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Serbia: Local Government Financing and Non-transparency of Fiscal Data

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Introduction

This chapter studies the process of decentralisation in Serbia in the period 1990–2016, with a particular focus on fiscal decentralisation. In recent Serbian history, this period can be characterised as tectonic from both political-ideological and socio-economic perspectives. During this time-frame, there were two radical social shifts—in 1990 and in 2000. The first was a collapse from socialism to state implosion with the dismemberment of the Socialist Federal Republic of Yugoslavia (henceforth “former Yugoslavia”), ethnic wars, and the collapse of the economic system. The second shift was a transition from the authoritarian nationalistic regime and remnants of the planned economy to the democratisation of society

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and market-oriented economy. This latter transformation was supported by the process of decentralisation, one of the key policy avenues used to achieve societal change. In fact, in the 2000s Serbia formally opted for decentralisation in its strategic policy documents and, thus, the purpose of this chapter is to examine the state of decentralisation in each phase and its outlook at the end of the period.

We cover three major aspects of the decentralisation process—territorial-administrative, political and, in particular, fiscal decentralisation. At the beginning of the transition period, in the early 2000s, local authorities received new mandates for providing public goods and services to citizens, as well as a new role in implementing economic policy, which required additional funds and sources of revenue. However, there were frequent regulatory changes in local public finance, leading to instability and unpredictability of local revenues and eventually to an overall decrease in municipal budgets, jeopardising the delivery of the newly decentralised public services. This is why the decentralisation of functions and finance is at the heart of this study.

To fully understand all aspects of these processes, we analysed the legal framework and regulatory changes that occurred over the past 26 years, with a focus on the content and dynamics of change of key regulations. In addition, we carried out a fiscal analysis to measure the budgetary effects of the regulatory changes, to gauge the overall cumulative effect, and to determine the state of fiscal decentralisation at the end of the period. The latter task was rather challenging since we experienced serious difficulties in obtaining municipal budgetary data. The issue proved to be more complex since the lack of access and transparency has not only been an external problem blocking critical expert analysis, but also an internal problem preventing institutional supervision and control of the entire system of public finance (Fiscal Council of the Republic of Serbia, 2017). We believe that non-transparency of fiscal data is such a flaw in the system that it is the special focus of this chapter.

The chapter has two main parts. The first part covers the unfolding of the decentralisation processes over the period of transition. We first present the territorial and administrative organisation of the country and the changes that took place between 1990 and 2016. Second, we present the

system of election of local councils and mayors, and the changes in the political decentralisation. Then we focus on intergovernmental fiscal relations. This section follows the evolution of fiscal decentralisation in Serbia and is structured around three distinct phases. We examine the phases through the lenses of the division of powers and finance between central and local governments. The first phase features fiscal centralisation during the 1990s. The second phase covers the wave of decentralisation, which started with the democratisation of the society in 2000 and lasted until the outbreak of the financial crisis in 2008. The third phase is characterised by pseudo-decentralisation and the return to centralisation, which is on-going. The second part is dedicated to non-transparency of data on fiscal revenues and expenditures, which is the root of the systemic problems of the Serbian public finance and intergovernmental fiscal system. This is the main problem we encountered during our study of local public finance. The concluding section presents an analysis of the state of decentralisation in Serbia 26 years after the collapse of the former Yugoslavia.

Territorial-Administrative Organisation of the Country

The first phase of decentralisation took place during the 1990s and brought tectonic changes to the territory of the former Yugoslavia. The disintegration of Yugoslavia through wars and armed conflicts led to the birth of new, independent states. Serbia and Montenegro remained in a union—first, in the Federal Republic of Yugoslavia until 2003, and then in the State Union of Serbia and Montenegro until 2006, when Montenegro declared its independence after a referendum.

At the start of that turbulent period, the (then Socialist) Republic of Serbia adopted the 1990 Constitution,¹ which abolished the autonomy of the provinces of Vojvodina and Kosovo. This was a consequence of President Milošević's political decision to completely concentrate power at the central level of the Republic. After the 1998–1999 war over the status of Kosovo, the provisional status of this province was defined by the United Nations Security Council's Resolution 1244.² When Serbia

became an independent state in 2006, it adopted a new Constitution,³ which re-established the two autonomous provinces, defining them once again as autonomous provinces. Kosovo's status is currently regulated in line with the UN resolution, as well as with the Advisory Opinion of the International Court of Justice (ICJ) on the unilateral declaration of independence of Kosovo.⁴

Essentially, Serbian territorial organisation has an asymmetric form of decentralisation. The greater part of the territory of the country has only two levels of government, central and local tiers, while the other part also has an intermediate, provincial level of government. Yet, the 2009 Law on Regional Development⁵ created five *statistical* regions to introduce the Nomenclature of Units for Territorial Statistics (NUTS). These are statistical units necessary for planning and implementing regional policy and for the programming of future EU cohesion funds (Avlijaš & Bartlett, 2011). The statistical regions are Vojvodina, Belgrade, Šumadija and Western Serbia, Southern and Eastern Serbia, and Kosovo and Metohija.

According to the 2006 Decree on Administrative Counties,⁶ there are 29 counties (out of which five are in Kosovo). The counties do not represent a level of government or a form of real decentralisation of power and public functions. Instead, they are a form of de-concentration of the central government and are regional branches of the national government's ministries and other state administration organisations and authorities.

The local level of government, which is the subject matter of our analysis, includes cities and municipalities as basic forms of local self-government. According to the 2007 Law on Territorial Organisation of the Republic of Serbia,⁷ there are 174 local government units (or LGU) in Serbia, out of which 29 are in Kosovo. In our analysis, we focus on 145 Serbian LGUs—119 municipalities, 25 cities, and the city of Belgrade, which has a special legal status.

The Law on Regional Development has introduced a classification of LGUs based on their level of development⁸:

1. The first group includes the most developed LGUs, with a level of development above the national average GDP per capita. Out of the 145 LGUs, 20 fall in this group.

2. The second group includes municipalities with a level of development between 80 per cent and 100 per cent of the national average. There are 34 LGUs in this group.
3. The third group consists of municipalities with a development level between 60 per cent and 80 per cent of average GDP per capita. This is the largest group with 47 LGUs.
4. The fourth group includes municipalities with a development level below 60 per cent of GDP per capita, while those with a development level below 50 per cent of GDP per capita average are considered *devastated*. This group of least developed LGUs contains 44 municipalities, of which 19 are defined as devastated.

From the aspect of municipal finance, this classification is important because the amount of non-categorical intergovernmental grants per LGU is calculated using the methodology that takes into account its level of development.

Due to political instability, further territorial reorganisation became a highly sensitive issue, so administrative decentralisation and the redefinition of LGUs did not follow the developments in the area of functional and fiscal decentralisation. For political reasons, policymakers could not take the system of territorial-administrative decentralisation into account when decentralising functions and finance to the municipal level, and so it is questionable whether the decentralisation of provision of public goods and services to the local level was optimal and whether it reflected natural economic boundaries or economies of scale.

Political Decentralisation

During the 1990s, Serbian local governments were deprived of their key financial and development instruments—revenues and assets—and municipal political governance was strictly controlled by the authoritarian regime that was in place at the time. Serbian mayors were elected indirectly, through local councils, while the election of local council members was based on a proportional system. In the second half of the 1990s, both the resistance of citizens and the political opposition at the

local level grew significantly, provoking the central government to exercise greater pressure and impose further financial restrictions on municipalities (Kmezić, Kaluđerović, Jocović, & Đulić, 2016; Levitas, 2004). After the overturn of the regime in October 2000, the new government initiated a process of democratisation and the strengthening of local communities. On the one hand, the government introduced a series of legislative changes aimed at a significant increase in municipal revenues. On the other hand, the key boost to the empowerment of citizens was the introduction of the direct election of mayors in 2002 through a new Law on Local Self-Government,⁹ which aimed to enhance political accountability and responsibility at the local level. Despite its advantages, this law was repealed as early as 2006 by the new Constitution,¹⁰ which recognises only the local council (municipal assembly) as the main governing body of local government. The Constitution did not explicitly mention mayors, but rather left this matter to be regulated by future local government legislation. Already in 2007, the new Law on Local Self-Government¹¹ abolished the direct election of mayors and re-established the old system of the 1990s. The indirect election of mayors by municipal councils remains in place to this day. When it comes to the election of members of local councils, the system has not changed over the entire period. The latest legislative solution from the 2007 Law on Local Elections¹² still envisages the proportional system, that is, local representatives are elected from the lists proposed by political parties/coalitions or groups of citizens.

