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TOWARD SUSTAINABLE GROWTH**

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**VOLUME AND STRUCTURE OF THE OWN REVENUES  
IN FINANCING OF THE LOCAL GOVERNMENTS  
IN THE REPUBLIC OF SERBIA**

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***Abstract:** Local governments are financed from own revenues, shared revenues, transfers and borrowing. Own revenues of local government are those which can be independently introduced by their own authorities just as well as such collected funds can be freely disposed of. This revenues should be stable and predictable source of revenues and should provide sufficient funds to match expenditure arising from the scope of local public affairs, and on the other hand to stimulate economic growth. The aim of this paper is to assess the importance of own revenues into the system of local government finance in Serbia. This revenues are complex and heterogeneous revenue group. The main division is on fiscal and non-fiscal revenues. Communities are provided much more revenues through fiscal own revenues. In this paper, we found that 30-40% of the total revenue collected by own revenues, which corresponds to an average in developed countries. We also find that the share of this revenues in total revenues was in developed municipalities much higher than in the underdeveloped.*

***Keywords:** local government, fiscal decentralization, public revenues, own revenues.*

**Introduction**

In order to be able to carry out all the activities and tasks that are within their jurisdiction, local governments are in need of adequate financial resources. At this point appears the idea of fiscal decentralization. The complexity of the political-territorial structure causes on the other hand the complex structure of public revenues. Depending on the form of state organization, there are various concerns and solutions in the unitary and federal states. In federal states the relationship is established between the federal government and the federal units, while in the unitary states the relation is formed between

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central and local government levels. Schedule of public revenue among specific levels of government should depend on the arrangement of their jurisdiction. Beside the distribution of fiscal authority, the state shall also execute the allocation of public revenues. The local government strengthening is related to the process of fiscal decentralization and the increment of share of local revenues to total revenues.

Basic characteristics of the local government are the following: by the local government, as the mediator, the citizens realize their numerous rights; citizens directly or indirectly conduct the affairs, which are needed to meet their immediate needs and interests; local governments are autonomous in performing activities of original scope; local governments must have their own sources of revenue that will fund these activities; local governments are obliged to adhere to the principles of constitutionality and legality, while conducting previously mentioned tasks.

The state should select appropriate forms of public fiscal revenues that can meet the following requirements (Musgrave , 1983. P.163): the tax base of local revenues should be at least possible mobile; to be stable and predictable source of revenues; tax base should be easy to perceive; these forms of public fiscal revenues should be as simple as possible in tax - administrative sense; tax rate should be proportional. In addition to these, there also exist the following characteristics of the own local government revenues (Đurović - Todorovic and Djordjevic, 2010, p.414 ): easy and inexpensive to collect, compatibility of obligations and benefits of the service, to have not negative external effects on the allocation of resources in the country, i.e. not to adversely affect other local government units, in the sense that there is a migration of taxpayer from one to another unit of local government, do not endanger the generality and uniformity of taxes.

In the structure of local government financing exist: own revenues, shared revenues, transfers, loans, etc. How will local government introduce and use its own revenues, depends on the organization of government at the state level and method of distribution of competency between levels of government, i.e. fiscal federalism. Fiscal federalism deals with the division of governmental functions and financial relations among levels of government (<http://www.britannica.com/EBchecked/topic/1920808/fiscal-federalism>).

Numerous studies have shown that in decentralized countries better performance of education are achieved and that capital expenditure are at a higher level (Fredriksen, 2013). Some results suggest that the relationship between fiscal decentralisation and GDP per capita, productivity or human capital is positive and statistically significant, while the relationship with investment is insignificant. Doubling the sub-central tax or spending share (e.g. moving from a decentralisation ratio of 15 to 30%) is associated with an increase of GDP per capita by 3% on average. The results vary little between federal and unitary countries in general. Intergovernmental transfers tend to be negatively associated with GDP per capita (Blöchliger and Égert, 2013).

