



# Strengthening the Financial Sustainability of Serbian Local Governments by Improving their Efficiency and Effectiveness

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## Abstract

This paper examines the financial sustainability of local governments in Serbia, focusing on the historical evolution of the local government system, revenue and expenditure trends, and reforms aimed at enhancing efficiency and effectiveness. The findings indicate that while the transition to a single-tier model and various reforms have provided stability, challenges remain. Key issues include limited fiscal autonomy, demographic decline, and the disparities of financial resources across municipalities. The paper highlights that although property tax decentralization and the introduction of new local revenue sources have improved revenue collection, differences in expenditure and resource allocation affect the equitable development of local communities. The paper also identifies that administrative reforms, digitalization, and inter-municipal cooperation have enhanced efficiency and service delivery, but further steps are necessary to ensure comprehensive and sustained financial health. Ultimately, it suggests that to achieve long-term financial sustainability, Serbian local governments need reforms that promote greater fiscal autonomy, equitable resource allocation, and a balance between infrastructure investment and social services, shifting towards the latter.

## Keywords

Local Government, Serbia, Financial Sustainability, Efficiency, Effectiveness

## 1 Introduction

Local governments in Serbia are pivotal in bridging the gap between the national government and local communities, providing essential services that directly impact the citizens' daily lives. These services range from education, healthcare, and infrastructure to economic development initiatives. As such, the efficiency and effectiveness of local government operations are crucial for the overall well-being and development of the regions they serve.

The evolution of the Serbian local government system has been marked by a series of reforms aimed at streamlining administrative processes and enhancing local autonomy. Historically, the system has transitioned from a multi-tiered structure to a more centralized single-tier model. This shift was driven by the need to simplify governance, reduce bureaucratic inefficiencies, and ensure a more uniform delivery of services across different municipalities. The consolidation of municipalities into larger units was intended to strengthen their administrative capacity

and financial sustainability, enabling them to manage a broader range of responsibilities more effectively.

Despite these reforms, Serbian local governments continue to face significant challenges. The monotypic nature of the current system, which imposes a one-size-fits-all approach, often fails to accommodate the diverse needs and capacities of different municipalities. This has resulted in systemic inefficiencies and constraints on the financial sustainability of local self-government units. The disparity in size, population, and economic capabilities among municipalities aggravate these issues, making it difficult to achieve equitable resource allocation and effective service delivery.

This paper is based on several theoretical perspectives that explain the processes of decentralization, new public management, and the enhancement of efficiency and effectiveness in local governance. By examining these theories, we can better understand the mechanisms through which Serbian local governments can strengthen their financial sustainability.

Decentralization is the constitutional or statutory transfer of administrative authority and public affairs of interest to local territorial collectives, primarily from the state, to other, non-sovereign legal entities under public law with democratically elected bodies, which will carry out these affairs independently, autonomously, and responsibly, while the implementation remains under the non-hierarchical supervision of the transferring authority (Vučetić, 2012, 44). It is based on several key principles: multifunctionality, elected bodies, public-law legal personality, autonomy, non-hierarchical control, and territorial scope (Vučetić, 2012, 46–54). The theoretical foundations of decentralization are critical for understanding how local governments can become more efficient and financially sustainable.

Fiscal federalism, as articulated by Oates (1972), provides a framework for understanding the allocation of functions and finances among different levels of government. The theory is based on fiscal equivalence and allocative efficiency. Local governments are better positioned to provide public goods and services that closely match the preferences and needs of their constituents due to their proximity and better information. The alignment of expenditure responsibilities with revenue-raising powers ensures that those who benefit from services are also those who pay for them, promoting accountability and efficient resource allocation.