The system of direct election of mayors in Serbia proved to have many advantages in comparison to the indirect system. First, when citizens directly elect mayors, these officials not only have much greater legitimacy, but also express greater political accountability, personal responsibility, and freedom in decision-making. Second, the directly elected mayors are more resistant to pressures from central government coalitions and partisan politics. When the municipal assembly elects the mayors, that is, indirectly, their position to rule depends on the local governing coalition, which most frequently reflects political coalitions at the central level. Recent political history in Serbia has clearly shown that whenever the national government would change, the municipal ruling coalition would also change due to partisan pressures. Namely, in this system, a

mayor's freedom of decision-making is substantially reduced and always dependent on the local council's partisan support (Kmezić, Kaluđerović, et al., 2016).

The described events in the domain of political decentralisation stand in sharp contrast to the positive trends in decentralisation of public functions and finance that were in full swing in the same period of the early 2000s. While the regulatory framework was directed towards establishing greater fiscal capacity and autonomy of local governments, the reversal of the trend in the local election of mayors indicated that the central government had no strategic commitment to decentralisation. It also revealed that there was no true desire for democratisation and citizens' political empowerment. Rather, it showed that local democracy was perceived solely through the prism of current partisan interests.

Intergovernmental Fiscal Relationships between 1990 and 2016

In the following sections, we analyse fiscal relationships between central and local governments and the system of municipal financing in Serbia during the transition period. This period of 26 years has seen seismic changes in the political and socio-economic history of Serbia. Three distinct phases can be identified: (1) the period 1990–2000 had a highly centralised authoritarian management of public affairs and provision of public services; (2) the period 2000–2008 was characterised by a rapid decentralisation of public functions and revenues within the context of general democratisation of the society and strong economic growth; and (3) the period 2009–2016 has been dominated by re-centralisation, particularly in the domain of public revenues, primarily the result of the global economic crisis that hit Serbia from 2009 onwards. In an effort to analyse local government budgets over this period, we faced serious difficulties in collecting data on municipal revenues and expenditures. Our quest for fiscal data and implications of non-transparency are deconstructed in a special section of this chapter, following our analysis of the process of fiscal decentralisation.

Phase 1: The First Wave of Fiscal Centralisation (1990–2000)

The former Yugoslavia experienced an economic crisis that culminated towards the end of the 1980s. The need for reform coincided with the tectonic global political changes and the trend of transition from planned to market-oriented economies. The first attempts at radical transition reform started in 1989 and included the reform of the public finance and fiscal system. The then federal government adopted a tax reform programme in 1990, which set the grounds for a new tax (fiscal) system. However, this federal programme was never implemented due to serious political instability in Yugoslavia (Stojanović, 2002).

At that time, the system of public finance was quite decentralised in the whole federation, including the fiscal system in Serbia, one of its republics. In the general atmosphere of political instability, the authoritarian regime of Slobodan Milošević started to concentrate power at the central (republican) level by adopting the new Constitution of the Republic of Serbia in 1990.¹³ The Constitution changed the internal territorial and administrative organisation of the Republic, abolishing the existence of the two autonomous provinces and decreasing responsibilities and resources of local governments. The role of municipalities was reduced to the provision of the most basic administrative and utility services.¹⁴ The Republic of Serbia centralised all social sector services, keeping the possibility to delegate some of these powers to the local level, together with the necessary, financial resources (Stojanović, 2005).

On the basis and principles of the never implemented federal fiscal reform programme, the Republic of Serbia introduced a new tax system in 1992, in order to conform it to the systems in market-oriented economies (Stojanović, 2002). One of the key changes in the new budgetary-fiscal framework was the establishment of the reformed intergovernmental fiscal governance. The main goal of this reform was to found a transparent, neutral, and fair tax system. Fiscal relationships between the newly established federation (the Federal Republic of Yugoslavia) and the Republic of Serbia were structured on a shared-revenue basis. On the other hand, the system within the Republic included both the revenues

shared between the Republic and the local government as well as the local (municipal) own-source revenues. Shared revenues included revenues from the sales tax, the personal income tax, the property tax, and the revenues from various fees and charges. Own-source revenues, although administered by local governments, were always introduced by legislation adopted at the republican level. The 1992 law regulating public revenues and expenditures¹⁵ defined the following levies as local own-source revenues: (1) local communal fees, (2) the construction land use charge, (3) the construction land development charge, (4) self-contribution, and (5) other revenues collected by local governments.¹⁶ This system established in 1992 is the foundation of today's local government finance.

A new set of tax amendments was passed as early as in January 1994, as part of the new economic reform programme aimed at addressing the problems caused by the 1992–1993 hyperinflation and the international economic embargo (Stojanović, 2002). Responding to a huge budgetary deficit, the Government of Serbia started introducing a series of ad hoc fiscal levies. Although these levies were meant to be temporary, the prolonged budgetary difficulties transformed them into recurrent fiscal revenues. By the year 2000, the Serbian public finance system included more than 235 different impositions (Popović, 2000). This ad hoc fiscal mannerism, as an instrument in economic crisis management, would again become the accepted default model of governance in the post-2009 crisis period, which will be discussed in the sections to follow.

Apart from constantly introducing new fiscal levies, between 1992 and 2000, the Government of Serbia was also continuously changing the whole tax system by amending fiscal legislation and regulations. In fact, government decrees became the main instrument for conducting fiscal policy. At the end of this period, the tax system was distorted to the extent that it entirely departed from the original 1992 concept. For instance, one of the main ideas that was abandoned was the introduction of the less avoidable form of the consumption tax—the value-added tax (VAT) (Popović, 1999), a source of revenue that would wait for its full implementation for more than a decade. Thus, instead of achieving the promised stable, transparent, neutral, and fair fiscal framework, the country ended up with a totally perverted system.

During the 1990s, the lack of intergovernmental fiscal predictability and transparency became Milošević's means for fighting political opponents who were gaining power at the local level. Since local governments were predominantly financed from the shared sales tax, they were becoming increasingly fiscally dependent, as the amount to be transferred to municipalities was at the discretion of the central government. The decision on the amount was passed annually without clear criteria. The central government also transferred other supplementary funds (grants) to certain municipalities for the purpose of fiscal equalisation, again without clear and transparent criteria (Stojanović, 2005), which gave the government an instrument for supporting its local political and partisan allies.¹⁷

Not only was the government limiting financial resources to municipalities where the opposition was in power, but it also restricted municipal management of public property. Namely, in order to further curb local government resources, the regime passed legislation in 1995 that centralised the public property management system. According to this law,¹⁸ if municipalities wanted to manage or dispose of a piece of "public" property on their territories, they needed to obtain the central government's permission.

Milošević's centralised intergovernmental fiscal policy served two major purposes at the same time—it was an instrument for responding to harsh economic conditions of the 1990s and a powerful tool for controlling political opponents at the local level. The fall of his regime and the democratic changes in 2000 also led to changes in the fiscal discourse. Concretely, local communities and opposition leaders at the municipal level were a major political force behind the overturn of Milošević. Hence, their contribution to democratisation created a legitimate claim of financially deprived local communities for a shift of the pendulum towards fiscal decentralisation.

Phase 2: The Wave of Fiscal Decentralisation (2000–2008)

The year 2000 was a turning point in Serbia, which led to an overall discontinuity with the previous authoritarian regime. The overturn of

Milošević triggered socio-economic transition processes including democratisation, public administration reform, privatisation, and other important systemic changes. Besides local political actors, the international donor community also had a key role in initiating and formulating the transition agenda. The main pillars of the public administration and public finance reforms were local government reform and fiscal decentralisation (Kmezić, Đulić, Jocić, & Kaluderović, 2016). The wave of decentralisation lasted until the first spillover effects of the global economic crisis in Serbia in 2009.

