

FINANCING OF LOCAL SELF-GOVERNMENTS WITH A FOCUS ON UNCONDITIONAL TRANSFERS FROM THE BUDGET OF THE REPUBLIC OF SERBIA

Boban Dašić¹, **Blagoje Pušonja**², **Radmila Trklja**³

^{1,3} Academy of Applied Studies Kosovo and Metohija,

² Higher Business School of Vocational Studies Čačak Belgrade

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Corresponding: bobandasickg@gmail.com

Abstracts: Local self-governments, as a form of exercising and realizing citizens' authority, have access to certain material resources that serve the purpose of performing their original and constitutionally guaranteed functions. As decentralized levels of state power, local self-governments regulate and execute legally assigned tasks in the interest of their citizens, for which they require appropriate financial resources. The methods of financing local self-governments in the Republic of Serbia are regulated by legislation and guaranteed by the Constitution. There are several methods for financing local self-governments, i.e., for securing funds for municipalities, cities, and the City of Belgrade. This paper focuses on various methods of financing local self-governments, with particular attention to non-earmarked transfers from the national budget of the Republic of Serbia. The aim of the paper is to highlight the importance of national budget financing of local self-governments, as well as the need for its reform.

Keywords: local self-government, state authority, financial resources, budget, transfers, reform, legislation

Introduction

Local self-governments in the Republic of Serbia provide a wide range of services accessible to all residents. In order to carry out these tasks, local self-governments are financed from various sources (Brnjas, Dedeić, & Stošić, 2011; Dedeić, Brnjas, & Stošić, 2011; Đurković & Radojičić, 2024; Kecman, 2010). The existence and functioning of local self-governments presuppose the availability of adequate financial resources. It is no secret that many local governments face difficulties in securing the necessary funds to meet their needs (Dašić et al., 2021; Dašić, 2023). Today, local self-governments must strive to find new ways of securing additional funding, as a lack of resources hinders their ability to invest in infrastructure projects. In addition, one must not overlook the accumulated societal needs (public services, education, healthcare, etc.) and sustainable development initiatives (Begović & Parčina, 2021), which are essential for the well-being of the entire local community.

Fiscal decentralization has granted greater autonomy in financial management, enabling faster and more efficient responses to local demands (Aleksić, 2018; Anđelković, 2008; Bećirović, 2012; Brajković, 2025; Jović,

2006; Kamiguchi & Tamai, 2023; La Torre, Leo, Palma, & Zapata, 2024; Matic, 2024; Molnar, 2014; Radosavljević, 2017; Randjelovic & Vukanovic, 2021). From the above, it is evident that financing local self-governments is by no means a simple process (Đurković & Radojičić, 2024, p. 348), and therefore must be approached with care. In addition to existing financial mechanisms, the OECD (2024), UNDP (2024), and many other international organizations, national governments, and local authorities are continuously working to identify new ideas and opportunities for improving local government financing.

Legal Framework for Financing Local Self-Governments

The Constitution of the Republic of Serbia (Official Gazette of RS, Nos. 98/2006 and 115/2021), Article 91, stipulates that the funds for financing the competencies of the Republic of Serbia, autonomous provinces, and local self-government units are secured from taxes and other revenues determined by law. The budgets of the Republic of Serbia, autonomous provinces, and local self-governments include all revenues and expenditures used to finance legally prescribed functions. Toge-

ther with the state and autonomous province budgets, local self-government budgets form the budgetary system of the Republic (Milosavljević, 2009, p. 107).

The responsibilities of local self-government units are financed from their own-source revenues, from the budget of the Republic of Serbia in accordance with the law, and from the budget of the autonomous province, when the latter delegates certain functions to local self-government units, based on the decision of the provincial assembly (Article 188, paragraph 4, of the Constitution of the Republic of Serbia).

The Law on Financing Local Self-Governments (Official Gazette of RS, Nos. 62/2006, 47/2011, 93/2012, 99/2013 – harmonized din. amount, 125/2014 – harmonized din. amount, 95/2015 – harmonized din. amount, 83/2016, 91/2016 – harmonized din. amount, 104/2016 – other law, 96/2017 – harmonized din. amount, 89/2018 – harmonized din. amount, 95/2018 – other law, 86/2019 – harmonized din. amount, 126/2020 – harmonized din. amount, 99/2021 – harmonized din. amount, 111/2021 – other law, 124/2022 – harmonized din. amount, 97/2023 – harmonized din. amount, and 85/2024 – harmonized din. amount) regulates the provision of funds to municipalities, ci-

ties, and the City of Belgrade for the execution of original and delegated tasks.