The principle of subsidiarity is a fundamental principle of decentralization, which in a narrow sense means that every public task that can be performed efficiently at the local level (that is, at the level closest to the citizens) should indeed be carried out at that level. Applying this principle in the allocation of competencies requires that, in principle, the competencies of all other levels of authority are determined by the method of enumeration (specific listing). The concept and content of the principle of subsidiarity imply the primacy of the individual and lower levels of government. This principle finds its legal basis in the provisions of Article 4, paragraph 3 of the European Charter of Local Self-Government. Regarding the relationship between supranational integrations and member states, this principle is also encountered in the Treaty of the European Community and its subsequent versions (Delcamp, 1994). Decentralization is theorized to enhance accountability through closer proximity between policymakers and citizens (Seabright, 1996). This increased accountability can lead to enhanced transparency and reduced opportunities for corruption and better financial management.

New Public Management represents a shift from traditional bureaucratic administration to a more market-oriented approach in the public sector (Hood, 1991). Key principles include efficiency and effectiveness, performance measurement and decentralization of management. Efficiency and effectiveness are central to the performance of local governments, directly impacting their financial sustainability. Technical efficiency should be defined as achieving the

maximum possible output from a given set of inputs (Farrell, 1957). For local governments, this means providing services at the lowest possible cost. Allocative efficiency means allocating resources to produce a mix of goods and services that reflect societal preferences (Samuelson, 1954). Effectiveness relates to the extent to which objectives are achieved (Osborne & Gaebler, 1992). Financial sustainability is the ability of a government to meet its current and future obligations without compromising its ability to provide services. Sustainability in public finance involves maintaining fiscal policies that are consistent over the long term (Auerbach, 1994). Key aspects include revenue adequacy, expenditure control and debt management. This theoretical framework integrates decentralization theories, public financial management theories, and concepts of efficiency and effectiveness to analyze the financial sustainability of Serbian local governments.

From the methodological perspective the paper provides a normative analysis of relevant legislative and administrative reforms in Serbian local government system, utilizing a qualitative approach that is appropriate for analyzing public administration changes. The study is based on legal documents, government public policy documents, ensuring that the analysis is founded in official frameworks and policies. The criteria for selecting administrative reforms were based on their significance and impact on financial sustainability and efficiency of local governance. Specifically, reforms were chosen due to their influence on fiscal autonomy, improving administrative effectiveness, and addressing disparities in local governance capacities. In terms of data collection, the paper draws from a variety of scholar papers as well as from official sources, including national and local legislation, government reports, and statistics provided by state institutions.

## **2 The Basic Characteristics of the Serbian LG System**

The Serbian local government system has undergone significant transformations, characterized by a discernible trend towards a single-tier model. This evolution reflects broader administrative and political reforms aimed at enhancing local governance and decentralization as well as central governance and centralization depending on the analyzed period. Nowadays, the monotypic approach adopted in Serbia underscores the drive towards uniformity across local government units (LGUs), streamlining administrative processes and fostering greater coherence within the system. But, historically, the consolidation of municipalities has been a pivotal feature of this evolution. This consolidation was driven by the objective to fortify municipalities, thereby enabling them to assume broader self-governance and administrative responsibilities. The process reached its zenith in the 1960s, culminating in a stable number of municipalities, but minimal changes have been instituted ever since. This consolidation not only aimed at administrative efficiency but also sought to empower municipalities as the basic units of decentralization. Today, the structural composition of the Serbian local government system is notably uniform, comprising primarily municipalities, cities, and the City of Belgrade. This single-tier system, established through various legislative reforms, emphasizes the municipality as the core unit of local self-government. (Dimitrijević et al., 2020, 177; Milosavljević & Jerinić, 2016, 79).

