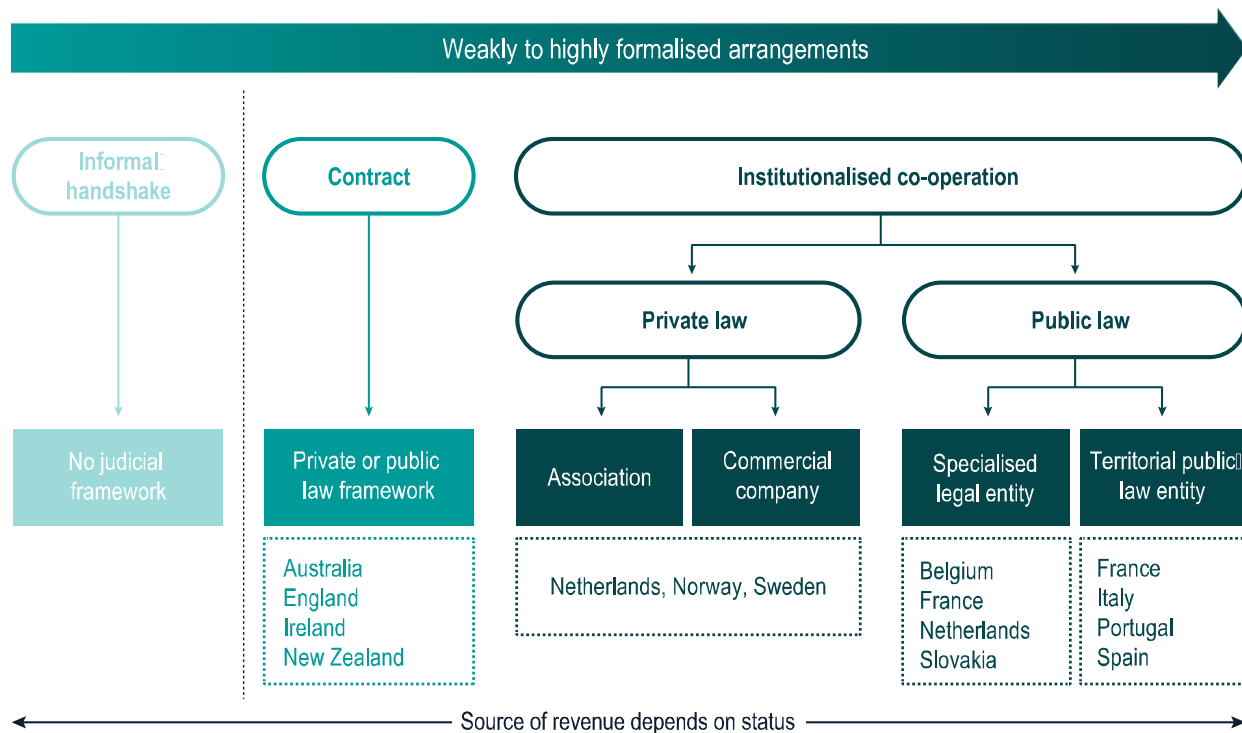
Source: SIGMA

Non-formal IMC refers to two or more municipalities being involved in planning processes (economic development, tourism, etc). The agreed terms are not formalised by contracts. These types of IMC come in the form of 'handshake agreements' or meetings among councillors, mayors or staff to discuss and solve issues of common interest within their competence. These forms do not result in enacting decisions that place a legal obligation on the municipalities and do not require significant public funding. Formal IMC initiatives can take the form of agreements, contracts, private entities (joint stock companies), NGOs<sup>20</sup>, and public entities (state enterprises). Municipalities can delegate the performance of any of their functions

<sup>20</sup> The legal form typical for NGOs happens to be used for local government IMC.

to another or other LSGUs using formal IMC. Where commercial companies or not-for-profit organisations are established, they have a founding act.

**Figure 2. From soft agreements to more formalised forms of co-operation**



Source: OECD (2019): Making Decentralisation Work<sup>21</sup>

**There may be different motives behind engaging in IMC. Depending on the specific local situation there may also be different benefits for the local governments involved.**

<sup>21</sup> OECD (2019), *Making Decentralisation Work: A Handbook for Policy-Makers*, OECD Multi-level Governance Studies, OECD Publishing, Paris, <https://dx.doi.org/10.1787/g2g9faa7-en>.

## IMC - Benefits for the local governments involved

### Typical potential benefits include:

- + **Benefiting from economy of scale** – in some (although not all) services provided by local governments, unit costs are high if the total amount of services produced is low. If the service is provided jointly for a group of municipalities, the quantity of supply may be higher, which reduces unit costs. This argument is especially important for very small local governments (or for countries in which local governments are very small), but in some services the level of optimal size of production is larger than many local government units (waste management is an example of such a service with high optimal scale of production).
- + **Joint management of functionally integrated but territorially fragmented areas** – urban agglomerations consisting of central city and surrounding suburb municipalities are an example of such situations. Services such as public transport, the road transport network, environmental protection, land use planning, and also some social services cannot be effectively managed separately by each of the municipalities within the agglomeration. IMC may be an answer for this type of challenge.
- + **Better management due to combined administrative/managerial capacity of local governments** – some small local governments do not have sufficient capacity to manage more complicated services (including qualified administrative staff). Joint provision may allow for specialisation of staff, better training of personnel etc.
- + **Better visibility** – sometimes municipalities decide to co-operate with each other because they realise that they are too small to undertake effective tourist promotion or campaigns to promote economic development (e.g. to attract new investors). The attractiveness often depends on the location in a broader region. An individual cave or an individual castle (in case of tourist promotion) is not interesting enough, but what makes them attractive is a number of them in a territory of several neighbouring municipalities. The promotional campaign of a single municipality would not make much sense, but joint promotion is very effective.
- + **Access to external funds** – several programmes supported by the EU or other international donors require either a minimal threshold for the project size (which is not available for individual, small local government) or directly mention involvement of a group of municipalities. Preparation of project application might be easier if municipalities join resources.

**However, IMC is not simple, or easy to implement. It can have negative side-effects.**

## Barriers or effects that may discourage IMC

The typical barriers or effects that may discourage IMC include:

- **Slower decision-making process** – it of course depends on the particular form of co-operation, but due to the involvement of several municipalities, important decisions often require consultations that take longer. Decision-making is complicated by the involvement of numerous stakeholders with no hierarchical relationships among them, which would get them out of deadlock situations.
- **Duplication of costs and personnel** – IMC should in theory help to reduce costs or to achieve more for the same cost. But in practice it happens that due to the inertia of bureaucratic structures, or ambitions of local politicians who are not ready to give up their direct control, there might be duplication of costs or personnel in the municipal administration and the IMC institution.
- **Democratic deficit** – mechanisms for democratic accountability of local governments, although far from being perfect, are known and well established. But decision-making in IMC institutions is much less transparent for citizens, societal organisations or local media. It can become unclear for citizens who is responsible for the quality of various services. Control over IMC institutions is indirect, through the “borrowed mandate”, meaning that they are (often insufficiently) controlled by representatives of municipal councils or municipal mayors, but not directly by whole councils or civil society institutions.
- **Political costs of co-operation** – entering IMC means also sharing the power and prestige enjoyed by local political leaders. Sometimes they are reluctant to join IMC because they do not want to share their powers. Even after the formal establishment of IMC, the ambitions of the involved leaders and weak ability to compromise may lead to conflicts and hamper co-operation. Co-operation is especially difficult in societies characterised by a low level of trust, which in Europe is typical for Eastern and Southern parts of the continent. Mayors belonging to antagonist political parties or in some cases to different ethnic groups can also make co-operation very difficult.

## 2. European and OECD good practices for supporting inter-municipal co-operation

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This chapter provides an overview of EU and non-EU good practices in both voluntary and mandatory inter-municipal co-operation. It describes the forms of central administration support, systematic and financial, to enhance local government partnerships for better service delivery, optimisation of capacities as well as for more inclusive policymaking at the local level. Given the existing EU and OECD practices in this field, it is important to provide recommendations based on established, well-functioning models, nevertheless taking into consideration the specificities of the local government systems in the Western Balkans.

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## 2.1. Central administration support to improve local government partnerships

Evidence from most European and OECD non-European countries has shown that central government plays different roles in the process of stimulating inter-municipal co-operation (IMC), from being an active main supporter to an absent or minor political actor. The first refers to situations where IMC is of a *mandatory nature*, as seen in countries that choose to determine the adoption of this strategy as a territorial governance tool with co-operation being defined by law and compliance monitored and sanctioned by central government agencies. The latter refers to cases where IMC is of a strictly *voluntary nature*. In both cases, the central administration is responsible for setting the legal framework and providing a supportive environment for these collaborative arrangements.

This section provides an overview of European practices within the large spectre of institutional forms between voluntary and mandatory IMC. It describes the tools of central administration support to enhance local government partnerships for better service delivery, optimisation of capacities as well as for more inclusive policymaking at the local level. Given the existing EU and OECD practices in this field, one non-European (OECD) case was included given its relevance and examples on central government incentives for co-operation at the local level, taking into consideration the specificities of the local government systems in the Western Balkans.

## 2.2. Examples of inter-municipal co-operation and other forms of local partnerships in EU and non-EU countries

### **Czechia**

Czechia has an extremely territorially fragmented system, with over 6 200 municipalities in a country with a population of around 10 million. Close to 80% of all local governments have less than 1 000 citizens, so the level of territorial fragmentation is close to that observed in France. Therefore, IMC is commonly seen as a tool that addresses the issue of very small local governments that are not able to provide several services independently. Contrary to France, IMC institutions are not that common nor that complex and incentives for their establishment are relatively weak.

Czech municipalities are responsible for two types of competences: own, independent competencies and delegated powers, which are mostly of an administrative nature. In the execution of the independent competencies, municipalities enjoy a high degree of autonomy. For delegated powers, the municipalities are agents of the central government, simply implementing its policies with very limited autonomy. While the Law on Municipalities (2000) includes provisions concerning co-operation in implementing own tasks, in fact co-operation takes place in both types of competences.

Co-operation among municipalities in the area of delegated competences takes two forms: First, bigger municipalities provide some of the administrative services for a specified catchment area which covers other municipalities as well. There are seven different categories of municipalities according to the extent of delegated power they exercise. The most important are the 207 so-called municipalities with extended power. The range of services and the catchment area are defined by the central government, which also contributes to the financing of these services through grants (transfers from state budget). This type of co-operation fits under the mandated networks. Another form of co-operation in the area of delegated powers is through public contracts, when one municipality provides some of the administrative services for another one.

As regards own functions of local governments, there are several available forms of IMC, but the clearly preferred and the most popular form is the Voluntary Association of Municipalities (VAM), which is described in the Law on Municipalities. VAMs may be single-purpose or multi-purpose organisations, the latter often referred to as “microregions”. A VAM is not a local government; however, some local government regulations apply (e.g., the Law on Budgetary Rules of Local Governments).

A VAM can be founded by two or more municipalities that need not be neighbours. One municipality can be a member of several VAMs. A VAM is established based on a contract that must be approved by the municipal councils of all participating municipalities. The VAM legally comes into being when the regional office registers it. There are no strict regulations deciding the shape of VAM executive structures. The decision-making mechanism and financing is regulated by the statute of the VAM. VAMs have three main financial sources: member contributions (regulated freely by the VAM statute, non-tax revenues resulting from their own activity, and external resources such as grants. The number of VAMs has been steadily growing. In 2022, there were 702 VAMs registered in the country, but some of them do not perform any activities.<sup>22</sup> In some cases, VAMs can be multi-purpose, covering several functions, mostly to help with the strategic development of its members. However, as highlighted by several stakeholders and the Ministry of the Interior, a majority of VAMs are single-purpose and may focus on a one-time investment project or the ongoing provision of services.<sup>23</sup>

The most widespread is co-operation in the area of waste management (300 VAMs), with a current annual expenditure above CZK 150 million (approx. EUR 6 million, 2017 data). The highest share of expenditure, both current and capital, is allocated to water and sewer management (26 % of current expenditure and 79 % of capital expenditure over the period 1997 – 2017). VAMs play only a minimal role in the case of education (23 VAMs) and healthcare and social services (17 VAMs). One of the forms of VAM activities are Centres of joint services, which aim to increase the administrative capacity of municipalities.

According to a survey of local politicians, the most important factor beyond creating VAMs is a belief that IMC increases the scope of public services provided by local governments and that it increases the efficiency of local public administration<sup>24</sup>. Expected benefits in the form of lower costs of service provision are seen as the next important.

A unique form of co-operation takes place in the case of pre-school and elementary education. Municipalities that do not operate schools guarantee the availability of education through contracts with other municipalities. Municipalities compensated each other for the provision of education until 2012. Since 2013, education is financed through shared taxes and municipalities that operate a school receive a higher share based on the number of pupils enrolled.

The VAM “*Svazek obcí Údolí Desné*” (Co-operation of municipalities in the Valley of Desne) was established in 1997 and is considered one of the best examples of successful IMC in Czechia. It gathers 9 municipalities with a total population of around 13 000 (the largest 3 500 and the smallest just 150 residents). This is a multi-purpose IMC institution, the aims of the VAM initially included: reconstruction of local railway line (which is now operated by the VAM), improve operation of schools, improve housing and promote tourism in the region. Among the successes of this VAM, apart from efficient regeneration of the railway line, was the operation of an education network in a micro-region, which consists of 3 primary schools, three kindergartens and two school kitchens. All schools have a common staffing policy, which for example helps to improve teaching of foreign languages, have a joint system of transport for pupils and jointly purchase energy in order to negotiate better prices.

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<sup>22</sup> OECD (2023), *OECD Public Governance Reviews: Czech Republic: Towards a More Modern and Effective Public Administration*, OECD Public Governance Reviews, OECD Publishing, Paris, <https://doi.org/10.1787/41fd9e5c-en>

<sup>23</sup> *ibid*

<sup>24</sup> Bakoš, E., Hrůza, F., Fiedor, D., Klemešová, K. (2021) The perception of inter-municipal cooperation by local officials and managers, *Central European Journal of Public Policy* 2021; 15(1): 1–14.

One more important form of IMC – present in several other European countries – is the Local Action Group (LAG). This is a specific form that gathers local governments (usually a group of neighbouring municipalities), local business owners and voluntary social organisations active in the same region. A very clear stimulus for organising LAGs is the European Union programme for rural development, which offers grants for LAG projects concerning local community development. 185 LAGs were created in Czechia up to 2017.

Aggregate expenditures of IMC institutions as compared to aggregate municipal budgets are very low (below 3% of municipal budgets), which suggests that Czech municipalities rarely use IMC instruments for delivery of vital services. At the same time, IMC is popular, only about 4% of municipalities are not engaged in any form of IMC at all.

EU funding has been perhaps the most important external incentive for IMC in Czechia, important not only for LAGs but also for VAMs. Several microregions were created with an expectation that it would be easier to apply for grants from structural funds through inter-municipal institutions. Individual, small local governments often have no capacity to prepare relevant applications, and sometimes they are not eligible to apply for EU funded projects (e.g. due to insufficient number of beneficiaries). Apart from the enabling legal framework, there are no clear incentives for IMC that arise from central government policies.

## Lessons learnt from the Czech experience

- IMC may help in dealing with issues arising from territorial fragmentation, although without strong incentives, mechanisms of co-operation remain relatively weak and do not play a major role in service delivery.
- EU funding may play an important role in stimulating IMC institutions.

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Bakoš, E., Hruža, F., Fiedor, D., Klemešová, K. (2021) The perception of inter-municipal cooperation by local officials and managers, *Central European Journal of Public Policy* 2021; 15(1): 1–14

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### Finland

Finland is one of the European countries with the highest level of local autonomy and also with the highest role of local governments in provision of public services. According to 2021 data, Finnish local governments spend over 40% of total public spending<sup>25</sup> and are responsible for a wide range of services including running primary schools and healthcare. This wide scope of local government functions together with lack

<sup>25</sup> This was less than 30% in all of the Western Balkan administrations <https://www.sng-wofi.org/country-profiles/>



of a second-tier sub-national government explains the prominent role of IMC in Finland<sup>26</sup>. The last decades have brought a gradual amalgamation of local government units, usually based on principle of voluntary mergers. The number of municipalities decreased from 452 in 2000 to 309 in 2022, but there are still several small local governments that would be unable to deliver all local public services independently (still almost half of local governments have populations of fewer than 5 000, including 4% with less than 1 000). Consequently, IMC is still perceived as a necessary element of sub-national service provision.

The Finnish IMC landscape is characterised by a fundamental distinction between compulsory and voluntary co-operation. From the 1920s and in some cases before that, voluntary regional joint municipal authorities were established to manage tasks requiring larger system capacity, for example the establishment of hospitals. Nowadays, mandatory regional co-operation includes regional planning and employment services. Prior to establishing the wellbeing services counties<sup>27</sup> (these started to operate in 2023), compulsory IMC also included specialised healthcare (hospitals).

All IMC (voluntary and compulsory) is regulated by law. The basic framework for IMC is defined in the Local Government Act (Chapter 8), which defines four main alternative ways to organise IMC and makes provisions for the minimum requirements for establishing, managing and governing IMC. The specific regulation for compulsory IMC is defined in sectoral laws. Chapter 1, section 2 of the Constitution stipulates that: "Local authorities shall perform the compulsory functions either alone or in co-operation with other local authorities. Local authorities may also secure the services they need to perform their functions from other service providers". This means that municipalities can provide statutory services by themselves, deliver the services in co-operation with other municipalities, and purchase services from other municipalities, or public sector organisations. Additionally, municipalities can establish their own private corporations, become part of private companies, or purchase services from the private sector.

The most common forms of IMC are based on public sector law: joint municipal authorities (*kuntayhtymä/samkommun*), and different forms of contract-based IMC. In a host-municipality arrangement, the joint activities are integrated into the activities of one of the municipalities. In addition, municipalities may establish joint companies, foundations and associations in accordance with private sector laws.

As regards compulsory co-operation in specialised healthcare, IMC was organised into 20 hospital districts; in the case of regional development, into 18 regional authorities responsible for spatial planning and structural policy. In these two cases, every municipality was assigned membership in one specific joint municipal authority.

Prior to establishing the wellbeing services counties, municipalities were also assigned membership in one of the 22 regional rescue-service departments. In this case, however, the municipalities may decide on the legal form of co-operation. Most of the regional rescue departments are formally integrated in the organisation of the largest city in the region but governed by a political body including members from the whole area of the rescue-service department.

When it comes to other tasks prescribed to the municipalities by law, IMC is voluntary and usually involves small municipalities more than large municipalities. In some cases, the central government has established minimum population thresholds that have encouraged municipalities to collaborate (for example 20 000

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<sup>26</sup> As a result of the regional reform that creates 21 regions for social and healthcare services, the number of IMCs will decrease as the healthcare and social services will be transferred from municipalities to Finland's newly established regions. The reform was approved by the Finnish Parliament in 2021 and the regions started to fully operate at the beginning of 2023. But IMC will continue to be an important way to organise public services, especially in education and utility services and in regional development. OECD (forthcoming) "Inter-Municipal Cooperation in OECD: Bridging opportunities to Action".

<sup>27</sup> The "wellbeing services counties" are responsible for organising health, social and emergency services in Finland. There are 21 wellbeing services counties.

inhabitants in social care and primary healthcare). However, municipalities may also choose other ways to reach the minimum threshold, such as a municipal merger for outsourcing the service provision to a private service provider.

Joint municipal authorities (JMAs) are independent authorities that are separate legal entities. A JMA is based on an agreement accepted by all relevant municipal councils. Every municipality is granted a seat in the council of the JMA (members are chosen by municipal councils), whereas – according to the Local Government Act - the seats in the executive board and other political bodies are distributed according to the results in the municipal elections in the area covered by the JMA. This means that the composition of executive bodies should be adjusted to correspond to the proportion of votes obtained by the various political groups represented in the councils of local member authorities.

In host municipality arrangements, the political governance of joint activities is formally a part of the organisation of the host municipality, but usually governed by a body where all the municipalities are represented. Companies, foundations and associations are governed according to the statutes of individual bodies.

**Example from South-West Finland:** Of 27 municipalities, only 8 (usually the largest cities) provide healthcare services alone. The other municipalities can be divided into two groups. Municipalities in the first group engage in IMC, forming four clusters of municipalities (with two-three members of each cluster). The solution selected by another group is that one municipality as a host offers the services to other municipalities on a contract basis. This form is used by 12 municipalities. Co-operation may cover the whole of social and healthcare, or, more often, leave less complex services, like child daycare, under municipal responsibility. It is obligatory to have a district of about 20 000 inhabitants for social and healthcare. IMC – in one of its forms - is a way for smaller local governments to meet this criterion. <sup>28</sup>

**Incentives** in Finland are largely of a legal nature. They either directly oblige local governments to co-operate or set norms and standards that cannot be met effectively by small local governments without co-operation.

## Lessons learnt from the Finnish experience

- Properly organised IMC can be an effective solution for dealing with low capacity of small municipalities to provide complex public services.
- Even IMC that is compulsory by law, may leave considerable autonomy to municipal governments as regards the forms and scope of co-operation.
- High levels of social capital and consensual political culture support good co-operation of local governments.

<sup>28</sup> As a result of the regional reform that created 21 regions for social and healthcare services, the number of IMCs decreased as healthcare and social services were transferred from municipalities to Finland's newly established regions. The reform was approved by the Finnish Parliament in 2021 and the regions started to fully operate in beginning of 2023. OECD (Forthcoming) "Inter-Municipal Cooperation in OECD: Bridging Opportunities to Action" (CFE paper on IMC).

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OECD (2017), *Multi-level Governance Reforms: Overview of OECD Country Experiences*, Edited by Chatry I. and Hulbert C., Multi-level Governance Studies, OECD Publishing, Paris, <https://doi.org/10.1787/9789264272866-en>.

### France

**France** with over 35 000 very small *communes* has a specific model to manage local government functions. For a long time, IMC has played an important role in that process. It helps to ensure proper co-ordination of planning and service delivery in territories divided into several, very small local governments and at the same time it enables economies of scale. Gradually, some of these IMC institutions have started to resemble a new tier of local government. The main push was, however, the law no. 92-125 of February 1992, which promoted IMC as a means of creating integrated “territorial projects” with own-source taxing powers (i.e., the ability to raise their own tax revenue). “Communities of *communes*” and “communities of cities” and later “agglomeration communities” were established.<sup>29</sup>

Within the large variety of French IMC institutions, it is possible to distinguish two basic forms:

- *Syndicats* – stipulated for the first time by the Law adopted at the end of the 19<sup>th</sup> century. They provide functions delegated to them by local governments and are financed by contributions from the *communes*. Since 1959 they can be multi-purpose (not only single-purpose) organisations and in some cases their establishment does not require the consent of all local governments (it is enough if the decision is supported by a majority of *communes* inhabited by at least a majority of the population of a given territory, a so called *double majority*). In 2019, there were 9 967 *syndicats* in comparison to over 12 000 in 2015;
- *Communautés* (communities) – first allowed in the 1960s for the largest *agglomerations*, and in the 1990s extended to the rest of the country. The core of their functions is defined by the Law, although member local governments also have the discretion to decide upon the remaining competencies of the community. They can be financed by own taxes, as stipulated by the Law, and by direct transfers from the central budget. Their establishment requires a *double majority* of *communes*, as is the case for the *syndicats*.

Since 1999 there have been three major forms of the *communautés*:

- *Communautés urbaines* – initially created in the 16 largest metropolitan areas, each of them inhabited by more than half a million residents (although there are some exceptions, communities established in the smaller *agglomerations*). In 2019 there were 13 IMCs of this type.
- *Communautés d’agglomération* – initially over 120 of these, with the principal city having more than 15 000 residents. In 2019 there were 223 *communautés d’agglomération*.
- *Communautés de communes* - over 2 000 communities, gathering 26 000 *communes* in the predominantly rural areas. Its territory must have at least 15 000 inhabitants, although in some cases (e.g. low population density) the threshold may be lowered to 5 000. Between 2015 and 2019 their number has decreased from 1 884 to 1 001, while the average population size has increased from 14 300 to 22 200.

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<sup>29</sup> See: OECD (2017), *Multi-level Governance Reforms: Overview of OECD Country*, Edited by Chatry I. and Hulbert C., Multi-level Governance Studies, OECD Publishing, Paris, <https://doi.org/10.1787/9789264272866-en>.

In 2015, the budget spending of the *communautés* was over EUR 40 billion, which was more than one-third of the spending of the lowest tier of government.

After their establishment, the decisions in the *communautés* are taken by a simple majority rule, by a council consisting of delegates of the *communes*. The distribution of seats is agreed among the member *communes*. However, each *commune* has at least one representative, and none of them may have more than half of the seats in the council. As a rule, the mayor of the principal city also becomes a President of the community.

*Communautés urbaines*, *communautés d'agglomération* and *communautés de communes* differ by the number of compulsory functions. For example, in the smaller *agglomerations* the list includes: public transport, economic development, strategic spatial planning and a selection (made by the community) from an additional list of functions (including housing, school transport, environmental protection, some social services). For the *communautés urbaines* these additional functions are obligatory. One of the main differences is in the planning: *communautés urbaines* are responsible for planning on both strategic and local level, while *communautés d'agglomération* are only in charge of the strategic level. Additional functions may be transferred to the communities on the basis of voluntary agreement.

One of the strong incentives to create *communautés* was the allocation of the *taxe professionnelle* to them. Before the reform, this was the local tax levied on assets of local enterprises that brought the largest amount of revenues of all local revenue sources. Moving the tax to the level of *communautés*<sup>30</sup> on the one hand stimulated the decision on their establishment and at the same time was aimed at reduction of tax competition within the agglomeration. Other important sources of revenue for the *communautés* are the tax on salaries (which is supposed to help in maintenance of the urban transport system) and the tax on waste collection.

In *communautés urbaines*, there is also an obligatory equalisation scheme ("solidarity grant"), the general criteria of which are stipulated by the law. However, details of the equalisation scheme (including weights for individual criteria) are decided by each community separately.

The complex French system, although seen as the most successful European example of wide-spread IMC, has also been heavily criticised. One element of criticism concerns the indirect appointment of the council members of the *communautés*, which lack the legitimacy stemming from direct elections. Also, the legitimacy of the principal city mayor (who is usually the president of the community) is restricted to their voters from the principal city. The second stream of criticism concerns *institutional overcrowding, functional overlaps and institutional labyrinth*<sup>31</sup>.

Further reforms have been initiated since 2010, including for example the introduction of 12 *métropoles* (in 2019 – 13 of them), which are supposed to provide a new form of management of metropolitan areas. In some cases, direct election of councils of *communautés* has been introduced as well, making them even more similar to the separate tier of government. The 2010 reform also made it possible to create *syndicats* of *communautés*, which is an attractive form supporting co-ordination of joint planning or economic development in a wider area. However, it adds to the complication of the French institutional architecture.

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<sup>30</sup> The choice was between transferring to *communautés* and losing this source of revenue. So it was better to establish an IMC institution and to transfer the revenue source to it, rather than losing it entirely.

<sup>31</sup> Wollmann, H. (2011) Reorganizing Local Government: Between Territorial Consolidation and Two-tier Intermunicipality, *Croatian and Comparative Public Administration*, 11(3): 694.

**Incentives** for establishment of IMC institutions are very strong, and they take several forms, including:

- Facilitation of their establishment – double-majority (as explained above) condition instead of unanimity of local governments' decisions.
- Functional incentives – possibility of performing some functions by central governments only in case of establishing IMC institution.
- Financial incentives – special grants to IMC, but also sources of own revenues (including tax revenues) available for IMC institutions only.

In 2014, the NOTRe Law was passed to simplify this very complex inter-municipal organisation by setting up a minimum threshold for IMC. In January 2019, there were 1 258 IMC bodies with own-source taxes (*Établissement public de coopération intercommunale*, EPCI), grouping all 35 000 French municipalities. There are different forms of such structures, depending on their demographic size and urban or rural characteristics. They exercise obligatory competencies transferred from municipalities by law, mandatory competencies with a right of option (chosen from a list) and non-compulsory responsibilities entrusted by the *communes*. The NOTRe Law has increased the number of mandatory responsibilities that IMC bodies have. For example, the 1 001 “communities of municipalities” as of 1 January 2019 (*communautés de communes*) now have 2 mandatory responsibilities (spatial planning and local economic development) and at least 3 mandatory competencies to be chosen from a list of 7 competencies. EPCIs now form a fourth quasi-subnational level of government.<sup>32</sup>

## Lessons learnt from the French experience

- IMC can be an effective way to deal with issues arising from small scale local governments and challenges of co-ordination.
- Incentives for IMC may be effective if they are strong enough.
- IMC is not a “magic wand” solving all possible problems – in France it helped to manage local public services efficiently and effectively, but it has not been an uncriticised, ideal solution. It has created a new problem related to the complexity and often low transparency of new institutions. Frequent attempts at new reforms of the IMC institutions confirm the relatively low level of satisfaction with their outcomes.

### More to read

OECD (2017), *Multi-level Governance Reforms: Overview of OECD Country Experiences*, Edited by Chatry I. and Hulbert C., Multi-level Governance Studies, OECD Publishing, Paris, <https://doi.org/10.1787/9789264272866-en>.

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<sup>32</sup> OECD (2021), *Decentralisation and Regionalisation in Bulgaria: Towards Balanced Regional Development*, OECD Multi-level Governance Studies, OECD Publishing, Paris, <https://doi.org/10.1787/b5ab8109-en>.

## Belgium

As the Western Balkan administrations include one economy with a more complex federal structure, Bosnia and Herzegovina, Belgium may provide an example of how to approach IMC under complex institutional circumstances.