According to Article 5 of this Law, the budget of a local self-government unit is funded from own-source and assigned revenues, transfers, borrowings, and other revenues and receipts defined by law. Own-source revenues include those generated within the territory of the respective local self-government unit. These revenues include: property taxes (excluding transfer of absolute rights and inheritance/gift taxes); local administrative fees; local communal taxes; residence fees; fees for the use of public goods; concession fees; other legally prescribed fees; revenues from fines issued in misdemeanor proceedings for violations of local acts, as well as confiscated property gains in such proceedings; revenues from leasing or use of real and movable property owned by the Republic of Serbia and used by the local unit; revenues from leasing or use of the local unit's own property; revenues from services provided by budget users to individuals and legal entities; interest on budget funds; donations; and voluntary contributions (Article 6 of the Law on Financing Local Self-Governments).

Revenues from the national level, i.e., from the Republic of Serbia, in-

clude assigned revenues and transfers (Article 34 of the Law). A lower level of government than the Republic is the autonomous province, which may also allocate earmarked transfers to local units. The lowest level of government is comprised of local self-government units. Revenues between units on the same level include: (1) service payments and (2) other revenues as defined by law.

Assigned revenues include various tax revenues: personal income tax (from agriculture and forestry, self-employment, leasing of movable property, personal insurance, 74% of salary tax based on the residence of the employee, and other revenues according to law); inheritance and gift tax; and tax on transfer of absolute rights.

The total unconditional transfer is governed by Article 37 of the Law on Financing Local Self-Governments. The annual amount of this transfer, calculated for distribution among local self-governments, is set at 1.7% of the realized Gross Domestic Product, according to the latest data published by the national statistical authority. The estimate of the amount and structure of such revenues for each local unit is based on the most recent available data and fiscal strategy parameters.

In addition to total unconditional transfers, the Law also regulates: equalization transfers, compensatory transfers, general transfers, solidarity transfers, functional transfers, and strictly earmarked transfers.

The Law on Local Self-Government (Official Gazette of RS, Nos. 129/2007, 83/2014 – other law, 101/2016 – other law, 47/2018, and 111/2021 – other law) governs the establishment, competencies, organs, supervision, and protection of local self-governments. Article 15 of this Law provides that the financing of local governments and the conditions and procedures for their borrowing are to be regulated by a separate law—namely, the Law on Financing Local Self-Governments.

Finally, Article 5 of the Law on the Capital City (Official Gazette of RS, Nos. 129/2007, 83/2014 – other law, 101/2016 – other law, 37/2019, and 111/2021 – other law) states that the financing of the City of Belgrade, including the conditions and procedures for borrowing, is also governed by the Law on Financing Local Self-Governments.

Unconditional Transfers from the Budget of the Republic of Serbia to Local Self-Governments

Article 37 of the Law on Financing Local Self-Governments provides for the annual amount of the total unconditional transfer. As previously stated, the total unconditional transfer represents an accounting category for the allocation of funds to local self-government units, and it amounts to 1.7% of the realized Gross Domestic Product (GDP), according to the latest data published by the Statistical Office of the Republic of Serbia. The determination of the amount and structure of individual types of unconditional transfers to local self-governments is based on the realized revenues in the most recent year for which data is available, as well as on parameters from the Fiscal Strategy (Government of the Republic of Serbia, 2025).

The Law on the Budget of the Republic of Serbia regulates the planning, preparation, adoption, and execution of the national budget, as well as the budgets of territorial autonomy and local self-government units (Trklja, Dašić, & Trklja, 2015, p. 44; Pušonja, 2024). According to Article 38 of the Law on the Budget of the Republic of Serbia for 2025, the total annual amount of the unconditional transfer to be distributed to local self-government units is set at 33,307,366,000

dinars. The distribution covers 145 local self-government units (122 municipalities, 22 cities, and the City of Belgrade), excluding 29 units from the territory of the Autonomous Province of Kosovo and Metohija, which is under United Nations jurisdiction based on Resolution 1244 (Law on the Territorial Organization of the Republic of Serbia, Official Gazette of RS, Nos. 129/2007, 18/2016, 47/2018, and 9/2020 – other law).