### **2.1 The Historical Context and Territorial Units**

The administrative landscape of Serbia's local government system has undergone significant changes across different historical periods and political states. In the 20<sup>th</sup> century, during the

Kingdom of Yugoslavia, the local government structure comprised four levels of territorial units, whereby two levels had self-governing attributes. This multi-tiered approach provided a foundational framework for local governance. Following World War II, in the Socialist Federal Republic of Yugoslavia (SFRY), there was a brief period of rural self-government which evolved into local communities. However, these entities did not attain the status of fully-fledged local self-government units. During the socialist period, significant efforts were aimed at consolidating municipalities in order to strengthen local governance structures. This process, largely completed by the 1960s, aimed to empower municipalities to assume broader self-governance and administrative responsibilities, resulting in minimal changes to the number of municipalities in Serbia ever since. In 1967, the previously existing districts, which served as secondary units of local self-government, were abolished. In the subsequent decades, there were attempts to replace these districts with associations of municipalities, for the purpose of introducing a second tier of local self-governance. However, these associations were short-lived and were ultimately abolished in 1991, as Serbia transitioned from the SFRY to the Federal Republic of Yugoslavia (FRY) and later to the State Union of Serbia and Montenegro. In 1992, administrative districts were reintroduced, albeit without self-governing attributes, which distinguished them from municipalities. This period marked the formation of administrative districts under the FRY and later the Republic of Serbia, reflecting ongoing efforts to redefine local governance structures. In the early 1990s, there were significant legislative reforms that redefined municipalities as the primary units of local self-government. The reforms enacted in 1991, 1999, 2002, and 2007 established municipalities as the basic territorial units within Serbia, thus solidifying their role in the local governance framework. The 2009 Regional Development Act introduced the alignment of statistical regions and areas, further reflecting the evolving administrative landscape aimed at enhancing regional governance and development planning. (Dimitrijević et al., 2020, 182–184; Milosavljević, 2015, 568–573).

## 2.2 Legal and Organizational Framework

The legal framework governing local self-government in Serbia is extensive and multifaceted, encompassing several key laws designed to regulate various aspects of local governance. These include the Local Self-Government Act (2007)<sup>1</sup>, the Local Elections Act (2022)<sup>2</sup>, the Capital City Act (2007)<sup>3</sup>, the Act on the Territorial Organization of the Republic of Serbia (2007)<sup>4</sup>, and the Act on Financing the Local Self-Government (2006)<sup>5</sup>. All together, these laws

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<sup>1</sup> Zakon o lokalnoj samoupravi (Local Self-Government Act), *Službeni glasnik* RS, br. 129/2007, 83/2014 - dr. zakon, 101/2016 - dr. zakon, 47/2018 and 111/2021 - dr. zakon.

<sup>2</sup> Zakon o lokalnim izborima (Local Elections Act), *Službeni glasnik* RS, br. 14/2022 i 35/2024.

<sup>3</sup> Zakon o glavnom gradu (The Capital City Act), *Službeni glasnik* RS, br. 129/2007, 83/2014-dr. zakon, 101/2016-dr. zakon, 37/2019 and 111/2021-dr. zakon.

<sup>4</sup> Zakon o teritorijalnoj organizaciji Republike Srbije (Act on Territorial Organization of the Republic of Serbia), *Službeni glasnik* RS, br. 129/2007, 18/2016, 47/2018 and 9/2020-dr. zakon 2007.

<sup>5</sup> Zakon o finansiranju lokalne samouprave (Act on Financing the Local Self-Government), *Službeni glasnik* RS, br. 62/2006, 47/2011, 93/2012, 99/2013-usklađeni din. izn., 125/2014-usklađeni din. izn., 95/2015-usklađeni din. izn., 83/2016, 91/2016-usklađeni din. izn., 104/2016-dr. zakon, 96/2017-usklađeni din. izn., 89/2018-usklađeni din. izn., 95/2018-dr. zakon, 86/2019-usklađeni din. izn., 126/2020-usklađeni din. izn., 99/2021-usklađeni din. izn., 111/2021-dr. zakon, 124/2022-usklađeni din. izn. and 97/2023-usklađeni din. izn.