Belgium federalism is different from most other federal countries as it relies on the principle of no hierarchy between the federal government and the subnational governments. This means that no authority has precedence over another and no authority can impose requirements on another. Legislative texts issued by each authority are thus on an equal footing. Subnational governments have the constitutional right to conclude internationally binding treaties in these areas and can appoint diplomatic representatives abroad.

The municipal tier of government comprises 581 municipalities, which have been governed by regional legislation since 1988. They have powers in economic affairs, secondary education, culture, roads and social protection in provinces and are also responsible for the implementation of national laws and of communal and regional decrees in their territory. The number of municipalities has been stable for around 45 years, following a process of compulsory mergers between 1975 and 1983. The average municipal size in Belgium is almost twice the OECD average municipal size (around 10 250 inhabitants). There are very few small municipalities (1% with less than 2 000 inhabitants), as the majority (72%) have up to 20 000 inhabitants.

The Flemish and Walloon Regions are currently encouraging “supra-municipalities”. In Flanders, there are five legal forms of IMC: “interlocal association”, “project association”, “service providing association”, “association with a clear assignment”, and “association with a clear assignment and private sector participation”. The first form consists in a basic contract while the other four forms result in establishing a separate judicial entity. IMC is widespread, taking place in various sectors, such as drinking water provision, waste water management, waste management, management of crematoria, distribution of gas and electricity, communication (internet, TV), economic development, etc.

One common form of IMC is inter-municipal companies (*intercommunales*), which are public law entities that are subject to both private and public law. *Intercommunales* can be limited companies, co-operative companies with limited responsibility or non-profit associations. If they have only municipalities as shareholders, they are “pure” inter-municipal companies. If they bring together public and private shareholders, they are “mixed” inter-municipal companies. There were 323 *intercommunales* in 2015 in Belgium, accounting for around 38 000 jobs.<sup>33</sup>

### More to read

OECD/UCLG (2022) 2022 Country Profiles of the World Observatory on Subnational Government Finance and Investment, [OECD-WOFI \(sng-wofi.org\)https://doi.org/10.1787/fea62108-en](https://doi.org/10.1787/fea62108-en)

## The Netherlands

The Netherlands is an outstanding case of the proliferation of multiple schemes of IMC. Since the 1950s, successive central government initiatives resulted in a complex polycentric system of territorial governance, with layers of co-operation being added to the institutional fabric of local government.

In the Netherlands, municipalities are seen as having general competences to govern their jurisdiction and are free to take initiatives towards any co-operative arrangement. In addition, there are six policy areas where IMC is mandated to perform: public safety, health, environmental law implementation, labour market, public and youth care.

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<sup>33</sup> OECD/UCLG (2022) 2022 Country Profiles of the World Observatory on Subnational Government Finance and Investment, [OECD-WOFI \(sng-wofi.org\)](https://doi.org/10.1787/fea62108-en).

The diversity of models available for municipalities to organise their co-operation under public law is established by the Joint Provisions Act (WGR - *Wet Gemeenschappelijk Regelingen*) from 2005.<sup>34</sup> It establishes four main forms, from stronger to weaker institutional status, and contains regulations regarding the governance structure of the more robust forms:

- The detached organisation, with its own staff and autonomy regarding administrative matters.
- The association with limited autonomy, but also the possibility of having its own staff.
- The 'central municipality' arrangement, where one member acts on behalf of other municipalities that agree to assign their common tasks to it.
- The informal arrangements, in those cases where municipalities work together on specific initiatives, but without any organisational form.

Today, there are around 700 inter-municipal arrangements under public law. The key purpose for IMC is now the increasing transfer of tasks from central government to local authorities, in particular in the employment and social sector. In fact, IMC gained impetus in 2004 with the new Work and Social Security Act that decentralised a number of tasks to local government, in particular employment services. To comply with these new responsibilities and manage the associated finances, many municipalities decided to join forces by creating new co-operation structures. These municipal arrangements include eight metropolitan entities, the so-called "city-regions", created in 1995 and more formally in 2005 by the WGR+ Act, which group 112 municipalities and 6.5 million inhabitants.<sup>35</sup>

In addition, local governments have a significant number of other options available under private law, common in several European countries: private associations and private companies, foundations, and co-operatives.

Despite the existing regulations, the structure of IMC initiatives is varied. The leniency of the normative framework, the number of alternative forms and the intensity of co-operation has led to the polycentric landscape of subnational governance structures in the Netherlands.

Given the complexity and number of co-operative arrangements, and the absence of a national registry of IMC, the only source of aggregated data results from academic research in the field. Most recent and available works indicate that, on average, every municipality belongs to or takes part in 16 IMCs, with an average number of 8 members (ranging from 2 to 54). With considerable variation also regarding budget, workforce, and policy areas, it is, however, relevant to consider that more than 16% of municipal budgets are spent in activities related to co-operation – the highest number in Europe.

However, research has shown that location matters, when analysing co-operation between municipalities in the Netherlands: the intensity of co-operation in closer jurisdictions and regional variation is observable. In the first case, there is a longstanding accepted proposition that geographical closeness matters in co-operation. The second aspect and the considerable variation in co-operation arrangements of different regions is seen as a reflex of cultural specificities, social capital, and political culture.

Regarding the functions performed by Dutch IMC arrangements, this follows a similar path as most things related to municipal co-operation in the country: diverse. In this case, a special feature stands out: more than 75% are active in only one policy area, while only 4% could be considered multi-purpose arrangements. This may also help in explaining the proliferation of inter-municipal arrangements.

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<sup>34</sup> Around 1280 IMC structures were created in the period from 2010 onwards under the Joint Regulations Act (WGR Act), such as joint bodies for levying taxes, or in the areas of public health, waste processing or even social services.

<sup>35</sup> OECD (2014), *OECD Territorial Reviews: Netherlands 2014*, OECD Territorial Reviews, OECD Publishing, Paris, <https://doi.org/10.1787/9789264209527-en>.

Most of the IMC arrangements take their form under public law, following the established prescriptions regarding governance aspects determined by the Joint Provisions Act. Consequently, the perception of democratic quality is not negative, particularly regarding representation of municipal interests through the municipal council or executive. On the other hand, direct democracy – through citizen elections – is much less developed. In addition, the performance of IMC arrangements is high, despite some concerns regarding transaction costs.

Evidently, efforts have been made by central governments to provide some coherence and clarity to the complexity of the co-operative fabric of the country's local government. Attempts to harmonise and integrate the system were implemented through the delimitation of co-operation regions. Municipalities would only be allowed to co-operate within these 42 territories. To achieve territorial congruence, the national government also promoted the integration of single-purpose inter-municipal boards into a single regional multipurpose structure. The clear objective was to reduce the complexity and costs related to organisational proliferation, and to improve the functioning of regional systems of co-operation.

However, in 2006 these legal requirements were abolished, with the reintroduction of flexibility, local autonomy regarding forms and partners in co-operation, and the consequent liberalisation of the process. Despite the obvious disintegration of previous harmonised regional arrangements, a few were retained.

## Lessons learnt from the Dutch experience

- Variety in co-operative forms and partners appears to promote co-operation but also results in higher complexity and lower accountability.
- Objective mandatory competencies of specific IMC forms reinforce their political relevance and legitimacy.
- A consistent, uniform regulatory regime to organise IMC should include governance, representation, and accountability aspects.
- An indiscriminate reduction of network complexity (by imposing a fixed or limited set of co-operative partners) does not improve the functional performance of regional governance.
- Normative and organisational factors indicating how co-operation is organised play a minor role in explaining its performance. Trust and political culture plays a more important role.

### More to read:

Pieter-Jan Klok, Marcel Boogers, Bas Denters, and Maurits Sanders (2018), Intermunicipal Cooperation in the Netherlands, in F. Teles, P. Swianiewicz (eds.) "Inter-Municipal Cooperation in Europe", Basingstoke: Palgrave:157-171

Pieter-Jan Klok, Bas Denters, Marcel Boogers, and Maurits Sanders (2018), Intermunicipal Cooperation in the Netherlands: The Costs and the Effectiveness of Polycentric Regional Governance, *Public Administration Review*, Vol. 78, Iss. 4, pp. 527–536

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## Poland

In Poland, all forms of IMC are voluntary, and obligation in that respect would even be considered unconstitutional by most local government politicians. At the same time, the legal framework is quite enabling and leaves abundant autonomy to local governments to decide whether they want to co-operate and what the form of that co-operation would be.

The most popular forms of IMC include:

- (i) Inter-municipal Union (IMU – *związek międzygminny*).
- (ii) Contractual arrangements among local governments (*porozumienie*).
- (iii) Inter-municipal company (*spółka międzykomunalna*).
- (iv) Local Action Groups (LAG – *Lokalna Grupa Działania*).
- (v) Joint tenders by a group of local governments (*lokalna grupa zakupowa*).

Altogether, IMC is not a very important mode of service delivery in Poland. Total spending of various IMC institutions and contracts does not exceed 3% of annual municipal budgets (IMCs altogether). IMU and inter-municipal companies are by far the most important types of IMC (in terms of spending involved).

**Inter-municipal union** (IMU) is defined by the Law on Municipal Governments (*Ustawa o samorządzie gminnym*). Formally it is a single-purpose legal entity, but in practice the goals are often defined in a very broad way, so it may become a multi-purpose institution. Apart of very general rules defined in the Law on Municipal Governments, activity of IMUs is regulated by their own statute. Their establishment – which requires a unanimous decision of all involved local governments – is notified in the register kept by the Ministry of Interior and Public Administration. IMUs are financed by member contributions and revenues from services provided. They may also apply for grants or borrow money from banks. Their financial conduct is supervised by Regional Audit Chambers (*Regionalne Izby Obrachunkowe*) on exactly the same basis as supervision of individual municipal budgets. Currently there are about 150 IMUs operating in Poland. Over half of them (as measured by the size of their budget spending) operate in waste management, other major service sectors include water and sewage as well as public transport. The IMU takes over all competencies concerning the function that has been delegated to it by its member municipalities (e.g. including setting tariffs for provided services).

A typical IMU in Poland has between four- and seven-member local governments, but there is considerable variation in this respect. According to data from 2022, the accumulated budget of IMUs is about PLN 3.2 billion (around EUR 720 million)<sup>36</sup>.

The main decision-making body of the IMU is its assembly, which consists of representatives of all the member municipalities. The number of votes for individual municipalities depends on the statute of the IMU. The IMU's Assembly appoints the Board, which is an executive authority.

From the point of view of their activity there are two basic types of IMUs in Poland:

- Focusing on current provision of public services, such as operation of water provision, waste collection or local public transport.
- Established mostly for the joint implementation of investment projects by the group of local governments. This type is usually (although not often) grant-driven, and its main activity is to seek external financing for investment projects.

**Inter-municipal companies** are created based on commercial law and their activity is regulated in the same way as private sector companies. There is no separate register of municipal companies, and describing their typical activities is additionally complicated by the fact that several of them have mixed

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<sup>36</sup> It adds up to 1.1% of the annual municipal budgets.

public and private ownership. A study conducted in 2012 identified 160 such inter-municipal companies, and their accumulated turnover was around EUR 650 million<sup>37</sup>. Almost half of that amount was in the water-sewage sector and the three other significant sectors were local public transport, central heating systems and waste management.

**Inter-municipal contracts** are voluntary agreements based on which one local government provides a service not only for own citizens but also for the municipality that is the party of that contract. The most common are contracts concerning local public transport, in which the central city of the agglomeration provides transport services covering suburban municipalities. But contracts appear in other sectors, including education (especially pre-school education), social care or running shelters for stray dogs.

**Local action groups**, similar to the situation in Czechia described previously, both inter-municipal and inter-sectoral institutions gather local governments, private sector businesses and local non-governmental organisations. They have been created as a response to the EU funded LEADER programme, and the main motive of their emergence was absorbing grants from that programme. They are characteristic of rural local governments and small towns.

**Joint tender** is a relatively new form introduced by the law in 2010. Typical examples of this are joint tenders for energy (electricity, gas, coal etc.) organised by a group of local governments to get a better price from the producers.

One of the sectors in which IMC plays an important role in Poland is waste management. In the research conducted in 2015 it was found that there were 45 Intermunicipal Unions having 515 member municipalities operating in that sector. There were also 54 intermunicipal companies, with a total of 607 municipal stakeholders. 270 municipalities were members of an IMU and an inter-municipal companies at the same time. It means that in 2015, 34% of all Polish municipalities were members of at least one IMC institution operating in waste management, but in some of the regions this share exceeded 70%. The growth of IMC clearly correlates with the reform of the waste management system implemented in 2012-2013, imposing new obligations and standards on municipalities. Between 2012 and 2016, the magnitude of budget spending incurred by IMUs active in waste management increased sixfold.

There are no specific incentives for IMC in Poland. However, there are important indirect incentives. The first group of these is of a financial nature and is related to the capital investment needs of local governments. A large part of IMC initiatives that emerged to apply for investment grants, which would not be available for individual, small municipalities. The special role in this group belongs to EU structural funds (especially Integrated Territorial Investments, the instrument introduced in 2013), but also to some national funding streams (e.g., Fund for Environment Protection). The second group of indirect incentives is related to national standards of services, which are difficult to comply with for individual local governments. The rise of IMC initiatives in waste management during the last decade (in the form of IMUs and inter-municipal companies) is a good example of that process.

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<sup>37</sup> P. Swianiewicz, A. Gendźwiłł, J. Krukowska, M. Lackowska, A. Picej (2016) Współpraca międzygminna w Polsce: związek z rozszerzeniem, Warszawa: Scholar. It adds up to 1.6% of the municipal budget.

## Lessons learnt from the Polish experience

- Without strong, direct incentives, IMC is not an important element of local public service provision, even if there are individual, impressive examples in this respect.
- EU funding for local investments may be an important indirect incentive for IMC establishment.
- Part of the problem related to development of IMC is related to political culture and social capital. In particular, the low level of trust (including trust among local politicians) is an important barrier for IMC development.

### More to read

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### Portugal

**Portugal** has longstanding border stability and a medieval tradition of municipalism. With strong local identities, in a significantly centralised country, municipalities have – nevertheless – played an important role in public service delivery and the economic development of the country, particularly after the democratic transition implemented by the Constitution of 1976. Its 308 municipalities, despite having one of the highest averages in population size in Europe (with more than 34 000 inhabitants), are extremely diverse in terms of population, territorial dimension, and socio-economic profile.

As its Southern European counterparts, the Portuguese local governance landscape presents features that tend to point to a limited capacity of local actors to engage in collaborative initiatives. These are traditionally centralised countries, with local governments that are highly dependent on central government policy and funding. Moreover, in the absence of a strong tradition of IMC, which has been magnified by a pattern of competition between municipalities, Portugal is a particularly interesting example of the challenges of promoting IMC.

Several facilitative mechanisms were brought together to address these contextual challenges. The first is related to the incentive structures that play a prominent role in encouraging local government co-operative arrangements. Access to the European Regional Development Funds (ERDF), with the appropriate institutional structures to implement it, was a key factor in mobilising the political will for new practices and stimulated local governance partnerships and inter-institutional co-operation. The emphasis was not only on territorial networks, but also on the encouragement of inter-institutional partnerships, resulting in the strengthening of co-operation strategies.

The first reforms targeted at fostering co-operation, in the early 2000s, introduced new institutional arrangements at the local level, mostly resulting from the voluntary initiative of municipalities to co-operate, creating a national legal framework for intermunicipal associations. These were, nevertheless, still dependent on whether member municipalities had previous experience of collaboration.

Later, in 2008, Intermunicipal Associations were legally established as public associations of municipalities, under the national law that determines the role, competencies, and functioning of local authorities.<sup>38</sup> Through Law 75 of 2013, 21 compulsory inter-municipal communities were created in mainland Portugal. Currently, all municipalities are engaged in one of the IMC associations in Portugal. These multipurpose organisations were the testing bed for what became the major reform of 2012 – under the effects of the financial crisis and the bailout memorandum of agreement with the Troika (European Commission, European Central Bank and International Monetary Fund).

This last reform consolidated two main forms of local government co-operation in the country:

- **Voluntary Associations**, usually with a specific role in one policy, service or utility area. Under public law, municipalities can create new associations with other public or private actors. They can also, under private law, co-operate and own intermunicipal or interinstitutional companies to provide public services;
- **Inter-municipal Associations (IMA)**, which can take the form of Metropolitan Areas (in the Lisbon and Porto regions) and Intermunicipal Communities (the rest of the country). Despite this differentiation, both perform similar roles with the same organisational structure: a governing body constituted by the mayors of member municipalities, an assembly of representatives of each municipal council and an intermunicipal advisory board with invited stakeholders.

With two Metropolitan Areas and 21 IMAs, Portugal is currently consolidating these governance arrangements, mostly through their capacity to manage a specific set of territorial European Regional Development Funds that have a mandatory task of preparing integrated territorial development strategies. With a very limited budget resulting from national transfers, and small numbers of personnel, their financing is highly dependent on European funded projects and – to a smaller extent – specific agreements between member municipalities to share resources and services.

These IMAs follow the boundaries of the NUTS III<sup>39</sup> regions as defined by Eurostat. Although local governments are not required to join them, strong incentives, namely the ones associated with the management of EU structural funds, render inevitable their motivation to join the organisation. Their competences are legally defined and have been increasing in recent years, in multiple policy fields, mostly addressing issues of co-ordination in areas like planning and economic development, education, mobility, tourism, health and culture. The absence of a clear set of responsibilities and the few restrictions on taking new ones agreed between members allows for different levels of commitment and of collaboration amongst the different IMAs.

Although these Intermunicipal Communities and Metropolitan Areas ensured the co-ordination of a variety of interests, they also have highlighted that joint decision-making is a complex issue. Their functioning tends to be seen as posing a threat to the position of representative bodies, such as municipal councils. Addressing the dilemmas related to the innovative character of these inter-institutional partnerships in the Portuguese governance landscape meant that a great deal of time and effort had to be invested in setting the culture and rules of interaction, as well as creating trust among the actors.

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<sup>38</sup> See SNG-WOFI - country profile of Portugal and OECD (2020); *Decentralisation and Regionalisation in Portugal: What Reform Scenarios?*, OECD Multi-level Governance Studies, OECD Publishing, Paris, <https://doi.org/10.1787/fea62108-en>.

<sup>39</sup> Eurostat Nomenclature of Territorial Units for Statistics <https://ec.europa.eu/eurostat/web/nuts>

Without a regional tier of government in mainland Portugal, most challenges of scale related to governance, policy implementation and public service delivery have been addressed through these mechanisms of co-operation between municipalities. Their co-ordination with decentralised public administration agencies and with the Regional Co-ordination Commissions and Managing Authorities has, nevertheless, brought further complexity to the subnational governance architecture.<sup>40</sup>

In Portugal, IMC emerged from a purely instrumental involvement, but efficiently accomplished the aims initially set. The efficiency of IMC structures induces trust among members and increases the perception of benefits, which tends to increase the willingness to use the partnership outside the scope of the IMAs. This induced, top-down form of co-operation has, nevertheless, resulted in a considerable degree of variation in practices and commitment across Portuguese IMAs. This diversity is easily observable through the number and areas of collaboration between municipalities, with Intermunicipal Communities sharing services, and exploring all opportunities to develop and implement new projects, accompanied by the establishment of a professional core of public servants employed by the IMA, while others remain closer to a symbolic gathering of municipalities just fulfilling the unavoidable legal obligations.

In recent years the delegation of new competencies to local governments and to the IMAs has reinforced the role of these institutions and illustrates how Portugal is an example of central support to local government co-operation. From the technical support provided by the Regional Co-ordination Commissions to the legal framework and objective transfer of competencies, central administration and national government have been very active players in this process. In addition, indirect – through EU regulations on regional development funds – and direct incentives – such as the national standards of services, which are difficult to comply with for individual local governments – have also played a role in the process.

## Lessons from the Portuguese experience

- The establishment of a legal framework supported by a set of financial and political incentives were crucial elements.
- A reform must have in mind the identity and the political and administrative tradition of local governments.
- IMC may well prove more capable of dealing with the shift from hierarchical and bureaucratic government to flexible and networked governance.
- The role of IMC and the incentives proposed centrally must be coherent with the territorial boundaries and the competencies at the different levels of governance.

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<sup>40</sup> See OECD (2020), *Decentralisation and Regionalisation in Portugal: What Reform Scenarios?* OECD Multi-level Governance Studies, OECD Publishing, Paris, <https://doi.org/10.1787/fea62108-en>.

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## Colombia

Colombia's regional and local development has been presented, in recent years, as a political priority, mainly because of its overwhelming regional diversity. This is also the result of the distinct capacities of sub-national governments, economic specialisation, geography, climate, accessibilities, and of the legacy of armed conflict and illegal activities.

The national government and central administration, namely through the National Planning Department and the Ministry of the Interior, have identified several strategic challenges:

- *to reinforce subnational policy design.* A National Development Plan (NDP) from 2018 suggests the need to balance the internal coherence of the plan and its implementation, through the alignment of investment agendas across levels of governments, and the identification of competences to delegate to sub-national authorities;
- *to maximise the use of existing subnational governance arrangements.* Regional development policy needs to evolve from a fragmented and large number of small-scale projects to co-ordinated and consolidated policy implementation at a regional and sub-regional scale;
- *to capacitate sub-national governments.* Municipalities, departments, regional agencies and intermunicipal arrangements have too few incentives and tools to co-ordinate among themselves. Intermediate institutions are needed to assist regional development, and municipal capacity, through the identification of policy, projects and service complementarities;
- *to improve information on subnational governance.* There is a need to improve the quantity and quality of information for policy decision support. Evidence-based policy and better decision support systems are required to tailor policies to places.

In Colombia, the entities of the departmental and municipal sphere maintain a strong dependence on the national government, especially in budgetary matters as most of the subnational income comes from the transfers of the central government. Despite its degree of centralisation, Colombia has been a traditionally *municipalist* country. Since the very beginning of the modern decentralisation process, with Legislative Act No. 1 of 1986 enacting the popular election of mayors, the role of municipalities has been central to Colombia's institutional framework, being considered in the 1991 Constitution as "fundamental territorial entities of the Colombian State" (Art. 311).

Each of the municipalities is responsible for infrastructure investment and the provision of basic public services, such as housing, education, health, culture, sports, drinking water, basic sanitation and the environment, among others (Art. 311, Constitution of 1991). Districts, on the other hand, are territorial entities of a regional nature that, due to their cultural, economic, geographic or historical importance, are formed as special entities with greater transfers and special powers for the management, preservation and use of their resources (Law 1617 of 2013).

At the sub-regional level, and after the 1991 Constitution, Law 136 of 1994 defines municipal associations as administrative entities under public law, with autonomy to fulfil their goals, and protected by the same legal framework as municipalities. These "Associative Schemes" are thus a mechanism for co-ordinating

efforts between municipalities in terms of territorial development. In addition, the Law 1454 of 2011 also establishes 'associativity' as one of the guiding principles of the nation's territorial structure.

The greatest evidence of weaknesses of Colombia's model of IMC concerns its limited funding (relying exclusively on specific project-based initiatives that depend on international or national transfers), the lack of clear and unified rules, and the dependence on the political will of mayors. Thus, most of the policy recommendations have been focused on the need for institutional consolidation of the mechanisms, greater citizen involvement in the system and constant monitoring to encourage good practices among existing associations of municipalities.

These recommendations were addressed through the development of an institutional framework that unifies the "Associative Schemes" in the country, which established a wide range of options for territorial entities to implement collaborative projects. It conceived multiple forms of associations of territorial entities as voluntary processes that take place to build strategic alliances for the definition and implementation of regional projects, the provision of public services and the development of administrative and planning tasks.

The absence of the identification of detailed competencies to clearly differentiate these forms implied that in practice they all have similar functions. Meanwhile, a common institutional framework was issued in 2021, largely addressing problems of regulatory dispersion and to count on key information at the central level to promote but also control the creation of these intermunicipal associations.

To encourage joint planning with the aim of greater regional and sub-regional impact of investment and greater territorial integration, the National Development Plan 2018-2022 also addressed the need to ensure better multi-level governance based on increasing the autonomy of these territorial entities, with a proposal to implement a differentiated competency scheme. The main policy goal is the gradual transfer of competencies to intermunicipal associations, taking into consideration their capacities and context.

Regarding the country's experience with IMC, most municipalities do not have the institutional capacity to promote autonomous policies; the 'municipalist' nature of decentralisation is not the product of endogenous traditions; a significant number of municipalities are unaware of their membership in a territorial association because it is mostly inactive, or because they have been excluded from its governance activities; the proportion of municipalities with a positive perception is generally higher among municipalities with a robust level of development.

## Lessons learnt from the Colombian experience

- The benefits of IMC are associated with the identification of regional challenges and collaborative opportunities. It is also seen as a way to gain more relevance, political power, and investment when it comes to less affluent municipalities.
- It is important to prevent an unclear allocation of responsibilities between levels of government and the role performed by IMC. These can lead to more expensive service delivery and a clear democratic deficit.
- The limited capacity of subnational governments to provide public services that can be allocated to them is a clear threat to successful implementation of IMC. The strengthening of institutional, administrative and technical capacity, as well as the necessary compensation in terms of financial resources seems to be related to the success of co-operation.
- The technical support from international organisations and the sharing of experiences between peers has shown significant advantages when the promotion of IMC and the need to strengthen their institutional capacity is at stake.

## More to read

OECD (2019), Asymmetric decentralisation: Policy implications in Colombia, OECD Publishing, [http://www.oecd.org/colombia/Asymmetric\\_decentralisation\\_Colombia.pdf](http://www.oecd.org/colombia/Asymmetric_decentralisation_Colombia.pdf).

Pinzón Casallas, C. M. y Moreno Guzmán, I. F. (2023). Analysis of the municipal association in Colombia. Opera, 33, 55-73. DOI: <https://doi.org/10.18601/16578651.n33.04>.

## Croatia

Local governments are allowed to carry out their responsibilities through various forms of IMC, be it joint administrative departments, companies or institutions. The Local Government Act enables voluntary IMC but leaves it up to participating local governments to set all terms of co-operation in a co-operation agreement. There are no mandatory IMC arrangements in provision of services.

The most widespread forms of IMC are in the area of water supply, wastewater, waste collection and firefighting. Water and waste services are provided through joint stock companies owned by participating local governments. Such services are practically fully funded through user fees, except for partial contributions by local governments for services provided to socially vulnerable population and EU funded infrastructure development grants. IMC in firefighting services is carried out through territorial firefighting associations, non-profit organisations established by the participating local governments in accordance with the Law on Non-Profit Organisations.

To further improve the efficiency of the public administration, the Croatian Government adopted a National Recovery and Resilience Plan for 2021-2025 in July 2021. One of the strategic goals, C2.2.R4 Functional and Sustainable Local Self-Government, includes incentives for IMC and voluntary amalgamation<sup>41</sup>.

IMC<sup>42</sup> of two or more units in the area of own competences can be carried out through a joint public servant, joint administrative department, joint stock company or joint institution. Amalgamation of local self-government units is regulated by the Law on Territories of Cities, Municipalities and Counties.

Incentives for IMC are secured in the state budget in amount of EUR 13 million per annum. Incentives for IMC are granted for a period of five years from the date of the grant approval.

### *Incentives for joint public servant*

Local governments that appoint a joint public servant are granted incentives in the form of co-financing of staff wages and material costs related to the provision of the public service. The percentage of co-financing for an individual LSGU is calculated using the following formula:

$$\text{Co-financing percentage (\%)} = \text{number of units that entered into an agreement} \times 15$$

The percentage of co-financing is increased by the factor of the number of inhabitants. The total cannot be more than 75% for LSGUs up to 1 000 inhabitants and 50% for LSGUs with more than 1 000 inhabitants.

### *Incentives for joint administrative departments*

LSGUs that establish a joint administrative department are granted incentives in the form of co-financing of staff wages and other material costs for a maximum of five officials in a joint administrative department. The percentage of co-financing for an individual LSGU is calculated using the following formula:

<sup>41</sup> The Decision on Incentives for the Voluntary Functional and Actual Merger of Local Government Units, Official Gazette 88/22, [https://narodne-novine.nn.hr/clanci/sluzbeni/2022\\_07\\_88\\_1361.html](https://narodne-novine.nn.hr/clanci/sluzbeni/2022_07_88_1361.html).

<sup>42</sup> Referred to as Voluntary Functional Merger in the Decision on Incentives for the Voluntary Functional and Actual Merger of Local Government Units.



$$\text{Percentage of co-financing (\%)} = (\text{number of units that entered into an agreement} \times 5) + (\text{number of services performed} \times 10)$$

The percentage of co-financing is increased by the factor of the number of inhabitants and the total cannot be more than 75% for LSGUs up to 1 000 inhabitants and 50% for LSGUs with more than 1 000 inhabitants.

**Table 2. Percentage of co-financing assigned to the unit, based on the number of inhabitants**

The factor of population is determined as follows:

Number of inhabitants of the LSGU	The percentage of co-financing that the unit is assigned based on the number of inhabitants
up to 1 000 inhabitants	30%
more than 1 000 to 2 500 inhabitants	15%
more than 2 500 to 5 000 inhabitants	10%
more than 5 000 inhabitants	0%

#### *Incentives for joint stock companies and institutions*

LSGUs that establish a joint stock company or an institution for provision of a public service are eligible for incentives as a percentage of the amount that LSGUs provide from the general revenues and receipts of the budget to the company or institution for the provision of a public service.