The amounts allocated to individual local governments vary. Notably, the City of Belgrade is allocated 0 (zero) dinars under this transfer category. It is important to highlight that the funding of original functions is covered by local budget revenues and constitutes exclusive local expenditures, whereas the funding of delegated functions is treated as an expenditure of the Republic's budget, not the local authorities to whom the tasks have been delegated (Kecman, 2010, p. 161).

Local self-governments receiving less than 50 million dinars include: Beočin, Kosjerić, Lajkovac, Lapovo, and Sremski Karlovci. Of these, Lajkovac receives the lowest amount, with 23,463,193 dinars.

A total of 14 local self-governments will receive between 50 and 100 million dinars, including: Ada, Arilje, Vrnjačka Banja, Irig, Kanjiža, Mali Idoš, Opovo, Pančevo, Pećinci, Senta, Srbobran, Ub, Crna Trava, and Čajetina.

The largest group, with 53 municipalities, will receive between 100 and 200 million dinars, such as: Alibunar, Apatin, Bajina Bašta, Batočina, Bač, Bačka Topola, Bački Petrovac, Bečej, Blace, Brus, Veliko Gradište, Vladimirci, Vrbas, Vršac, Gadžin Han, Golubac, Dimitrovgrad, Doljevac, Žabalj, Žabari, Žitište, Indija, Kikinda, Kladovo, Knić, Koceljeva, Kula, Lučani, Ljig, Ljubovija, Mali Zvornik, Merošina, Mionica, Nova Varoš, Nova Crnja, Novi Bečej, Novi Kneževac, Osečina, Plandište, Požarevac, Ražanj, Rača, Raška, Rekovac, Sečanj, Sokobanja, Stara Pazova, Temerin, Titel, Topola, Čičevac, Čuprija, and Čoka.

Next, 43 local governments will receive between 200 and 300 million dinars, including: Aleksandrovac, Arandelovac, Babušnica, Bačka Topola, Bela Palanka, Bela Crkva, Bojnik, Boljevac, Bar, Bosilegrad, Varvarin, Vladičin Han, Gornji Milanovac, Despotovac, Žagubica, Žitorađa, Zaječar, Zrenjanin, Kovačica, Kovin, Krupanj, Kuršumlija, Kučevo, Majdanpek, Malo Crniće, Medveđa, Negotin, Odžaci, Paraćin, Požega, Priboj, Ruma, Svilajnac, Svrljig, Smederavska Palanka, Sremska Mitrovica, Subotica, Surdulica, Trgovište, Užice, Čačak, Šabac, and Šid.

Local self-governments such as Bogatić, Bujanovac, Valjevo, Velika Plana, Vlasotince, Vranje, Ivanjica, Jagodina, Lebane, Pirot, Preševo, Prokuplje,

Smederevo, and Sombor will receive between 300 and 400 million dinars.

Aleksinac, Knjaževac, Kragujevac, Kruševac, Petrovac, Prijepolje, Sjenica, Trstenik, and Tutin are expected to receive between 400 and 500 million din.

Finally, six local self-governments will receive more than 500 million dinars, namely: Kraljevo, Leskovac, Loznica, Niš, Novi Pazar, and Novi Sad.

Table 1: Local Self-Governments with the Lowest and Highest Allocated Annual Amounts of Total Unconditional Transfers Planned in the 2025 Budget (in dinars)

Serial No.	Local government unit	Non-purposed transfer by local self-government (in dinars)
1	Beograd	0
2	Lajkovac	23.463.193
3	Srenski Karlovci	36.768.320
4	Lapovo	39.445.348
5	Kosjerić	43.072.619
6	Beočin	48.627.273
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140	Loznica	516.503.831
141	Novi Pazar	559.030.639
142	Niš	633.997.549
143	Kraljevo	746.288.490
144	Leskovac	896.973.298
145	Novi Sad	918.682.241
	Total	33.307.366.000

Source: Law on the Budget of the Republic of Serbia for 2025

An analysis of the Law on the Budget of the Republic of Serbia from 2014 to the present shows that the amount of annual unconditional transfers to local self-governments has remained unchanged, meaning that Article 37 of the Law on Financing Local Self-Governments - which prescribes that these transfers should equal 1.7% of the realized Gross Domestic Product - has not been respected.