provide a comprehensive regulatory framework that guides the operations, election, territorial organization, and financial management of local self-government units. In addition to these primary laws, several organizational laws further delineate the responsibilities and functions of local government employees, communal police, public debt management, public property administration, general administrative procedures, referendums, public services, public enterprises, communal activities, public-private partnerships, and regional development. This extensive legal infrastructure ensures a structured and regulated approach to local governance, fostering accountability and efficiency within local self-government units. Sectoral laws are the third category of laws which play a crucial role in defining the original competencies of local self-government units in specific administrative areas. These areas include water management, forest management, agricultural land, education, health, planning, and construction, among others (Dimitrijević et al., 2020, 181–182). Despite the overarching uniformity in the local self-government system, practical differences arise from the autonomy granted to municipalities in managing their own affairs. This autonomy allows for significant variations in how municipalities organize and execute their functions, leading to diverse administrative practices and outcomes across different local units.

### 2.3 Demographic Challenges and Territorial Disparities

One of the primary challenges facing the Serbian local government system is the lack of differentiation within the normative framework to account for the varying capacities of different local self-government units. While promoting uniformity, this monotypic system also imposes a one-size-fits-all approach that often *fails to observe* the unique needs and *capacities* of individual municipalities. Consequently, systemic issues arise, resulting in inefficiencies and constraints on the financial sustainability and operational effectiveness of local self-government units. Significant disparities exist in the size and population of municipalities within Serbia. For instance, municipalities such as Sremski Karlovci and Lapovo are less than 60 km<sup>2</sup> in size, whereas Belgrade spans an expansive 3,234 km<sup>2</sup>. Similarly, population disparities are stark; thus, the municipality Crna Trava has a population of merely 1,600 residents while Belgrade has a population of over 1.6 million. These variations pose substantial challenges for uniform governance and equitable resource allocation, necessitating tailored approaches to local administration and service delivery. Demographic regression is a wide-spread issue affecting nearly all Serbian municipalities and cities, with only a few exceptions exhibiting positive population growth. Over the last decade, many local self-government units have experienced population declines exceeding 10%, driven by both external and internal migration trends (Government RS, 2021, 23). This demographic decline has profound implications for local governance, particularly in smaller, underdeveloped, and border regions, which are most susceptible to population losses. The resultant decrease in population density exacerbates challenges related to service delivery, economic development, and financial sustainability (Manić & Mitrović, 2021; Obradović & Matović, 2018; Manić et al., 2013).

## 3 Local Self-Government Financing System

The financial framework governing local self-government units (LSUs) in Serbia is both comprehensive and multifaceted, regulated by a series of laws designed to ensure financial sustainability and autonomy. The core legislative instruments include the Act on Financing the

Local Self-Government (hereinafter: FLG Act, 2021)<sup>6</sup>, the Budget System Act (hereinafter: BS Act, 2009)<sup>7</sup>, and the Public Debt Act (hereinafter: PD Act 2005).<sup>8</sup> These laws, along with sectoral laws prescribing specific revenue sources, constitute the backbone of the local self-government financing system.

### 3.1 Revenue Sources

The revenue structure for local self-government units is diverse, encompassing various taxes, fees, and other income streams as envisaged in the FLG Act and the BS Act. According to Article 25 of the BS Act, the primary taxes include:

1. Personal Income Tax,
2. Property Tax,
3. Inheritance and Gift Tax,
4. Tax on the Transfer of Absolute Rights.

In addition to these taxes, LSUs generate revenue from local administrative fees, local communal fees, tourist taxes, legal charges, and self-taxation (self-contributions). Donations, transfers, and financial assistance from the European Union also contribute to local government revenues. The revenues derived from the use of public goods include interest income, lease or use of movable and immovable property owned by the Republic of Serbia or LSUs, and the sale of services to natural and legal entities based on mutual agreements. Fines from misdemeanors prescribed by LSU assembly acts, concession fees, and income from the sale of property and financial assets further diversify the revenue base.