The percentage of co-financing for an individual unit of local self-government is calculated using the following formula:

$$\text{Co-financing percentage (\%)} = \text{number of units that entered into an agreement} \times 5$$

The incentives for joint provision of own public services through a joint stock company or institution can be granted to the amount of no more than 25% of actual costs, or up to the amount of EUR 66 361 for an individual LSGU. LSGUs are also entitled to assistance to cover the one-time material costs of the merger.

#### *Incentives for voluntary amalgamation*

In the case of a voluntary amalgamation, the unit to which the territory was merged receives the following incentives from the state budget:

One-time assistance:

- one-time aid for the repayment of due obligations of an LSGU and its budget beneficiaries whose territory was amalgamated, as of 30 June 2022.
- settlement of one-time material costs of the merger.

Current and capital grants for a period of five years from the date of the merger:

- grant in an annual amount that is twice the amount of fiscal equalisation of the amalgamated unit in the year before the merger. A minimum of 50% of the said funds must be used for capital projects that benefit the residents of the amalgamated unit.
- grants for capital projects with a total amount of up to EUR 1 million.

Finally, the grant for the repayment of the outstanding debt of an amalgamated unit and its budget beneficiaries with the balance as of 30 June minus all repayments up to the date of the actual merger.

LSGUs classified in groups I to V according to the development index are eligible for voluntary amalgamation grants.

## Results

As of March 2024, a total of 331 LSGUs (164 unique LSGUs, due to multiple requests by individual LSGUs) had submitted 81 requests for incentives for IMC. The Ministry of Finance approved incentives for 20 requests for joint public servants, 6 joint administrative departments and 26 joint stock companies or institutions. Pending approval are 2 requests for joint public servant, 2 joint administrative departments and 13 joint stock companies or institutions. 12 requests were withdrawn or rejected.

While Croatia's example of enhancing IMC is very recent, there are a few elements that can already be highlighted at this stage of implementation.

## Lessons learnt from the Croatian experience

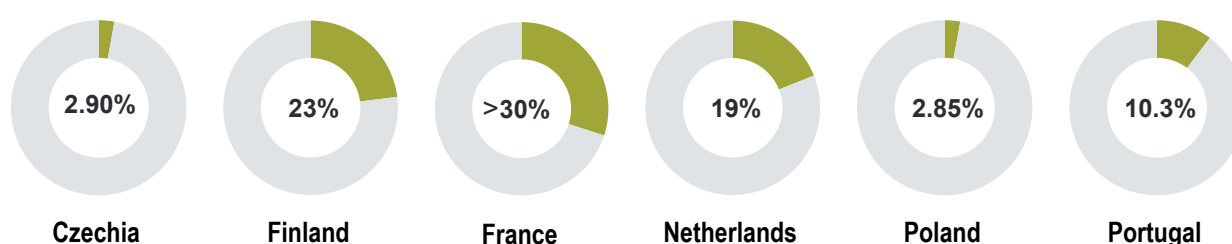
- To boost voluntary amalgamation, IMC can be a favourable tool.
- Financial incentives for IMC are necessary to ensure the interest and active involvement of local governments.

### 2.3. Lessons learnt from international practice

There are a number of key lessons from the experiences with IMC in different EU and OECD countries, and the diverse approaches taken:

**#1** – IMC plays very different roles in the provision of local public services in Europe. This variation may be illustrated by the spending of IMC institutions expressed as a proportion of municipal budget spending. In some of the countries described in this report it is very substantial, while in others it is a very small part of local government activities. That variation may be illustrated by the following table:

Figure 3. Spending of IMC institutions as a proportion of total municipal spending<sup>43</sup>



<sup>43</sup> Sources of information: France - Hertzog, R., 'Inter-municipal Cooperation in France: A Continuous Reform, New Trends', in Teles, F. and Swianiewicz, P. (eds Paris, <https://doi.org/10.1787/41fd9e5c-en>; OECD (2021), *Decentralisation and Regionalisation in Bulgaria: Towards Balanced Regional Development*, OECD Multi-level Governance Studies, OECD Publishing, Paris, <https://doi.org/10.1787/b5ab8109-en>; OECD/UCLG (2022) 2022 Country Profiles of the World Observatory on Subnational Government Finance and Investment, [OECD-WOFI \(sng-wofi.org\)](https://www.oecd.org/wofi/); OECD (2014), OECD Territorial Reviews: Netherlands 2014, OECD Territorial Reviews, OECD Publishing,

**#2** - It is important to **prevent an unclear allocation of responsibilities** between levels of government or a vague relationship between subnational governments and inter-municipal associations. These can lead to more expensive service delivery and a clear democratic deficit, as it is more difficult for citizens to hold governments accountable for political shortcomings.

**#3 – A complex set of IMC institutions may generate an overcomplicated** and non-transparent or even chaotic **institutional network**. Potentially this may also have an impact on the democratic legitimacy of local public service provision. Social control over IMC institutions is indirect and often unclear. These issues should be considered when the system of IMC is planned.

**#4** - A low **level of trust** towards local politicians may hamper IMC even in cases where it would provide clear benefits. An example of this would be municipalities that were encouraged to organise IMC but are managed by mayors from different political parties in opposition to each other. This is another reason why strong incentives may be necessary to break barriers of IMC.

**#5** - The **limited capacity** of subnational governments to provide public services that are allocated to them **is a clear threat to the successful implementation of IMC**. The strengthening of institutional, administrative and technical capacity, as well as the necessary compensation in terms of financial resources, seems to be related.

**#6** - A **balance between subnational autonomy and central regulation** is needed to ensure the benefits of co-operation without significant regional disparities. To this end, both co-ordination of the provision of services by the central administration and good multilevel articulation are essential. The role of co-ordination between governance structures is often underestimated in IMC reforms and increases the risk of disparities in the quality and coverage of public services, raising related issues of territorial cohesion.

**#7 - Flexibility and effective co-ordination mechanisms are needed** to reduce the risks of inefficiencies related to scale. This requires the inclusion in IMC reforms of opportunities for redesign, reorganisation or freedom of association of subnational governance structures, either through multiple forms of IMC, territorial differentiation of competences, joint municipal authorities or departmental agencies.

**#7 - Opportunities and policy goals:** IMC can help address issues arising from territorial fragmentation, as it can be an effective way to deal with issues arising from the small scale of local governments and challenges of co-ordination. Most benefits of IMC are associated with the identification of regional challenges and collaborative opportunities, and it is seen as a way to gain more relevance, political power, and investment when it comes to less affluent municipalities. IMC may well prove more capable of dealing

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Paris, <https://doi.org/10.1787/9789264209527-en>; See OECD (2020), Decentralisation and Regionalisation in Portugal: What Reform Scenarios?, OECD Multi-level Governance Studies, OECD Publishing, Paris, <https://doi.org/10.1787/fea62108-en>; OECD (2021), Better Governance, Planning and Services in Local Self-Governments in Poland, OECD Publishing, Paris, <https://doi.org/10.1787/550c3ff5-en>..), *Inter-municipal Cooperation in Europe: Institutions and Governance*, Houndmills: Palgrave-Macmillan, 2018, pp. 133-155, on the Netherlands: Allers, M.A. and De Greef, J.A., 'Inter-municipal Cooperation, Public Spending and Service Levels', 2018, *Local Government Studies*, vol. 44, no. 1, pp. 127-150, on remaining countries: Swianiewicz, P., Teles, F. (2019), The institutionalization of inter-municipal arrangements in Europe: findings from the unusual suspects, *Transylvanian Review of Administrative Sciences*, 57: 119-136, DOI: 10.24193/tras.57E.8; OECD (2017), *Multi-level Governance Reforms: Overview of OECD Country Experiences*, Edited by Chatry I. and Hulbert C., Multi-level Governance Studies, OECD Publishing, Paris, <https://doi.org/10.1787/9789264272866-en>; OECD (2019), *Making Decentralisation Work: A Handbook for Policy-Makers*, OECD Multi-level Governance Studies, OECD Publishing, Paris, <https://dx.doi.org/10.1787/g2g9faa7-en>; OECD (Forthcoming) "Inter-Municipal Cooperation in OECD: Bridging Opportunities to Action" (CFE paper on IMC); OECD (2023), *OECD Public Governance Reviews: Czech Republic: Towards a More Modern and Effective Public Administration*, OECD Public Governance Reviews, OECD Publishing, Paris, <https://doi.org/10.1787/41fd9e5c-en>.

with the shift from hierarchical and bureaucratic government to flexible, innovative and networked governance.

## Main recommendations based on international practice when establishing IMC

### #1 - Legal framework

- The establishment of a legal framework supported by a set of financial and political incentives is crucial.
- Formal rules, norms and legislation should be simplified and communicated to municipalities.
- Even IMC that is compulsory by law can leave considerable autonomy to municipal governments as regards the form and scope of co-operation.
- An IMC reform must have in mind the identity and the political and administrative tradition of local governments.
- IMC must ensure a clear definition of polities' territorial boundaries and the competencies of the different governance levels.
- The typology of forms of IMC should be clear and simple, providing optional forms for different purposes in a comprehensive and mutually exclusive way.

### #2 - Incentives, and contextual factors

- EU funding may play an important role in stimulating IMC institutions.
- A high level of social capital and consensual political culture support good co-operation of local governments.
- Incentives for IMC may be effective if they are strong enough.
- The strengthening of institutional, administrative and technical capacity, as well as the necessary compensation in terms of financial resources seems to be related.
- Specific tax regimes for intermunicipal associations can be considered as part of the incentives.

### #3 - Capacity and support

- Technical support from international organisations and the sharing of experiences between peers has shown significant advantages for the promotion of IMC.
- The central administration should co-create and implement, with territorial partners, a strategy to strengthen municipal co-operation.
- The central administration should support the preparation of integrated territorial investment programmes dependent on the demonstrated capacity of municipalities to work together.
- Promote initiatives between inter-municipal associations to develop capacity, particularly based on processes of knowledge sharing between peers.
- It is essential to provide training to local government officials, with the aim of incorporating municipal co-operation into their practices as a mechanism of policy efficiency with other local governments in the management of common projects.
- The central administration should intensify efforts to increase technical assistance to subnational governments to enhance local capacity. Traditionally, technical assistance is

directed to municipalities, hence, integrating inter-municipal associations would be key for delivering more efficient plans and projects.

#### **#4 - Competencies and structure**

- IMC can be an effective solution to dealing with the low capacity of small municipalities to provide complex public services.
- Problems related to complexity and low transparency of new institutions should be taken into consideration when establishing IMC structure.
- It is important to prevent an unclear allocation of responsibilities between levels of government or a vague relationship between subnational governments and the central government.
- Pilot experiences for different forms of inter-municipal associations may be introduced, from which lessons could be learned before generalising the experience
- National platforms of inter-municipal associations may be implemented.

### 3. Inter-municipal co-operation in the Western Balkans

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This chapter analyses the current legislative framework, central administration support mechanisms and financial incentives for horizontal co-operation of local governments including other forms of partnerships at the local level. In addition, the chapter includes practical data on existing inter-municipal co-operation initiatives in the six Western Balkan administrations: Albania, Bosnia and Herzegovina, Kosovo\*, Montenegro, North Macedonia and Serbia. It discusses the challenges and opportunities for central administrations to promote and further support inter-municipal co-operation as a means of optimising burden sharing among local governments.

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### 3.1. Considerations for supporting inter-municipal co-operation in the Western Balkans

This chapter focuses on the current state of inter-municipal co-operation (IMC) in the Western Balkans, including regulations, nature of collaboration and relevance, as well as assessing state administration support.

**For the purposes of this paper, IMC refers to both voluntary and obligatory co-operation between two and/or more municipalities to fulfil tasks, competences and/or common projects in a more qualitative, efficient, and effective way to ensure good local governance and help local development.**

It does not refer to unions or/and associations of municipalities, whose key task is to represent local governments in relation to the central administration. Nevertheless, it is important to emphasise that these structures are regulated, allowed and functioning in all Western Balkan administrations.<sup>44</sup>

#### ***Challenges faced by local governments***

Considerations for supporting IMC in the Western Balkan administrations are fuelled mainly by concerns about disparities among local governments, insufficient resources – both human and financial – as well as concerns about the different level of their progress.

**Albania** undertook and implemented a territorial administrative consolidation reform in 2015<sup>45</sup>, which eliminated the smallest administrative units and defined the administrative divisions in two layers: (i) municipalities and (ii) regions. From 65 municipalities covering the territories of urban areas and 308 smaller administrative units covering the territories of rural areas of the country, the new administrative division established **61 municipalities**. The municipalities constitute the units of the first level of governance. The second level of governance is composed of **12 regions** representing an administrative and territorial unit composed of municipalities that share geographical proximity, economic and social features, and common cultural traits.<sup>46</sup>

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<sup>44</sup> In BiH, the Federal law highlights the possibility of forming an association of municipalities and cities for the territory of the Federation of Bosnia and Herzegovina and lists the rights that can be entrusted to that association, including the preparation of proposals for regulations and amendments that regulate the work of local self-government units with the aim of improving them, giving opinions regarding the distribution of public revenues which finance the work of local self-government and the establishment of co-operation with similar organisations in the country and abroad. The new Law on local government in the Republika Srpska also explicitly gives the possibility that LSGUs can join associations of local authorities and achieve co-operation with other LSGUs in BiH and achieve cross-border and international co-operation through inclusion in international associations of local authorities and establishing co-operation with LSGUs of other countries.

<sup>45</sup> Law No. 115/2014, "On administrative-territorial Division of Local Government Units in the Republic of Albania.

<sup>46</sup> Article 7 of the Law on Local self-government of Albania stipulates that the representative body of the region is the regional council. The executive functions in the region shall be performed by the head and the board of the regional council. The representative body of the region shall be formed with representatives from the elected bodies of the constituent municipalities. The own functions of the region are developing and implementing regional policies and their harmonisation with the national policies at the regional level, as well as any other exclusive function given by law. Each region may perform any functions assigned to it by one or more municipalities within the region, according to an agreement between the parties. Interestingly, regions in Albania may be interpreted as compulsory IMC, with functions which partially depend on autonomous decisions of municipalities.

The new territorial and administrative reform solved the issue of municipal fragmentation to a certain point. There remain **distinct disparities among the LSGUs and their ability to provide public services for their citizens**. Disparities are noted among LSGUs based on the geographical position, size, population, economic and community resources as well as provision of public services. The remote LSGUs have less access to capital investments of infrastructure, water supply and sewage system, waste management, etc. The small-sized municipalities suffer from population outflows and limited resources. LSGUs lack resources and infrastructure, making it extremely hard for the local authorities to provide high quality services for their constituents, thus halting the regional development process and increasing disparities between the core and the periphery.

Albania adopted its **Cross-cutting Strategy on Decentralisation and Local Governance 2023-2030** early in 2023 to consolidate the decentralisation process by strengthening and empowering local governance in the country. The strategy envisages more focus on local economic development by promoting IMC and other forms of partnerships at the local level. The strategy proposes measures that seek to enhance and support the role of municipalities and regions in sustainable local economic development, by providing them with the necessary means and space to use and maximise natural, economic, and cultural assets. The **lack of a coherent vision and co-ordination among actors** has been one of the challenges in this respect, in addition to the obstacles to possess and use local assets, and the insufficient direction of local capacities toward the use of local assets to generate added value for communities. It acknowledges that some municipal functions simply cannot be performed without co-operating with other municipalities or without delegating several of them to the Regional Council. In other functions, the benefit from the economy of scale established through one form of co-operation or another is evident.

**Bosnia and Herzegovina (BiH)** faces somewhat similar issues. The current territorial organisation of LSGUs in BiH, which, after the end of the war, entailed the establishment of a certain number of new municipalities, has created local governments of a small size that are not capable of fulfilling all entrusted responsibilities. Laws on local government make a distinction between municipalities and cities, but still extend the same responsibilities to them regardless of the size and economic power of the municipality, the degree of urbanisation, or any other important feature.

This specificity of BiH, where a **significant number of small municipalities are not in a position to provide all necessary services to their citizens due to their limitations** (human, technical, financial), necessitates IMC arrangements for the provision of services.

The MPA in **Montenegro** has recently carried out a functional analysis of local governments to identify potential areas for improvement. Based on the methodology for the analysis, which includes a short description of the current status of local governments, several challenges were identified in the current local self-government system including the single system of local self-government with symmetrical decentralisation of tasks, insufficient personnel capacity of local governments, an insufficient degree of consultation with LSGUs in the process of creating public policies by the state administration, a lack of fiscal discipline at the level of LSGUs, a high level of debt and growth of outstanding obligations, insufficiently developed public financial management systems, lack of horizontal co-operation between municipalities, insufficiently developed mechanisms of administrative supervision and changes in regulations at the central level that have direct consequences on the revenue of the budget of local self-governments. Although Montenegro has only 25 municipalities, the average size of which<sup>47</sup> is comparable to most OECD countries, there are significant differences among municipalities.

Similarly, the **Republic of North Macedonia** has a single level local self-government organisation. All municipalities have the same competences. The local self-government is territorially organised in 80 municipalities with the City of Skopje as a separate unit of local self-government due to the particularities

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<sup>47</sup> On average, there are 25 000 inhabitants and 19 communities in one municipality in Montenegro.



of being the capital city. Forty-three (43) municipalities, including the ten municipalities in the City of Skopje, are based in a city, and the remaining thirty-seven (37) are based in rural areas.<sup>48</sup>

According to the last census of 2021<sup>49</sup>, the smallest municipality, Zrnovci, has only 2 086 inhabitants, and the largest, Kumanovo, has 98 104 inhabitants, or almost 50 times the number of inhabitants compared to the smallest. This indicates large differences that are also reflected in the capacity of the municipalities in terms of human and financial resources for implementation of their competences.

The comparisons between municipalities **show large differences in terms of the number of employees and the number of citizens they serve**. There are municipalities that have as many as 12 employees per 1 000 inhabitants, and municipalities that have almost 1 employee per 1 000 inhabitants. Such variation shows that there are no standards for human resources in municipalities<sup>50</sup>. In comparison to this, the smaller municipalities are in a worse situation because they must provide all the functions established by the Law on Local Self-Government in an appropriate way, as in the larger municipalities.

Furthermore, **all municipalities have the same sources of financing**: own sources of income, subsidies from the State Budget and from the budgets of the funds, as well as from loans.<sup>51</sup> In addition, with the amendments made to the Law on Financing of Local Self-government Units, two new mechanisms have been introduced – a performance part for municipalities that show good results in the collection of their taxes; and a part for equalisation for municipalities that do not have enough own sources.<sup>52</sup>

Although **Serbian** local governments are relatively large in terms of both population and area (compared to municipalities in other European and OECD countries)<sup>53</sup>, the central administration is keen to find options to better support IMC, whether voluntary or obligatory. In the case of small municipalities, the need arises from the modest resources at their disposal and a relatively wide scope of competences. In the case of large cities, the need for IMC is based on **the possibility to use the effects of economies of scale**. There are at least two reasons for the establishment of IMC. First, the pooling of resources that should lead to the improvement of the quality and availability of services to citizens and businesses in the local community. Second, limited human and financial resources and a significant difference in the service delivery capacities of towns and municipalities.

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<sup>48</sup> Law on Territorial Organisation of Local Self-Government in the Republic of Macedonia, Official Gazette of the Republic of Macedonia No.55/04; 12/05; 98/08; 106/08; 149/14.

<sup>49</sup> <https://www.stat.gov.mk/publikacii/2022/Statistichki-atlas-mk-al-web.pdf>.

<sup>50</sup> [https://cup.org.mk/publication/Sumaren%20izveshtaj\\_MKD.pdf](https://cup.org.mk/publication/Sumaren%20izveshtaj_MKD.pdf).

<sup>51</sup> Law on Local Self-Government and the Law on Financing of Local Self-government Units, Official Gazette of the Republic of Macedonia No. 61/2004.

<sup>52</sup> Official Gazette of the Republic of North Macedonia No. 173/22

<sup>53</sup> NALAS (2023): Local Government Finance Indicators in South-East Europe: Statistical Brief 2023, <https://core.nalas-observatory.eu/files/publications/pdf/1698936085.pdf>.

Key data on Local and Regional Governments in the European Union, 2016, <https://www.oecd.org/regional/EU-Local-government-key-data.pdf>; Subnational Governments in OECD countries: key data, 2018, <https://www.oecd.org/regional/Subnational-governments-in-OECD-Countries-Key-Data-2018.pdf>.

**Table 3. Population size of local governments in the Western Balkans**

	Mean (in ,000)	Median (in ,000)	Number of local governments with population (in ,000)					
			Up to 1 000	1 – 5 000	5-10 000	10-20 000	20-50 000	Over 50 000
Albania (2011) <sup>54</sup>	73.0	41.5	0	0	3	8	26	24
Bosnia and Herzegovina (2013)	26.7	18.3	4	20	18	35	47	18
Kosovo* (2017) <sup>55</sup>	47.3	39.4	0	3	7	4	9	15
Montenegro (2024) <sup>56</sup>	27.1	18.3	0	5	3	6	9	2
N. Macedonia (2021) <sup>57</sup>	29.2	13.6	0	17	16	19	16	13
Serbia (2023) <sup>58</sup>	43.6	24.6	0	2	26	51	54	39

Source: Swianiewicz, P., Gendźwiłł, A., Houlberg, K., Klausoen, J.E. (2022) Municipal territorial reforms of the 21st century in Europe, Routledge.

In general, as we can see in the figure above, local government units in Western Balkans are usually large (compared to many other European countries, including the neighbouring countries of Croatia and Slovenia). Bosnia and Herzegovina is the only country with a considerable number of small local governments. It is the only country of the region in which there are few cases of municipalities with less than 1 000 population and examples of municipalities with less than 5 000 are quite numerous. After the 2015 reform, Albania's local governments belong to the largest in Europe, none of them having less than 5 000 citizens. In Serbia and Kosovo\* they are also usually large, with an average size well over 20 000 residents. This may suggest that the demand for IMC is relatively limited, lower than for example in Croatia, Hungary, Slovakia, Czechia, Italy, France or other countries with more territorially fragmented systems. However, there are at least two arguments against such a hypothesis for the potential low demand for IMC. First, as explained in section 1, the small size of individual local governments is important, but is only one of the many factors of the demand for IMC.

Demographic dynamics of the region increase potential benefits for co-operation among municipalities. The **Western Balkan region faces the problem of fast depopulation, especially in some rural areas located far from capital cities or main tourist attractions.**

<sup>54</sup> The 2023 Population Census of Albania was not published at the time of finalising this paper.

<sup>55</sup> The 2023 population census in Kosovo\* is not yet finished, data is not available.

<sup>56</sup> 2023 Census of population, households, and dwellings in Montenegro, [Preliminary results of Census 25.pdf \(monstat.org\)](#).

<sup>57</sup> Total resident population, households and dwellings in the Republic of North Macedonia, Census 2021, [POPIS\\_DZS\\_web\\_EN.pdf \(stat.gov.mk\)](#).

<sup>58</sup> [Statistical Release | Statistical Office of the Republic of Serbia; | Statistical Office of the Republic of Serbia](#)

Some of these cases are dramatic. Comparison of the 2001 and 2011 national censuses in Albania<sup>59</sup> reveals that Bogovë (in the Berat region) lost over 75% of its population in just one decade. In Dropull i Sipërm (in the Gjirokastrë region) the drop was even more dramatic, it reached 90% of the 2001 population. These demographic changes were among the important reasons for implementing radical territorial reform in Albania in 2015. In North Macedonia, the comparison of the 2004 and 2021 population data shows that in five municipalities (Zrnovci, Debrca, Centar Zhupa, Mavrovo i Rostusha, Novo Selo) the population dropped during that period by around 40%. These examples demonstrate that even relatively large local governments may soon have difficulties with the independent provision of all tasks during that depopulation process. IMC may be one of the possible remedies for this situation.

### 3.2. Rules and regulations for inter-municipal co-operation

Legislation on local governance in the Western Balkan administrations in general has been harmonised with the European Charter on Local Self-Government (“Charter”)<sup>60</sup>, which stipulates IMC as their right. The Charter states that “*Local authorities shall be entitled, in exercising their powers, to cooperate and, within the framework of the law, to form consortia with other local authorities in order to carry out tasks of common interest.*” Upon ratification, the Charter has supremacy over all domestic regulations. Article 10 of the convention deals with the issue of co-operation between municipalities and their right to establish associations, and therefore permits the concept of inter-municipal learning, problem-solving and innovation.

There are considerable differences in what is being regulated in this area. Kosovo\* and North Macedonia have special laws on IMC. Serbia, by amending its respective laws, has regulated IMC in more detail (IMC in case of non-functioning LSGUs)<sup>61</sup>. Other administrations refer to general principles and rules for establishing IMC initiatives and do not prescribe and/or describe more specific details on the content, functioning or process.

**In general, IMC in the Western Balkans is regulated broadly and only some of the public administrations have more detailed regulation through special laws on IMC or strategies that would define the directions and strategic measures for the development of this mechanism.**

#### **Albania**

In Albania, even though a specific law on IMC does not exist, the legal framework sets some positive legal rights. Local government units are not bound by any obligation and/or prohibition such as territorial size, population, financing mechanisms, etc. before initiating IMC.

The Constitution of Albania stipulates that “*the bodies of local government units have the right to form unions and joint institutions with one another for the representation of their interests, to co-operate with local units of other countries.*”<sup>62</sup> The Law 114/2014 on the administrative - territorial division of local government units sets the boundaries of LSGUs in Albania.<sup>63</sup>

<sup>59</sup> The results of the 2023 Population Census in Albania are not yet published.

<sup>60</sup> European Charter of Local Self-Government, Article 10, (pg. 4) <https://www.coe.int/en/web/conventions/full-list?module=treaty-detail&treatynum=122>

<sup>61</sup> If local governments are unable to perform them efficiently on their own.

<sup>62</sup> Constitution of the Republic of Albania, 1998, Article 109, point 4 (pg.22), <https://www.osce.org/files/f/documents/3/2/41888.pdf>.

<sup>63</sup> [https://aam.org.al/wp-content/uploads/2018/11/Liqj\\_115-2014\\_31.07.2014.pdf](https://aam.org.al/wp-content/uploads/2018/11/Liqj_115-2014_31.07.2014.pdf).

The Law 139/2015 on local self-government includes provisions that support IMC. It stipulates the rights of LSGUs to enter and establish co-operation with national and international LSGUs for performing their services. It stipulates the right of LSGUs for collaboration “to carry out specific functions on behalf and in the benefit of their inhabitants, two or more LSGUs may exercise any competence given to them by law, through the implementation of mutual agreements or contracts”.<sup>64</sup> They may collaborate with similar units of local government in other countries. To perform their functions and provide specific services for the common good, two or more LSGUs within a region or from different regions may perform together any function and/or service assigned by law by entering or implementing joint agreements or contracts, delegating specific powers and responsibilities to one another, or contracting with a third party.<sup>65</sup>

#### Table 4. Forms of formal co-operation in Albania

The legal frameworks in Albania identify the following forms of formal co-operation.<sup>66</sup>

<b>Municipal Agreement</b>	Municipalities can jointly execute one or more of their legal functions: “by agreement”.
<b>Contract</b>	The agreement of municipalities to form an IMC can also be set out in a written contract to carry out one or more functions of the municipalities, while ensuring legal security and the principle of local autonomy.
<b>Separate legal entity</b>	The form of separate legal entity (the joint powers authority) of the juridical person created for the IMC, be it an entity, institution or enterprise (company), will depend on the purpose of its creation and the services to be provided to the members, as stated in the founding act approved by the IMC members.
<b>State commercial companies</b>	Two or more municipalities can establish a legal person, subject of common competencies, in the form of a state enterprise that is separated from the participant municipalities.
<b>Private law entities, commercial companies (joint stock)</b>	Several municipalities can come together to create a joint stock commercial company and involve private capital. The operation of this form is based mostly on the revenues generated by IMC initiative’s economic activity. The most common functions of this form are (a) sewerage disposal and treatment, and (b) waste collection, disposal and treatment.
<b>Not-for-profit organisations</b>	Municipalities are free to use their legal discretion to create a separate legal person, to which they give authority and competencies to exercise a legal function/s.

Source: SIGMA

A survey to assess the current level of implementation of the IMC was conducted in September – October 2023 by SIGMA in 61 municipalities under the co-ordination of the Agency for the Support of Local Self Government and in co-operation with the EU Technical Assistance Project “Municipalities for Europe”. Municipalities (50 out of 61 responded) reported on the legal forms they use for IMC. The most commonly used legal forms are: (i) IMC agreement; (ii) IMC agreement for specific project; (ii) joint powers of

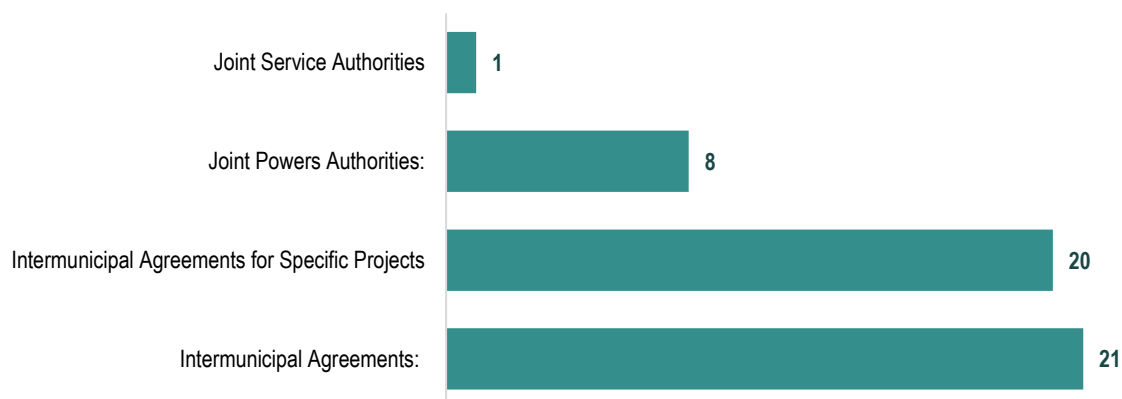
<sup>64</sup> Law 135/2015 article 10.