The main objective of this paper is to examine the position of local governments in Serbia. The main emphasis will be placed on analysis of the source of funding. The main sources of funding are classified into several groups: own revenues, shared revenues, transfers, borrowing and other revenues. Special attention will be paid to own revenues, in order to estimate their fiscal importance in the system of local government finance.

## Volume and Structure of the Own Revenues in Financing of the Local Governments in the Republic of Serbia

### Fiscal Importance and Structure of Own Revenues of Local Governments

To comprehend the achieved level of fiscal federalism it is necessary to first analyze the structure of public revenues by levels of government. This analysis was done for selected OECD countries and Serbia. From Table 1 we can see that a vast number of analyzed countries don't have an intermediate level of government. It is also evident that there exists great heterogeneity in the results. The largest share of local governments in total public revenues are recorded in Japan (37.8%), Denmark (35.6%) and Sweden (32.4%), while for the same needs at least is given out in the USA (0%), Greece (2.5%) and Luxembourg (7.9%). The U.S. is not the typical country, because in it big revenues belonging to the middle level of government, while municipalities are not eligible. On the other hand, Denmark and Sweden have transferred a number of functions, but also revenues to their municipalities. Their main goal is to ensure the quality of public goods for all residents. Numerous studies have shown that this structure isn't significantly affected form of state, i.e. there are no similar tendencies within the group of unitary and federal states.

**Table 1. Structure of public revenues by level of government in selected OECD countries, 2011 (%)**

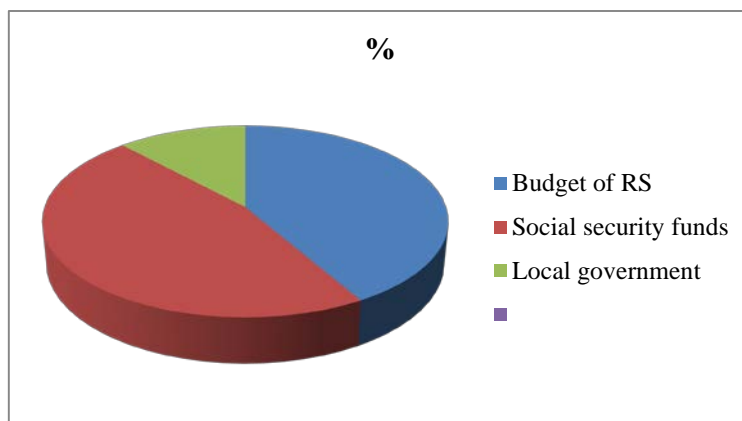
Country	Central government	State government	Local government	Soc.security fund
Iceland	75,6	/	24,2	0,2
Denmark	61,1	/	35,6	3,3
Sweden	57,9	/	32,4	9,7
Luxembourg	67,0	/	7,9	25,0
Greece	69,7	/	2,5	28,7
Japan	28,0	/	37,8	34,2
USA	59,8	40,2	0,0	0,0
OECD 31	60,3	6,0	14,6	19,1

*Source:* OECD (2011), "Revenue structure by level of government", in Government at a Glance 2011, OECD Publishing. [http://dx.doi.org/10.1787/gov\\_glance-2011--en](http://dx.doi.org/10.1787/gov_glance-2011--en)

In 2014, the financial position of local government in Serbia has worsened because of the participation of local governments in total consolidated public revenues decreased to 11.7% (Figure 1). This is below the average of OECD countries. The largest participation have social security funds, which contain almost half of all revenues.

The relative share of own revenues in total revenues at the local level in some countries is given in table 2. Based on data available for selected countries, this share is very diverse and ranges from 10% in the Netherlands to 74% in Iceland. This is a great indicator to measure the achieved level of fiscal federalism, too. Therefore, in countries with a high share of own revenues there is a high degree of fiscal decentralization, i.e. important tasks are assigned or transferred to municipalities.