### 3.2 Revenue Structure

As stipulated in Article 5 of the FLG Act, the budget funds for LSUs comprise original revenues, assigned revenues, transfers, income from lending, and other incomes and revenues as determined by law. The revenue structure of the local self-government system is categorized into several key components, each contributing differently to the overall financial framework. Allocated revenues constitute the most significant portion, accounting for approximately 40% of the total income. Original revenues form around 35% of the income and receipts structure, reflecting the substantial role of internally generated funds. Transferred revenues contribute about one-fifth of the total revenues, highlighting the importance of intergovernmental fiscal

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<sup>6</sup> Zakon o finansiranju lokalne samouprave (Act on Financing the Local Self-Government), *Službeni glasnik* RS, br. 62/2006, 47/2011, 93/2012, 99/2013-usklađeni din. izn., 125/2014-usklađeni din. izn., 95/2015-usklađeni din. izn., 83/2016, 91/2016-usklađeni din. izn., 104/2016-dr. zakon, 96/2017-usklađeni din. izn., 89/2018-usklađeni din. izn., 95/2018-dr. zakon, 86/2019-usklađeni din. izn., 126/2020-usklađeni din. izn., 99/2021-usklađeni din. izn., 111/2021-dr. zakon, 124/2022-usklađeni din. izn. and 97/2023-usklađeni din. izn.

<sup>7</sup> Zakon o budžetskom sistemu (the Budget System Act), *Službeni glasnik* RS, br. 54/2009, 73/2010, 101/2010, 101/2011, 93/2012, 62/2013, 63/2013-ispr., 108/2013, 142/2014, 68/2015-dr. zakon, 103/2015, 99/2016, 113/2017, 95/2018, 31/2019, 72/2019, 149/2020, 118/2021, 138/2022, 118/2021-dr. zakon and 92/2023).

<sup>8</sup> Zakon o javnom dugu (the Public Debt Act), *Službeni glasnik* RS, br. 61/2005, 107/2009, 78/2011, 68/2015, 95/2018, 91/2019 and 149/2020).

transfers. Additionally, other incomes and receivables, including revenues from lending and the sale of financial and non-financial assets, play a critical role in supplementing the financial resources of local self-government units (Government RS, 2021, 24).

The diversity in revenue structures across LSUs is notable, but there are significant differences in revenue sources when LSUs are analyzed individually or in groups. Less developed LSUs typically have a higher proportion of transferred revenues, whereas more economically developed LSUs tend to have a larger share of allocated revenues.

Since 2015, the total revenues and receivables of LSUs have consistently achieved nominal growth, exceeding the annual inflation rate and indicating a real increase in revenue. Despite this growth, the share of LSUs' revenues in the consolidated public revenues of the Republic of Serbia remains unchanged. Decentralization has had a profound impact on original revenues, particularly through the administration of property taxes. The decentralization of property tax administration to Local Tax Authorities (LTA) has significantly improved the coverage and collection rate of property taxes. Property tax is the most substantial original revenue, accounting for over 35% of original revenues and more than 12% of total income (Government RS, 2021, 25).

Allocated revenues, particularly the revenues generated from income tax on salaries, play a crucial role in the current LSUs' revenues. Over 70% of assigned revenues, approximately one-third of total LSUs' revenues, come from income tax on salaries. Other assigned revenues, which comprise about 10% of total LSUs' income, include various other taxes but have significantly less fiscal capacity compared to the tax on salaries (Government RS, 2021, 25).

Transfers from higher levels of government are used to bridge the gap between the cost of standard local public services and the revenues earned by LSUs. The FLG Act regulates both general (unconditional) and specific (conditional) transfers. General transfers are determined as a percentage of the GDP, with distribution criteria set by the FLG Act, while capital transfers from the Republic and the Autonomous Provinces (APs) also contribute to local government revenues. Overall, in 2019, transfers and donations amounted to about 19% of the total revenues and receipts of LSUs (Government RS, 2021, 25). Together with the allocated revenues from income tax on salaries, over 60% of the total revenues of local self-government units in Serbia are regulated and managed by the central government. This indicates that Serbian LSUs rely heavily on centrally controlled funds. When the threshold for financial autonomy is set at 40% for original revenues, it becomes evident that Serbian local governments have limited fiscal independence and financial discretion.