Should the System of Financing Local Self-Governments in Serbia Be Reformed?

The Fiscal Council (2024) conducted a study concluding that, in the medium term, local public finances in the Republic of Serbia need to be reformed and permanently regulated. Every year, significant budgetary resources are redirected to resolve liquidity issues in numerous cities and municipalities. There are also substantial regional disparities in relative amounts allocated. All this indicates that the local finance system in Serbia is insufficiently regulated.

One of the main issues in financing local self-government units is the neglected system of unconditional transfers they are legally entitled to receive each year from the national budget. The legal provision on the share of these transfers is not

observed. Despite a substantial increase in nominal GDP over the past decade, the volume of unconditional transfers from the Republic's budget has remained practically unchanged since 2014, still amounting to 33,307,366,000 dinars.

The freezing of unconditional transfers at levels set more than a decade ago, which have not changed in over ten years, is one of the main causes of budgetary difficulties in certain local self-governments. This issue is currently resolved at the discretion of the Government of the Republic of Serbia, through ad hoc allocations from the current budget reserve. However, such a solution is far from ideal. Long-term development of local self-governments requires stable and predictable sources of revenue - something that sporadic and discretionary reallocation from the reserve, without clear criteria, does not provide.

For these reasons, a systematic reform of local government financing is necessary. This should include a review of the optimal amount of unconditional transfers, improved oversight of local budgets, and the establishment of clear and economically sound criteria for the distribution of funds from the current budget reserve. Implementing these changes would also improve the state's reputation management (Dašić & Dašić,

2021, p. 162). The Fiscal Council estimates that a proper reform of local public finances could, in the medium term, reduce the need for using the current reserve by nearly 5 billion dinars annually, which represents around 9% of the funds currently reallocated through this mechanism.

Conclusion

The Republic of Serbia has faced a longstanding issue of insufficient fiscal autonomy at the local government level. As a result, local self-governments have become increasingly dependent on financial transfers from higher levels of government, along with a growing need for borrowing (Dašić, 2024). A new system of local government financing was introduced in 2007, marking the beginning of a new stage of decentralization in fiscal relations between territorial units. The Law on Financing Local Self-Governments provides the legal framework for financing local self-government units.

In addition to original and assigned revenues, local self-governments are financed through transfers, borrowings, and other revenues defined by law. Annual unconditional transfers from the budget of the Republic of Serbia are available to local self-

governments and are allocated each year. However, one of the critical issues in the current financing system is the outdated structure of unconditional transfers, whose amounts have remained unchanged since 2014 and are not in accordance with the provisions of the Law on Financing Local Self-Governments, which stipulates that they should equal 1.7% of the realized GDP according to the latest data from the national statistical authority.

All of the above leads to the conclusion that the current system of financing local self-government units in Serbia is far from ideal and requires serious reform, which must be approached with careful consideration and responsibility.

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FINANSIRANJE LOKALNIH SAMOUPRAVA SA FOKUSOM NA BEZUSLOVANE TRANSFERE IZ BUDŽETA REPUBLIKE SRBIJE

Sažetak: Lokalne samouprave, kao oblik vršenja i ostvarivanja ovlašćenja građana, imaju pristup određenim materijalnim sredstvima koja služe za obavljanje njihovih izvornih i Ustavom zagwarantovanih funkcija. Kao decentralizovani nivoi državne vlasti, lokalne samouprave regulišu i izvršavaju zakonom postavljene poslove u interesu svojih građana, za koje su im potrebna odgovarajuća finansijska sredstva. Načini finansiranja lokalnih samouprava u Republici Srbiji regulisani su zakonom i garantovani Ustavom. Postoji nekoliko načina za finansiranje lokalnih samouprava, odnosno za obezbeđivanje sredstava za opštine, gradove i grad Beograd. Ovaj rad se fokusira na različite načine finansiranja lokalnih samouprava, sa posebnim osvrtom na nenamenske transfere iz republičkog budžeta Republike Srbije. Cilj rada je da se ukaže na značaj finansiranja lokalnih samouprava iz republičkog budžeta, kao i na potrebu njegove reforme.

Ključne reči: lokalna samouprava, državni organ, finansijska sredstva, budžet, transferi, reforma, zakonodavstvo.