<sup>65</sup> Law 135/2015 article 14, [https://pdf.usaid.gov/pdf\\_docs/PA00N6DR.pdf](https://pdf.usaid.gov/pdf_docs/PA00N6DR.pdf), [https://pdf.usaid.gov/pdf\\_docs/PA00N6DR.pdf](https://pdf.usaid.gov/pdf_docs/PA00N6DR.pdf).

<sup>66</sup> Council of Europe (2011), “ALBANIA - Baseline assessment Report on Inter-municipal Cooperation in Local Governance”, pg.60 – 63.

authorities (iv) joint service authorities. **Only 8 municipalities reported the use of joint powers of authorities and only 1 reported use of joint service authorities.**

**Figure 4. Legal forms of IMC in Albania**



Source: IMC survey carried out by SIGMA

The **joint powers of authorities**<sup>67</sup> are used mainly related to services that municipalities need to provide related to (i) water and sewerage management and (ii) solid waste management. Albania has started the development of regional landfills complying with the EU environmental and sanitary standards<sup>68</sup>.

Only one case is reported of using the form of a joint service authority, which is an agreement signed between four municipalities: the Municipalities of Delvina, Saranda, Finiq and Konispol, and the Ministry of Infrastructure and Energy signed an “Agreement for establishment of the Entity of Joint Competences in the area of Water and Sewerage” in September 2022.

### ***Bosnia and Herzegovina***

According to the Constitution of BiH, the authority for local self-government affairs is at the entity level, while in the case of the Federation of BiH, this authority is divided between the entity and cantonal levels of government and is regulated by the entity and cantonal constitutions and laws.

The legislation defines IMC broadly. The legal framework on local governance provides a solid foundation for the implementation of IMC arrangements in practice, which in the case of BiH is on a voluntary basis, with differences in terms of the level of elaboration of legal solutions in the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS).

**The FBiH has a broad legal framework solution regarding IMC. One of the reasons for this is that the responsibility for local self-government is shared with the cantonal level of government. The RS has a more comprehensive legislative framework for IMC, which regulates this area in more detail through a special chapter of the Law on Local Self-Government of the RS.**

<sup>67</sup> In Albania called “Shoqëri Aksionere”.

<sup>68</sup> The target of the National Waste Management Plan 2010-2025 established the targets of recycling/composting 25 % of MSW by 2015 and at recycling/composting 55 % of MSW by 2020. <file:///C:/Users/JT/Downloads/Albania%20Waste%20Prevention%20Country%20Profile%202021.pdf>.

The Federal Law does not provide the method and procedure for establishing IMC, does not specify the forms of IMC, e who is initiating IMC and the financing of co-operation. Unlike the Federal Law, the Law in the RS establishes a detailed legal framework for establishing co-operation and provides a reliable basis for establishing high-quality, permanent, and efficient agreements on IMC.

**The challenge that remains is the implementation of legal provisions in practice and the motivation of LSGUs to intensify the use of legal instruments at their disposal, given that the level of practical implementation of IMC agreements in the RS and in BiH is low, according to the available data.**

The issue of IMC is primarily regulated by provisions of the laws on local self-government of the FBiH and the RS. However, there are significant differences regarding the content and level of detail of regulation.

When it comes to cantonal laws, according to the provisions of the Law on Principles of Local Self-Government of the FBiH, which was adopted in 2006<sup>69</sup>, the provisions of cantonal laws on local self-government and the provisions of the statutes of LSGUs that are not in accordance with the Federal Law, have ceased to be valid. Only three cantons fulfilled the obligation to harmonise their laws with the Federal Law and pass new laws within the prescribed period of six months after the Federal Law came into force.<sup>70</sup> The process is very difficult, primarily due to disagreements between cantons, municipalities, and cities regarding the issue of distribution of public revenues and jurisdiction over shared utility infrastructure - primarily public transport, water supply, sewage, and heating, but also due to numerous other important issues such as waste management, parking and primary education.

Based on the analysis of the laws at the cantonal level that were harmonised with the Federal Law<sup>71</sup>, it is evident that the field of **IMC is regulated** in the same manner as in the Federal Law, **without additional specifics or detailed elaboration of legal solutions**.

The Law on the Local Government Principles of the FBiH deals with issues of co-operation in a rather general way. The Law states that co-operation between LSGUs for the purpose of performing the tasks of common interest is their right, and that the form and method of co-operation between LSGUs is regulated by an agreement **without specifying the possible types of agreement and the procedure for concluding them**.

Regarding other primary laws of importance for IMC, it should be noted that the FBiH does not have a specific law regulating territorial organisation, and that the Law on the Principles of Local Self-Government provides definitions of LSGUs - which are made up of municipalities and cities, as well as the criteria that LSGUs must fulfil to acquire city status. At the same time, were recorded on the elaboration of legal solutions related to IMC or the preparation of a special law on IMC. Previous projects in which the

<sup>69</sup> Law on Principles of Local Self-Government in the Federation of Bosnia and Herzegovina, "Official Gazette of the Federation of Bosnia and Herzegovina", No. 49/06., 51/09.

<sup>70</sup> According to the available information, only three cantons in FBiH have harmonised their laws on local self-government with the federal ones, namely: Una-Sana Canton (Law on Local Self-Government of Una-Sana Canton, "Official Gazette of Una-Sana Canton", number 8/11), West Herzegovina Canton (Law on Local Self-Government, "Narodne novine Županije Zapadnohercegovačke", number 03/09) and Posavina Canton (Law on Local Self-Government, "Narodne novine Županije Posavska", number 15/19). The other cantons still have the old laws, with the regulation that those provisions that contradict this law are not applied, that is, in that case the Federal law is applied (Art. 58 Law on the principles of LSG in FBiH). These are the following laws: Law on Local Self-Government ("Official Gazette of the Bosnian-Podrinje Canton of Goražde" No. 8/97 and 17/00), Law on Local Self-Government ("Official Gazette of the Canton of Zenica. Doboј", No. 13/98, 8/00 and 2/05), Law on Local Self-Government ("Official Gazette of Herzegovina-Neretva Canton", No. 4/00), Law on Local Self-Government ("Official Gazette of Canton 10", No. 4/98, 13/00 and 10/05), Law on Local Self-Government ("Official Gazette of Central Bosnia Canton", No. 1/98), Law on Local Self-Government (refined text) ("Official Gazette of Sarajevo Canton", No. 22/00). The Tuzla Canton applies the Law on the Principles of Local Self-Government in the Federation of Bosnia and Herzegovina.

<sup>71</sup> Una Sana Canton, West Herzegovina Canton and Posavina Canton.

Association of Municipalities and Cities of the FBiH was involved, had some capacity building activities relating to education on IMC modalities and the sharing of good practices in that area, however, there was no activity on improving the legal framework.<sup>72</sup>

The Federal Law on Local Self-Government Principles provides a sufficient and broad basis for the use of IMC, which is voluntary and relates to the specific needs of LSGUs. On the other hand, additional requirements for the practical implementation of legal solutions and the stimulation of this co-operation have been neglected, in the absence of secondary regulations or appropriate policies for IMC. An additional problem, which complicates the functioning of the overall system of local self-government, is the harmonisation of cantonal regulations with the Federal Law and the resolution of the issue of the distribution of original and delegated authorities performed by LSGUs (between cantons, municipalities and cities, which is especially the case with the City of Sarajevo).

The law regulating the area of local self-government in the RS contains much more detailed provisions regarding IMC. Unlike the previous Law on Local Self-Government of the RS from 2004, which regulated IMC in a similar way as the Federal Law, **the current Law on Local Government in the RS**, which was adopted **in 2016, significantly improved and elaborated the mechanisms of IMC** through a separate chapter<sup>73</sup>.

During 2013, a model of a special law on IMC in the RS was prepared with the support of the technical assistance project for improving the capacities of the Association of Municipalities and Cities of the RS. Although this law was not adopted in the proposed form, a significant number of the legal solutions regarding IMC were incorporated in the current Law on Local Self-Government.

The Law on Local Self-Government of the RS regulates the following areas of IMC:

- Concept and procedures for establishing co-operation.
- Forms of IMC.
- Other forms of co-operation - inter-entity, cross-border and international co-operation.
- Financing and support for co-operation.

The Law defines IMC as co-operation between two or more LSGUs, with the purpose of more economical and efficient performance of tasks within their competence, with the aim of encouraging their development and understanding of common interests, as well as performing tasks outside the competence of LSGUs that one unit performs for another or other LSGUs, which is based on the concluded agreement. Co-operation is voluntary and based on the division of roles and responsibilities of the involved LSGUs and the pooling of material, financial and human resources, where one of the goals aims at raising the quality of services that LSGUs provide to citizens.<sup>74</sup>

**The procedure for initiating, considering and concluding an agreement on IMC is elaborated in detail, where various actors who can initiate IMC** are listed: the mayor of the municipality, one-third of the deputies in the local assembly, associations and groups of citizens in the form of initiatives, business entities, public institutions and public companies. The assemblies of LSGUs consider the proposal for the establishment of the IMC while obtaining the opinion of the mayor of the municipality or other executive body of the LSGU, and in the case of a positive decision, they form a joint committee composed of representatives of the LSGUs involved. This committee has the task of preparing a draft agreement on the IMC and other necessary documents for the co-operation.

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<sup>72</sup> Interviews by local expert with representatives of central administration and local government associations in 2023.

<sup>73</sup> Articles 120. to 149. of the Law on Local Self-Government of the Republika Srpska, "Official Gazette of the Republika Srpska", No. 97/2016, 36/2019, 61/2021.

<sup>74</sup> Article 121. of the Law on Local Self-Government of the Republika Srpska.

Different types of co-operation are possible - from those on a project basis to more solid forms of co-operation that involve the formation of joint business/legal entities - public companies, private companies, public-private partnerships and public institutions.

**Table 5. Types of inter-municipal co-operation forms in the Republika Srpska**

<b>Joint working groups</b>	Exchange of experiences, providing professional advice, pooling resources
<b>Joint public enterprise or business association</b>	Providing utility services and performing other activities of common and general interest
<b>Joint public institutions</b>	Providing public services in the area of education, science, culture, healthcare, social protection, sports, tourism, LSGU development, etc.
<b>Public-private partnerships</b>	Services such as maintenance of infrastructure, provision of services and construction of facilities
<b>Agreements</b>	Authorising a LSGU to perform public services in the territory of another LSGU

Source: SIGMA

"Softer" forms of co-operation imply **the creation of joint working groups** for the purpose of exchanging experiences and providing professional assistance, as well as **pooling resources on a project basis**. In this case, the procedure is somewhat simpler, and the municipal/city mayors enter into an agreement that specifically determines the type and amount of funds to be pooled, the purpose of the pooling of funds, the method of disposal and management of funds, as well as the modalities for distribution of profits and risks.

**A joint public enterprise or business association** is formed by two or more LSGUs for the purpose of providing utility services and performing other activities of common and general interest in the LSGUs that establish it. These public companies are most often formed for the purpose of performing utility activities of public interest, which is regulated by a special Law<sup>75</sup>, and they are established by a contract signed by the municipal mayors. The contract contains all the elements prescribed by the Law for the establishment of public companies and elements that regulate the mutual rights and obligations of the founders. In the case of **joint public institutions**, they are established to carry out activities of public interest and local importance in areas such as education, science, culture, healthcare, social protection, sports, tourism, LSGU development, development of small and medium-sized enterprises and similar social activities. These institutions are formed by the decision adopted on the founding assemblies at the level of the LSGU in the same wording and based on which the mayors conclude an agreement determining the mutual rights and obligations of the founders of the joint public institution.

LSGUs are also given the opportunity to enter jointly into a **public-private partnerships** to ensure financing, construction, rehabilitation, reconstruction, management and maintenance of infrastructure, provision of services and construction of facilities with the purpose of meeting public needs in their respective territories. A joint public-private partnership is initiated by a decision of the LSGU assemblies and LSGUs acquire the status of public partners in accordance with the law regulating the field of public-private partnerships.

<sup>75</sup> Law on Public Utility Services ("Official Gazette of RS", number 124/11 and 100/17).



In addition to the listed forms of IMC, LSGUs can, by mutual **agreement**, authorise another LSGU to perform tasks within its jurisdiction. In this case, the agreement concluded by the mayors with the consent of the local assemblies specifically determines the tasks, responsibilities, financing, duration and conditions and procedure for terminating the agreement.

The **Law prescribes the binding elements of the IMC agreement**, which must contain the parties to the agreement, their mutual rights, obligations and responsibilities, the subject of the agreement, the intended goal and the period for which the agreement is concluded, the form of co-operation, the necessary financial resources, the procedure for the formation of the co-ordinating body and supervision, as well as the procedure for resolving disputes and the conditions for termination of the agreement.<sup>76</sup>

The procedure for concluding the agreement ends with obtaining an **opinion from the ministry responsible for the area** for which the agreement is concluded, after which the local assembly gives the final approval, the municipal mayor signs the agreement, and it is published in the official gazette of the LSGU.

Based on the analysis of the Law on Local Government in the RS concerning IMC, **a general observation is that this Law, compared to the previous one, significantly improves this area and creates a solid basis for horizontal co-ordination among LSGUs**. In terms of co-operation with LSGUs from the FBiH and the Brčko District, in addition to participation in joint projects, creation of joint working groups and co-operation of alliances, the Law provides a specific case of co-operation for the protection and rescue of people and goods in the context of natural disasters.

### **Kosovo\***

The MLGA oversees the laws regulating IMC, namely the Law on Local Self-Government<sup>77</sup> and **the special Law on Inter-Municipal Co-operation**.<sup>78</sup> The main principles of the Law include the common and joint goals and interests of two or more municipalities, and the significance of their legal responsibilities. The Law stipulates that two or more municipalities can co-operate according to the principles, forms, conditions, and procedures set forth by law to achieve the established goals and interests related to the exercise of municipal competencies. The Law on IMC prescribes a **very detailed process** on initiating and establishing co-operation mechanisms at the local level.

Based on Article 10 of the Law, IMC is on a voluntary basis and can be carried out through the establishment of (a) joint working bodies; (b) joint administrative bodies; (c) joint public institutions; (d) joint public enterprises; and (e) joint public-private partnerships. Based on the Law, two or more municipalities of Kosovo\* have the right to establish temporary or permanent working groups and committees for reviewing certain matters within their frameworks. The rights and obligations of the joint bodies are to be regulated upon agreement. LSGUs can also establish joint administrative bodies to exercise specific municipal competencies based on the Law on Local Self-Government. Due to the non-legal nature of the entities in joint administrative bodies, whatever decisions they agree upon will be considered solely as actions taken by municipalities.

Co-operation may be established based on the initiative of four bodies: (a) the mayor, (b) one-third of the members of the municipal assembly, (c) at least 5% of citizens of the municipality entitled to vote and (d) the Government. The municipal assembly reviews the initiative, the opinion of the mayor, and takes decisions by a majority of votes of the assembly members to establish the IMC agreement. The municipal

<sup>76</sup> Article 125. of the Law on Local Self-Government of the Republika Srpska.

<sup>77</sup> Official Gazette of the Republic of Kosovo\*, 2008, "Law No. 03/L-040 on Local Self-Government",.: <https://mapl.rks-gov.net/wp-content/uploads/2017/10/Law-On-Local-Self-Government.pdf>.

<sup>78</sup> Official Gazette of the Republic of Kosovo\*, 2011, "Law No.04/L-010 on Inter-Municipal Cooperation",.: <https://mapl.rks-gov.net/wp-content/uploads/2017/10/Law-On-Inter-Municipal-Cooperation.pdf>.

assembly must, within 90 days of the submission date, organise an open session on reviewing and decision-making in relation to the IMC agreement. After the initiative is approved, the municipal assembly will authorise the mayor to start consultations with the relevant potential municipalities for their participation and co-operation, then prepare the proposal for establishing the co-operation agreement. If the proposal is approved, negotiations will be held with the municipal assembly to conclude the agreement. The mayors of the municipalities will sign the agreement, the municipal assembly approves it and it will enter into force once its legality has been assessed by the MLGA and it should be published in the Official Gazette<sup>79</sup>, as stated in the Law on IMC<sup>80</sup>. However, no agreements have been published yet, even though they have been approved.

*“A Law specifically devoted to the concept of inter-municipal co-operation certainly demonstrates its legal advantages, in so far as it allows all the participating institutions to benefit from the legal stability essential to the implementation of joint activities. For local people it also facilitates clear identification and knowledge of the inter-municipal co-operation structure and gives it legal consistency.”<sup>81</sup>*

## Montenegro

In Montenegro, the Law on Local Self-Government (Article 15 and Articles 186-192 of the Law on Local Self-Government) provides the legal basis for co-operation among municipalities and defines the content of the IMC contract.<sup>82</sup> The Law stipulates that LSGUs are free to create co-operative arrangements on a voluntary basis in all the areas where they have primary jurisdiction (original competences) to meet the needs of their citizens. The Law further stipulates (Article 190) that *“two or more municipalities may, for the purpose of a joint, more economical and rational performance of certain tasks within their competence, establish a company or public institution, in accordance with the law”*. Based on the current legislation, IMC is not possible for implementing transferred tasks. Municipalities in Montenegro can also establish forms of direct co-operation with local authorities of foreign countries.

In addition to the organic Law on Local Self-Government, several sectoral laws provide normative solutions for the establishment of IMC adapted to the relevant areas (competences). For example, IMC is also governed by the Law on Communal Activities.<sup>83</sup>

Based on the last analysis carried out by the MPA, among Montenegrin municipalities<sup>84</sup> ten (10) municipalities consider the current **legal framework for IMC** satisfactory, six (6) consider it limited and two

<sup>79</sup> Such agreements could not be found in the official gazette or websites of municipalities. There are, however, news items on municipality websites, which announced that such agreements were signed. For example, the Agreement between the Municipality of Gijlan and the Municipality of Kamenica. The agreement concerns a joint project "Youth in agribusiness" and was signed in 2018 with a duration of 22 months.

<sup>80</sup> Ministry of Local Government Administration, n.d., "Handbook on inter-municipal cooperation and international municipal cooperation", link: <http://helvetas-ks.org/demos/wp-content/uploads/2019/09/EN-01-HANDBOOK-ON-INTER-MUNICIPAL-COOPERATION-AND-INTERNATIONAL-MUNICIPAL-COOPERATION.pdf>.

<sup>81</sup> UNDP (2010), Strengthening Intermunicipal Cooperation in Montenegro, <https://www.undp.org/sites/g/files/zskgke326/files/migration/me/IMC-Final-ENG.pdf>.

<sup>82</sup> The agreement regulates the name and seat of the joint body, company, institution or other organisation, actual and territorial jurisdiction, type, scope and manner of performing joint affairs, manner of work, decision-making and financing, and supervision of work, special rights and obligations of employees as well as other issues of importance for the establishment, operation and termination of employment (Article 191).

<sup>83</sup> The Law on Communal Activities regulates the joint performance of communal activities (Article 27) "Two or more local self-government units may provide joint performance of communal activities, under conditions determined by agreement of the competent bodies of local self-government units".

<sup>84</sup> The Ministry of Public Administration carried out a Functional analysis of local governments of Montenegro in 2023.

(2) perceive it as unsatisfactory. While there are no legal restrictions on the establishment of co-operation in the general legal framework, it could be improved so that issues concerning IMC are regulated in more detail.

One of the submitted proposals suggested that the legal framework should provide for the creation of a specific fund at the national level, which would plan funds for the improvement of IMC through study visits, i.e., workshops for acquiring new knowledge and exchanging experience. Capacity-building, training and the pooling of experts across municipalities are important to strengthen human resources for better IMC. Earmarking funding for education may contribute to sustainability and continuous strengthening of IMC.

Overall, the current legislation provides local governments with general provisions, which allow IMC among municipalities to perform original tasks. IMC is not possible for implementing tasks transferred from a higher level of government. The Law is general and does not provide details.

***Albania, the FBiH and Montenegro regulate IMC very broadly, not providing further details on the process, forms, possible content, or financing of joint initiatives of local governments. The RS, Kosovo\*, North Macedonia and Serbia have a more prescriptive approach to IMC.***

### **North Macedonia**

Similarly to Kosovo\*, upon the initiative of the Association of Local Self-Government Units (ZELS), a special Law on Inter-municipal Co-operation was adopted in 2009.<sup>85</sup> The objective was to develop more detailed procedures for the establishment of the IMC and to create a legal basis for financial incentives for IMC with a special budget programme. Overall, there are two basic and key laws, which stipulate the rights and process for establishing different forms of local government co-operation.

In North Macedonia, municipalities perform competences established in Article 22 of the Law on Local Self-Government and those arising from sectoral laws via the municipal administration or by establishing local public enterprises and public institutions, and they can delegate the performance of certain works to other legal entities or natural persons, based on an agreement for implementation of works of public interest, in accordance with a law. For the sake of more efficient and economical performance by the municipalities, considering their various capacities and resources, the legislator provides the opportunity to establish IMC.

According to the established legal framework, "inter-municipal co-operation" is co-operation that is established between two or more municipalities for a more efficient and economical performance of their competences that are established by law and for their common interests and objectives. IMC also refers to implementation of particular tasks that are part of municipalities' mandates, by one municipality on behalf of one or more municipalities, based on an agreement concluded between them.

With the adoption of the Law on Local Self-Government<sup>86</sup> in 2002, a legal basis was created for the establishment of IMC for exercising responsibilities of the municipalities. The Law on Local Self-Government also determines the forms of IMC through the establishment of joint public services, administrative bodies in certain areas according to the Law, including pooling of funds. The Law provides the basis for international co-operation with municipalities from other countries as well as with international organisations. The relevant authority, in this case being the MLSG, is obliged by the Law to keep records of the international co-operation.

The Law on Inter-municipal Co-operation elaborates the procedure for establishing IMC, the forms through which municipalities can achieve co-operation depending on the subject, as well as the conditions and

<sup>85</sup> Official Gazette of MK No.79/2009.

<sup>86</sup> Official Gazette of MK No.5/2002.

method of financial support, monitoring of IMC and supervision by the municipalities and the MLSG. **This Law introduced the obligation of the MLSG to keep records of the IMC established in the country.**

The Law on IMC leaves municipalities to decide on the establishment of IMC independently and voluntarily for exercising competences. However, the procedure for IMC is regulated in detail in relation to the tasks for which IMC can be established, who can initiate the establishment and in what form, as well as the detailed decision-making procedure.

As municipalities, before the adoption of the Law on IMC, faced challenges and highlighted the need to regulate the procedure, the Law on IMC generally facilitates the work of municipal administrations by giving clear instructions on the forms through which IMC agreements can be established, what act should be in place in order to establish the specific form of IMC, what should be included in the act as well as the competences, the manner of management, etc. The Law also unifies the procedure for all municipalities. However, some of the municipalities that have established IMC agreements believe that the implementation of the Law requires a lot of resources and time, something that smaller municipalities are lacking, and in that sense, there are proposals for simplifying things and reducing the deadlines<sup>87</sup>.

The forms of IMC derive from the competences of LSGUs and the ways in which they are exercised. IMC is carried out in the following forms: joint working bodies and commissions, joint administrative bodies, joint public enterprises and joint public institutions. IMC is achieved by pooling financial and other resources as well as contractual implementation of works under the competence of one or more municipalities by another municipality for a particular fee. Depending on the jurisdiction, the decision on IMC is made by the mayor or the council of the municipality. In most cases it is the municipal council that decides.

**Table 6. IMC forms in North Macedonia**

<b>Joint working committees and bodies</b>	Can be established for the mayor's competencies and for the council's competencies, decided by the mayor or by council of the municipality. Can also be established for the purpose of sharing of experiences and for professional co-operation of the administration.
<b>Joint administrative body</b>	Can be established by two or more municipalities for performance of competence established by law. The mutual rights and obligations between the municipalities are established by an agreement, concluded by the mayors as parties who are responsible for the municipal administration.
<b>Joint public institutions</b>	Are the basis for performing activity of public interest that has local relevance in the field of education, culture, social protection, child protection and in other activities defined by law. For the establishment of a joint public institution, the mayors of the municipalities conclude and sign an agreement that regulates the mutual rights and obligations and is established by decision adopted by the councils of the municipalities that are the founders of the joint public institution, in the same text.
<b>The joint public enterprises</b>	Are the basis for performing activity of public interest that has local relevance, in a procedure established by law and with a decision adopted by the councils of the municipalities in a same text, with a majority of votes from the total number of members of the council of each municipality that is a founder of the joint public enterprise. For these joint public enterprises, the mayors of the municipalities conclude and sign an agreement regulating the mutual rights and obligations.
<b>Agreements</b>	The basis for authorising the municipality to perform work for one or more other municipalities or to pool financial, material, and other resources.

<sup>87</sup> Ministry of Local Self-Government, Evaluation Report on the Implementation of the Law on Inter-Municipal Cooperation, May 2022. Available at: [ИЗВЕШТАЈ ЗА ОЦЕНКА НА СПРОВЕДУВАЊЕТО НА ЗАКОНОТ ЗА МЕЃУОПШТИНСКА СОРАБОТКА \(mls.gov.mk\)](https://mls.gov.mk).

Source: SIGMA (2023)

Based on a survey among municipalities, local governments were also asked to evaluate the legislation on IMC (the Law on IMC and the Law on Local Self-Government)<sup>88</sup>. While 18 municipalities stated that the legislation is clear, concise and binding, 4 municipalities expressed that it is not binding enough, not clearly defined and concise and 4 municipalities stated that it is clear and concise but not binding. None of them thought it is not at all clear and binding.

### **Serbia**

Serbia does not have a special law on IMC, nevertheless, it regulates IMC in the Law on Local Self-Government. Amendments to this Law from 2018 provided a significantly more substantial legal framework for the establishment and development of IMC.

The Law on Local Self-Government stipulates that towns and municipalities as well as other local bodies, enterprises, institutions, and other organisations founded by towns/municipalities, co-operate and join forces with other LSGUs and their bodies/institutions in areas of common interest. To achieve that common interest, LSGUs can join resources and establish joint bodies, enterprises, institutions and organisations, in accordance with the legal framework. The Law on Local Self-Government sets the **mandatory content of the agreement of IMC**. Furthermore, the Law envisages that in the case of the mutual establishment of a joint body/institution/company, their managers are appointed by the competent bodies of the LSGUs that are the founders (for example by local parliaments). Moreover, the employees in that new body/institution/company exercise their rights, obligations, and responsibilities in the LSGU, where the headquarters of that new company are located.

**All Western Balkan administrations allow for IMC in their legislation on a voluntary basis, some of them defining this mechanism generally and leaving room for interpretation, some being specific on the purpose, process, etc.**

The Law on Local Self-Government also regulates that the IMC agreement ceases to be valid upon the request of one of the LSGUs. This request should be sent in writing to the other LSGU (if the agreement is fixed term, no later than six months before the date on which it ceases to be valid). If several LSGUs have joined the agreement, it ceases to be valid only in the part that refers to the LSGU that submitted a request for withdrawal.

Among the most important improvements in the legal framework for IMC is the fact that it is now also possible to establish IMC to **carry out tasks entrusted (delegated)** by a central administration. Amendments to the Law on Local Self-Government and the Law on State Administration in **2018 made it possible for local authorities to jointly carry out entrusted tasks**. The Law on Local Self-Government foresees that two or more LSGUs can propose to the ministry<sup>89</sup> responsible for local self-government the joint execution of certain entrusted tasks, in accordance with the special law regulating state administration and the government decree regulating the detailed conditions and manner of joint execution of entrusted tasks. Also, the Law on State Administration (Article 75) stipulates that **the state administration body can propose** to the bodies of two or more LSGUs to jointly ensure the execution of certain tasks entrusted to them after determining that they are unable to perform them efficiently on their own. The Decree

<sup>88</sup> Survey carried out for SIGMA by the Center of Change Management in January 2023, two municipalities did not answer the question.

<sup>89</sup> In case of entrusted tasks, the approval of the Government is needed.

(Regulation) on the conditions and the manner of the joint execution of the entrusted tasks was adopted in 2021.<sup>90</sup>

## Main conclusions on regulating IMC in the Western Balkans

- The **Charter**, ratified by all administrations, provides a **general rule** for establishing IMC.
- Each administration regulates the right of local governments to establish IMC, both on a **national and international** basis.
- IMC in the region is established on a **voluntary basis**; there is no example of obligatory co-operation.
- Few administrations stipulate IMC in a very broad way in their **general law on local self-government** (Albania, FBiH, Montenegro), some have **special laws on IMC** with more detailed regulation (Kosovo\*, North Macedonia). Serbia does not have a special law, but its general legislation provides for a detailed approach too.
- There are different approaches in what is regulated by the law (form, content of contract, duration, approval, etc.).
- LSGUs are free to create co-operative arrangements **in all the areas where they have primary jurisdiction**. Some may even co-operate on delegated tasks (Serbia).
- Even though some administrations have very detailed laws concerning IMC, **practice often does not follow legislation**.
- There are both formal and informal co-operation agreements in practice.
- Formal **co-operation has numerous forms**, including joint working groups, joint administrative bodies, joint public institution, joint public enterprise, PPP, etc.
- Municipalities are free to choose the form under which they co-operate and the purpose of co-operation.