Between 2000 and 2008, the Government of Serbia adopted strategic public administration documents, a new Constitution, and a series of laws and regulations aimed at implementing the decentralisation agenda to strengthen the role of cities and municipalities in performing public services. In particular, the Government of Serbia adopted the Public Administration Reform Strategy in 2004, which proclaimed decentralisation as one of the overarching goals. The new Serbian Constitution was adopted in 2006, reinstating the autonomous provinces. The parallel fiscal reform was grounded in the principles set back in 1992. The rationale behind this was to create a modern public finance system compatible with market-oriented economies (Stojanovic & Timofeev, 2005). Even before the new Constitution was adopted, the Autonomous Province of Vojvodina regained its fiscal autonomy and started again to participate in revenue-sharing as of 2002.¹⁹

During the period 2000–2008, the role of local governments evolved significantly, and the municipal finance system was redesigned. The paragraphs to follow will first focus on decentralisation of the delivery of public services and new municipal mandates and then on the architecture of the new municipal finance system.

The Functions of Local Governments Between 2000 and 2008

The purview of municipal functions was expanded as early as in 2002 with the adoption of the Law on Local Self-Government.²⁰ In addition to performing a set of basic local government services, which previously included utility and communal services, planning and development,

local road and utility infrastructure investment and management, and municipal administrative services, cities and municipalities got an important role in performing functions in the social sector. Namely, local governments gained full competence over providing preschool education, the responsibility for covering capital maintenance and utility costs of elementary and high schools, as well as the responsibility for managing primary healthcare institutions. Furthermore, local governments got the right to provide additional social protection to the citizens on their territories.

Another major change occurred with a new set of amendments to this law in 2007.²¹ First, the amendments confirmed two important competences introduced the year before (a) by the Constitution—the right of municipalities to manage their own property²²—and (b) by the Law on Local Government Finance²³—the right to set the rates and criteria for determining the amount of their own-source revenues. Second, the 2007 law defined some new local government functions: the right to develop and implement local economic development policies and projects, the mandate to provide substantial social protection and assistance to vulnerable populations, new competences in the area of human rights protection, as well as the responsibility to finance local culture. The 2002 and 2007 sets of competences and the new role of local governments required substantial resources, which assumed simultaneous changes and an increase in municipal funding.

Local Government Fiscal Revenues Between 2000 and 2008

In early 2001, immediately after the change of government in Serbia, the Parliament adopted the first legal amendments to the Law on Public Revenue and Public Expenditure²⁴ and the Law on Local Self-Government,²⁵ in order to strengthen local communities that had been financially weakened during the previous regime. Municipalities got an increased share in the collected property tax (from 25 per cent to 100 per cent), an increased rate for the real estate transfer tax (from 3 per cent to 5 per cent), the right to impose the payroll tax (up to 3.5 per cent), and an increased share in the sojourn fee (from 80 per cent to

100 per cent). Another financial boost for municipalities was introduced with the new Law on Local Self-Government in 2002,²⁶ when municipalities got 100 per cent of the share from most of the types of the personal income tax. Further, the share of municipalities in the revenues generated from the sales tax was increased to 8 per cent for municipalities, 10 per cent for cities, and 15 per cent for the capital city. The law also confirmed that the whole amount of revenues (100 per cent) collected from the property tax, the inheritance and gift tax, the real estate transfer tax, and the payroll tax belonged to local governments. Finally, the law prescribed that local governments are entitled to a share in certain charges coming from the use of common goods and natural resources on their territories.

In 2004, two systemic changes occurred—first, the abolition of the locally administered payroll tax and, second, the introduction of the VAT that replaced the sales tax.²⁷ These amendments had a serious negative effect on municipal budgets since the payroll and sales taxes were principal sources of local revenues. The central government increased the municipal share in the personal income tax from 5 per cent to 30 per cent, and later to 40 per cent, as well as additional grants, in order to compensate for financial losses. However, the compensatory grants proved to be only a transitory solution since they were not sufficient to close the financial gap at the local level. It became clear that such a major change as the introduction of the VAT required a redesign of the entire system of local government finance.

Similar to its engagement in other transition efforts in the country, the international donor community provided ample financial and technical support to fiscal decentralisation and local government reform in Serbia. The donor organisations, in particular the Council of Europe and USAID, provided advice and assistance to the Serbian association of local authorities to create a new system of municipal financing and draft the Law on Local Government Finance,²⁸ which was adopted in 2006.

The main goal of the law was to build a sound and consolidated system that would enable objective, transparent, and predictable local revenues. The law introduced two novelties: (a) decentralisation of the whole administration of the property tax, including determining the tax base

and rate and managing the collection, and (b) a new model of intergovernmental grants for achieving horizontal and vertical balance. Municipal revenues are divided into three major categories:

1. own-source revenues, which include the property tax, administrative and communal fees, the charges on construction land use and development, and other local levies;
2. shared revenues, where the central government transfers to the local level 100 per cent of the collected real estate transfer tax, the inheritance and gift tax, and certain types of the personal income tax; 40 per cent of the collected wage tax based on an employee's residence; as well as different shares of the collected charges for using common goods and natural resources;
3. intergovernmental grants, which can be non-earmarked (non-categorical) and earmarked. Namely, 1.7 per cent of the country's GDP is transferred as non-earmarked grants to municipalities for horizontal and vertical equalisation. The right to horizontal equalisation is granted to a municipality that realises revenues from shared taxes below 90 per cent of the Serbian average (excluding large cities). The general transfer, which serves for vertical equalisation, is calculated based on the number of citizens and the area of the municipality, the number of structures and the number of classes in primary and secondary schools, and the number of structures and children in pre-schools in a municipality. Earmarked grants are ad hoc funds transferred to municipalities for specific functions and purposes.

The effects of the second phase of fiscal decentralisation on local government budgets were visible already at the very beginning of the period. For instance, as we can see in Table 4.1, local government revenues grew by more than 220 per cent from 2000 until 2004. Furthermore, the revenues of the capital city of Belgrade increased more than ten times between 2000 and 2006.

The 2006 law showed even more remarkable effects on local government finance in the budgetary years 2007 and 2008. First, it managed to substantially diminish fiscal inequalities between the richest and the poorest local governments. In addition, the revenues from property taxation and intergovernmental grants started to grow significantly.

Table 4.1 Total revenue of LGUs and their share in GDP, in CSD^a million

Year	Nominal value of total revenues of LGUs	Real value of total revenues of LGUs (2004 prices)	Index (base year 2000)	GDP	Total local revenues (% of GDP)
2000	13,341	36,743	–	355,168	3.8
2001	30,434	44,371	120.8	708,442	4.3
2002	55,319	67,662	184.1	919,230	6.0
2003	68,196	74,674	203.2	1,088,000	6.3
2004 ^a	81,421	81,421	221.6	1,284,100	6.3

Source: Stipanović (2006, p. 9)

^aFor 2004, Stipanović used the data on planned revenue

All of the described regulatory changes, which culminated with the adoption of the 2006 law, drastically strengthened local government budgets during the entire observed period. The law seemed to have fulfilled its aims to create objective, transparent, and predictable local revenues and additionally increase municipal budgets. However, the spillover effects of the 2008 financial crisis forestalled the growth of local government budgets and stopped further decentralisation.

Phase 3: Pseudo-Decentralisation and Renewal of Fiscal Centralisation (2009–2016)

As early as the first half of 2009, the Serbian central government faced serious fiscal difficulties provoked by the financial crisis. In order to fill the gaps on the revenue side of the national budget, the Serbian Ministry of Finance drastically reduced intergovernmental transfers to local governments by suspending the grant formula prescribed by the law.²⁹ Although initially the measure was expected to be only temporary, it became the first step of the new trend—the phase of re-centralisation and pseudo-decentralisation. This phase is characterised by:

1. Frequent ad hoc transfers of new functions (expenditure) to the local level without the allocation of the necessary funding;
2. Continuous ad hoc abolishment of and decrease in municipal revenue or change of methodology of calculation of municipal revenue;
3. Vertical imbalance between local revenue and expenditure (Kmezić, Kaluđerović, et al., 2016).

These measures created a policy of discretionary, non-transparent, unstable, and unpredictable local government financing.