**Figure 1. The structure of the consolidated public revenues by level of governments in Serbia, 2014**



*Source:* Bulletin of Public Finance, January 2014 Ministry of Finance of the Republic of Serbia, p.16-50, calculations have been carried out by authors

**Table 2. Own revenues as % of total revenues of the local level in selected countries in 2011**

Country	% of total revenues
Iceland	74,00
Slovakia	54,00
Netherlands	10,00
Luxembourg	32,00

*Source:* OECD (2011), "Revenue structure by level of government", in Government at a Glance 2011, OECD Publishing. [http://dx.doi.org/10.1787/gov\\_glance-2011--en](http://dx.doi.org/10.1787/gov_glance-2011--en)

According to the Law on public revenues and public expenditures all revenues are segmented into specific shapes that are used to finance the three levels of state government: central, provincial and local units (municipalities, cities and the city of Belgrade) and public funds and institutes. As it can be seen from Table 3 taxes may be introduced only by republican government, while to local governments belong different fees and recompenses.

**Table 3. Composition of own revenues by level of government in the Republic of Serbia**

Republic	Province	Local government
Taxes	Administrative fees	Fees
Fees	Interest revenue	Lease income and sale of movable property
Other revenues	Revenues from the sale of immovable and movable property and leaseholds	Revenues from operations of local authorities
Contributions	Revenue from operations of provincial authorities	Interest on funds
	Revenues from donations and the sale of the share capital	Public subscription tax and donations

**Volume and Structure of the Own Revenues in Financing of the Local Governments in the Republic of Serbia**

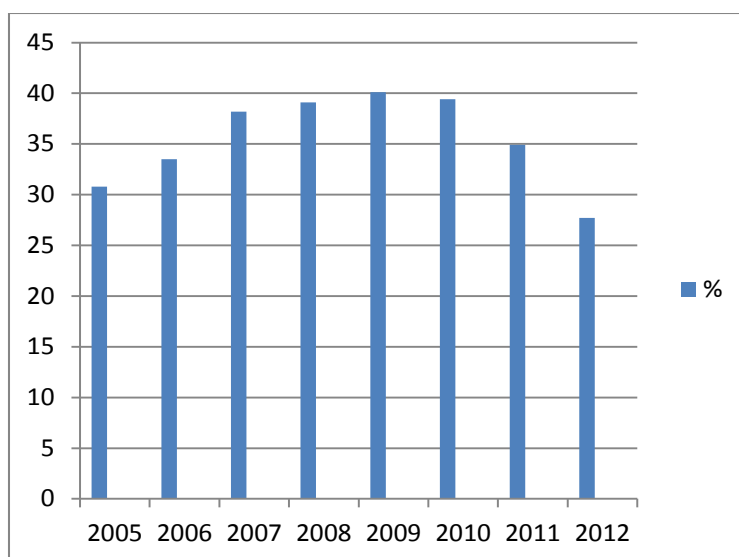
		Confiscated property
		Concession fees
		Fines
		Self-contribution and donation

*Source:* Law on Public Revenues and expenditures of the Republic of Serbia, Official Gazette of the Republic of Serbia 135/2004

The size of the own revenues effects the financial potential of local governments and the ability to finance current and development needs. The importance of own revenues can be seen on the basis of certain ratios. Based on the available data of the Ministry of Finance of the Republic of Serbia the following part contains an overview of the relative share of own revenues in total revenues of local governments at the national level for the period from 2005 to 2012 (Figure 2).

The share of own revenues in total revenues of local governments in the analyzed period shows growing trend until 2009. Then it reaches its maximum and exceeds 40%. This is followed by a downward trend of the share, where 2012 is the key year, because at that time own revenues fell below 30%. This certainly is not a good indicator of the achieved level of fiscal federalism. In this way, the financial position of the municipalities and cities becomes even more complicated. Instead of strengthening the position of municipalities and cities, it comes to its weakening. This is a consequence of the current economic crisis.