In addition to the basic laws governing/regulating IMC (laws on local self-government, laws on IMC, laws on state administration), in some public administrations there are also numerous sectoral laws and/or less specific normative solutions adapted in the respective areas of local government functions.

### 3.3. Central government co-ordination for IMC

Though all Western Balkan administrations base IMC on a voluntary approach by local governments, the central administration should play a crucial role in supporting the development of local partnerships. This role is two-fold: promoting IMC by providing methodologies, training and good practices, and providing financial incentives to help local governments establish IMC agreements. Financial incentives are described in more detail in the following chapter.

There are **different approaches of central administrations in supporting local governments to jointly exercise their competences**, varying from a very passive approach relying on a general regulatory

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<sup>90</sup> The process is more or less the same, regardless of who initiated IMC (competent ministry or local self-government units), Ministry of Public Administration and Local Self-Government needs to endorse it and the final approval is then given by the Government.

framework to very specific regulations followed by strategic documents and practical support with financial incentives.

### **Albania**

IMC as a concept is present in several policy frameworks developed in Albania, both sectoral and horizontal. During 2010-2012, the Council of Europe (CoE), in co-operation with the Albanian **Ministry of Interior**, which was in charge of local self-governments during that time, and with the support of the Swiss Agency for Development and Co-operation, implemented the programme on “Strengthening the Local and Regional Government Structures in Albania”, which paid particular attention to the improvement of conditions for the application of IMC in Albania. The project focused on raising awareness among LSGUs in Albania on the need for co-operation among LSGUs with the aim of ensuring better services to citizens. A **Toolkit of IMC** was developed, including a Manual and a Training Guide. The CoE support prepared the ground for further assistance to the Albanian Government for (a) improving the legal, administrative and financial framework in favour of inter-municipal co-operation; (b) direct assistance to LSGUs to enter into IMC initiatives and direct support for establishing and implementing IMC projects; (c) promoting successful case studies in order to encourage a culture of co-operation in Albania.

The Strategy for Decentralisation and Local Government 2015-2020 also included specific measures for drafting technical advisory guidelines on IMC for different types of services. The Ministry of Interior and the Agency for Support of Local Self-Government have initiated the process of various types of analysis, which influence some LSGUs’ functions. One of the functions is fire protection. The Government has defined the fire service tariffs that LSGUs offer to each other, which enables municipal co-operation for this service as effectively as possible between LSGUs.

The **new Strategy for Decentralisation and Local Governance 2023-2030** includes, as one of its measures, the revitalisation and introduction of new incentives/schemes for inter-municipal/cross-local agreements and agreements with the private sector and non-governmental organisations. In this context, detailed analysis of existing incentives will be carried out, including the reasons for their lack of use, revitalisation opportunities and the potential new schemes to be introduced in local governance. Institutions will be encouraged to co-operate with the use of positive models related to direct cross-local co-operation or through the delegation of the performance of several municipal functions to Regional Councils.

Currently, there are **neither guidelines from the central administration to support local governments to co-operate nor financial mechanisms** or incentives to support IMC. There have also been changes in the competences of central administration bodies. The Ministry of Interior is not in charge of local self-governments as of October 2023, this area was moved directly to the Prime Minister’s Office, where the new **State Minister for Local Self-Government** oversees all issues concerning local governments. This implies a strengthening of local self-government issues from a central administration viewpoint.

### **Bosnia and Herzegovina**

At the administrative level of the RS, the central policymaking body for the area of local self-governance is the **Republika Srpska Ministry for Administration and Local Self-government (MALSG RS)**. A special sector of this ministry is responsible for the area of local self-government and consists of several organisational units that oversee administrative supervision over the work of LSGUs and the legality of acts, as well as co-ordinating the implementation of projects in the area of local self-government development and implementation of the Local Self-Government Development Strategy.

In the part of the provisions of the Law on Local Self-Government that refer to IMC, the MALSG of the RS has **special responsibilities in terms of establishing and keeping records of concluded agreements on IMC** and reporting to the Government of the RS through the preparation of annual reports on co-operation. On the other hand, LSGUs have the obligation to regularly submit documents on the

establishment of co-operation and other data of importance for the co-operation achieved. The Law also establishes an obligation of the competent minister to pass a special rulebook, which will determine in more detail the way of keeping and providing data from **the register of concluded IMC agreements**.

Based on the feedback received from the MALSG of the RS, this type of **register has not yet been established**, nor has a rulebook on its management been passed in the previous period.

In 2022, the MALSG of the RS initiated changes and amendments to the Law on Local Self-Government with two other laws of importance for the work of local self-government, which was also cited as one of the reasons why the regulation in question on the record of IMC agreements was not yet adopted.

Other ministries in the Government of the RS that are responsible for a specific area of co-operation **must give an opinion on draft co-operation agreements submitted** by the mayor and are also responsible for supervising co-operation<sup>91</sup>. In the case of an agreement on international or cross-border co-operation, it is necessary to obtain the opinion of the ministry responsible for economic relations and regional co-operation. The LSGU **monitors the implementation of the IMC agreement** through the co-ordination body established by that agreement and has the obligation to report on the implementation of the agreement to the competent ministry, if co-operation is implemented through projects financed from the entity budget.

The situation is significantly different at the administrative level of the **FBiH**, where there is **no formal structure within the administration responsible for local government issues and policies**. Responsibility for local government policies is given to the **Ministry of Justice of the FBiH, with every canton having their own cantonal ministry responsible for local government** (cantonal ministries of justice and/or general administration).

The Ministry of Justice of the FBiH has general responsibility for the performance of administrative, professional and other tasks established by law that relate to exercising the competences of the FBiH, especially in the areas of judicial institutions and administration; administrative supervision over the work of the judicial administration and federal administrative bodies. There is also the **Institute for Public Administration** having the status of a special administrative organisation within the Federal Ministry of Justice, which, among other things, is **responsible for the organisation of the local self-government system; electoral system, the political-territorial organisation of the FBiH** and the drafting of appropriate regulations in these matters, and the development of co-operation with local authorities and their associations in matters within their jurisdiction.<sup>92</sup>

The issue of IMC is not addressed through policies in the field of public administration reform (PAR), which are implemented through a country wide strategic framework for PAR in BiH. Namely, the **scope of public administration reform in BiH does not include the level of local self-government**, as is the case in some other administrations in the Western Balkan region. The strategic framework of PAR and the accompanying action plan primarily recognise the institutions of BiH, the FBiH, the RS and the Brčko District as implementers of the measures, and it is emphasised that in certain areas, activities will be carried out at the level of cantons and/or municipality, which will be indicated in the implementing documents.<sup>93</sup>

However, **the issue of IMC is recognised through entity policies in the area of local self-government**. The MALSG of the RS co-ordinates the development and implementation of the local self-government development strategy in the RS, and several strategies have been prepared so far (the first for the period 2009-2015, the second for the period 2017-2021). In mid-February 2023, the Government of the RS adopted a new, **third Strategy for the Development of Local Self-Government in the RS for the period**

<sup>91</sup> Articles 126 and 148 of the Law on LSG RS.

<sup>92</sup> Law on Federal Ministries and Other Bodies of Federal Administration ("Official Gazette of the Federation of Bosnia and Herzegovina", no. 58/02, 19/03, 38/05, 2/06, 8/06, 61/06).

<sup>93</sup> PAR Strategic Framework in BiH 2018-2022, [Strategic\\_framework\\_par\\_eng.pdf \(parco.gov.ba\)](https://parco.gov.ba/Strategic_framework_par_eng.pdf).



**2023-2029**<sup>94</sup>. The document was prepared by a special cross-sectoral working group appointed by the Minister of Administration and Local Self-Government of the RS, where, in addition to representatives of 14 ministries and LSGUs, representatives of the non-governmental sector, the academy and the Association of Municipalities and Cities of the RS were included. The issue of IMC was addressed to a certain extent through previous strategy documents, however, the evaluation that was done in the preparation of the strategy for the period 2023-2029 did not indicate that there was any significant progress in terms of the implementation in practice of co-operation at the horizontal level.<sup>95</sup>

The Strategy for the Development of Local Self-Government in the RS 2023-2029 **recognises shortcomings in terms of the achieved scope of vertical and horizontal co-operation** and points out that progress in this area will depend, among other things, on "the general political and social climate, and on the openness and readiness of LSGU bodies for mutual co-operation". Within the framework of the first strategic goal, which refers to the improvement of the position and extent of exercising the authorities of local self-government in the governance system in the RS, a **separate priority was formulated under the title "Improvement of horizontal and vertical co-operation"**. To fulfil this priority, the Strategy envisages the following measures:

1. Support for the development of inter-municipal co-operation in the RS.
2. Support for the improvement of inter-entity and cross-border co-operation.
3. Co-ordination and strengthening of co-operation between entity and local bodies and institutions.
4. Establishing and maintaining a register for monitoring inter-municipal, inter-entity and cross-border co-operation.

In the description of the implementation of the previous measures, the need for a comprehensive analysis of the situation, examples of good practice, and piloting, development and application of appropriate support instruments for improving inter-municipal co-operation was highlighted. There currently is **no appropriate methodology nor guidelines for IMC, and no central register for monitoring inter-municipal, inter-entity and cross-border co-operation**.

At the level of the **FBiH**, there is no Local Self-Government Development Strategy, nor any other form of policy that would regulate the issue of local self-governance development, including the area of inter-municipal co-operation. The Framework Strategy for the Development of Local Self-Government for both Entities was prepared as part of the joint project of the Associations of Municipalities and Cities of RS and FBiH in 2006. However, there was no readiness or political will to adopt this document at the level of the FBiH, while the Government of the RS adopted their own strategic document for the period 2009-2015 a few years later.

## **Montenegro**

In 2011, the Government adopted the 2011-2016 development strategy for IMC, along with the 2011-2013 action plan for its implementation.<sup>96</sup> In 2019, the MPA drafted a report on IMC with the assistance of the UNDP. Since then, there have not been significant improvements in this area. The most recent data

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<sup>94</sup> Decision on the adoption of the Local Self-Government Development Strategy in the RS for the period 2023-2029. adopted at the session of the Government of the RS from February 23, 2023, published in the "Official Gazette of the Republika Srpska", No. 22/23.

<sup>95</sup> The Strategy for the Development of Local Self-Government in the RS 2023-2029, [Министарство управе и локалне самоуправе Почетна \(vladars.net\)](#) states that "The introduction of the concepts of e-government, public-private partnership, quality management system and true inter-municipal cooperation in the realisation of responsibilities and delivery of services, is far from what is expected to be achieved with this strategy".

<sup>96</sup> OECD (2022), *2022 Synthesis Report World Observatory on Subnational Government Finance and Investment*, OECD Publishing, Paris, <https://doi.org/10.1787/b80a8cdb-en>.

available at the MPA are dated from 2019 based on the mutual project with UNDP and the results of the analysis carried out by the MPA among all municipalities, where the financial data only refers to external donor funding.<sup>97</sup>

Based on interviews with the representatives of the MPA, IMC in Montenegro is developed through agreements and at the moment, **there are no bodies specifically designed for advocacy, monitoring, and management of IMC arrangements** in the country.

There are **no specific systemic incentives** to support IMC. They are based on the assessments of the ministries of which way they will direct certain types of financial incentives in specific areas.<sup>98</sup>

The MPA initiated a complex **functional analysis of local governments in Montenegro in 2023**. Part of it was devoted to IMC. The municipalities that responded (19 municipalities of 25), stated that they were not aware of any central government support or incentive for IMC. Based on this analysis, the MPA will provide recommendations for improving each area, including IMC. The analysis was prepared with the participation of central administration bodies, local governments, the Union of Municipalities and other relevant partners. The MED has drafted a **new strategy for the regional development of Montenegro** in co-operation with the MPA, which was adopted by the Government.

### **North Macedonia**

In North Macedonia, the **monitoring of IMC is regulated by a Law**. The MLSG is required to keep records of the IMC using a form established by the Minister, and the municipalities are required to notify the Ministry within 30 days of the established IMC agreement. To monitor and co-ordinate IMC, a co-ordinating body can be established between two or more municipalities. Following the adoption of the Law on Inter-municipal Co-operation in 2009, a Rulebook was also adopted on the content of the form to be used for records of IMC and the manner of keeping records on IMC.<sup>99</sup> The Law and the by-laws for IMC agreement records did not limit the records to the IMC agreements established with financial support from the State Budget.

In general, the lack of a special budget programme that would encourage or incentivise IMC also impacts the records of IMC, because the municipalities do not always consider the legal obligation to notify the Ministry. According to the findings in the evaluation of the implementation of the Law on IMC, **91% of the municipalities publish the acts for establishment of IMC in the official gazette of the municipality**, while **64% of them publish the contracts or agreements for establishment of IMC in the Official Gazette**.<sup>100</sup>

On the other hand, it is necessary to note that the MLSG does not have the capacity to put into operation the electronic system for monitoring of IMC. As well as the **absence of financial incentives for IMC by a dedicated programme**, or an operational Commission for IMC or complete records, there is **no annual reporting to the Government about established IMC agreements**, which should be done by the Ministry of Local Self-Government. Such circumstances mean that the records regarding IMC of the Ministry of Local Self-Government cannot serve as a complete, up-to-date overview of the established IMC agreements.

<sup>97</sup> UNDP (2019), Analysis of possible forms of inter-municipal co-operation in Montenegro, [undp-mne-Analiza-MedjuopstinskaSaradnja.pdf](#).

<sup>98</sup> Some ministries, such as the Ministry of Agriculture and the Ministry of Culture, provided some financial support for the realisation of IMC.

<sup>99</sup> Official Gazette of the Republic of Macedonia, No. 15/2012.

<sup>100</sup> Ministry of Local Self-Government/Evaluation Report on the Implementation of the Law on Inter-Municipal Cooperation, May 2022. Available at: [Меѓуопштинската соработка во Република Македонија - Од норма до пракса \(mls.gov.mk\)](#).

## Serbia

In Serbia, there are several documents that either directly or indirectly promote IMC, but the two described below are the most crucial ones.

The **Strategy of Sustainable Urban Development** was adopted in **2019**. The general objective of urban development is the sustainable development of urban settlements. In addition to the overall objective, there are five specific objectives, one for each strategic direction. Under the last strategic direction - Management of urban development - there is one separate measure dealing with inter-municipal and cross-border co-operation and strengthening of regional institutions.<sup>101</sup>

The most relevant policy document in this area is the **Programme for the Local Self-Government System Reform** (LSG Programme), adopted in **2021** for a period of five years with an action plan for the first three years of implementation. The overall objective of the LSG Programme – which is at the same time one of nine specific objectives of the PAR Strategy 2021-2030 – is to establish a system of LSG that enables efficient and sustainable establishment of citizens' rights. There are four specific objectives: Improving the position and responsibility of local government (SO1); Improving the local government financing system (SO2); Improving the local government organisation and capacities (SO3); and improving the quality and availability of services of local government bodies, utilities and services of public institutions (SO4).

Under SO3, there is one measure that intends to **continue the development of IMC in the implementation of the competences of the local government**. It includes, among other things, support (professional and technical) of the local government in the process of establishing IMC, the development of tools for the realisation of this co-operation, such as **models of inter-municipal agreements**, guidelines for concluding and implementing the IMC process, **financial support for IMC projects**, etc. A special focus is on normative activities, such as the **harmonisation of sectoral regulations to intensify IMC in special areas**, the **preparation of an analysis of the possibilities for establishing a mandatory form of IMC** and functional linking of LSGUs in the performance of certain tasks of local self-government, with the aim of preparing amendments to the Law on Local Self-Government. The MPALSG is responsible for co-ordinating not only the implementation of this measure, but the implementation the LSG Programme as a whole.<sup>102</sup>

When it comes to the support to LSGUs from central administration in practice, the MPALSG as well as the **Standing Conference of Towns and Municipalities - an association of local government units** (SCTM), initiated several activities. The role of the SCTM is threefold. First, the SCTM prepares normative acts and relevant templates that LSGUs can use. Second, the SCTM provide advisory support in the IMC implementation phase. Finally, the SCTM conducts analysis of regulations and advocates for legal changes, if needed.<sup>103</sup>

Following the amendments to the Law on Local Self-Government in 2018, the SCTM, in co-operation with the MPALSG, developed the **Methodological Instructions for the development of agreements on**

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<sup>101</sup> Inter-municipal and cross-border co-operation, strengthening of regional institutions is measure 5.1.6 under the package 5.1: Improving the institutional framework of urban development management. Source: [Strategija održivog urbanog razvoja Republike Srbije do 2030. godine: 47/2019-4 \(pravno-informacioni-sistem.rs\)](http://pravno-informacioni-sistem.rs).

<sup>102</sup> Based on publicly available data three activities under this IMC measure have been implemented (3 out of 6, 50%), and one is ongoing. Source: [OMT :: Програм за реформу система локалне самоуправе у Републици Србији за период од 2021. до 2025. године \(mduls.gov.rs\)](http://mduls.gov.rs).

<sup>103</sup> A semi-structured interview with the representatives of the SCTM was held on 27 March 2023.

**inter-municipal co-operation** in February 2019.<sup>104</sup> Moreover, during 2019 and 2020, the SCTM prepared a series of sectoral **models of agreements covering 15 areas** such as: local ombudsman, institutions of culture, energy management, emergency situations, free legal aid, social protection, communal police, and several inspectorates (communal, road, traffic, educations, sports, tourism).<sup>105</sup> Depending on the specifics of individual areas, these models have been developed through one of two forms of IMC (or through both) - (1) assignment (transfer) of tasks among LSGUs and (2) joint service for two or more LSGUs. For the second organisational form, the SCTM has prepared a budget model as well. Furthermore, the SCTM published a **separate Guide for IMC in the field of Emergency Situations**.<sup>106</sup>

Finally, there is also a **two-day training programme for IMC** provided by the National Academy of Public Administration (NAPA)<sup>107</sup>. The NAPA is the central institution of the system of professional development in the public administration of Serbia, that started working in January 2018. The General Training Programme for Local Self-Government Employees is being developed annually based on an in-depth training needs analysis, in co-operation between the MPALSG, the NAPA and other stakeholders.

**Table 7. Central administration responsibility and support for IMC in the WB region**

	Ministry responsible	Central register	Strategy/concept	Regulation	Methodology, guidelines, training
ALB	Ministry of Interior; Agency for Support of Local Self-Government	No	Strategy for Decentralisation and Local Governance 2023-2030	Law on local self-government	No
BiH	Republika Srpska Ministry for Administration and Local Self-government; Ministry of Justice	No <i>Obligation, but not established</i>	Local Self-Government Development Strategy	Law on Principles of Local Self-Government of the Federation of Bosnia and Herzegovina  Law on local self-government of the Republika Srpska	No

<sup>104</sup> Methodological Instructions for the Development of the Inter-Municipal Co-operation Agreements is available [http://www.skgo.org/storage/app/uploads/public/161/236/924/1612369243\\_SKGO%20-%20Metodolosko%20uputstvo%20za%20izradu%20sporazuma%20o%20MOS.pdf](http://www.skgo.org/storage/app/uploads/public/161/236/924/1612369243_SKGO%20-%20Metodolosko%20uputstvo%20za%20izradu%20sporazuma%20o%20MOS.pdf).

<sup>105</sup> Models are available at: <http://www.skgo.org/vesti/detaljno/2228/skgo-izradila-modele-sektorskih-sporazuma-za-uspostavljanje-medjuopstinske-saradnje>.

<sup>106</sup> This document was developed within the project "Support to local self-governments in Serbia on the way to the EU - second phase" financed by the Government of Sweden and is available at: [http://www.skgo.org/storage/app/uploads/public/165/520/699/1655206997\\_Vodic%CC%8C%20za%20MOS%20-%20WEB%20-%2014062022.pdf](http://www.skgo.org/storage/app/uploads/public/165/520/699/1655206997_Vodic%CC%8C%20za%20MOS%20-%20WEB%20-%2014062022.pdf).

<sup>107</sup> General Training Programme for Local Self-Government Employees, pg.409: <https://www.napa.gov.rs/extfile/sr/4565/Op%C5%A1ti%20program%20obuke%20zaposlenih%20u%20JLS%202023.pdf>.

<b>KOS</b>	Ministry of Local Government Administration	Yes (internal)	Concept document for Inter-municipal co-operation	Law on Inter-municipal co-operation	yes
<b>MNE</b>	Ministry of Public Administration	No	Partially <sup>108</sup>	Law on local self-government	No
<b>NM</b>	Ministry of Local Self-government	No	No	Law on Inter-municipal co-operation	No
<b>SRB</b>	Ministry of Public Administration and Local Self-government	No	Programme for the Local Self-Government System Reform	Law on local self-government	Yes

Source: SIGMA

## Main conclusions on central administration support of IMC

- There are very few special dedicated bodies at the central level to support IMC.
- In some administrations, **ministries provide guidance, methodology and training** for local governments to support IMC.
- Despite legal obligations, ministries do not have central databases on IMC agreements, and thus **do not have reliable information on IMC agreements**.
- **Local governments often do not notify** ministries on IMC agreements, they publish this information on their own websites.

### 3.4. Financial incentives for IMC

Financial incentives are a justifiable tool to jumpstart IMC. Municipalities, especially smaller ones, often face limited budgets and resources. Financial rewards such as shared revenue or grants ease the initial burden of establishing co-operation and provide a tangible benefit that can be reinvested in the newly formed partnership. This financial nudge can be the push municipalities need to overcome potential hesitation and begin reaping the long-term rewards of collaboration.

Many municipalities (in particular small ones) have a budget just sufficient to pay salaries and cover main expenses. Financial resources available make it impossible for them to engage in co-operation where new tasks and management costs would need additional resources. For engaging in costlier actions (creation of new public services, infrastructures, sport or cultural facilities, etc.) there is a need for special financial tools.

<sup>108</sup> One activity in the PAR Strategy (Operational goal 3, Indicator: Number of jobs where is established ICM).

## **Bosnia and Herzegovina**

The Law on Local Self-Government of the RS stipulates that IMC can be financed from the budget of LSGUs, donations from individuals and legal entities, and other sources established by law<sup>109</sup>. Funds for IMC can also be secured from the Entity level, where the Government of the RS can allocate funds for financial support if it is a matter of co-operation of wider significance and interest. When considering incentives and support for co-operation, the following criteria are considered:

- Administrative and financial capacities of LSGU for the exercise of authorities established by law.
- Expected benefit from co-operation.
- Number of LSGUs included in the co-operation agreement.
- Previously secured funds from other sources.

The Law states that the Government, by its regulation, determines areas of wider significance and interest, i.e., of interest to the RS. Based on feedback from the MALSG of the RS, **there were no decisions of the Government of the RS on the allocation of financial resources to support IMC** in the sense of Article 147 of the Law on Local Self-Government.

However, in the RS, there are financing mechanisms for underdeveloped municipalities (with no evidence that this mechanism has been used for IMC financing) and a special **Financial Mechanism for financing projects of integrated and sustainable local development**, in the area of improving the availability and quality of public services and stimulating the rural development of local communities<sup>110</sup>. The selection of projects for financing is made through a public call on a competitive basis, while the decision on financing is made by the Project Committee, which consists of representatives of partner institutions, and is confirmed by the Government of the RS. The funds are intended to support the enactment of priorities set by the development strategies of LSGUs and according to the latest adopted decision, projects must be in one of the following two areas: improving the quality and availability of public services in LSGUs and increasing the scope, productivity and competitiveness in the agro-food sector<sup>111</sup>. Project beneficiaries can be LSGUs, or public companies and public institutions whose founders are LSGUs. Through the previous cycles of the support provided within the Financial Mechanism, there was an intention to encourage the implementation of projects that have the character of IMC. This was achieved by **assigning additional points for the evaluation of project proposals with elements of IMC** and that contribute to the development of LSGU co-operation and mutual connection in the field of service provision, employment and improvement of life conditions in rural areas.<sup>112</sup>

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<sup>109</sup> Article 146. of the Law of LSG RS.

<sup>110</sup> The Financial Mechanism was established in 2014, by signing a Memorandum of Understanding between the RS Ministry of Finance of the RS, the Ministry of Administration and Local Self-Government of the RS, the Swiss Agency for Development and Cooperation (SDC), the United Nations Development Programme (UNDP) and the Investment and Development Bank of the RS (IRB RS).

<sup>111</sup> Decision on the method and procedure of financing of integrated and sustainable local development projects in RS in 2021 and 2022. "Official Gazette of RS", No: 84/22.

<sup>112</sup> Since 2015, through seven annual funding cycles, 64 projects have been implemented in LSGUs throughout the RS. Their total value is BAM 8 million of which BAM 5.1 million was provided through the Financial Mechanism, and the remaining amount was provided by users through co-financing of project activities. Analysing the projects from the list, it can be concluded that the amount and number of IMC projects that are financed through this mechanism is insufficient (four IMC projects that included one of the forms of direct co-operation of several LSGUs and two projects in which, in addition to the holder, indirectly one additional municipality participated). Source: Database of projects of Local Development Initiatives of the RS, available at [Преглед реализованих пројеката - База пројеката ИРБРС \(irbrs.net\)](http://irbrs.net).

The new Strategy for the Development of Local Self-Government of the RS for 2023-2029 has planned funds for measures related to the improvement of IMC. For the preparation of analysis related to the assessment of the state of IMC in the RS, inter-entity and cross-border co-operation and the piloting and development of support instruments, the Strategy estimates that it will be necessary to provide the amount of BAM 100 000 from donor funds, while the funds for the establishment and design of the IMC register for monitoring of various forms of co-operation estimated at the amount of BAM 5 000, which would be financed by budget funds.

Based on the available information, it is evident that **financing of IMC agreements in the RS is mainly done through projects financed by donors** and that the funds from the domestic budgets allocated for this purpose are quite modest and insufficient to stimulate LSGUs to participate in different forms of IMC more actively.

In the FBiH, there is no data on the incentives from the budget with the purpose of financing IMC arrangements.

### **Kosovo\***

The MLGA, in partnership with the Ministry of Finance, oversees the progress of IMC and ensures that the financial resources allocated for IMC implementation are used appropriately and in accordance with the Law. In Kosovo\*, there is a **separate budget allocated for IMC**.

For 2023, the MLGA opened a call for applications for municipalities regarding the financing of capital projects from the Programme for Socio-Economic Infrastructure Development and Inter-Municipal Co-operation to the amount of EUR 9 million, as part of the overall annual budget under the specific Budget Programme of the MLGA for IMC. These funds are budgeted under the category of capital expenditures.<sup>113</sup> Concerning financing under the IMC component, six municipalities have applied with three projects. However, because the specified conditions for financing have not been met, these projects have not been funded for the year 2023.

In 2019, the MLGA established a specific fund to stimulate joint inter-municipal projects, the allocation of the fund for IMC was EUR 1 million. However, this fund has not been continued due to the COVID-19 pandemic. Also in 2022, the MLGA and the United Nations Programme for Human Settlements (UN-Habitat) in Kosovo\* as well as the Ministry of Environment, Spatial Planning and Infrastructure organised regional workshops for the Capital Investment Instrument 2022 (IIC-CIF) for sustainable urban development in 2022. Within this call, four municipalities have benefited for IMC.

Furthermore, the MLGA, the Ministry of Finance, and other government agencies provide **grants to local governments** to support inter-municipal projects in areas such as infrastructure, public services, and environmental protection.<sup>114</sup> These funding programmes aim to encourage local governments to work together on projects that benefit their communities. However, according to both the central and local administration, these funds are **insufficient to finance IMC initiatives**. The strongest support comes from donors regarding the training organisation of the municipal staff, workshops and joint meetings between the central and local level.

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<sup>113</sup> <https://gzk.rks-gov.net/ActDocumentDetail.aspx?ActID=68589>.

<sup>114</sup> Within the framework of the programme - Instrument for Capital Investments (CIF), Memorandums of Understanding were signed with four (4) municipalities: an IMC agreement for the financing of the project "Development of road and agricultural infrastructure" for the municipalities of Istog and Peja as well as an IMC agreement for the financing of the sports project entitled "Yellow Valley" for the municipalities of Kamenica and Novoberde.

In addition to legal and regulatory frameworks, the central administration provides technical assistance and capacity-building support to local governments. The MLGA and other government agencies **offer training programmes, workshops, and other capacity-building initiatives** to strengthen the capacity of local governments to engage in IMC.

The central administration also plays a role in promoting and facilitating dialogue between local governments. The MLGA, in co-operation with the Association of Kosovo\* Municipalities and international organisations, organises **regular meetings and conferences where local government officials can exchange ideas, share experiences, and discuss common challenges**.<sup>115</sup>

The MLGA has a database with all initiatives and inter-municipal agreements reached between the municipalities. This includes all initiatives and agreements reached between the municipalities from 2010 onwards. The database is for internal purposes as it is not available online.<sup>116</sup> The MLGA has drafted a concept document for IMC, which has been put forward to the Government for approval.

### **North Macedonia**

The Government, in accordance with the provisions of the Law on IMC, can financially encourage and support IMC of two or more municipalities in the areas that are of wider importance and are of special interest for the work of the activities in those areas. To prioritise the areas that can be financially supported, the Government adopts a Decision on determining the activities of wider importance and interest for which financial resources can be allocated to encourage IMC.<sup>117</sup> The Government also adopted other by-laws: a Decision to establish more detailed criteria for financial incentives and support of IMC<sup>118</sup>. On two occasions, in 2010<sup>119</sup> and 2014<sup>120</sup>, the Government adopted a Decision for establishing a Commission for encouraging and monitoring IMC, but due to the absence of dedicated budget programmes, the **Commission remained non-operational**.