Delegation of Functions Between 2009 and 2016

The fundamental problem with the delegation of functions in the period 2009–2016 was a complete lack of policy analysis, which would determine the optimal way of providing public goods and services to citizens, and thus, the optimal level of decentralisation. Not only have policymakers not provided economic argumentation and rationale for the adequate division of tasks between the central and local levels, but they also have failed to conduct any financial analysis that would assess the costs of service delivery and the necessary resources. For instance, local governments became responsible for providing primary healthcare to citizens on their territories. Apart from substantial municipal expenditures, this particular transfer also entailed additional hidden costs like the debt of healthcare centres and public pharmacies. At the same time, the central government neither changed the grant formula to account for primary healthcare expenditures nor did it appropriate new sources of revenue for local governments.

Moreover, such a flawed approach to the intergovernmental division of functions was further exacerbated by the fact that local authorities were completely excluded from the policy dialogue. Namely, the central government authorities responsible for policy- and legislation-making regularly failed to ensure any meaningful participation of municipalities in these processes. Furthermore, the central government often resorted to using inadequate legal instruments for the delegation of new mandates/expenditures like government decrees, decisions, rulebooks, and so on. Governing by bylaws instead of laws allowed the central government to behave opportunistically and to quickly respond to the immediate needs of the central budget, treating, in these processes, the local governments as parastatal bodies rather than as integral parts of the government. On the other side, such an “ad hoc” created an unstable, unpredictable, and non-transparent environment for local governance, negatively affecting municipal budgets and local resources. By amending

decrees, the central government changed the methodology for calculating salaries for public employees in preschool education, cultural institutions, and local administration, which significantly exceeded the planned expenditures in the local budgets. Further, until recently, the base for the calculation and payment of salaries of all public sector employees had been regulated by the most non-transparent legal instrument—a government *decision*—an act that is not published in the Official Gazette. Also, many aspects of preschool education and the accompanying costs are regulated by *rulebooks*, and thus, are beyond the sphere of influence of local governments. Finally, salaries and other benefits of employees in educational and cultural institutions were subject to *collective bargaining* between the central government and unions only, but some costs ended up as the financial responsibility of local governments. This manner of transferring new expenditures to the local level is contrary to the Constitution, the Law on Local Self-Government, and the Law on Local Government Finance, which prescribe that new functions and expenditures can be delegated only by law, while the resources must be provided in the central government's budget.³⁰ Not only was there a lack of vertical intergovernmental consultation, but the policymaking process also lacked horizontal coordination between the ministries that delegate functions and the Ministry of Finance, which allocates resources. A lack of strategic planning and monitoring of decentralisation resulted in institutional inefficiency and legal uncertainty and, generally, showed a deep misunderstanding of the concept of fiscal decentralisation. Figure 4.1 illustrates the multitude of changes that led to an increase of expenditures at the local level during the timeline of the phase 2009–2016,

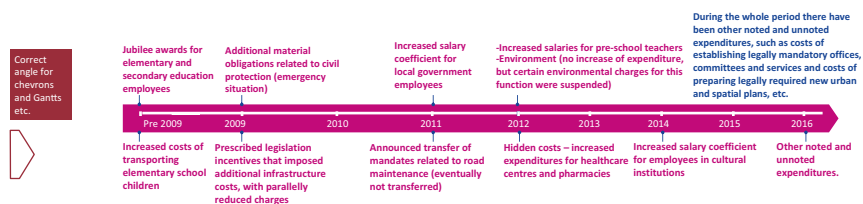


Fig. 4.1 Chronological overview of the increase in local government expenditures due to new mandates delegated by the central government between 2009 and 2016

which we call the wave of re-centralisation and pseudo-decentralisation. In addition to the fact that adequate resources did not accompany new expenditures, the existing sources of revenues were also abolished, suspended, or reduced in the observed period, which we will describe in the following paragraphs.

Local Government Finance Between 2009 and 2016

The phase of fiscal decentralisation formally ended in 2009, when the Serbian government, pressured by the increasing budgetary deficit, reduced non-earmarked grants to local governments and suspended the grant provisions of the Law on Local Government Finance. The central government adopted this measure in April, that is, in the middle of the budgetary year with an immediate effect and without any previous consultation with or warning to local authorities. Such an action would become the default model of governing in the years to follow. The government was altering the system incessantly, changing almost every source of revenue in every single group of local revenues. The changes on the revenue side were so frequent that it is a challenge to even track them all. There were at least 15 changes that we identified:

1. It started with the mentioned suspension of the formula for the calculation of non-earmarked transfers, which reduced the amount of grants from 1.7 per cent of the GDP to approximately 1 per cent of the GDP. This change, introduced in April 2009, lasted until mid-2011 and incurred a loss of RSD 50 billion to municipal budgets (Spirić & Bučić, 2012).
2. In 2011, the central government made a pseudo-decentralistic move by increasing the municipal share in the revenues collected from the wage tax from 40 per cent to 80 per cent.³¹ However, this measure was soon annulled by new centralistic solutions when the government decreased the wage tax base and rate (from 12 per cent to 10 per cent).³²
3. In the same year, the central government changed the methodology for the calculation of non-earmarked transfers, leading to greater non-transparency and unpredictability.³³

4. In 2012, the central government amended this methodology again, further degrading the transparency of the formula.³⁴
5. Under the pretext of improving the business climate at the local level, the central government abolished a number of local communal fees, as well as shared charges for using common goods and natural resources, resulting in a total local loss of RSD 5.5 billion. The hypocrisy of the government's measures towards improving the investment climate is showed by the fact that it simultaneously increased taxes and other levies financing the national budget (Kmezić, Kaluđerović, et al., 2016).
6. In 2013, the central government implemented the already-mentioned changes in the wage tax calculation, leading to additional losses at the local level.³⁵ Namely, instead of receiving the expected RSD 40 billion, local governments ended up with half of the planned amount (Spirić & Bučić, 2012).
7. The Law on the Property Tax was amended in 2013 with the aim of boosting the impoverished local budgets by allowing municipalities to tax legal entities by using the fair market value of the property to determine the tax base.³⁶ These amendments, however, failed to provide the expected amount of revenues.
8. The amendments to the Law on the Personal Income Tax reclassified the real estate rental income tax from local to central budgetary revenue.³⁷ This created an additional loss of RSD 3 billion in local budgets (Kmezić, Kaluđerović, et al., 2016).
9. In 2013, the Ministry of Finance introduced changes in the methodology for the calculation of administrative fees. Although the rationale behind this rulebook was to introduce transparency in the system of administrative fees, its provisions have never been implemented in practice.³⁸
10. The persistently growing budgetary deficit at the national level was the reason for the reduction in non-earmarked transfers by RSD 3.7 billion in December 2013 for the following budgetary year.³⁹
11. The same reduction happened again in December 2014 for the following budgetary year.⁴⁰
12. In 2014, the obsolete construction land use charge was finally abolished with the justification that this fiscal relict was replaced with

modern property taxation of legal entities.⁴¹ Yet, as mentioned above, the new levy failed to compensate for the losses of the old high-yielding revenue. The gross effect of the loss was estimated to be RSD 14 billion (Kmezić, Kaluđerović, et al., 2016).

13. The 2014 amendments to the Law on Planning and Construction introduced changes to another construction land-related revenue. The municipally administered construction land development charge was reformed and renamed “contribution”.⁴² Whether this change will incur gains or losses for local budgets remains to be seen.
14. In 2015, the Ministry of Finance adopted a new change to the methodology for the calculation of non-earmarked transfers.⁴³
15. In October 2016, the Parliament adopted the amendments to the Law on Local Government Finance in order to reduce the shares of local governments in revenues collected from the wage tax.⁴⁴ The share of cities was reduced from 80 per cent to 77 per cent, the share of municipalities was reduced from 80 per cent to 74 per cent, while the share of the capital city of Belgrade was reduced from 70 per cent to 66 per cent. The latest amendments were expected to generate annual fiscal savings for the central government of RSD 4.8 billion annually as of 2017 (or 0.1 per cent of the GDP per year from 2017) (IMF, 2016).

To sum up, after listing all these changes, it is redundant to say that local governments have faced complete legal uncertainty and financial unpredictability. Figure 4.2 shows the timeline of the described changes on the revenue side (with the exception of the last changes).

In addition to its “ad hoc” nature, the major problem of Serbian intergovernmental fiscal governance is that it has not been embedded in any financial planning, that is, in any *ex ante* or *ex post* analysis. The implications of such an approach are that institutions cannot understand the real problems and local government needs and address them specifically, nor can they assess the effects and consequences of the implemented policy measures. The following chapter examines the issue of non-transparency of fiscal data and the inadequacy of databases, which prevent financial planning and policy analyses.