**Figure 2: The ratio of own revenues in total revenues of local governments in Serbia, 2005-2012**



*Source:* Bulletin of Public Finance, January 2014 Ministry of Finance of the Republic of Serbia, p.p.16-50, calculations have been carried out by authors

In the Republic of Serbia own revenue of local governments are introduced on the basis of the Law (the Law on Financing of Local Self-Government, Article 6). Forms of these revenues that local governments may impose and charge in favor of the local budget are precisely specified in Table 4. As it can be seen from this table the structure of own revenues is quite complex and fiscal importance of each type of revenues is different. The most generous kind of the own revenues is property tax. Through it local governments collect about a quarter of the own revenues. Further follow local municipal taxes and recompense for land arrangement. The lowest revenues is achieved by concession fee, tourist fees and administrative fees.

**Table 4: Structure of the own revenues of local governments in Serbia, 2008-2012**

Year	2008	2009	2010	2011	2012
<b>Own revenues</b>	<b>100,00</b>	<b>100,00</b>	<b>100,00</b>	<b>100,00</b>	<b>100,00</b>
Property tax	19,85	19,29	24,84	24,58	25,66
Local administrative fees	1,33	1,26	1,31	0,86	0,63
Local communal fees	17,57	20,00	22,22	22,45	19,97
Tourist fees	0,84	0,70	0,75	0,67	0,58
Recompense for land use	18,97	21,67	22,97	19,52	15,01
Recompense for land arrangement	11,20	5,99	5,33	4,94	3,80
Recompense for care and enhancement of the environment	2,65	2,71	3,63	7,62	7,07
Public subscription tax	8,57	8,01	10,14	7,88	7,54
Revenues from property	16,75	17,47	5,70	7,37	10,81
Concession fees	0,22	0,21	0,18	0,15	0,13
Self-contribution and donations	0,21	1,23	0,54	0,28	1,23
Other revenues	1,84	1,45	2,40	3,68	7,56

*Source:* Bulletin of Public Finance, January 2014 Ministry of Finance of the Republic of Serbia, p.p.16-50, calculations have been carried out by authors

Own revenues can be divided into two major groups: fiscal and non-fiscal. The data in Table 5 indicate that the share of fiscal own revenues in comparison to the own non-fiscal revenues is far larger and is about  $\frac{3}{4}$  of the own revenues, while the rest are non-fiscal revenues.

**Table 5: Structure of the own revenues of local governments in Serbia in 2013**

Type of revenues	In million dinars	% of total own revenues
Fiscal revenues	69.496,70	73,81
Non-fiscal revenues	24.656,60	26,19
Total own	94.153,30	100,00

*Source:* Bulletin of Public Finance, January 2014 Ministry of Finance of the Republic of Serbia, p.p.16-50, calculations have been carried out by authors

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**The Main Types of Own Revenues in Serbia**

**Table 6. Share of the fiscal own local government revenues in total revenues in the Republic of Serbia, 2013**

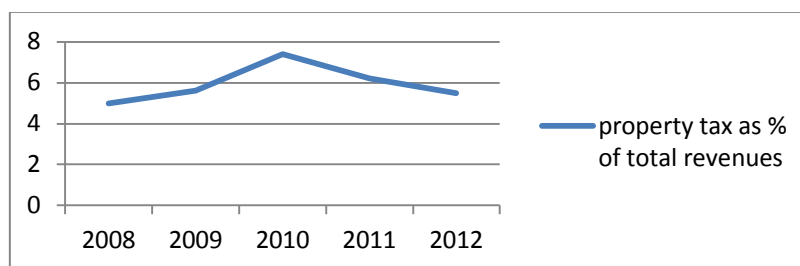
Type of revenues	In dinars	% of total revenues
Property tax	670.422	5,56
Local administrative fees	16.438	0,14
Local communal fees	521.744	4,33
Tourist fees	15.078	0,13
Recompense for construction land use	392.004	3,25
Recompense for land arrangement	99.328	0,82
Recompense for care and enhancement of the environment	184.651	1,53
Self-contribution	197.013	1,63

*Source:* Bulletin of Public Finance, January 2014 Ministry of Finance of the Republic of Serbia, p.p.16-50, calculations have been carried out by authors

Table 6 shows the main types of fiscal own local government revenues, which it has introduced on the basis of fiscal sovereignty and which are required of taxpayers. The data show that the property tax takes the biggest part of total revenues.