### 3.3 Expenditures

The expenditures of LSUs have been on a steady rise since 2015, with an average annual increase of about 10%, except for 2017, when there was a nominal increase of 3.1% (Government RS, 2021, 26). The share of LSU expenditures in consolidated public expenditures has been continuously increasing. A higher share of LSU expenditures may indicate greater fiscal decentralization and autonomy, enabling local governments to address local needs more effectively. An increasing share might also suggest that local governments are gaining more capacity and resources to manage their own affairs, promote local development and governance.

The structure of expenditures has also shifted over the years. Until 2010, the largest share was in the category of employee expenditures. From 2011 onwards, the largest share shifted to expenditures for goods and services, both of which are crucial for the functioning of LSUs and the provision of services to citizens and the economy. New regulations have led to decreased

employee expenditures, including reduced wages, a hiring freeze, and plans for the successive reduction of employee numbers in LSUs. Consequently, the share of employee expenditures in LSUs' total expenditures dropped from around 24% in 2013 to approximately 18% in 2018 and 2019. However, expenditures for employees subsequently increased after reaching a low in 2017 (Government RS, 2021, 26).

The functional classification of subnational government expenditures reveals that over 40% of expenditures are related to two main categories: general public services (20.2%) and economic affairs (21.2%), with nearly 80% of the latter related to transportation. Other significant categories include education (18.8%), community development (18.5%), recreation, sports, and culture (10.8%), and social protection (6%) (Government RS, 2021, 27). The share of individual expenditure categories by functional classification has remained relatively stable over the last decade, as the competencies of LSUs have not significantly changed during this period. The provided percentages show higher expenditure on economic affairs and community development when compared to European averages, highlighting a strong focus on infrastructure. Spending on education (18.8%) is slightly below the European average, while allocations for social protection (6%) are significantly lower. Investments in general public services (20.2%) and recreation, sports, and culture (10.8%) are in line with or slightly above European norms which can be found in the Eurostat's "Government finance statistics" and OECD's "Fiscal Decentralisation Database".

### 3.4 Challenges, Reforms and Future Directions

The financing system for local self-government units in Serbia has faced several challenges and undergone numerous reforms. Since the adoption of the FLG Act, legislative changes have included amendments and periods when the law was not applied, which was critical for financing local self-governments. For instance, the economic crisis in 2009 led to a reduction in non-earmarked transfers due to fiscal deficits. Amendments in 2011 increased the local self-government share in wage taxes from 40% to 80% (70% for Belgrade). In 2012, fees for the use of construction land were abolished, and there were changes in terms of certain business fees and local communal fees. Further tax policy changes in 2013 included lowering income tax rates and raising pension insurance contributions, which redistributed public revenues in favor of the national budget. Despite legislative provisions for non-earmarked transfers to reflect a percentage of the GDP, these amounts have been "frozen" for several years, which was inconsistent with the FLG Act intentions, and they have not been updated according to local development lists since 2014 (Kmezić & Đulić, 2018, 101–102). In regards to future directions, a fundamental demand of LSUs is the predictability and sufficiency of revenues to finance new responsibilities transferred to them. The issue of fiscal autonomy and revenue diversity remains critical. Local self-governments must broaden their revenue base through better tax collection, reforming expenditure structures and using better debt management strategies (Vértesy, 2020a, 152–163; Vértesy 2020b, 76–78). There is significant potential for expanding other original revenues to increase financial independence. Successful decentralization and the establishment of local tax administrations call for further exploration into transferring more property-related tax competencies to local self-governance, ensuring financially significant growth in both original and total revenues.