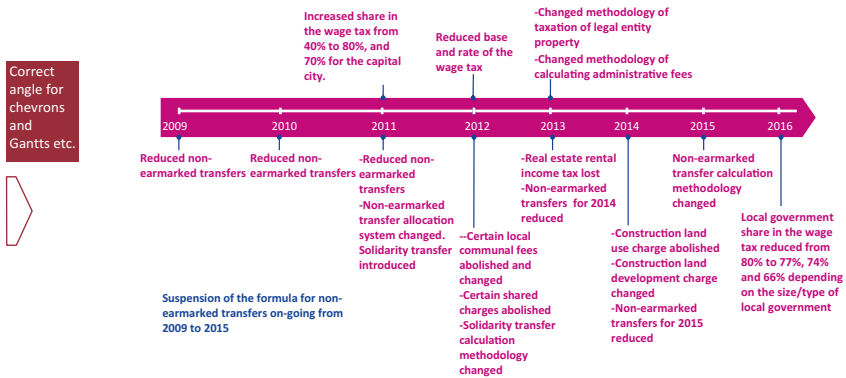


Fig. 4.2 Chronological overview of changes in local government revenues due to changes in central government regulations between 2009 and 2016

The Non-transparency of Fiscal Data and Its Implications

In this section, we discuss the problem of non-transparency of local public finance, including detailed data on municipal budgetary revenues and expenditures. As previously demonstrated, the lack of adequate data prevents a precise and comprehensive scrutiny of the fiscal effects of the intense regulatory changes, which have marked intergovernmental fiscal governance in Serbia. Namely, not only is the data non-transparent, but the existing databases are also not accurate, complete, well-managed, or integrated. In order to clarify the state of the databases with municipal fiscal data, we present here what types of information are, or might be, accessible to the public:

The Ministry of Finance of the Republic of Serbia issues monthly bulletins of public finance. This publication presents the aggregate data on total local government revenues and expenditures. In the category of revenues, there are total aggregate data on (a) the total current revenues (class seven), (b) the total proceeds from the sale of non-financial assets (class eight), and (c) the total proceeds from borrowing and the sale of financial assets (class nine). In the category of expenditures, there are total aggregate data on (a) the current expenditures (class four), (b) the expenses for non-financial assets (class five), and (c) the expenses for

principal repayment and the acquisition of non-financial assets (class six). There are data on certain very broad categories of revenues; however, the sums are aggregate, meaning that they are totals for the entire local government population in Serbia. For instance, there is a total for the (locally collected) property tax for the entire country, but it is impossible to see how much is administered by each local government unit. The total sums for other individual sources of revenue are not available, so one cannot see, for instance, the collected amounts for other municipal tax or non-tax revenue sources (e.g. [The December 2016 Bulletin of the Ministry of Finance of the Republic of Serbia](#)). On the expenditure side, the data are available for certain categories of expenditures (based on the so-called economic classification of expenditures), but they are also the total sums for the entire local government population in the country. For instance, one can see the total local expenses for the municipal civil servants, for subsidies, or for social benefits paid from local budgets, but again, not per each municipality. Based on the type of data provided in the bulletins of the Ministry of Finance, we can calculate basic indicators, which are most frequently used in the literature (Bloechliger, 2013; Buser, 2011; Calamai, 2009; Cantarero & Gonzalez, 2009; Ezcurra & Pascual, 2008; Iimi, 2005; Rodriguez-Pose, 2009; Rodriguez-Pose & Bwire, 2004; Sagbas, Sen, & Kar, 2005; Thiessen, 2003; Woller & Phillips, 1998) to determine the level of fiscal decentralisation in a country—the share of total local government revenue or expenditure in total (consolidated) general government revenue or expenditure and in the GDP. The bulletin also provides information on revenues and expenditures per type of local government unit. So, the share of the city of Belgrade is 31.8 per cent, the share of cities is 32.7 per cent, and the share of municipalities is 35.5 per cent of all local revenues. On the expenditure side, the share of the city of Belgrade is 31.9 per cent, the share of cities is 32.1 per cent, and the share of municipalities is 36.0 per cent ([The December 2016 Bulletin of the Ministry of Finance of the Republic of Serbia](#)).

The Statistical Office of the Republic of Serbia annually issues the publication on municipalities and regions (e.g. [The 2015 Report on Municipalities and Regions in the Republic of Serbia](#)). This yearbook presents information on the totals and the already-mentioned broad,

aggregate categories of revenues and expenditures for the entire population of all 145 Serbian local government units (municipalities, cities, and the city of Belgrade). Unlike the bulletin of the Ministry of Finance, this yearbook presents the said categories for each individual local government unit. However, there is no information on specific revenue and expenditure budgetary items. For instance, while one can see the total current revenues and expenditures for the City of Kragujevac or the Municipality of Bujanovac, one cannot see how much money these local governments collected from specific sources of revenues or spent on specific expenditure items. Such in-depth data would be valuable information for any meaningful and thorough fiscal analysis.

Local governments seem to be the only ones who manage and can issue the detailed data on all specific budgetary revenue and expenditure items. In their budgetary reports, which are or should be available to the public, one can see the precise data on each group of revenues—(a) own-source revenues, (b) shared revenues, (c) grants/transfers, and (d) other revenues—as well as on each individual source of revenue within these groups. In the same manner, municipalities manage and categorise the data on specific expenditure items based on the so-called economic and functional classifications of expenses. As already mentioned, while the functional classification presents expenditures in accordance with the United Nations Statistical Department's list of functions (e.g. administration, education, healthcare, security and public safety, and environmental protection), the economic classification gives us an insight into certain broader groups of economic expenses, such as the ones for municipal civil servants, subsidies, donations and grants, and social benefits. In order to analyse expenditure trends within certain functions, the data classified based on both economic and functional classification should be available and transparent (e.g. to analyse the salary expenditure trends for a municipal administration or to explore capital investment trends in education). However, the practical problem with municipal data is the fact that local governments use different software packages for database management and issue the data in different digital forms or, very often, exclusively in hard copy. These facts significantly complicate technical integration, cleaning, and comparison of municipal fiscal data.

More disturbingly, even though the data exist, local governments often ignore their legal obligation to disclose them. Moreover, they often fail to respond to official requests for access to this public information. Our personal experience in efforts to obtain budgetary data from local governments demonstrates this point. In an attempt to conduct a study on local government finance on a stratified random sample, we submitted multiple enquiries to 13 sampled local governments. Only two responded—the capital city of Belgrade and one of the most transparent and efficient local governments in Serbia, the Municipality of Paraćin. Yet, Belgrade provided the revenue data in hard copy and PDF files with non-cleaned and non-comprehensive expenditure data. On the other hand, Paraćin has been the only Serbian local government that provided us with complete fiscal data in an electronic form.

The Treasury Administration is an authority under the auspices of the Ministry of Finance that should be responsible for collecting and managing detailed municipal budgetary revenue and expenditure data for the entire population of 145 local government units. Our experience with the Ministry of Finance and its Treasury Administration reflects the Kafkaesque nature of the bureaucratic procedure for accessing public financial information in Serbia. In our attempt to obtain the necessary data for scientific research, we submitted official requests for access to public information to both institutions. The Ministry of Finance redirected us to the Treasury Administration, stating that it did not possess the requested information.⁴⁵ In a response to our first request to access the detailed fiscal data for all 145 local government units for the period 2006–2014, the Treasury Administration denied to issue this public information stating that “the data requested cover extensive materials, requiring a disproportionately large effort by the authority in question, which would substantially compromise its regular functioning in terms of performing tasks related to state administration.”⁴⁶ We then submitted a second request for the same type of data and time period, reducing the number of municipalities to the sample of 13. However, the Treasury Administration denied this demand, too, providing a new justification—that it did not possess these data—redirecting us (back) to the Ministry of Finance.⁴⁷ The ultimate absurdity was that both institutions instructed us to file a complaint with the Commissioner for Information of Public

Importance. Upon receiving our complaint, the Commissioner's office explained that it did not have adequate inspection and enforcement mechanisms in cases when public authorities claim that they do not possess the requested public information. This vicious cycle of our roaming through meanders of the bureaucratic maze offers evidence that Serbian public authorities are not willing to ensure transparency of financial and budgetary data. After all our efforts, we are still not clear on (a) whether the authority—the Treasury Administration—responsible for tracking and recording municipal budgetary data does or does not possess this information; (b) in the case that it does, what kind of data it has (e.g. how complete and accurate the database is, what type of database format it uses, which budgetary years are covered, etc.); and (c) what are the real reasons behind non-transparency. In relation to this last point, we have to emphasise that claims from unofficial sources that these public institutions possess the relevant information have been confirmed by representatives of the association of municipalities and the Fiscal Council. This selective approach to transparency is demonstrated by the fact that the administration's data were used as a source in a number of publications analysing own-source revenues, shared revenues, and transfers, as well as expenditures based on the economic classification, including the analyses published by the Fiscal Council.