Currently there **is no special budget programme** at the MLSG or in other ministries to encourage IMC. The existing budget programmes of the Ministries, which are also open to the municipalities, do not distinguish whether the project is submitted by one or several municipalities together, which means that there may be examples of financing practices of IMC, but there is no separate record of that. The MLSG finances annual projects for development of the planning regions that are implemented in two or more municipalities or have an impact on development in two or more municipalities. In response to the

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<sup>115</sup> In 2022, the MLGA with the support of OSCE, organised five workshops in the region of Peja, Prizren, Pristina, Mitrovica and Gjilan regarding the procedures of IMC and international municipal co-operation. During this period, 10 initiatives for IMC and 7 initiatives for international municipal co-operation were realised, whereas 2 agreements for IMC and 2 agreements for international municipal co-operation were signed. Source: <https://komunat-ks.net/wp-content/uploads/2023/01/Raporti-Narrativ-2021-ALB.pdf>; Ministry of Local Government Administration, 2023, "Work Report on the Ministry of Local Government Administration", link: [https://mapl.rks-gov.net/wp-content/uploads/2023/03/Raporti-i-punes-se-MAPL-2022\\_ENG.pdf](https://mapl.rks-gov.net/wp-content/uploads/2023/03/Raporti-i-punes-se-MAPL-2022_ENG.pdf).

<sup>116</sup> Some of the training that was organised, as reported during 2021, expanded on the topics of: Leadership Development; Inclusive Municipalities; Smart Municipalities; Legal Dictionary on Local Governance; Budgeting at the local level; Public Ethics, Integrity and Local Open Governance; General Administrative Procedures; Information Systems for Human Resources Management; Training on Trainers, and others. Source: Association of Kosovo\* Municipalities, 2022, "Project Narrative Report 2021", link: <https://komunat-ks.net/wp-content/uploads/2023/01/Raporti-Narrativ-2021-ALB.pdf>.

<sup>117</sup> Official Gazette of the Republic of Macedonia, No. 71 from 25.05.2010.

<sup>118</sup> Official Gazette of the Republic of Macedonia, No. 122 from 17.09.2010.

<sup>119</sup> Official Gazette of the Republic of Macedonia, No. 17/2010.

<sup>120</sup> Official Gazette of the Republic of Macedonia, No. 177/2014.



questionnaire they received for the purpose of this report, municipalities stated that they **are using their own budget for funding IMC** – in other words, none of the IMC activities that were implemented in the last three years (2020, 2021, 2022) received a form of budget support from the central government.

**Financing of IMC** is regulated by only one article which sets out the sources of financing: municipal budgets, donations and sponsorships from individuals and legal entities and other sources of income established by law. IMC until now has mainly been financed via special programmes of the donor community, via the programme for balanced regional development of the Bureau for Regional Development and by the municipalities.

### **Serbia**

Financial incentives to promote IMC and to support local governments have been introduced. The MPALSG established the **Budget fund for the local self-government programme in 2018**.<sup>121</sup> The Minister of Public Administration and Local Self-Government adopted the **Rulebook on the method and criteria of allocation of funds from the Budget Fund for the local self-government programme in 2018**, which was aligned with the Law on Games of Chance and the Budget Law. This Rulebook regulates the manner and criteria for the distribution of funds from the Budget Fund for the Local Self-Government Programme, which are provided within the budget for the current budget year and distributed within the MPALSG and are used to finance local self-government. According to the Rulebook, funds can be distributed to LSGUs to achieve different objectives such as implementation of the projects that are of particular importance for local economic development, investments and employment, improvement, and modernisation of the work of LSGUs including eGovernment and IT, etc. Amendments to the Rulebook from 2019 envisage that projects that are of importance to several LSGUS, in terms of establishing IMC, will be particularly considered. **In all public calls published by the MPALSG for the allocation of funds from this Fund, IMC is stated as an additional criterion.** Thus, in case of equal evaluations of project proposals of LSGUs, those whose projects are of importance to several LSGUs, i.e., which are the result of established IMC, will be selected.

In addition to the budget fund, IMC has been financed through **donor funds**, particularly within the project Support for the implementation of the Action Plan of the Public Administration Reform Strategy - Local Self-Government Reform 2016-2019, and its continuation. These projects are financed by the Government of the Swiss Confederation through the Swiss Agency for Development and Co-operation (SDC). The beneficiary of those projects is the MPALSG, while the partners are the SCTM and the Republic Secretariat for Public Policy. One of the main objectives of these projects is to provide **support to the development of IMC through the establishment of the IMC Fund**.

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<sup>121</sup> This fund as a tool is established based on the Law on Budget System and the Law on Games of Chance, but the amount is set annually by the Law on Budget.

Table 8. Financing inter-municipal co-operation

	ALB	BiH	XKV*	MNE	MKD	SRB
Central fund for IMC			✓ EUR 900 000 annually			
Ad hoc financial incentives from the central administration <sup>122</sup>		✓	✓	✓		✓
Local government budget	✓	✓	✓	✓	✓	✓
Other resources		✓				
International donors	✓	✓	✓	✓	✓	✓

Source: SIGMA

## Main conclusions on financial incentives for IMC

- Most IMCs are mainly financed through own budgets of LSGUs and/or external donors.
- In rare cases, there is a central budget for IMC (Kosovo\*) or some funds are allocated while considering IMC (Serbia).
- In general, in case of central funding, the resources allocated are modest and insufficient to encourage LSGUs to establish IMC agreements.

### 3.5. Inter-municipal co-operation practices in the Western Balkans

To gain a detailed overview of currently functioning IMC agreements in the Western Balkan administrations, first the national administrations were contacted to provide information (Kosovo\*, BiH, North Macedonia, Serbia). Where information was lacking, SIGMA and its local experts prepared questionnaires for local governments (Albania). In one case, the MPA was conducting a thorough analysis of local governments, including IMC, and data from their assessment was used in the study (Montenegro). In addition, interviews were conducted with representatives and associations of local governments as well as state administration bodies. Overall, there are **no central registers at the level of ministries, which would contain comprehensive information on IMC.**

There are limitations to the data collection carried out for this study, as not all municipalities responded or have publicly available information, or there is no aggregated information at the national level. Based on

<sup>122</sup> Due to the lack of reliable information, numbers of these *ad hoc* governmental financial incentives are not provided.

this, as well as desk research, the following information on current IMC agreements in the Western Balkan administrations has been collected.

In all Western Balkan administrations IMC among local governments exists both on a national and international basis: among municipalities in the country and between bordering municipalities or transnational.

An unaccounted number of IMC agreements is established on a very informal basis – “gentlemen agreements”, others are based on contracts and other formal mechanisms. The main reasons behind co-operation include the **lack of capacity to perform certain competences, lack of human resources, insufficient funds, as well as the implementation of joint projects.**

**Annex 1** provides an overview of the various IMC practices in selected Western Balkan administrations (where data was available), which were collected based on desk research, surveys and interviews.

### **Albania**

In order to assess the current level of implementation of the IMC, a survey was conducted by SIGMA in September – October 2023 in 61 municipalities under the co-ordination of the Agency for the Support of Local Self Government and in co-operation with the EU Technical Assistance Project “Municipalities for Europe” operating in Albania. The scope of the survey was to identify the degree of IMC practices among the municipalities during 2021-2023. A seminar took place on 29 September 2023 to explain to the representatives of EU integration units/departments of municipal administrations the questions and the process.

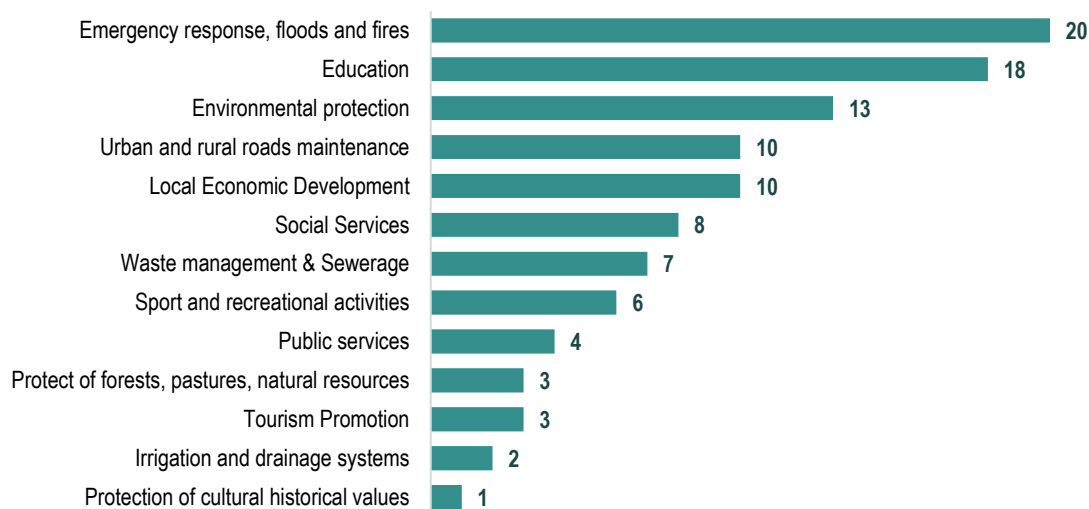
50 out of 61 municipalities (**82%**) participated in the survey, while 11 of them (18 %) did not answer the survey. **Out of 50 municipalities, 37 (61%) of municipalities in total confirmed participation in an IMC agreement.** The most used form of IMC agreements is agreement between municipalities, with 21 municipalities reporting the use of this form. These are contractual agreements between two or more municipalities that outline the terms and conditions of co-operation. As reported by the municipalities, the IMC agreements are used mostly for provision of services on waste management and water management, and in a few cases for sharing the services related to fire protection and provision of transport services for pupils and teachers<sup>123</sup>.

**IMC agreements based on specific projects** are reported by 20 municipalities. The IMC agreements in these cases are mostly donor driven and signed for implementation of specific projects. They are funded by the EU or other donors. For a grant awarded by the EU or other donors with more than one municipality involved in implementation of the project, the contract with the donor is signed by the lead partner, while the implementation arrangement among partners is stipulated in the partnership agreement. Municipalities have engaged in such IMC agreements for implementation of projects covering the majority of their field of competences, but with more cases reported for tourism promotion, local economic development, protection of forests and natural resources, environmental protection, protection of cultural /historical assets, small business development and promotion and waste management.

A major part of the IMC agreements, as reported, are used for sharing services among municipalities (38%), followed by execution of competences related to efforts to ensure environmental protection and conservation of natural resources. There is only one case reported the revenue sharing competence of an IMC.

<sup>123</sup> Those agreements are based on the Law Nr. 8308, dated 18.03.1998 "For Road Transport".

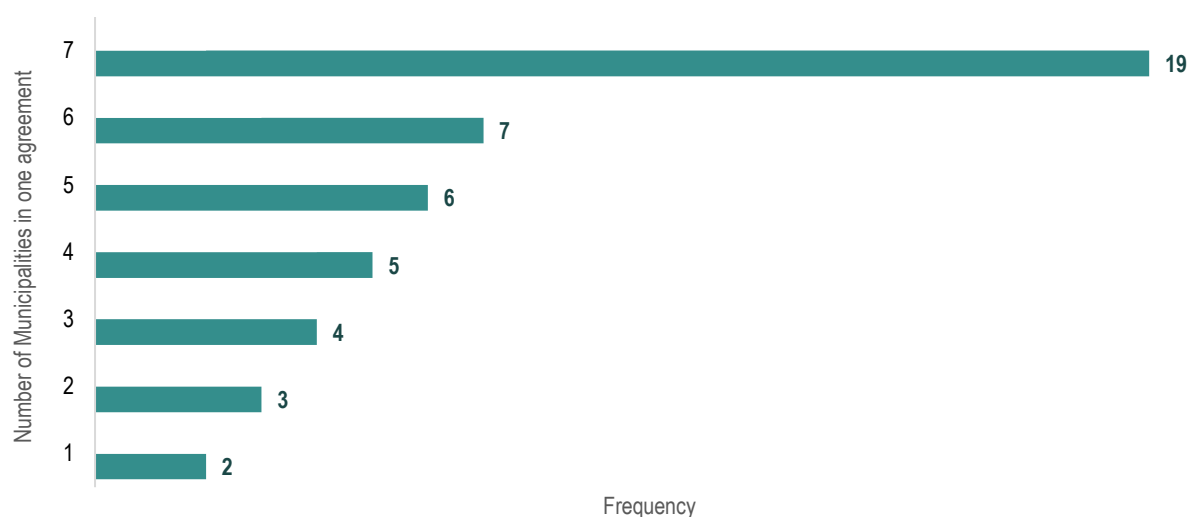
**Figure 5. Purpose of inter-municipal co-operation between municipalities in Albania**



Source: SIGMA survey of IMC, 2023

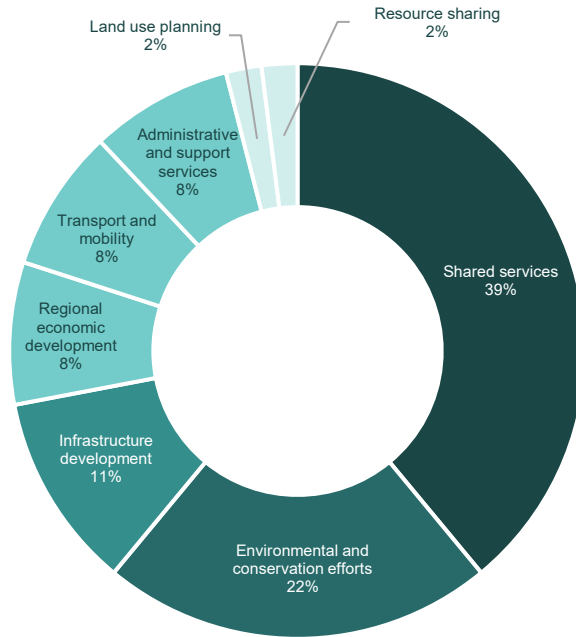
The number of municipalities in an IMC agreement varies from 2 municipalities up to 10 municipalities. The feedback from the survey is that IMC agreements with about 10 municipalities/parties are mostly for transnational projects where the number of partners must be more than 6 or 8, depending on the number of countries participating in an EU funded transnational programme. In these cases, there are one or two participating Albanian municipalities, and the other municipalities/partners are from other EU countries or the Western Balkans.

**Figure 6. Number of municipalities participating in an IMC initiative**



Source: SIGMA survey of IMC, 2023

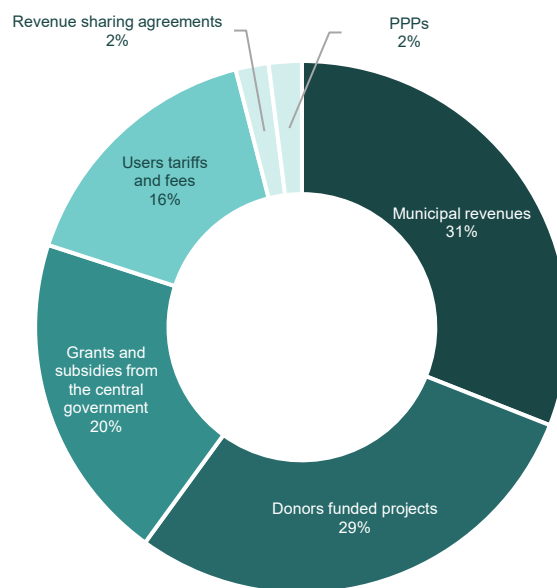
Figure 7. Competences of the IMC agreement for participating municipalities.



Source: SIGMA survey of IMC, 2023

The survey reports a variety of financing schemes supporting IMC in Albania, with the most common sources being municipal resources (31%) and funding through EU and other donor funded projects (29%), followed by grants and subsidies from the central government (20%). User tariffs and fees are also frequently deployed, while revenue sharing agreements and public-private partnerships are clearly less used financing forms (with only one case reported for each).

Figure 8. Source of IMC financing



Source: IMC survey carried out by SIGMA (October 2023)

The Agency for the Support of Local Self-Government in Albania manages a **data portal on the municipal performance system**, which includes some basic information on IMC agreements (two questions). If this data portal was extended, it could serve as a register of IMC agreements in Albania.

### ***Bosnia and Herzegovina***

In BiH, at the level of LSGUs, heads of municipalities or mayors have the general responsibility for the municipality's co-operation with other LSGUs, international and other organisations in accordance with the decision of the local assembly and its working bodies.<sup>124</sup> They co-ordinate the tasks related to the conclusion of the agreement, obtain opinions from the ministry, and finally conclude or sign the final co-operation agreements. Local assemblies consider proposals for establishing co-operation, make decisions on establishing co-operation and give approval to the mayor to conclude certain types of agreements.

The research done within this study has shown that IMC in BiH is **mostly based on informal protocol types of agreements or donor driven project agreements** and that the **stronger forms of co-operation in legally binding format** (with formal decision-making mechanisms) such as the establishment of public law enterprises and public institutions **represent a less common form of IMC**.<sup>125</sup> An example of these stronger types of agreements can be found in the creation of public utility companies for the management of regional landfills, cantonal utility public companies in the city of Sarajevo and utility companies in the area of the City of East Sarajevo, and in the example of the creation of regional associations of LSGUs (for example, the Association of Cities and Municipalities in Eastern Herzegovina).

The findings suggest that IMC arrangements can exist in different forms (occasional co-ordination and exchange of information, regular consultations, joint projects and the joint provision of service/s). However, these cases cannot be found in one place, such as a database or a registry, despite the existence of the legal obligation to keep these records (in the case of the RS). Based on the feedback received from the MALSG of the RS, the legal obligation to keep records of concluded agreements has not been implemented because the rulebook on keeping a register on IMC has not been adopted yet.

The MALSG of the RS keeps an internal record of some IMC agreements, which is quite limited in terms of content and contains only basic information about concluded agreements. According to data obtained from the department for local self-government, most of the agreements concluded by LSGUs are related to cross-border and international co-operation (see below).

An example of a sector in which IMC has been put into practice to a significant extent in local communities in BiH is **environmental protection and solid waste management**. The reasons for the success of this sector are seen in the accepted mechanism of financing, where the **World Bank's funds** were available only when the joint company was formed by participating municipalities, with additional proof related to the fulfilment of the regionalism and sustainability principle.

In the past, the concept of waste disposal in BiH included landfilling, where each municipality had its own unsanitary landfill. The implementation of the concept of regional sanitary waste disposal is incorporated into the Waste Management Strategy of the FBiH 2008 – 2018, with the aim of ensuring the closure of illegal landfills and the rehabilitation and closure of existing unsanitary municipal landfills. Currently, **four**

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<sup>124</sup> Article 59 the Law on Local Self-Governance of the RS.

<sup>125</sup> Desk research was based on the overview of the legal framework and available reports and studies relating to the local government systems in BiH at the level of entities (the FBiH and the RS) and available data on the IMC arrangements, IMC projects and existing practices in the country. The desk research was complemented by interviews carried out with relevant representatives from entity ministries /institutions, entity local self-governance associations and representatives of the city administrations of the City of Sarajevo (FBiH) and City of Istocno Sarajevo (RS).

**regional landfills have been built in the FBiH** and are operating in Sarajevo, Livno, Mostar and Zenica LSGUs. In addition, there are 9 other municipalities that currently transport their waste to regional landfills in the RS (Zivinice in Dobož and Zvornik; Sapna and Kalesija in Zvornik; Srebrenik, Lukavac, Dobož South, Dobož East, Usora in Dobož; Teocak in Bijeljina). Thus, **more than one-third of the municipalities from the FBiH** (which produce over 50% of the total municipal solid waste) **currently dispose of it at regional landfills** in the FBiH and/or the RS.<sup>126</sup> Regional landfills are owned by the municipality on whose territory they were built and are managed by the municipal, or in the case of Sarajevo, the cantonal company. Users pay a disposal fee determined by the municipality that owns the landfill.

In the **RS**, out of the eight regional landfills planned by the Waste Management Strategy for the period 2017-2026, there are currently **five regional landfills in operation**: Banja Luka, Bijeljina, Zvornik, Prijedor and Dobož, which cover the total of 36 municipalities. Sanitary landfills are in Banja Luka, Zvornik and Bijeljina.

In addition to creating legal assumptions for sustainable management of communal waste at the level of local communities, it is necessary to significantly improve the existing system by strengthening municipal companies for utility services. Studies in this area indicate that consolidation of companies for the collection and transport of waste on a regional basis could ensure the financial sustainability of services.

An example of a **specific form of IMC** in the case of a city consisting of several municipalities is present in the **City of East Sarajevo**. The Law on the City of East Sarajevo and the Statute<sup>127</sup> establish the basic and transferred competences of the City in relation to its constituent municipalities and the entity level of government. Thus, among other things, the City can establish companies, institutions and other organisations to perform tasks of interest to the City, manage them in accordance with the Law and establish appropriate co-ordination mechanisms to ensure that the municipalities within the City perform their functions in a coherent and efficient manner. Tourism is one of the sectors where the city identified a common aim of improving tourist resources and tourist offers in the area of the city municipalities and formed the **Public Institution Tourist Organisation of the City of East Sarajevo**. This institution performs tasks of development, preservation and protection of tourist values in the territory of the City of East Sarajevo as a whole, which implies joint service and demonstrates IMC in the field of tourism for all city municipalities. Another example of a joint agency is the establishment of the **Development Agency of the City of East Sarajevo**. The agency was established as a non-profit organisation with the aim of promoting, presenting, co-ordinating, planning and implementing development activities in the area of the City of East Sarajevo. The third example of an organisational form of IMC refers to responsibilities in the field of protection and rescue of citizens and material goods from natural disasters. To carry out fire protection tasks, the city formed the **Territorial Fire Department of the City of East Sarajevo** as a special internal organisational unit of the city administration, which performs tasks in the field of fire protection and fire service, in the entire area of the City.

### **Kosovo\***

Kosovo\* is one of the two Western Balkan administrations that has a special law on IMC as well as a separate fund to promote it. There are also two regulations: a regulation on the procedure of international municipal co-operation and the regulation on the stimulation of IMC. Procedures are lengthy and it is recommended to simplify them. A request to this end was made directly at the municipal level. Concrete steps have been taken to complete the amendment of the IMC Law and in 2023, the MLGA prepared a concept document to complete the amendment. However, it has not been approved yet.

<sup>126</sup> Source: Analysis of the municipal solid waste management sector - Strategic directions and investment planning until 2025, available at [\\*Izvjestaj Analiza sektora upravljanja cvrstim komunalnim otpadom FBiH.pdf \(upkp.com.ba\)](#).

<sup>127</sup> Statute of the City of East Sarajevo available at [STATUT -novi.doc \(dropbox.com\)](#).

Based on Kosovo's\* experience, IMC has five key motives:

- Mutual local interest.
- Municipalities exercising one or more of their competencies through IMC or by establishing a joint institution that can address service provision.
- Co-operation to share roles, responsibilities and combine resources.
- Overcoming challenges for the benefit of citizens by improving the economy, efficiency and effectiveness of municipal services.<sup>128</sup>

The areas of co-operation for IMC agreements depend primarily on the **geographical location and the suitability of municipal services**. The existing areas of co-operation are in public services such as **waste and water management, emergency management, urban planning, education, health, culture and sports**. During 2019, 27 IMC initiatives were undertaken by 29 municipalities with the purpose of co-operation in the area of prevention, response and recovery from natural and/or other disasters.<sup>129</sup>

To gain more insight into practices of IMC in Kosovo\*<sup>130</sup>, three municipality representatives were interviewed, specifically the municipalities of Mitrovica, Vushtrri and Suhareka. The interview process revealed that there is no specific record of the number of IMC agreements and that most co-operation is focused on public services - waste and water management. More specifically, the following were the key findings on current practices:

- The municipality of **Mitrovica** co-operates with the municipalities of **Skënderaj** and **Vushtrri** in the area of public services - waste and water management.
- As well as the above, **Vushtrri** co-operates with the municipalities of **Obiliq** and **Podujevë** on urban planning – road infrastructure.
- The municipality of **Suhareka** co-operates with the municipalities of **Prizren**, **Malisheva** and **Mamusha** in the area of public services - waste and water management.

The interviewed municipalities co-operate in the areas of public services and urban planning; however, they are **not satisfied with the waste management** (public services) co-operation, and they plan to terminate the agreements. The municipal representatives highlighted that municipalities have **informal co-operation daily** in regard to the exchange of information.

The existing IMC agreements are legally bonded and **financed by grants/funds from international organisations** such as GIZ and USAID. Although the **central administration** opens calls for applications, the **budget for these projects is symbolic** and it does not attract applications from the municipalities. As such, there is low motivation for municipalities to apply for these calls. The agreement on waste management is financed by the waste municipal taxes (**local government financing**), which are allotted to the collection companies.

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<sup>128</sup> Ministry of Local Government Administration, n.d., "Handbook on inter-municipal cooperation and international municipal cooperation", link: <http://helvetas-ks.org/demos/wp-content/uploads/2019/09/en-01-handbook-on-inter-municipal-cooperation-and-international-municipal-cooperation.pdf>

<sup>129</sup> OECD (2022), *2022 Country Profiles - World Observatory on Subnational Government Finance and Investment*, OECD Publishing, Paris, <https://doi.org/10.1787/b80a8cdb-en>.

<sup>130</sup> Representatives from three municipalities were interviewed, including a representative from the Association of Municipalities in Kosovo\* and a representative from the Ministry of Local Administration, with a total of five interviews. The interviews were conducted based on the questionnaire prepared SIGMA.



The main reasons for lack of IMC and the limited use of this mechanism for solving common inter-municipal problems are<sup>131</sup>:

- Extension of legal procedures for creating IMC agreements.
- Lack of external funds dedicated to IMC projects.
- Lack of political will for IMC projects.
- Lack of planning and budget allocations of the municipality for concrete projects of IMC.
- Lack of municipalities' capacities in the field of IMC.
- Instability of informal joint projects of IMC.
- Lack of co-operation and official communication of municipalities for common problems.

The IMC agreements are organised based on the Law on IMC, and based on the interview findings, **the staff** for IMC agreements across municipalities is small but sufficient. Based on the type of agreement the staff includes members of the IMC body, e.g., the mayors of the municipalities, civil servants assigned to tasks such as decision-making officials, financial officials, other officials, companies (in joint PPPs). Primarily, the type of department involved depends on the area of co-operation.

### **Montenegro**

The MPA carried out an **analysis of local governments in 2023** focusing on several areas, including IMC. Part of the analysis was a thorough questionnaire to local governments concerning their experience with IMC as well as cross-border co-operation. The questionnaire to LSGUs included a set of questions related to the legal framework, co-operation and incentive measures in this area, but also assessed the satisfaction of municipalities themselves in relation to the relevant public policies.

The response rate to the questionnaire was 72%, including the **responses of 19 municipalities** out of 25 to specific questions including IMC.

Based on the analysis, which asked for information from the last three years (2020-2023) **fifteen (15) municipalities participated in IMC projects**, while four municipalities did not participate in any IMC.

When it comes to **incentives from the central authorities** to promote horizontal co-operation of local governments, thirteen municipalities answered that **such measures do not exist**, two municipalities were not familiar with such measures, two municipalities stated that such measures<sup>132</sup> are implemented through the support of the Union of Municipalities of Montenegro, while two municipalities did not answer the question. This fact is supported by information from the MPA. The central government does not provide methodological guidance or financial incentives for supporting IMC.

Specific data on IMC projects submitted by several municipalities shows that the projects were mainly related to improving **co-operation with non-governmental organisations (NGOs)**, **increasing employment**, and **improving agriculture**. The average duration of IMC projects is around **eighteen months**, while funds for financing these projects are generally provided through the **pre-accession funds of the European Union**. Municipalities recognised the significant results of IMC projects through the number of trained unemployed persons, improved conditions for agricultural goods producers, as well as the provision of funds for NGO projects.

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<sup>131</sup> MLGA.

<sup>132</sup> Forming a body of project managers from all municipalities, occasional meetings to share and propose solutions to problems. Proposal of the municipalities include forming a special service for international co-operation concerning the Law on Local self-government, establishing a revolving fund at the Ministry of Finance.

In general, municipalities indicated the following **reasons for participating in IMC projects**:

- Implementation of strategic goals from the Strategic Development Plan of the municipality.
- Environmental Protection.
- Promotion of tourism.
- Economic development of the municipality.
- Exchange of information and application of good practice.
- Joint participation in cross-border co-operation projects.
- Certain services are cost-effective if several municipalities (coastal municipalities) are involved in their implementation.
- Developing a network of partners.
- Implementing common projects that are significant and useful for the citizens of the municipality.

Overall, IMC is **perceived by local governments very positively**. Ten municipalities assessed that IMC in Montenegro is very good, three municipalities assessed it as excellent, while according to five municipalities IMC is limited. Municipalities that assessed IMC as limited mostly pointed out their own experience, which was characterised by difficult and slow decision-making, difficult functioning of enterprises, or doubts about the regulation of mutual relations. No municipality from those which responded stated that IMC does not exist.

For future consideration, it is significant that all municipalities believe that more intensive IMC can contribute to the development of the municipality or region. This indicates that municipalities themselves recognise IMC as a purposeful and necessary mechanism that can contribute to the overall development of individual municipalities.

**Limitations** pointed out by municipalities include the number of meetings held and the search for solutions to common problems, especially in the areas of waste management, energy efficiency, and so on. Based on the analysis, IMC is more pronounced between municipalities of the northern region, therefore it remains a challenge to have stronger and more intensive co-operation among municipalities of the central and southern regions.

Of the 19 municipalities that responded partially to questions on IMC, seven municipalities provided more responses concerning the duration, financing, budget, number of employees and other areas. This number cannot be seen as indicative, however, and below are some details concerning the responses of these municipalities that touch on important aspects of IMC.