## 4 Improving Efficiency and Effectiveness of Serbian Local Governments

### 4.1 The Conceptual Framework: Efficiency and Effectiveness

Efficiency and effectiveness are essential for the improvement of local government operations and for strengthening their financial sustainability. Effectiveness refers to the degree to which predetermined objectives or goals are achieved, focusing on the outcomes and impacts of actions. It assesses how well an organization achieves its intended outcomes, with emphasis on doing the right things to achieve desired results. Efficiency refers to the optimal use of resources to achieve a task or goal with minimum waste, expense, or unnecessary effort. Efficiency is measured by the ratio of useful output to total input, highlighting how well resources (such as time, materials, and labor) are utilized to produce the desired outcome. In essence, while effectiveness is about achieving the right results, efficiency is about achieving these results in the right way (Bouckaert, 2023, 26; Jerinić et al., 2022, 294–296).

### 4.2 Key Efficiency-Driven Reforms that have impacted LSUs in Serbia

Serbia has implemented several pivotal reforms aimed at boosting the efficiency and effectiveness of local governments. These reforms, which encompass various administrative and procedural areas, have been designed to streamline processes, alleviate bureaucratic burdens, and enhance service delivery.

The Business Registry Reform of 2005 introduced a one-stop-shop approach for company registration, significantly simplifying the process and reducing the time and effort required for new businesses to become operational. The Construction Permit Reform between 2015 and 2017 marked a notable improvement by transitioning to electronic permits and unified procedures for construction permits, thus facilitating quicker processing times and enhancing transparency in the construction sector.

The Inspection Supervision Act of 2015 was crucial in refurbishing the inspection system to increase transparency and efficiency. This Act introduced systemic supervision mechanisms to ensure that inspections are conducted fairly and effectively. The 2016 General Administrative Procedure Act (GAPA)<sup>9</sup> further reduced administrative burdens by automating the retrieval of official data from records, thereby improving the accuracy and speed of administrative procedures.

In 2017, the mandate for the electronic submission of financial statements under the Financial Reports E-filing Reform streamlined financial reporting processes, making compliance with regulatory requirements easier for businesses. The Social Security Central Register Act, introduced in 2010 and revised in 2014, improved the efficiency of the social security system through e-registration for social insurance, making the system more accessible and user-friendly.

The launch of the eGAPA Portal in 2017 enhanced the digital public services infrastructure by providing a centralized platform for accessing various public services online. In the same year, the introduction of automatic verification of health cards streamlined health insurance processes, reducing administrative delays and improving service delivery in the healthcare sector.

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<sup>9</sup> Zakon o opštem upravnom postupku (General Administrative Procedure Act), *Službeni glasnik RS*, br. 18/2016, 95/2018-aut. tumačenje i 2/2023-odluka US.

The Entrepreneur E-registration Initiative of 2018 facilitated online business registration, making it easier for entrepreneurs to start and manage their businesses, thereby promoting entrepreneurship and economic growth. The E-Documents and E-Business Trust Services Act of 2017 established a framework for digital transactions, laying the groundwork for secure and efficient electronic business operations.

The E-Government Act of 2018 laid the foundation for electronic administration, promoting the use of digital tools and platforms in public administration. The Population Register Act of 2019 created a central demographic database, which improved the management and accuracy of population data, essential for effective policy-making and service delivery.

Finally, the 2021 Administrative Procedures Register Act centralized the record of government processes, enhancing transparency and efficiency in administrative procedures. These reforms collectively represent significant steps toward a more efficient, transparent and effective local government system in Serbia.

### 4.3 Functional Analysis in Local Self-Governments

Functional analysis is a method aimed at helping an organization determine the optimal organizational structure for achieving its goals. It involves removing unnecessary functions and tasks, proposing new ones (that are lacking), reducing duplication of work (especially between different organizational units), and rationalizing the division of functions (Jerinić et al., 2022, 304–305). The primary aim of this analysis is to optimize operations through rationalization and optimal organization, in line with principles of good governance.