Not only do taxpayers, academic researchers, and other interested groups face the problem of non-transparent fiscal data, but institutions involved in the legislative and public policymaking processes also deal with the same challenges. To illustrate, the Ministry of Finance established an expert working group for drafting new legislation on local government financing in the fall of 2015, gathering different stakeholders. The members of the working group, including the representatives of the Serbian association of local authorities (gathering all 145 local government units), were supposed to run financial simulations, test different policy options, prepare fiscal impact projections in order to come up with optimal solutions, and draft the text of the law. Despite the delegated mandates, the working group was denied access to detailed fiscal data needed to perform any serious fiscal analysis. Instead of providing the working group with the necessary information, the representatives of the Ministry of Finance came up with a draft law without an accompanying

analysis to substantiate the proposed solutions. Representatives of other institutions in the group were thus prevented from providing any meaningful input and objected the draft law by issuing a negative opinion. Nonetheless, the Ministry of Finance continued with the legislative procedure and initiated the phase of public hearing. The mayors of a large majority of cities and municipalities put aside their partisan differences and jointly voiced their opposition through the association of local governments, succeeding to stop the legislative procedure.⁴⁸ A year later, the mayors and the Ministry of Finance reached a consensus on the text of the legislation. However, the final solutions were the consequence of political agreement and not a result of any evidence-based fiscal analysis.

This apparently unreasonable and illogical behaviour of the Ministry of Finance is ultimately illustrated with its opinion issued in October 2016, to the Ministry of Public Administration and Local Self-Government (MPALSG), regarding the open government initiative. Namely, the MPALSG launched the project Partnership for Open Administration. One of the aims of this project was to establish an obligation for partner institutions to provide open and transparent data in digital form. The immediate response of the Ministry of Finance was negative. First, it insisted on excluding itself from the obligation to share the national budget and the final report on budget execution in an open, electronic form suitable for digital manipulation of the data necessary for any technical analysis. In its opinion, the Ministry of Finance justified its decision by stating that “publicising the data in any form other than pdf can endanger the accuracy of the publicised data”. Moreover, the Ministry of Finance claimed that publicising the data in an open, electronic form suitable for digital manipulation of data “could lead to wrong conclusions and analyses due to the poor knowledge of public finance and the budgetary process of the Republic of Serbia” that interested parties might possess. Finally, as a response to the MPALSG’s proposal to create an online application for monitoring the spending of public financial resources and, thus, ensuring the public supervision of stewardship, the Ministry of Finance took a quite negative position. It compromised the good intention of the whole initiative by stating that it requires entirely new legal ground. Namely, ignoring its own legal obligation to disclose the fiscal data to the public, the Ministry of Finance claimed that the

proposed public monitoring of the stewardship could only be performed via the Anti-Corruption Agency. In order to share the fiscal data with this agency, the ministry allegedly needed new legal ground, which at that moment did not exist. The climax of this absurdity is the fact that the Ministry of Finance first insisted on “exempting certain types of data from public access” rather than proactively facilitating and enabling the process of digital openness and transparency.⁴⁹ This attitude and offered justifications of the Ministry of Finance indicate the fundamental mistrust between this public institution and a part of the government on the one hand, and its constituency, taxpayers, expert public, and other public authorities, on the other hand. The presented official correspondence shows that the default assumption of the Ministry of Finance is that citizens want to discredit the government by searching for potential misuses of public funds, overlooking the fact that this is a legitimate right of the public. In fact, the Ministry of Finance attempts to discredit taxpayers and the expert public by questioning their capability to understand the sophisticated matter of public finance. In this way, the ministry actually discredits itself by preventing an open dialogue, expert analysis, and constructive criticism of its constituency. This persistent non-transparent behaviour ultimately leads to the real and grounded mistrust of the public towards the government.

The presented examples show that the public policymaking cycle in the area of intergovernmental fiscal governance has serious drawbacks, which ultimately lead to suboptimal local government financing. The fact that databases are non-existent, inadequate, non-transparent, or unused affects each public policymaking phase. First, the lack of adequate data input undermines policy design and formulation, which require an *ex ante* analysis. Further, the Ministry of Finance’s attitude towards fiscal data transparency prevents partner institutions and relevant stakeholders to participate and contribute meaningfully to the policymaking. Second, this non-transparency also directly affects policy implementation, as relevant institutions are not equipped with the adequate input needed for monitoring. This is exactly why the stakeholders, in the phase of policy evaluation, cannot assess the quality and the results of the adopted policies, that is, conduct an *ex post* analysis. Finally, such non-transparency causes a lack of oversight and

control of intergovernmental fiscal governance/the public finance system by other public authorities, the expert and academic community, and taxpayers.

This behaviour of the Ministry of Finance and the government appears to be not only incompetent, but also non-democratic. Namely, the ministry undermines legal institutional processes at both the horizontal and vertical levels by downgrading the other relevant ministries (MPALSG, the Ministry of Education, the Ministry of Health, etc.), the Commissioner/Office for Information of Public Importance, its own bodies such as the Intergovernmental Finance Commission and the working group, as well as local governments and their association. Thus, the lack of adequate participation of institutions, which have a legal mandate and obligation to contribute to the process, calls into question the legitimacy of public policymaking. Moreover, such a non-democratic attitude towards the constituency, which cannot control the system, raises the question of public stewardship diligence, generates doubts about corruption, and leads to mistrust.

To sum up, the lack of adequate and accurate databases on municipal spending needs and expenditures on one hand, and the necessary financial resources and revenues on the other, causes serious vertical imbalances in local budgets and results in suboptimal local government financing. Non-disclosure of data is against the provisions of the Council of Europe's Charter of Local Self-Government and its accompanying recommendations,⁵⁰ as well as against the specific pieces of the "Six-pack" and "Two-pack" EU fiscal legislation.⁵¹

Conclusions

Our analysis shows that Serbia's commitment to decentralisation after 2000 has been questionable. First, after formally opting for decentralisation, the country adopted a series of policies and regulations to implement it. However, in 2006, while fiscal decentralisation was at its formal peak, Serbia had a major setback in political decentralisation by abandoning the direct election of mayors—an election system that started showing good results during the short four-year span during which it was

in effect. Second, territorial decentralisation remained suboptimal because any substantial redefinition of local administrative boundaries could have opened a Pandora's box of further political or ethnic tensions. Third, as soon as the first signs of the financial crisis appeared, the central government changed its tune and reversed the political discourse towards centralisation.

Earlier public finance literature identifies two major cycles of intergovernmental fiscal relations in former Yugoslavia: (1) a phase of centralisation between 1946 and 1967, and (2) a phase of decentralisation from 1968 until 1990 (Bogoev, 1964; Raičević, 1977). We have identified three more cycles in the post-1990 period in Serbia: (1) a wave of fiscal centralisation during the 1990s, (2) a wave of fiscal decentralisation between 2000 and 2008, and (3) a phase of pseudo-decentralisation and the renewal of fiscal centralisation from 2009 until today. We conclude that centralisation and decentralisation have been used as key policy avenues for implementing major societal changes. Namely, centralisation was an instrument of choice in times of political or economic hardships. It has been used either to consolidate and stabilise the system or to concentrate power and take control over the state and its finances. On the other hand, decentralisation was also a strategic orientation in times of economic prosperity and liberalisation of society. Also, the cycles seem to have become shorter in recent times.