*Property tax* (excluding tax on absolute right transfers and tax on inheritance and gift) is one of the own revenues of local governments, that it achieves on its territory (the Law on Financing of Local Self-Government, Article 6). Based on the analysis of data for local governments, i.e. municipalities and cities in Serbia, it was found that the percentage share of property tax as a form of own revenues of local governments ranged from 5% in 2008 to 7.38% in 2010, and after 2010 was followed by a serious decline (Figure 3). The percentage share of the property tax is low compared to the total revenue, but this kind of the own revenues in its essence is very important for the society and the state.

**Figure 3: Share of revenue from property taxes in the total revenues of local governments, 2008-2012**

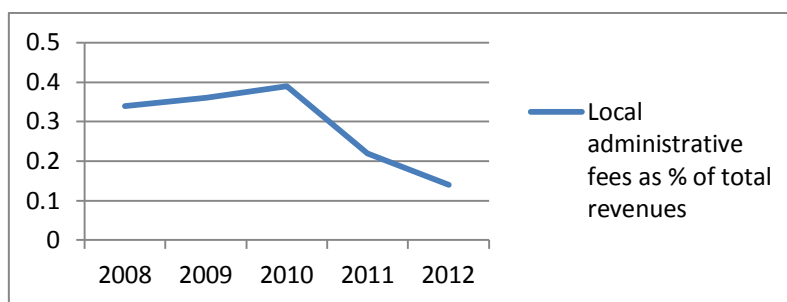


*Source:* Bulletin of Public Finance, January 2014 Ministry of Finance of the Republic of Serbia, p.p.16-50, calculations have been carried out by authors

*Local administrative fees* for documents and procedures in administrative matters introduces assembly of the local self-government in accordance with the law (The Law on Local Government Finance, art.9), but it can not introduce local administrative fees for documents and procedures, which have to pay Republican administration fee. The law provides a maximum amount of fees, i.e. the amount of the fee can be up to the amount of the republic administrative fees for the relevant or similar documents and procedures.

Participation of local administrative fees in total revenues of local government in the Republic of Serbia in the period from 2008 to 2012 ranged from 0.14% to 0.39% of total income (Figure 4). Significant decline in these revenues is recorded from 2010.

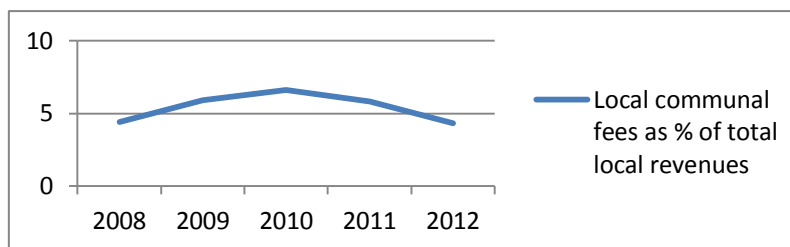
**Figure 4. Share of revenue from the local administrative fees to total local revenues, 2008-2012**



Source: Bulletin of Public Finance, January 2014 Ministry of Finance of the Republic of Serbia, p.p.16-50, calculations have been carried out by authors

The assembly of local government may introduce *local communal fees* for the use of rights, objects and services in accordance with the law. A taxpayer of communal fees is the user of rights, items or services for which use is payment provided. The obligation to pay fees begins on the date of use of rights, objects or services and continue as long as they last. Participation of local communal fee revenues of local government in the Republic of Serbia for the period 2008-2012 ranged from 4.33% up to 6.60% of total revenues (Figure 5). These revenues also decreased from 2010, through the pressure of the economic crisis. Communal fees are a significant source of revenues for local governments. In developed municipalities is on this basis collect more revenue than in underdeveloped.