The duration of IMC agreements differs from municipality to municipality and depends on the type of co-operation. Those that are project-based last for a few months, however, the communication among local governments prevails longer. Others noted the duration from one year to three years, the most common being IMC agreements **lasting two years** (four municipalities).

As for **financing**, during the analysis of the MPA in 2023, only seven out of 19 local governments replied to this question.<sup>133</sup> All seven municipalities confirmed that the main source of financing is **external donor**

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<sup>133</sup> Municipalities that participate(d) in IMC had the following co-operation among themselves: 1. Berane and Andrijevica; 2. Bar, Kolašin, Petnjica, Tuzi, Cetinje, Zeta, Danilovgrad and others. 3. Podgorica, Cetinje, Andrijevica, Berane, Budva, Gusinje, Herceg Novi, Kotor, Kolašin, Nikšić, Mojkovac, Plav, Pljevlja, Rožaje. 4. Pljevlja, Kolašin, Tivat, Podgorica. 5. Pljevlja, Kolašin and Mojkovac. 6. Danilovgrad, Mojkovac, Kolašin and Žabljak. 7. Danilovgrad and Nikšić/ Nikšić and Plužine. 8. Kolašin and Mojkovac. 9. Kolašin, Mojkovac and Pljevlja. 10. Municipality of Tirana,

**funds**, while local governments co-financed the IMC agreements from their own budgets.<sup>134</sup> The number of employees involved in the IMC projects varies from one to four, however, it is not clear from the responses whether these are employees of the municipality regardless of IMC agreements or whether they were hired explicitly for supporting IMC.

It is interesting to compare the data available from the previous research in **2019**, a common initiative of the MPA and the UNDP.<sup>135</sup> Based on this data from 2019 in Montenegro, municipalities proactively signed **20 agreements on IMC in 2019**, most often in the area of communal and administrative affairs.<sup>136</sup> Other IMC has been established in the areas of: municipal waste management, municipal wastewater management; taking care of stray animals (street dogs) and breeding control; internal audit; chief city architect; communal policemen.

According to the analysis by the UNDP in co-operation with the MPA in September 2019, concrete examples of municipal co-operation by areas and agreements were<sup>137</sup>:

- Joint performance of **internal audit activities** under the agreement, based on the Law on Management and Internal Controls in the Public Sector (Municipality of Nikšić for the municipalities of Plužine and Šavnik; Municipality of Pljevlja, for the municipality of Žabljak; Municipality of Tivat for the municipalities of Kolašin and Mojkovac).
- Jobs of the main **city architect** (Municipality of Nikšić, i.e., its main city architect according to the agreement performs these tasks in the municipalities of Šavnik, Žabljak, Plužine, the capital Podgorica for the municipality of Kolašin, the municipality of Rožaje for the municipality of Gusinje and the municipality of Berane for the municipality of Mojkovac).
- Management of the **regional sanitary landfill** (Municipalities of Bar and Ulcinj have concluded an Agreement on the establishment of "Možura" for the management of the regional sanitary landfill, with a share of the municipality of Bar of 65% and the municipality of Ulcinj of 35%).
- Introduction of **composting and collection of selective waste** (Municipalities of Kotor, Budva, Tivat and Herceg Novi - Project leader of JKP Kotor. Partners in the project of JKP Budva, Tivat and Herceg Novi).
- Management of **wastewater treatment plant** (Municipalities of Tivat and Kotor).
- Establishment of the **Regional Park Sinjajevina** (Project leader is the Municipality of Mojkovac. Project partners: municipalities of Danilovgrad, Zabljak, Kolasin and Savnik).
- Establishment of the **Regional Business Center** for the North-East Region (Project leader is the Municipality of Berane. Project partners: municipalities of Andrijevica, Bijelo Polje, Plav, Rožaje, Regional Development Agency Bjelasica, Komovi and Prokletije).

Data from the analysis also shows that the former Ministry of Agriculture and Rural Development, now the Ministry of Agriculture, Forestry and Water Management, supported IMC projects and participated in their financing; however, **IMC was predominantly endorsed and financed by European Union funds and municipalities themselves**. Regarding cross-border co-operation, the Union of Municipalities of Montenegro (UMMo) has developed a network of municipal managers within which personnel are trained to write these types of projects to improve IMC.

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Albania Municipality of Mirabello, Italy Municipality of Pec, Kosovo\* Municipality of Malesia e Madhe, Albania, Community of Sardinia.

<sup>134</sup> ReLOAD, GIZ, UNDP, EU funds provided in case of municipal participation on the budget.

<sup>135</sup> EU/UNDP's Analysis of possible forms of inter-municipal cooperation in Montenegro, March 2019.

<sup>136</sup> Ibid.

<sup>137</sup> Ibid.

## North Macedonia

Like the rest of the Western Balkans, IMC is based on voluntary initiatives of local governments in various areas. IMC is present both at the national as well as international (cross-border) level.

To identify the number of IMC agreements concluded in North Macedonia in the last three years (2020, 2021 and 2022), as well as the method and procedure of implementation of IMC agreements, a **survey was conducted among 80 municipalities** at the beginning of 2023.<sup>138</sup> The questionnaire included a series of questions aimed at understanding the need for, the areas and the manner of implementation of IMC.

**46 municipalities (58%) of a total of 80 municipalities responded** to the questionnaire within the stipulated time<sup>139</sup>, while 34 municipalities (42%) did not respond to the questionnaire within the legally mandatory period of 20 days. Of those who responded to the questionnaire, **28 (61%) of them answered that they had established some form of inter-municipal and/or cross-border municipal co-operation** in the past three years (2020, 2021 and 2022). The remaining 18 municipalities (39%) stated that they had not implemented any type of IMC in the past three years.

**Most recent examples** of established IMC<sup>140</sup>:

- The first **examples of good practice** of IMC, established based on provisions of the Law on Local Self-Government, are between the municipalities of Bosilovo, Vasilevo and Novo Selo, with the establishment of joint administrative bodies for joint implementation of responsibilities **related to collection of tax and inspection supervision**.
- The municipalities of Kriva Palanka and Rankovce, Kavadarci and Negotino, Struga and Vevchani, Dojran and Valandovo and Prilep and Dolneni for the purpose of joint implementation of competence in **protection and rescue**.
- Radovish and Konche, which are municipalities from the Eastern planning region (11), and Veles with 4 other municipalities from the Vardar planning region, exercise **co-operation for digitisation of 20 municipal services**, for which a special platform was created.
- The municipalities of Strumica and Vasilevo are co-operating on preparation and implementation of a project for faster socio-economic development, with emphasis on **development of agriculture**.<sup>141</sup>

Good practices have encouraged other municipalities, and the interest in co-operation is starting to show among the municipalities. Since the Law on IMC was adopted, from a total of 80 municipalities in the country, 62 have established IMC agreements, of which 18 have established one IMC agreement, 22 have established two IMC agreements, 14 have established 3 IMC agreements, while 8 municipalities have

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<sup>138</sup> The Center for Change Management conducted a survey by sending a request for access to public information (BPIJK) in the form of a questionnaire to 80 municipalities (January 2023) about their IMC. Questions were asked regarding the type and specifications of the IMC that was implemented in the past three years (2020, 2021 and 2022), the reasons for the establishment of IMC, the time for which the specific IMC agreement was established and implemented, the budget structure and financial agreements of the IMC, including the possibility of involving the central government with financial support in the IMC. The total number of municipalities in North Macedonia is 80, and requests for IMC were sent to all of them. The population of North Macedonia is 1 863 713 as of the last census in September 2021.

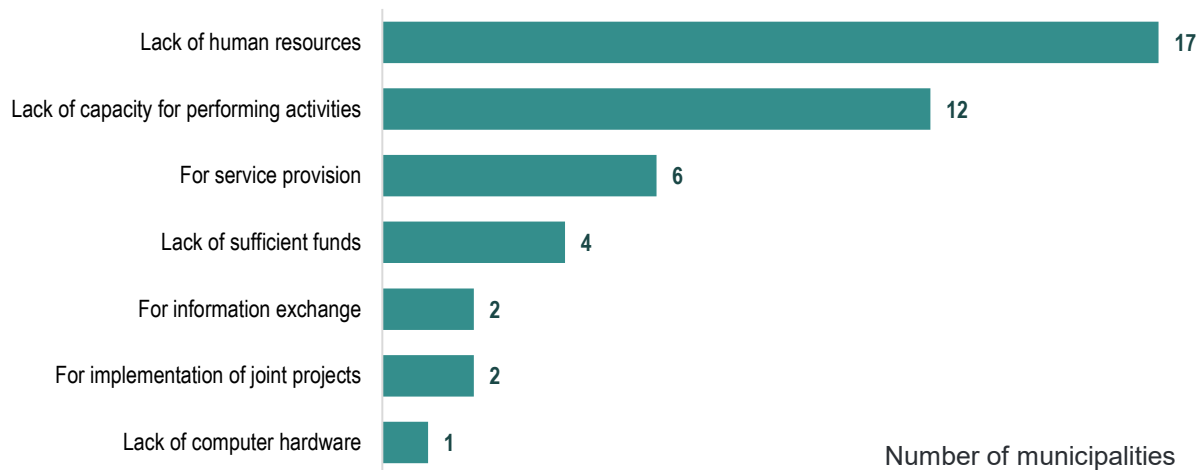
<sup>139</sup> Information was requested based on the Law on free access to public information (Official Gazette no.101/2019).

<sup>140</sup> Annex 2 includes all other IMC agreements in MKD.

<sup>141</sup> These forms of IMC are established as a project activity that is financially supported by the Bureau for Regional Development and UNDP.

established 4 or more IMC agreements.<sup>142</sup> Most often, IMC is established because of a lack of resources among smaller municipalities for independent collection of taxes, for performing inspection supervision, performing responsibilities in the field of social protection, fire protection, ensuring energy efficiency, etc. and is financially supported mainly by donor funds.

**Figure 9. The most common reasons for establishing IMC, as mentioned by the municipalities**



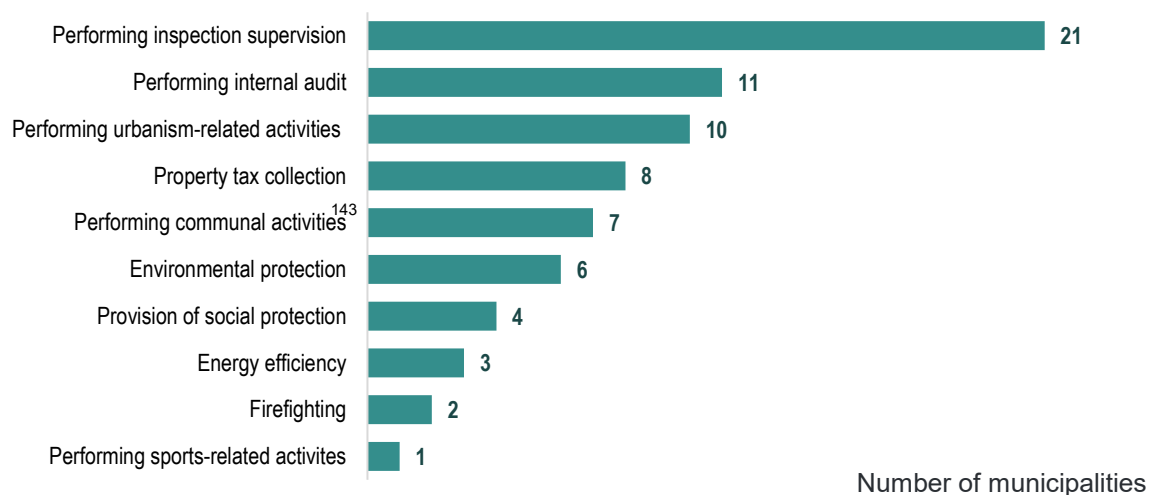
Source: SIGMA IMC survey, 2023

According to the findings of the research, most of the IMC agreements have been established in the areas of urban planning, internal financial control, environment, local economic development, communal activities, co-operation of fire-fighting services, use of building and supervisory inspections, dealing with stray animals, sports and recreational centres, new technologies and digital services, servicing of public roads, local taxes, etc. **Co-operation in multiple jurisdictions is more prevalent in small urban and rural municipalities**, while co-operation in one jurisdiction is mostly happening between large urban municipalities and small urban or rural municipalities.

<sup>142</sup> [https://mls.gov.mk/images/publications/MOS/MOS\\_MK.pdf](https://mls.gov.mk/images/publications/MOS/MOS_MK.pdf)

### Figure 10. Reasons for municipalities to enter into IMC agreements

In terms of areas, the municipalities said that they enter IMC agreements because of the following:



Source: SIGMA IMC survey 2023

When municipal administrations have problems of capacity, they decide to establish IMC via forms that, in their essence, **do not cause major changes to the organisational set-up and management**.

According to the analysis<sup>144</sup>, not all municipalities act in accordance with the Law and notify the MLSG about the established IMC agreement within 30 days. Of 28 municipalities that responded to the questionnaire, 15 municipalities stated that they regularly submit data to the MLSG, 8 municipalities do not submit/notify and 3 municipalities notify the Ministry of some of the co-operation. In terms of the publishing IMC agreements, 21 municipalities publish them in the Official Gazette, in addition to on websites, 9 municipalities publish on their websites and 3 municipalities announced that they also post on social media.

Municipalities **usually conclude contracts for implementation of works** by one municipality for the needs of one or several other municipalities or they **establish joint working bodies** or commissions. The establishment of joint administrative bodies, or the pooling of financial resources, is something that is less often used. Although there is an obvious need, the mayors and the municipal administration strive to

<sup>143</sup> The Law on Communal Activities regulates the areas of performance and financing of communal activities and construction and financing of communal infrastructure facilities such as a water supply system (construction, capture, processing and distribution); construction of a sewage system; public municipal transport; construction, maintenance, reconstruction and protection of local roads, streets and others infrastructure facilities; collection and transportation of municipal waste; maintenance of public cleanliness (parks, zoos, greenery, park forests; construction and maintenance of public lighting; maintenance of cemeteries, crematoriums and provision of funeral services; cleaning of chimneys; removal and storage of damaged vehicles; capturing stray animals; delivery of gas and delivery of thermal energy from the main pipeline to the user's measuring instrument; construction and use of the public parking space and the facilities located on that space; construction, maintenance and cleaning of riverbeds. The Law provides that two or more municipalities can jointly organise the performance of communal services activities based on an agreement between them, in accordance with the law. The most common area of IMCs for joint communal services are water supply, waste management, cemeteries, stations for stray dogs (the largest one for the Vardar planning region was built in Kavadarci) etc. Joint performance of waste management is mandatory, especially in relation to regional landfills.

<sup>144</sup> Annex 3.

optimise the implementation of the competences with their own funding and human resources. The establishment of joint administrative bodies requires harmonisation of the job classification acts and adaptation of the internal organisation, including investment in fixed assets and a stable model of financing for the salaries of the employees – this process requires a longer period.

There is no large interest among the municipalities for IMC for establishment of a **joint public enterprise or a joint public institution**. The reason is the **long and complicated procedure** that requires preparation of an economic study. The experience in establishing these more complex forms of co-operation indicates the need to provide prior direct professional, technical and financial support to the municipalities that have an interest in co-operation, in order to increase the quality and scope of users of local services, which is the main objective. The City of Skopje, as a separate unit of the local self-government, which includes ten municipalities, ensures its functionality by pooling financial resources together with the municipalities in the City of Skopje, which is also a form of IMC, as well as for exercising specific competence.

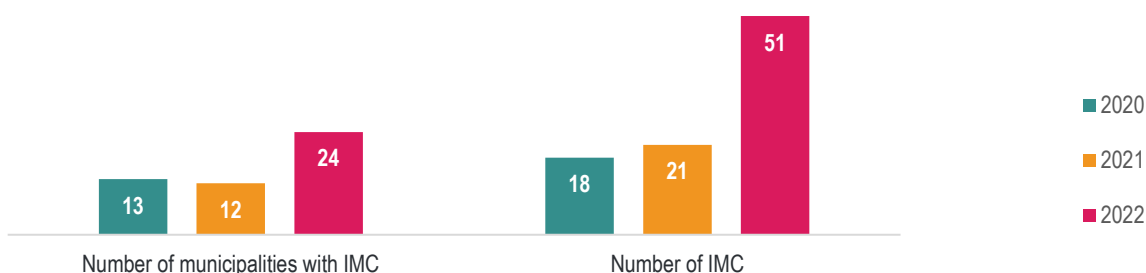
According to the results of assessment of the implementation of the Law on IMC carried out in May 2022<sup>145</sup>, 84% of the municipalities responded that they have experience in establishing IMC, and it is **primarily used by municipalities with 5 000 – 25 000 inhabitants**.

**Supervision over the established inter-municipal co-operation** is performed by the municipalities, without regulating in detail the way the municipalities shall perform such supervision. It is also said that the supervision over the implementation of the Law is carried out by the MLSG by submitting an Annual Report to the Government.

Detailed analysis of responses of local governments on inter-municipal co-operation in North Macedonia is included in Annex.1.

The table below shows by year (2020, 2021, 2022) how many municipalities had co-operation, but also how many inter-municipal co-operations were established by the municipalities, considering that some of them have also concluded several MoUs with different municipalities.

**Figure 11. Number of municipalities participating in IMC agreements in North Macedonia**



Source: SIGMA survey of IMC, 2023

<sup>145</sup> Ministry of Local Self-Government/Evaluation Report on the Implementation of the Law on Inter-Municipal Cooperation, May. [Мегуопштинската соработка во Република Македонија - Од норма до пракса \(mls.gov.mk\)](https://mls.gov.mk).

In terms of sources from which the municipalities secure funds for implementation of the IMC implemented in the past three years (2020, 2021 and 2022), the financing of each individual IMC agreement was analysed. Municipalities stated that they use their **own budget to finance IMC**, and this is supported by the results analysed previously, showing that none of the IMC agreements implemented in the last three years (2020, 2021, 2022) received any form of budget support from the central government.

Only **one municipality in 2021 stated that it received some kind of symbolic support from the central government** for co-operation between two small municipalities (Novaci and Makedonski Brod) to hire an auditor, while the other 27 municipalities stated that they did not have any support from the central government for implementation of their co-operation agreements. Furthermore, of the 28 municipalities, 20 or 71% stated that they had signed formal agreements to implement their IMC.

### **Serbia**

According to records kept by the MPALSG since 2018, the total number of IMC agreements in Serbia is **47**. There are **85 different LSGUs** that have been engaged in IMC between 2018-2023. The basis of IMC is always a contract between two or more local governments.

The **most common areas** for which the IMC agreement is established include communal activities (concession of the performance of communal activities, joint management of communal waste, concession of the performance of animal hygiene activities), reduction of the risk of disasters and floods, concession of the performance of part of the work of the attorney general.

Since 2019, **through the SDC Fund for IMC 16 projects and 53 IMC partnerships** have been supported. In 2019, 33 partnerships within 4 projects were supported. In 2021, several ongoing IMC projects were supported again (for example municipalities and cities in the Drina river basin).

Within the last public call from 2022, the MPALSG once again supported activities and co-operation in the Drina river basin (City of Loznica – leading partner) as well as the joint co-operation of the City of Belgrade and the City of Novi Sad, which are engaged in improving the availability of services for people with disabilities). Furthermore, four new projects covering 10 LSGUs were supported as well. Under the projects supported by the SDC, there were three public calls for tender with a total value of CHF 310 000, while the next one that will be worth CHF 70 000 is yet to be announced.<sup>146</sup> **This financing is donor-funded and from the state budget.**

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<sup>146</sup> The project 'Support for the Implementation of the Action Plan for the Public Administration Reform Strategy – Reform of Local Self-Government 2016-2019' is funded from the donation of the Swiss Confederation through the Swiss Agency for Development and Cooperation (SDC). The Ministry of Public Administration and Local Self-Government implements the project in partnership with the Public Policy Secretariat and the Standing Conference of Towns and Municipalities.



## Main conclusions on practical information on IMC

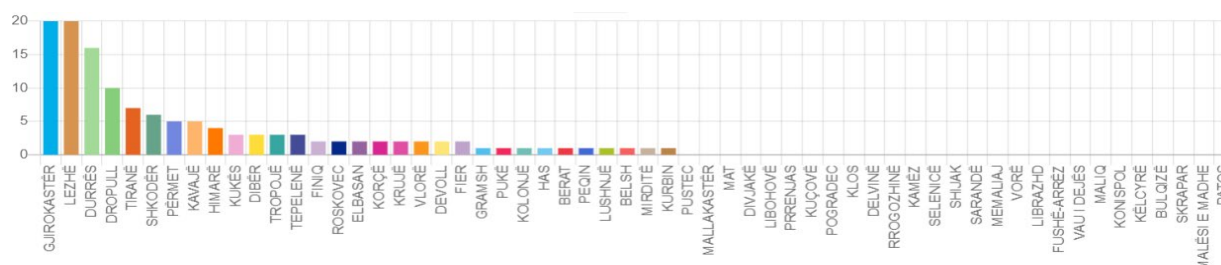
- IMC is present in each Western Balkan administration with varying intensity of local government involvement. While, in some cases, central administrations lack complex and up-to-date information on the number of IMC initiatives (except for Montenegro, North Macedonia, Serbia), information available is based on surveys directed at local governments. **Albania: 37 municipalities involved (out of 61); Montenegro: 15 municipalities involved (out of 25); Kosovo\*: 29 municipalities involved (out of 38); North Macedonia: 28 municipalities involved (out of 81); Serbia: 85 municipalities involved (out of 121).**<sup>147</sup>
- The **most common areas of IMC** focus on providing basic public services, such as water and waste management, solid waste management, emergency management, environmental protection, taking care of stray dogs, sports and recreation, culture.
- **Other areas** of co-operation include tourism, education, policy and firefighting units, health, social services, transportation, urban planning, financial control and audit, servicing public road.
- IMC agreements in the Western Balkans **financially rely mainly on donor funding** – financing by grants from EU and international organisations together with own revenues of the municipalities involved. In Serbia, the central government also provides funds for IMC.
- In some of the administrations, the central government opens call for grants, the **central budget for these projects is symbolic** and it does not attract the municipalities to apply.
- **Both formal and informal types of IMC agreements are present in the Western Balkan region**, in many cases with informal protocol type agreements are more prevalent. Nevertheless, there are several IMC agreements in each administration based on formal contracts.
- The key reasons behind co-operation are lack of capacity to perform certain competences, lack of human resources, insufficient funds, as well as the implementation of joint projects.
- The **main reasons for not entering IMC arrangements** include the **lack of funding, administrative bureaucracy to establish IMC agreements, lack of experience of how to initiate such co-operation** (lack of methodology).

### Cross border co-operation

#### Albania

In Albania, there is cross border co-operation between neighbouring municipalities, but also transnational co-operation, i.e., municipalities not situated in the bordering area.

Figure 12. IMC between municipalities of Albania and bordering municipalities



Source: <https://mapping-bpe.al/goDataAnalyze/online.aspx>

<sup>147</sup> No information available from BiH.

The budget for cross-border IMC initiatives is by contrast more sizeable. Table 9 lists the number of projects and the financial amount of projects financed through the EU funded cross border and transnational programmes, as well as several European Union Programmes: Horizon Europe and Europe for Citizens. As presented below, in 2021–2022, there were 79 projects implemented by the municipalities, financed through different EU funded programmes.

**Table 9. Number and volume of projects supporting cross border co-operation in Albania**

EU Programmes	No. Projects	Total Financing benefiting Albanian municipalities (in EUR)
HORIZON EUROPE	4	320 285
Europe for Citizens	11	474 562
EUSAIR	1	73 605
Interreg ADRION 2014-2020	6	718 953
Interreg MED 2014-2020	3	236 920
IPA CBC Albania Montenegro	2	666 249
IPA CBC Albania – Kosovo*	5	1 298 310
IPA CBC Albania - RNM	7	2 093 918
IPA CBC Italy-Albania - Montenegro	10	2 431 115
IPA CBC Albania - Greece	30	6 832 533
<b>Total</b>	<b>79</b>	<b>15 146 450</b>

Source: Municipal Donors Financed Projects Database

### *Bosnia and Herzegovina*

In the period 2014-2020, BiH participated in three transnational and three cross-border programmes of territorial co-operation. BiH concluded agreements on cross-border co-operation financed through the IPA mechanism with Croatia, Montenegro and Serbia. Cross border co-operation programmes (CBC programmes) function on the principle of public calls for submission of project proposals that can be submitted by state, regional and local government institutions, publicly owned bodies, non-profit organisations, educational and research institutions, development agencies, civil society organisations, professional associations, etc.

CBC programmes support the implementation of selected projects in various areas of co-operation, which in the case of bilateral programmes of cross-border co-operation between BiH and Serbia and Montenegro include the following priority areas:

- Promoting employment, labour mobility and social and cultural inclusion across the border.
- Protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management.
- Encouraging tourism and cultural and natural heritage promotion and preservation.

In the case of trilateral projects on cross-border co-operation between BiH and Croatia and Montenegro, four priority thematic areas were included:

- Improving the quality of the services in the public health and social care sector.
- Protecting the environment and biodiversity, improving risk prevention and promoting sustainable energy and energy efficiency.
- Contributing to the development of tourism and preserving cultural and natural heritage.
- Enhancing competitiveness and developing the business environment in the programme.

The overall amount of the EU co-financing of the Cross-border Programme BiH -Serbia for the period 2014-2020 was EUR 14 million while the total IPA funding for BiH – Montenegro Programme 2014-2020 amounted to EUR 8.4 million. The IPA II CBC Programme BiH – Montenegro 2014–2020 consisted of 56 municipalities in BiH and 14 municipalities in Montenegro.

Numerous projects implemented by the international community and donors in various sectors in BiH addressed the issue of IMC to a greater or lesser extent and had the intention to boost IMC by gathering municipalities and solving some jointly defined problems. However, in the absence of IMC databases that summarise all IMC arrangements, the collected data provides a sample that reflects examples of donor-stimulated practices for IMC in different sectors - tourism, energy efficiency, water supply, etc. There were no cases recorded showing the initiative of local neighbouring communities for the building of utility infrastructure, without some external financial support.

**Annex 1** provides an overview of some of the examples of IMC implemented by municipalities and cities from BiH with local communities in Serbia and Montenegro based on CBC project agreements in various thematic areas in the period 2014-2020.

Municipalities in **Kosovo\*** also have cross-border as well as international IMC in the sectors of tourism, cultural heritage, environment, employment, education, support of businesses and growth of commercial co-operation between municipalities.

Cross-border co-operation projects have been implemented in the past and new ones are planned. They are financed through the EU's IPA II and IPA III programmes. Currently, the municipalities of Peja (XKV) and Rozhajë (MNE) are concluding their IMC co-operation in the **tourism** sector, and the co-operation between the municipalities of Dragash (XKV) and Brojë (ALB) is in place.

Moreover, municipalities in Kosovo\* also have twinning municipal co-operation, where a municipality in Kosovo\* and a cross-border/international municipality sign an indefinite memorandum of understanding for specific sectors.

Most of the municipalities co-operate in the sector of **cultural heritage** with municipalities from Türkiye, and at the national level in the sector of education with the United States of America (Ohio, Georgia). The municipality of Suhareka promoted its success story with the ten-year twinning co-operation between Suhareka and the Liburn-Atlanta municipality (Georgia, US), which included exchange of best practices, educational, sports and medical exchanges, and co-financing of a youth training centre. Additionally, the municipality of Vushtrri co-operates with several municipalities in Sweden in three projects regarding digitisation of administration, recycling and urban planning.

### *Montenegro*

The analysis of local governments by the MPA in Montenegro also assessed cross-border co-operation in 2023.

12 municipalities have developed cross-border co-operation with other municipalities, while 4 municipalities have not established such co-operation.

The majority of LSGUs, i.e. eight municipalities, rated their international co-operation as satisfactory, 4 municipalities rated it as good, while 2 municipalities pointed out that their international co-operation is limited and unsatisfactory.

7 municipalities have an established service for international co-operation, while 9 municipalities do not have a separate organisational unit dealing with international co-operation. 14 municipalities have twinning agreements with municipalities of other states.

### *North Macedonia*

In North Macedonia, the legal possibility of co-operation with municipalities from other countries is usually carried out by the municipalities signing memoranda, treaties and protocols for co-operation, mainly in the areas of **culture and economy**. There is almost no municipality that has not concluded a memorandum of co-operation with at least one municipality, as a traditional form of co-operation. Furthermore, the Law on Local Self-Government provided for the MLSG to keep records of the international co-operation of the municipalities, in accordance with a law. For now, this matter is not elaborated in detail in the Law on IMC, nor in another law.

Municipalities also have co-operation via cross-border co-operation programmes with neighbouring countries (Albania, Bulgaria, Greece, Kosovo\* and Serbia) within the IPA instrument of the EU. In North Macedonia, all municipalities are involved in at least one programme for cross-border co-operation, and co-operation with municipalities from other countries is carried out by implementing joint projects which are financed by the EU in the areas of environmental protection, preservation of cultural heritage, encouragement of entrepreneurship, energy efficiency, protection and rescue, tourism development.

Within the survey, 6 municipalities stated that they have established cross-IMC resulting in a total of 11 cross-border IMC agreements in the last 3 years.

The reasons for entering such co-operation are mainly about the exchange of experiences in various areas and the promotion of local self-government, including economic development and environmental protection, building a culture of joint development of labour, green transport, twinning and closer co-operation with the aim of implementation of EU funds, improvement of the overall conditions for the citizens of the municipality, etc. From a total of 6 municipalities that had cross-border IMC, 4 said that they had specific budget or specific amount for implementation of the co-operation, while 2 did not have a shared budget for cross-border inter-municipal co-operation. The sources of funding, whether from the municipality or an external donor, were not specified.