Our study further shows that the entire intergovernmental fiscal governance has been marked by profound institutional problems. Above all, the policy process lacks the necessary features of an effective policymaking cycle—planning and control. A major problem is a lack of analysis or, at least, adequate *ex ante* and *ex post* financial analyses needed for strategic planning, evidence-based policies, monitoring, and control over the public finance system. Moreover, the meta-problem behind such a policy approach is non-transparency and inadequacy of fiscal data. Based on what we have found, databases on budgetary revenues and expenditures are either non-transparent or do not exist; and the limited number of databases that do exist are inadequate, incomplete, or not used.

The absence of analysis coupled with the lack of institutional coordination has led to an *ad hoc* and disconnected approach to decentralisation of functions and finance. The discrepancy between delegating mandates

and transferring adequate financial resources has created a vertical imbalance between municipal budgetary expenditures and revenues. Furthermore, the “adhococracy” and the divorce of functional and financial decentralisation has undermined financial planning and management at the local level. Local governments have been faced with substantial volatility of budgetary revenues and expenditures and, thus, with frequent liquidity problems. New functions and tasks, not accompanied with adequate funding, put enormous pressure on municipalities to maintain or increase the level of recurrent expenses (operating costs), usually accumulating arrears and debts. Together with the reduced creditworthiness and borrowing capacity, budgetary imbalances have forced local governments to consider capital investments in a rather restrictive way. Consequently, cities and municipalities are unable to focus on any kind of long-term financial planning, their provision of local public goods and services to citizens is compromised, and local economic development is jeopardised due to drastically reduced capital budgets.

In Fig. 4.3, we use the level of capital investment as a proxy for the capacity and effectiveness of local governments in implementing local economic development policies. The figure shows trends from 2006 to 2014.

As mentioned earlier, local governments are classified into four categories based on their level of development. The six trend lines in

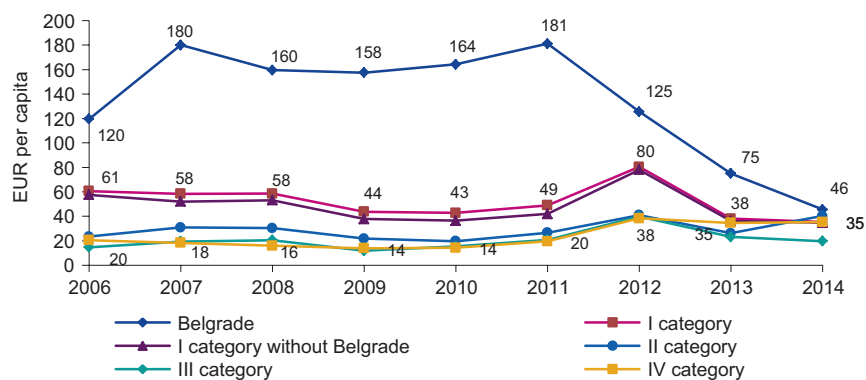


Fig. 4.3 Average of total capital expenditures (2006–2014)

Fig. 4.3 represent the aggregate capital investment for each category from category I, which is the richest, to category IV, which is the poorest, as well as for the capital city of Belgrade and category I without Belgrade. The capital city is the largest LGU, representing about one-third of total local revenues and expenditures and approximately the same share of the country's economic activity (employment) (Kmezić, Kaluđerović, et al., 2016). If we take 2006 as the base, which is also the year in which the Law on Local Government Finance was adopted, we can see that capital investment fell from EUR 112 per capita to EUR 47 per capita in 2014, which is a 58 per cent reduction. Encouraged by positive regulatory changes and an increase in budgetary revenues, Belgrade undertook a major investment project (the Bridge on Ada) up to 2011. However, due to a change in policy discourse, a series of centralising measures, and a dramatic fall in revenues, Belgrade cut capital investment as soon as the project was completed. As one can see in Fig. 4.3, the fall in 2014 was even more drastic (75 per cent) when investment activity is compared to its peak in 2011 (Kmezić, Kaluđerović, et al., 2016).

Furthermore, the fall in investment activity was registered in the whole category I, as well as in the four main cities in Serbia—Belgrade, Novi Sad, Kragujevac, and Nis—which represent around 50 per cent of total local government revenues and expenditures and two-thirds of total local public debt (Fiscal Council of the Republic of Serbia, 2017). In other words, the major cities and towns in Serbia that are supposed to be the drivers of local economic development have experienced an extreme decrease of investments. A rise in investment activity has taken place only in the poorer categories of municipalities. However, the level of investment in these municipalities was extremely low at the beginning of this period (see Fig. 4.3), and although the relative increase might seem significant, the absolute value of investment remains insufficient to resolve the problems of unbalanced regional development.

Finally, to determine the effect of the fiscal decentralisation process in Serbia we use standard measures of decentralisation: (a) the share of total local government revenues in consolidated general government revenues; (b) the share of total local government expenditures in consolidated general government expenditures; (c) the share of total local government

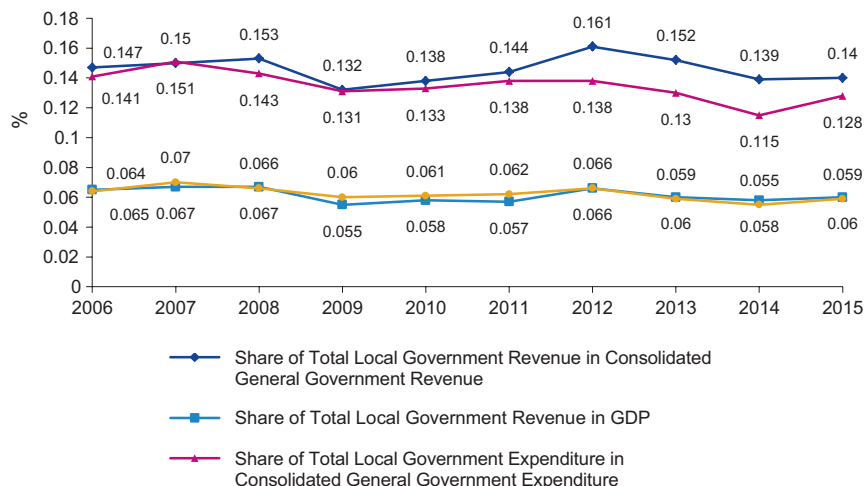


Fig. 4.4 Level of decentralisation (2006–2015)

revenues in GDP; and (d) the share of total local government expenditures in GDP. In Fig. 4.4, we represent these four parameters as trend lines.

The data on the level of decentralisation clearly show that the effect of the policies implemented in the period observed in this study has been centralising. When compared to 2006 and 2011, the share of total government revenue in consolidated general government revenue fell from 14.7 per cent and 16.1 per cent, respectively, to 14 per cent. The same is true for expenditure decentralisation, where the share of total government expenditure in consolidated general government expenditure was 12.8 per cent in 2015, while it reached 15.1 per cent in 2007, the first year of the implementation of the Law on Local Government Finance. When we compare the level of fiscal decentralisation using GDP as a benchmark, the trend is the same. The shares of both total local government revenues and expenditures in GDP were around 7.0 per cent at the peak of fiscal decentralisation. In 2015, the shares were 5.9 per cent and 6.0 per cent, respectively. Not only are these shares lower relative to the years when fiscal decentralisation was at its peak, but they are also lower than the same values at the very beginning of the decentralisation phase—in the period 2002–2005.⁵² To sum up, the analysis presented in

this chapter shows that Serbia is back on the centralising course again, which represents an annulment of all the decentralisation policies implemented in the period of transition and democratisation (2000–2016). Our observations suggest that a revival of decentralisation will most likely happen only when the Serbian economy is back on a sustained path of recovery.

Notes

1. The Constitution of the Republic of Serbia (Official Gazette of the Republic of Serbia No. 1/1990).
2. United Nations Security Council (UNSC) Resolution 1244 from 10 June 1999.
3. The Constitution of the Republic of Serbia (Official Gazette of the Republic of Serbia No. 98/2006).
4. International Court of Justice (ICJ), Advisory Opinion on the unilateral declaration of independence of Kosovo, 22 July 2010.
5. Article 5 of the Law on Regional Development (Official Gazette of the Republic of Serbia No. 51/2009, 30/2010, and 89/2015).
6. The Decree on Administrative Counties (Official Gazette of the Republic of Serbia No. 15/2006).
7. The Law on Territorial Organisation of the Republic of Serbia (Official Gazette of the Republic of Serbia No. 129//2007 and 18/2016).
8. See Articles 11 and 12a of the Law on Regional Development (Official Gazette of the Republic of Serbia No. 51/2009, 30/2010, and 89/2015), as well as the Decree on Establishing a Uniform List of Regions and Local Governments According to Their Development Levels for 2011 (Official Gazette of the Republic of Serbia No. 51/2010, 69/2011, 107/2012, 62/2013, and 104/2014) and the Decree on Setting the Methodology for Calculating the Levels of Development of Regions and Local Government Units (Official Gazette of the Republic of Serbia No. 62/2015).
9. The Law on Local Self-Government (Official Gazette of the Republic of Serbia No. 9/2002, 33/2004, and 135/2004).
10. The Constitution of the Republic of Serbia (Official Gazette of the Republic of Serbia No. 98/2006).