**Figure 5. Share of revenue from local communal fees to total local revenues, 2008-2012**



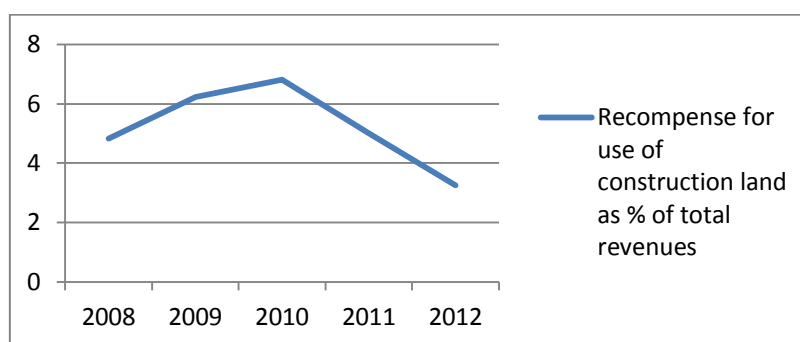
Source: Bulletin of Public Finance, January 2014 Ministry of Finance of the Republic of Serbia, p.p.16-50, calculations have been carried out by authors



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*The recompense for use of construction land* is regulated by the Law on Planning and Construction. This recompense is paid for the use of construction land in state ownership. Its use depends on the following elements: the scope and degree of land arrangement, the largest plan allowed construction index, the position of the land in the suburb, the equipment of area with objects of social standards, traffic connections with the local area or city center, work zones and other facilities in the suburb and other benefits that the land has. This fee is abolished and shall not be paid starting from 1<sup>st</sup> January 2014. As can be seen from the available data this recompense was a significant source of revenues for local governments. Its participation was highest in 2010 with 6.82% and the lowest in 2012 with only 3.25% of total local revenues (Figure 6).

**Figure 6. Share of revenue from recompense for use of construction land to total local revenues, 2008-2012**

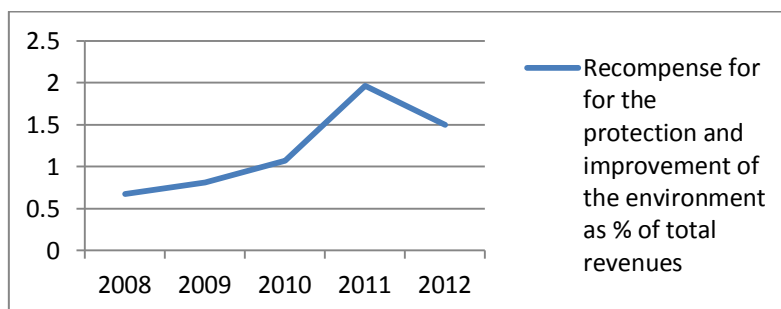


*Source:* Bulletin of Public Finance, January 2014 Ministry of Finance of the Republic of Serbia, p.p.16-50, calculations have been carried out by authors

Local public revenues shall also include *recompense for the protection and improvement of the environment* (Law on public revenue and public expenditure (Article 16) and the Law on Environmental Protection, (Article 87) ). It is anticipated that the charge should be introduced in: the use of residential and commercial buildings, flats for residential use, business premises for performance of services, transport of oil and petroleum products, raw materials and semi-finished products, chemicals and other hazardous substances related to the industry. Funds provided through recompense are earmarked for the protection and improvement of the environment, in accordance with approved programs of the use of budget funds .

In analyzed period percentage of recompense for the protection and improvement of the environment ranged from 0.67% in 2008 to 1.96% in 2011 of total income (Figure 7). Reasons for this low participation of these revenues can be found in a small number of companies in the industry, which is emerging as a major pollutant of the environment.

**Figure 7. Share of revenue from recompense for the protection and improvement of the environment to total local revenues, 2008-2012**



Source: Bulletin of Public Finance, January 2014 Ministry of Finance of the Republic of Serbia, p.p.16-50, calculations have been carried out by authors

Table 8 shows the forms of non-fiscal own public revenues of local governments that they are introduced not by fiscal sovereignty, but voluntary or based on the activities of local authorities. The data show that the main fiscal importance of these revenue groups belong to income from the property.