### *Serbia*

In Serbia, cross-border co-operation is within the competence of the Ministry of European Integration. Nevertheless, under the competence of the MPALSG is "establishing co-operation between cities", also known as a "twin town" relationship. LSGUs in Serbia currently have 457 collaborations and 8 are planned. This number refers to the establishment of co-operation between Serbian towns and foreign towns and municipalities (a "twin town"). This number covers all agreements from 2007 to the present, and the MPALSG keeps records on this.

## **3.6. Recommendations for the Western Balkan administrations to improve inter-municipal co-operation**

Though with different approaches, each Western Balkan administration has developed a solid general basis for the establishment of various forms of horizontal co-operation at the local level. However, despite the existence of a legal framework for co-operation between municipalities, the central governments do not provide sufficient technical support and economic incentives for stimulating the joint provision of services or local economic development.<sup>148</sup>

It is important to emphasise that all stakeholders have their role in improving IMC – municipalities, representatives of municipalities as well as the central administration. The role of the central administrations is essential for further advancement of IMC. Responsible ministries should support the

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<sup>148</sup> There is only one administration, Serbia, which provides some finances linked to the support of IMCs.

development of IMC policies, through the adoption of strategic documents for the development of local self-government. It is also necessary to ensure supervision and monitoring of the implementation of these measures and to ensure adequate financial support through the planning of budget funds for that purpose. Local governments are responsible for establishing stable partnerships and ensuring their efficient functioning and sustainability.

## General recommendations for central administrations to improve inter-municipal co-operation

- **Better regulation.** Enhance the legislation on IMC, including sectoral laws, to provide for a clear typology, covering different purposes and needs in a comprehensive and mutually exclusive way. Where possible and generally accepted, consider the promotion of mandatory IMC to ensure the provision of certain services with the same level of quality across municipalities.<sup>149</sup>
- **Financial incentives.** Consider the introduction of sustainable dedicated budgets for supporting IMC initiatives. Consider tax incentives for IMC-based projects.
- **Technical assistance.** Develop clear guidelines for establishing various organisational models. Promote IMC via workshops, unions of municipalities, and other forms of communication.
- **Capacity building.** Facilitate training for local government representatives and staff to understand the advantages of IMC agreements, to learn how to establish IMC agreements and ensure financing.
- **Sustainability of IMC agreements.** Promote the stability of IMC agreements with national strategies and financial incentives. Those with an active and efficient project established for a longer term may receive support from the central administration.
- **Data collection.** Lack of registers hampers good practice dissemination. Ensure systemic and regular collection of information on IMC agreements at the central level. Enable the electronic exchange of data between the central level and local government.
- **Innovation and best practices.** IMC can also lead to innovation and the sharing of best practices between municipalities. By covering these initiatives, media and institutions such as Unions of Municipalities, as well as responsible ministries, can help share these innovations and best practices with a broader audience, encouraging more municipalities to adopt them.
- **Accountability and transparency.** More public discussions on IMC can help ensure these initiatives are transparent and accountable. Holding central and local government officials accountable for their actions can help prevent corruption and ensure that resources are used in local communities' best interests.

<sup>149</sup> In Serbia, within the “Local Self-Government for the 21st Century” project (supported by the Swiss Government), the Analysis of the possibilities for establishing a mandatory form of IMC and functional linking of LSG units was conducted. It covered both comparative analysis and national legislation and policy framework for IMC. The analysis provides recommendations and proposals for legal solutions that could be introduced in the regulatory framework and practice in Serbia. The IMC models allow local communities to alleviate the problem of lack of resources in performing

To provide more country specific recommendations, interviews were conducted with both representatives of the central administration and the local government. Based on this, the following proposals may be considered by the Western Balkan administrations for the improvement of IMC practice as well as legislation.

### **Albania**

In addition to the measures programmed by the Government in the framework of the new decentralisation strategy, there seems to be a need for additional efforts to be undertaken to support IMC. Most importantly:

- There is a need for strategic assessment and planning of appropriate and effective forms of public and administrative service delivery mechanisms specific to each municipality territory.
- Municipalities need **technical assistance** for developing appropriate organisational models or appropriate delivery options for IMC, e. g. use of public enterprises, NGOs.
- **More IMC initiatives** could be supported based on similar municipal plan priorities of adjoining municipalities focusing on mutual benefits in service delivery, local economic development or environment protection.
- **Training of elected representatives at the local level and municipal employees** to explain the benefits of IMC and the procedures to prepare a project is a critical issue. Preparing a pertinent structure for the staff who will manage the IMC agreement/entity enhances the probability of greater success.

### **Bosnia and Herzegovina**

The general assessment regarding IMC in BiH is that there are no legal obstacles to its implementation in various areas of importance for LSGUs. However, the legal framework for the co-operation LSGUs is incomplete in the FBiH, and a number of important issues have not been defined in order to design a better basis for achieving stronger co-operation at the horizontal level. Two key factors for improving the functioning of the IMC mechanism in BiH are the **provision of financial incentives** that would provide additional stimulus for IMC projects and agreements and **competent and dedicated local leadership** with the economic and social needs and interests of the local community as a priority. Particular recommendations to improve IMC in BiH include the following:

- For the FBiH, it is crucial to further develop **more detailed legal provisions** in the Law on the Principles of Local Self-Government and define a local government development strategy that will incorporate measures to improve IMC. These provisions could serve as a model for the cantonal authorities to regulate this issue at the cantonal administrative level as well.
- The MALSG of the RS, through adoption of secondary legislation, could enable further **development of the institutional framework for monitoring IMC agreements**, creating a register and co-ordinating financial support for priority projects of common interest to LSGUs.
- Establish and **use registers for recording and monitoring of IMC agreements**. In the FBiH, first create the legal prerequisites for the creation of the register.
- The central administrations could consider **provision of economic incentives** for IMC based on the existing and new policies in this area of the local government development.
- Associations of cities and municipalities of the FBiH and the RS could **promote IMC concepts** in general, work on raising public awareness and co-ordinate capacity building activities for improving

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tasks within their jurisdiction. Based on the finding from that analysis, mechanisms were proposed for the establishment of mandatory forms of IMC, and it was also determined which institutional models for IMC would be the most suitable for implementation in Serbia.

skills and knowledge of the local administration to manage complex relationships within IMC models.

- Municipal leadership should initiate the pilot IMC arrangements with other municipalities and joint studies on possibilities of IMC within different services.

### **Kosovo\***

The positive effects of IMC in Kosovo\* include positive influence on management practices in the partner municipalities, a more co-operative political culture, developing capacities while jointly applying for donor funds and bringing opportunities to participate in trans-border co-operation. The negative effects of IMC include complicated decision making and sharing power and prestige between mayors of different political affiliations.

Various sources, including semi-structured interviews with central and local government representatives, have been used to formulate the following suggestions. There are recommendations both for the central administration and the local government to improve IMC in Kosovo\* and provide opportunities for further progress:

The Government could:

- Create a **sufficient budget line** for joint projects from the government.
- Draft implementable **national strategies and plans** that integrate inter-municipal interests and clearly define the roles and responsibilities of each municipality involved.
- Review the Law on IMC to offer **legal relief from bureaucratic processes** regarding investment procedures.
- Organise **training** in the framework of IMC, e.g., human capacities, project management.
- Establish a transparency mechanism in order to preserve IMC in general and over the political climate.
- Establish an IMC body that has an office for the municipalities to address their needs, requests and challenges.
- **Regularly provide data on IMC**, including statistics, budget allocation and activities.

Municipalities could:

- **Improve co-ordination among municipalities** by co-ordinating data management, collaborating on joint training and capacity-building programmes, and holding regular meetings to maintain open communication.
- Develop shared strategies and set common goals to avoid duplication of effort.

### **Montenegro**

Although the current legal framework provides a solid foundation for IMC, it may be beneficial for Montenegro to review and update it to ensure it adequately covers all aspects of collaboration between municipalities and provides clear guidelines for implementation. There is also a need for harmonisation of legislation and defining more straightforward and consistent rules and procedures for establishing joint bodies and financing inter-municipal projects and activities.

- The MPA could consider establishing a **multisectoral body to deal explicitly with local self-government issues**. Through this body, the MPA could share responsibility for implementing support mechanisms and financial incentives with other, also essentially important, ministries and institutions of the system for the purpose of promoting sustainable development and improving service delivery to citizens.

- Introduce **legislative improvements** would increase incentives and practical support for municipalities to enter into partnerships and collaborate on achieving common goals and addressing shared challenges by leveraging their collective resources, expertise, and capacity.
- **Develop clear guidelines and standards** for horizontal co-operation could help local governments understand what is expected of them and how they can work together effectively.
- **Provide grants, low-interest loans, or tax incentives for joint projects** and activities that promote co-operation and collaboration between municipalities. More subsidies for shared infrastructure projects, such as roads, water supply networks, and waste management systems.
- **Technical assistance and capacity-building support** to municipalities looking to collaborate, including providing access to resources and information and more training and advice on project development and management.
- **Increase communication between municipalities.** Encouraging regular meetings between municipalities can foster communication, collaboration, and partnerships. These meetings can be held virtually, if necessary, to save time and money.
- Establish a **support network for local governments** to include local businesses, non-profits, startups, the education and science sector, and other organisations to help collaborate on joint projects and share information, resources, and best practices.
- **Ensure the sustainability of IMC agreements.**

### **North Macedonia**

There are some areas that deserve more assistance and consideration:

- The Law on IMC could **include mandatory forms of IMC** for exercising competences and in a manner determined by this or another law.
- The MLSG could encourage IMC via a special **dedicated budget programme** under the Law on IMC.
- The Law on IMC could **simplify the procedure for establishing IMC** and reduce the deadlines as small municipalities that do not have sufficient human resources to manage complex procedures.
- The Law on IMC could introduce a new format - IMC with municipalities from other countries, to set out the procedure for establishing IMC with municipalities from other countries as well as the manner of keeping records.
- Activate **electronic record keeping of IMC** in the MLSG and enable the electronic exchange of documents with municipalities. Provide technical conditions for the electronic system to be used for keeping a record of IMC with other countries.
- Introduce a practice of making cost-benefit analysis by area on the most efficient and economical way of delivering services in relation to the number of beneficiaries, based on which mandatory IMC could be established.
- Design and introduce **specialised training for IMC for the local administration staff** to develop and use IMC for the greater benefit of the local communities.
- Prepare a comparative analysis of the experiences of other countries, which will compare IMC and asymmetric decentralisation, from the perspective of more economical and efficient provision of services.



## **Serbia**

The MPALSG, as the leading institution, and the Serbian Government may take into consideration the following recommendations:

- Although the Law on Local Self-Government sets the foundations for IMC, for the further development of IMC it is necessary to **continue improving the legal framework** by amending sectoral regulations (for example the Law on Public Enterprises, the Law on Communal Services, etc).
- However, changes to the legal framework are only the initial step for more intensive development, while the key step is to ensure a **sustainable incentive system**. Thus, it is particularly important to continue the established practice and, if possible, to increase the funds for IMC. This could be done through the existing funds over the short term (the MPALSG Budget fund for the LSG Programme and the SDC Fund), but over the long term it is highly recommended to establish a National Budget Fund for IMC managed by the Ministry of Finance and the MPALSG.
- The introduction of **mandatory IMC is recommended** to ensure that tasks are performed with the same level of quality in all LSGUs across Serbia, with the aim of equal treatment of all citizens and legal entities and the full achievement of the common public interest.
- However, when setting the normative framework, particularly for the introduction of mandatory IMC, it is necessary to **consider demographic, geographic, economic and technical-technological parameters of public interest**, as well as criteria of effectiveness, efficiency and economy.

## Annex 1: IMC practices in Bosnia and North Macedonia

### Bosnia and Herzegovina

IMC practice	Purpose of the co-operation	Sector /area of co-operation	Legal form /type of IMC	Participating LSG units	Financing (IMC budget, financing modalities – grant, etc)	Duration of IMC	Description of activities	Inter entity /international co-operation (Yes/No)
<b>Co-operation on the implementation of obligations from the programme "Multi local energy management for LSGU in the Republika Srpska"</b>	Joint tasks performance and pooling of resources in the field of energy efficiency management	Energy efficiency	Agreement on the pooling of financial and other resources and performing work for other LSGU (article 128. of the RS Law on LSG)	Mrkonjic Grad Istocni Drvar Ribnik Petrovac	Municipal budget (60% of the gross salary of the energy manager-co-ordinator is provided by the municipality of Mrkonjic Grad, other municipalities 40%)	N/A Indeterminate	Implementation of systemic energy management and local energy efficiency plans through joint functions in LSGUs (positions of energy co-ordinator and energy associates)	No
<b>"Improving the business environment of the north-eastern part of the Republika Srpska"</b> <i>IMC project supported by the means of the Financial Mechanism of Investment and Development Bank of RS</i>	IMC partnership for attracting new and retaining existing investors and improving the capacity of LSGUs	Competitiveness and local development	IMC agreement on a project basis	Grad Bijeljina Lopare Ugljevik	Financial mechanism of IRB RS and donors Grant: BAM 96 666 Co-financing: BAM 109 621 Total: BAM 206 287	Completed with the finalisation of the project in 2017	Establishment of IMC to attract investors and selection of companies to participate in trainings from the territory of their municipality. Trainings by business entities Facilitation of IMC in the organisation of meetings between businesses from three LSGUs and local administrations.	No

<b>"Road to development" IMC project supported by the means of the Financial Mechanism of Investment and Development Bank of RS</b>	Modernisation of road communication and connection of agricultural producers	Road construction	IMC agreement on a project basis	Celinac Kotor Varos	Financial mechanism of IRB RS and donors Grant: BAM 88 557 Co-financing: BAM 77 904 Total: BAM 166 461	Completed with the finalisation of the project in 2018	Construction of a road between two municipalities Connecting producers engaged in agriculture in this area with purchasers from the municipality of Kotor Varos	No
<b>"Improvement of secondary health and social care services in rural areas" IMC project supported by the means of the Financial Mechanism of Investment and Development Bank of RS</b>	Widening the accommodation capacity of the Home for the Elderly and establishing new specialist services in order to improve the quality of secondary healthcare services	Healthcare	IMC agreement on a project basis	Kalinovik Trnovo, Foca Novo Gorazde	Financial mechanism of IRB RS and donors Grant: BAM 100 000 Co-financing: BAM 234 839 Total: BAM 334 839	The project ended in 2019 the agreement is in force	The municipalities of Trnovo, Foca and Novo Gorazde, as partners in the project, with the aim of improving inter-municipal co-operation, concluded an agreement with the municipality of Kalinovik as a regional center for the placement of elderly people in social welfare institutions.	No
<b>"Widening and improvement of the quality of municipal waste management services in the territory of the municipality of Novi Grad" IMC project supported by the means of the Financial</b>	Improvement of local capacities for providing waste management services in rural border areas of neighbouring municipalities	Municipal waste management	IMC agreement on a project basis	Novi Grad Grad Prijedor Krupa na Uni	Financial mechanism of IRB RS and donors Grant: BAM 89 999 Co-financing: BAM 101 334 Total: BAM 191 333	The project ended in 2020	Donation of municipal waste equipment and exchange of experiences between municipalities in order to improve services (one municipal company provide communal services for	No

<b>Mechanism of Investment and Development Bank of RS</b>							another municipality)	
<b>Improved access to markets and strengthening of the competitiveness of fruit producers in rural areas - support for the implementation of the new business model "Fruit Distribution Center Prijedor" IMC project supported by the means of the Financial Mechanism of Investment and Development Bank of RS</b>	Improved access to markets and strengthening of the competitiveness of fruit producers in rural areas through the involvement of representatives of the rural community in the planning and programming of rural development.	Agricultural production	IMC agreement on a project basis	Grad Prijedor Ostra Luka Novi grad	Financial mechanism of IRB RS and donors Grant: BAM 99 450 Co-financing: BAM 70 340 Total: BAM 169 790	Completed with the finalisation of the project in 2020	Plant reconstruction and equipment procurement, development of software for communication and process management, exchange of experiences and training of manufacturers	No
<b>Establishing a sustainable waste management model in the municipality of Brod IMC project supported by the means of the Financial Mechanism of Investment and Development Bank of RS</b>	improving the availability and quality of waste transportation services and the transfer of expert knowledge among local communities	Upravljanje komunalnim otpadom	IMC agreement on a project basis	Brod Derventa	Financial mechanism of IRB RS and donors Grant: BAM 83 526 Co-financing: BAM 72 016 Total: BAM 155 542	Completed with the finalisation of the project in 2021	Transfer of knowledge and experience gained during the process of introducing the model of pre-selection and waste recycling in the municipality of Derventa and the establishment of "recycling islands" in the municipality of Brod	No

<b>City Network for the Western Balkans (City Network), Project implemented by the German Cooperation (GIZ), with the technical assistance of the Network of Local Authorities of South-East Europe (NALAS).</b>	Improvement of local public infrastructure and local public services for the benefit of the citizens of the nine cities through network collaboration	Knowledge exchange and collaboration on joint development and participation in EU projects	MoU on Interregional/international municipal co-operation supported by donor	City of Sarajevo, City of Mostar  City of Leskovac (SRB) City of Novi Pazar(SRB)  City of Sveti Nikole(MKD) City of Bar(MNE) City of Podgorica (MNE) City of Pristina(Kosovo*) City of Elbasan (ALB)	N/A Donor funded activities	Ongoing, Initial project timeline is set for period March-December 2023	Platform for cooperation of WB6 cities , exchange their development priorities and sharing relevant information and knowledge on potential funding opportunities and project development	Yes
<b>Temporary City to City (C2C) co-operation</b>	Joint development and implementation of relevant urban development projects in Sarajevo - within the framework of the «Urban Transformation Project Sarajevo» (UTPS) funded by SECO and ETH Zürich.	Knowledge exchange and collaboration on innovative and urban development projects	MoU on IMC/C2C co-operation supported by donor	City of Sarajevo City of Zurich (CH)	N/A Donor funded activities	Ongoing, Initial project timeline is set for period of four years	Strengthening the institutional exchange through policy dialogue, knowledge exchange and trainings on urban planning systems and urban development including participatory planning,	Yes
<b>Inter-Municipal Working Group Majevisa mountain area (IMWG Majevisa)</b>	Improvement of local public infrastructure, development of tourism and strengthening of	Tourism , social cohesion and local development	MoU/Letter of co-operation on inter-municipal co-operation supported by different donors	Celic, Teocak, Sapna (FBIH) Lopare and Ugljevik (RS)	N/A Donor funded activities	Ongoing, Co-operation started i n 2019	Development of mountain and rural tourism (hosting the Via Majevisa bicycle race), creation of a	Yes

	trust among five local communities						promotional film "Majevica – Another story", demining of the Majevica mountain area and strengthening the social cohesion.	
<b>LocalInterAct mreža</b>	Improved competitiveness of export-oriented sectors and enterprises through mechanisms of advanced municipal and inter-municipal support for exporters	Strengthening the competitiveness of small and medium enterprises	IMC agreement on a project basis supported by donors	Prnjavor Derventa Laktasi	The project budget was BAM 210 814 (co-financed by the European Union in the amount of BAM 168 651)	Co-operation ended with the completion of the project in the period 2017-2018	Strengthening the capacity of municipal teams to apply new tools to support exporters and joint workshops with support institutions, international projects and donors	No
<b>Tourism development project</b>	Strengthening tourist capacities and joint offers of local communities	Tourism	MoU on IMC co-operation supported by donors	Gracanica, Srebrenik, Gradacac Kladanj	N/A Outside grant financing	N/A	The project is realized through the MoU among partnering municipalities, Italian partner and donor and the Federal ministry (FBiH) for environment and tourism.	No
<b>Construction of local road</b>	Improvement of local public infrastructure	Road construction	MoU on IMC co-operation supported by donor	Doboj Doboj Istok	N/A Occasional contribution of involved local governments Outside grant financing	N/A	The project was realised through joint co-operation of two municipalities. Since the project covered two neighbouring municipalities from two entities, it was supported	Yes

							from the donor community.	
<b>Joint reconstruction of local roads</b>	Improvement of local public infrastructure	Road construction	MoU on IMC co-operation supported by donor	Trnovo (FBiH) Trnovo (RS)	N/A Outside grant financing	N/A	The reconstruction of local roads between municipalities that were separated with Inter-entity line. Supported as joint project from the donor community.	YES
<b>Regional project—“Posavina the heaven for hunting and fishing”</b>	Strengthening tourist capacities and promotion of joint offer	Tourism	MoU on IMC co-operation supported by donor	Brod Samac Vukosavlje (RS) Orasje (FBiH)	N/A Outside grant financing Occasional contribution of involved local governments	N/A	The promotional activities were implemented in collaboration with Italian partners in order to encourage tourists to come to Posavina (hunting tourism)	Yes
<b>Development of business zones</b>	Inter-municipal partnership for attracting new and retaining existing investors and improving the capacity of LSGUs	Competitiveness and local development	MoU on IMC co-operation supported by donor	Odzak, Orasje, Domaljevac	N/A Outside grant financing Occasional contribution of involved local governments	N/A	All municipalities built their own business zone and inter-municipal co-operation was realised in the process of their establishment	No
<b>Joint water supply project</b>	Improvement of local public infrastructure	Water supply	Contract among local governments	Doboju Jug Tesanj	Occasional contribution of involved local governments	N/A	Two neighboring municipalities solving problems with water supply on a contractual basis. The well and water distributions	No

							are still under the competence of each municipality	
<b>Joint construction of the regional landfill "Ramici" and establishment of the public enterprise JP "DEP-OT" doo Banja Luka</b>	Joint provision of individual utilities	Municipal waste management	Joint public company	Gradiska, Banja Luka, Knezevo, Kotor Varos, Laktasi, Prnjavor, Srbac and Celinac	Outside grant Financing in initial phase and Fees /charges for jointly provided services	Ongoing permanent co-operation	The joint public company was established in 2003 with shares proportional to the population of participating local government units.	No
<b>Joint construction of the regional landfill "Brijesnica" and establishment of the public enterprise JP "EKO-DEP" doo Bijeljina</b>	Joint provision of individual utilities	Municipal waste management	Joint public company	Bijeljina , Lopare and Ugljevik (RS) Teocak and Celic (FBiH)	Outside grant Financing in initial phase and Fees /charges for jointly provided services	Ongoing permanent cooperation	The joint public company was established in 2005 with shares proportional to the population of participating local government units.	YES
<b>Association of Municipalities and City of the Eastern Herzegovina</b>	Establishment of regional association of LSGUs to support local and regional development	Knowledge exchange and collaboration on joint development projects	Association established in accordance with Law on associations and foundations RS as legal entity	Trebinje Ljubinje Berkovici Gacko Bileca Istocni Mostar Nevesinje	Regular contribution of involved local governments (3 percent of their budgets)	Ongoing permanent co-operation	The association was formed in 2005 with a joint agreement signed between participating municipalities. The association was established in order to strengthen the position of the region in collaboration with upper/entity governmental level and in order to deal with regional development.	



### **North Macedonia**

1. Financial savings are achieved with IMC, especially in joint administrative bodies and contractual co-operation, mostly due to optimising the number of job positions. In the example of the Bosilovo, Vasilevo and Novo Selo municipalities, there is a saving of 12% in financial resources of the basic budget that the municipalities can redirect to capital projects for the citizens.
2. The partnership between Kavadarci and Rosoman resulted in a doubling of property tax revenues, as a result of the joint property tax appraisal of 13 072 households, of which 11 462 households are located in the territory of the municipality of Kavadarci and 1 610 taxpayers in the territory of the municipality of Rosoman.
3. In the municipalities of Radovish and Konche, as a result of the established inter-municipal co-operation, the number of taxpayers was increased by over 30%. The inter-municipal co-operation between these two municipalities has been expanded in the area of internal audit and urban planning. In both cases, the competencies are carried by a single (usually the larger) municipality, in the name and on behalf of the smaller municipality.
4. In 2020, the Council of the City of Skopje decided to establish inter-municipal co-operation with the municipalities of Aerodrom, Butel, Gazi Baba, Gjorche Petrov, Karposh, Kisela Voda, Saraj, Centar, Chair and Shuto Orizari for joint implementation of competences in the area of inspection supervision. Inter-municipal co-operation is carried out by pooling human resources and their effective and rational engagement and utilisation. The mutual relations are also regulated: the inspection supervision shall be performed by the City, and the municipalities shall make available to the city all inspectors and communal wardens, including material assets. When realising inter-municipal co-operation in the area of inspection supervision, the City of Skopje co-ordinates the activities of all inspectors and communal wardens and enables all the necessary conditions for smooth implementation of the inspection supervision.
5. In 2020 an agreement was concluded for implementation of particular works by the Municipality of Kumanovo for the municipality of Rankovce in the frames of conducting inspection supervision in the areas of the Law on Construction, Law on Communal Activities and the Law on Road Traffic in favor of the Municipality of Rankovce for the purpose of more successful, efficient and economical exercise of the competence. The Municipality of Kumanovo, following a request submitted by the Municipality of Rankovce to carry out inspection supervision in the area of construction, communal and traffic inspection which is based on an initiative according to the Law on Inspection Supervision, undertakes to appoint an inspector who will act on the initiative and is required to submit a report on the work of the inspectors to the Municipality of Rankovce, which includes the exact number of days in which the inspectors worked on behalf of the Municipality of Rankovce, along with a calculated per diem for each inspector, no later than the 23<sup>rd</sup> day of the month. The Municipality of Rankovce, immediately after receiving the initiative for inspection supervision, is required to submit it to the Municipality of Kumanovo and undertakes to provide transport for the inspector from the Municipality of Kumanovo to the Municipality of Rankovce, to the seat of the municipality or to the specific place where the inspection is to be carried out and back. The Municipality of Rankovce is required, after the report is submitted by the Municipality of Kumanovo, to pay the money for the calculated per diems of the inspectors within 5 days.
6. In 2019, inter-municipal co-operation between the municipalities of Krushevo and Krivogashtani was established for implementation of works in the area of urbanism and environmental protection by the municipality of Krushevo for the municipality of Krivogashtani. The inter-municipal co-operation initiative was established by concluding an agreement between the two municipalities, in which it is stated that the municipality of Krushevo will carry all the expenses related to implementation of the competences for the municipality of Krivogashtani. It is about issuing building permits and resolutions for construction of buildings that do not require a building permit, adopting urban plans, issuing extracts from urban planning documentation.
7. In the frames of the project of the Center for Development of the Eastern Planning Region, a sensory room for children with disabilities was opened in Kochani in 2019 for the needs of the municipalities of Kochani, Shtip and Delcvevo, which is also a form of inter-municipal co-

operation for joint delivery of social services. The project is financed from the Ministry of Local Self-Government and the Swiss Government

8. A joint project was implemented by the municipalities from the North-East planning region (Kratovo, Kriva Palanka, Kumanovo, Rankovce, Staro Nagorichane, Lipkovo) in 2022 in the frames of which firefighting vehicles and equipment were procured with financial support from the Ministry of Local Self-Government and the Swiss Government. The project is prepared by the Center for Development of the North-Eastern Planning Region for the needs of the municipalities of this planning region.
9. The municipalities of the Vardar planning region (Veles, Kavadarci, Negotino, Sveti Nikole, Gradsko, Chashka, Rosoman, Lozovo, Demir Kapija) in Kavadarci, are building a joint stationary for taking care of stray dogs. The project was prepared by the Center for Development of the Vardar Planning Region, and is financed by the Ministry of Local Self-Government and the Swiss Government. The sustainability of the stationary is an obligation of the municipalities from this planning region, for which they will have to establish an appropriate form of inter-municipal co-operation in order to regulate the obligations for management and financing of the functions of this stationary
10. By establishing inter-municipal co-operation, 18 municipalities have ensured the functionality of the common electronic platform for the provision of 20 most requested electronic services by individuals and legal entities. The services are grouped in several areas (urban planning, environment, legalisation of illegal buildings, etc.) These services are rendered entirely electronically, including payment of fees, except for the last step of actually obtaining the requested document from the municipality.
11. The municipalities of Strumica and Vasilevo are establishing a joint Center for training and support of farmers via inter-municipal co-operation. The facilities are provided by the municipality of Strumica, and the inter-municipal co-operation agreement regulates the relations between the two municipalities in order to ensure its sustainability.
12. In the field of protection and rescue, there is establishment of inter-municipal co-operation between two municipalities where joint local plans for protection and rescue are prepared, including joint use of fire protection, and there are examples of establishment of a common electronic tool for alarming and helping the population in case of natural and elemental disasters.

# Inter-municipal co-operation in the Western Balkans

Inter-municipal co-operation (IMC) has proved to be a constructive and efficient instrument in many EU and OECD countries for solving several issues at the local government level, including the lack of resources, administrative fragmentation, the investment burden of individual municipalities or better and more efficient organisation of public service provision.

Although IMC is still often thought of as an alternative to the politically sensitive merging of small municipalities, nowadays its use has raised the interest of public administrations whose local governments are medium- and large-sized and that see this instrument as a way to empower local governments, provide them with more responsibilities, ensure sustainability of public services and fuel planning capacities and strategic thinking at the local and regional level.

This paper summarises examples from EU and OECD countries where IMC either has a long-standing history or has recently received increased support and attention. It also provides an analysis of the legislative basis, support and incentives and practical data of IMC in the Western Balkan administrations. The paper offers several recommendations specific to the Western Balkan administrations for how to benefit from IMC.