11. The Law on Local Self-Government (Official Gazette of the Republic of Serbia No. 129/2007).
12. The Law on Local Elections (Official Gazette of the Republic of Serbia No. 129/2007, 34/2010, and 54/2011).
13. The Constitution of the Republic of Serbia (Official Gazette of the Republic of Serbia No. 1/1990).
14. The Law on Territorial Organisation of the Republic of Serbia and Local Self-Government (Official Gazette of the Republic of Serbia No. 47/91, 79/92, 82/92, and 47/94).
15. The Law on Public Revenues and Public Expenditures (Official Gazette of the Republic of Serbia No. 76/91...135/04).
16. The Law on Public Revenues and Public Expenditures (Official Gazette of the Republic of Serbia No. 76/91...135/04).
17. Non-transparency was obvious in the example of sharing revenues from the sales tax with municipalities as the government changed the relevant law every year, starting from 1994, to factor in political changes at the local level (The annual laws on sharing the collected wage tax and sales tax with municipalities and cities, Official Gazette of the Republic of Serbia No. 44/94, 75/94, 53/95, 60/97, 44/98, 54/99, 22/01, and 15/02). A similar practice was evident in the allocation of intergovernmental transfers.
18. The Law on Assets Owned by the Republic of Serbia (Official Gazette of the Republic of Serbia No. 53/95, 3/96, 54/96, and 32/97).
19. The Law on Establishing Competences of the Autonomous Province (Official Gazette of the Republic of Serbia No. 6/02).
20. The Law on Local Self-Government (Official Gazette of the Republic of Serbia No. 9/2002, 33/2004, and 135/2004).
21. The Law on Local Self-Government (Official Gazette of the Republic of Serbia No. 129/2007).
22. The Constitution of the Republic of Serbia (Official Gazette of the Republic of Serbia No. 98/2006).
23. The Law on Local Government Finance (Official Gazette of the Republic of Serbia No. 62/2006, 47/2011, 93/2012, and 83/2016).
24. The Law Amending the Law on Public Revenues and Public Expenditures (Official Gazette of the Republic of Serbia No. 76/91, 18/ 93, 22/93, 37/93, 67/93, 45/94, 42/98, 54/99, 22/2001, and 33/2004).
25. The Law Amending the Law on Local Self-Government (Official Gazette of the Republic of Serbia No. 49/99 and 27/2001).

26. The Law on Local Self-Government (Official Gazette of the Republic of Serbia No. 9/2002, 33/2004, and 135/2004).
27. The Law on the Value Added Tax (Official Gazette of the Republic of Serbia No. 84/2004, 86/2004, 61/2005, 61/2007, 93/2012, 108/2013, 68/2014, and 142/2014).
28. The Law on Local Government Finance (Official Gazette of the Republic of Serbia No. 62/2006, 47/2011, 93/2012, and 83/2016).
29. The Law on Local Government Finance (Official Gazette of the Republic of Serbia No. 62/2006, 47/2011, 93/2012, and 83/2016).
30. Articles 177-178 of the Constitution of the Republic of Serbia (Official Gazette of the Republic of Serbia No. 98/2006); Article 21 of the Law on Local Self-Government (Official Gazette of the Republic of Serbia No. 9/2002, 33/2004, and 135/2004); and articles 3 and 44-46 of the Law on Local Government Finance (Official Gazette of the Republic of Serbia No. 62/2006, 47/2011, 93/2012, and 83/2016).
31. The Law on Local Government Finance (Official Gazette of the Republic of Serbia No. 62/2006, 47/2011, 93/2012, and 83/2016).
32. The Law on Amendments and Addenda to the Law on the Personal Income Tax (Official Gazette of the Republic of Serbia No. 47/2013).
33. The Law on Local Government Finance (Official Gazette of the Republic of Serbia No. 62/2006, 47/2011, 93/2012, and 83/2016).
34. The Law on Local Government Finance (Official Gazette of the Republic of Serbia No. 62/2006, 47/2011, 93/2012, and 83/2016).
35. The Law on Amendments and Addenda to the Law on the Personal Income Tax (Official Gazette of the Republic of Serbia No. 47/2013) and the Law on the Personal Income Tax (Official Gazette of the Republic of Serbia No. 24/2001...57/2014).
36. The Law on Property Taxes (Official Gazette of the Republic of Serbia No. 26/2001...68/2014).
37. The Law on the Personal Income Tax (Official Gazette of the Republic of Serbia No. 24/2001...57/2014).
38. The Rulebook on the Methodology and Criteria for Determining Costs of Providing Public Services (Official Gazette of the Republic of Serbia No. 14/2013, 25/2013, and 99/2013).
39. The Instruction for the Preparation of the Decision on the Local Government Budget for 2014 (and Projections for 2015 and 2016).
40. The Instruction for the Preparation of the Decision on the Local Government Budget for 2015 (and Projections for 2016 and 2017).

41. The Law on Planning and Construction (Official Gazette of the Republic of Serbia No. 72/2009, 81/2009, 64/2010, 121/2012, 132/2014, and 145/2014).
42. The Law on Planning and Construction (Official Gazette of the Republic of Serbia No. 72/2009, 81/2009, 64/2010, 121/2012, 132/2014, and 145/2014).
43. The Decree on Setting the Methodology for Calculating the Levels of Development of Regions and Local Government Units (Official Gazette of the Republic of Serbia No. 62/2015).
44. The Law on Local Government Finance (Official Gazette of the Republic of Serbia No. 62/2006, 47/2011, 93/2012, and 83/2016).
45. The Decision of the Ministry of Finance of the Republic of Serbia, No. 4-00-45/2015, 30 April 2015.
46. The Decision of the Treasury Administration of the Ministry of Finance of the Republic of Serbia No. 401-00-315/2015-001-007, 2 April 2015. The request was denied due to the fact that the volume of the data requested was too large. The justification was based on Article 13 of the Law on Free Access to Information of Public Importance (Official Gazette of the Republic of Serbia No. 120/2004...36/2010).
47. The Decision of the Treasury Administration of the Ministry of Finance of the Republic of Serbia No. 401-00-438/2015-001-007, 7 May 2015.
48. For instance, see the positions of the Standing Conference of Towns and Municipalities from 4 December 2015: <http://www.skgo.org/reports/details/1722> and from 10 December 2015: <http://www.skgo.org/files/fck/File/2015/Ministarstvo%20finansija,%20dopis.PDF>
49. The Position of the Ministry of Finance of the Republic of Serbia, signed by the minister, Dr Dušan Vujović; 08 No.: 021-02-114/2016, 28 October 2016. For details, see: <http://www.istinomer.rs/multimedia/pdfs/189549243807044.pdf>
50. The Republic of Serbia adopted the European Charter of Local Self-Government (CETS No. 122, Strasbourg, 15 October 1985) and its financial provision, and incorporated it in its national legislation. The accompanying recommendations are the Council of Europe Recommendation of the Committee of Ministers to Member States on Financial and Budgetary Management at Local and Regional Levels (Recommendation Rec (2004) adopted by the Committee of Ministers on 8 January 2004) and the Council of Europe Recommendation of the Committee of Ministers to Member States on the Financial Resources of Local and Regional Authorities (Recommendation Rec (2005) adopted by the Committee of Ministers on 19 January 2005).

51. The failure to publish fiscal and budgetary data is contrary to the provisions of the Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States, Regulation No. 1173/2011 of the European Parliament and the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area, and Regulation (EU) No. 473/2013 of the European Parliament and the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficits of the Member States in the euro area.
52. See Table 4.1 of this chapter.

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