**Table 8. Types of non-fiscal own revenues of local governments and their fiscal importance in 2012**

Types of non-fiscal own revenues	as % of total local revenues
Income from property	2,3
Income from concession fees	0,03
Income from donations	0,27
Other revenues	1,64

Source: Bulletin of Public Finance, January 2014 Ministry of Finance of the Republic of Serbia, p.p.16-50, calculations have been carried out by authors

Group of *other non-fiscal own revenues* of local government belong to a lower revenue yield, but have great fundamental importance, because they contribute to improving the quality of the local government. This group of local revenues includes: income from the institution founded by the local government level ( sports center ), income from public enterprises founded by the local government level (communal enterprises), the fine imposed for a misdemeanor offenses prescribed by the act of the assembly of local government and confiscated in the process.

## Conclusion

System of funding of local self-government in Serbia is very complex and dynamic. It is the object of constant changes and adjustments due to frequent changes in the legal framework, the situation in the country and abroad and the needs of citizens. In order to accomplish its tasks, the local government should be financially independent and autonomous from the central government, which is achieved through fiscal

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decentralization. It needs to have certain assets that will fund the tasks within the vertical structure of the state.

Research has shown that it has made obvious progress in strengthening of the financial strength of the local authorities. Total local government revenues in the period 2005-2012 grew at an average annual rate of 12%. Through the changes in the system of local government finance, the share of own revenues in the total volume of funds has increased considering all the local governments. Own revenues of local governments in Serbia recorded annual average growth of 12.8% in the period 2005-2012. Unfortunately, this growth was slower than the growth of shared revenues and transfers. Own revenues had upward trend until 2010, but under the influence of the economic crisis they were followed by a decline.

Structure of own revenue at the local level is very heterogeneous and is determined by many factors: form of state, the achieved level of fiscal decentralization, the achieved level of economic development, organization of public finances, etc. Among all analysed municipalities the most abundant source of revenue is property taxes, in both absolute and relative terms, where significant revenues are made in rich municipalities. So, there's plenty of room to relocate certain types of revenue from the central to the local level. But the other extreme is undesirable, because too big financial autonomy could be misleading for the local community, in a way they could come of the idea that they can exist and function independently.

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## **OBIM I STRUKTURA SOPSTVENIH PRIHODA U SISTEMU FINANSIRANJA LOKALNE SAMOUPRAVE U REPUBLICI SRBIJI**

**Rezime:** Lokalne samouprave finansiraju se iz sopstvenih prihoda, ustupljenih prihoda, transfera i zajmova. Sopstveni prihodi lokalnih samouprava su takvi prihodi koji se mogu uvoditi nezavisno od strane lokalnih samouprava, pri čemu lokalni kolektiviteti mogu slobodno da raspolazu ovako prikupljenim sredstvima. Ovi prihodi treba da budu stabilni i predvidljivi izvori prihoda i putem njih treba da se obezbedi dovoljan iznos sredstava za finansiranje javnih rashoda koji proističu iz delokruga lokalnih javnih poslova i s druge strane treba da stimulišu privredni rast. Cilj ovog rada je da se proceni značaj sopstvenih prihoda u stitemu finansiranja lokalne samouprave u Srbiji. Ovi prihodi su složena i heterogena grupacija. Glavna podela je na fiskalne i nefiskalne prihode. Analize pokazuju da lokalni kolektiviteti obezbeđuju mnogo veći iznos sredstava putem sopstvenih fiskalnih prihoda. U ovom radu smo utvrdili da lokalne samouprave putem sopstvenih prihoda prikupe 30-40% od ukupnih prihoda, što odgovara proseku u razvijenim zemljama. Takođe smo utvrdili da je učešće ove grupacije prihoda u ukupnim prihodima mnogo veće u razvijenim opštinama nego li u nerazvijenim.

**Ključne reči:** lokalna samouprava, fiskalna decentralizacija, javni prihodi, sopstveni lokalni prihodi.