A functional analysis of local self-government units in Serbia conducted in 2019 indicated significant imbalances and areas in need of improvement. That analysis identified two primary types of functions within local institutions: core and ancillary functions. Core functions are essential for institutions to fulfill their legal mandates, which are the basic reason for their establishment. On the other hand, ancillary functions serve as supporting mechanisms to facilitate the execution of core functions and the achievement of institutional goals. The average ratio of core to ancillary functions varies across the analyzed LSUs and their institutions, ranging from 44% core functions and 56% ancillary functions to 61% core functions and 39% ancillary functions (Government RS, 2021, 16). The analysis operates on the premise that an optimal ratio of core to ancillary functions in both government bodies and institutions should ideally be between 60:40% and 70:30%, depending on the size of the LSU and the number of employees. Accordingly, there is a need to increase the proportion of core functions and decrease the proportion of ancillary functions by an average of 8% in local government bodies and institutions. Considering that ancillary functions are not part of the primary competencies or goals of local self-government but support the core functions, there is a prominent need to reduce the share of ancillary functions in most analyzed LSUs. This adjustment not only enhances the focus on primary institutional objectives but also presents a potential for cost savings (Government RS, 2021, 16). The optimization of function ratios will contribute to more efficient and effective local governance, aligning resources with the primary mandates and improving overall service delivery.

Another prominent issue is the disparity between the functions that local government employees are required to perform and the actual number of employees. The ideal function-per-employee ratio is three functions per employee, but this target is often unachievable, especially in smaller local units. Consequently, employees frequently manage more than three functions, which leads to a diminished degree of specialization. This lack of specialization is evident, with

only 7% to 28% of employees being highly specialized, which indicates a need for versatile task management. This deficit in specialization adversely affects both the efficiency and the quality of service delivery (Jerinić et al., 2022, 305). Furthermore, the span of control, i.e. the ratio of employees to direct supervisors, varies widely and seems to be arbitrarily set, ranging from 1:1 to 1:10 or more. Such inconsistency undermines the effectiveness of management and supervision within local governments. Additionally, local government employees are often disproportionately engaged in ancillary tasks that do not constitute core responsibilities, and thus detracted from their primary roles and responsibilities. This overemphasis on non-core functions further compromises the efficiency of local government operations (Jerinić et al., 2022, 305).

Lastly, there is a notable imbalance in the skillset distribution between experts and support staff. The unfavorable ratio of service providers to support roles particularly hampers the delivery of frontline services, highlighting a critical area for structural reorganization and workforce optimization. These imbalances collectively call for strategic interventions to enhance the operational efficiency of local self-government units in Serbia. To address these challenges, several areas for improvement have been identified. One key strategy is outsourcing, which involves engaging external entities for certain services. This approach can alleviate the burden on local government employees and enhance service delivery by allowing them to focus on their primary responsibilities. By outsourcing non-core functions, local governments can improve their operational focus and efficiency (Jerinić et al., 2022, 306).

#### **4.4 Registry of Administrative Procedures**

The Act on the Register of Administrative Proceedings, which entered into force in May 2021, aims to establish a publicly accessible electronic database of all administrative proceedings. The goal is to simplify the exercise of rights and obligations of business entities and citizens by providing publicly available, accurate and up-to-date information on proceedings conducted by the public administration. The law ensures uniformity in public administration proceedings, making the process independent of the specific counter where the user submits the request and dependent on how the proceeding is prescribed and entered in the register (Vučetić & Dimitrijević, 2021, 78). The Register will provide information to all interested parties about administrative procedures through the Internet, eliminating the need to physically visit the premises of administrative bodies. By selecting a specific procedure, users can obtain all current and accurate information on the required documentation, fees, payment accounts, and where to submit the request. The process goes a step further for businesses, allowing them to initiate proceedings electronically by submitting digital requests. If all necessary documentation is provided, the competent authority will issue an electronic decision and deliver it to the applicant's e-mailbox on the eGovernment Portal. The Register currently contains over 2,600 proceedings; a total of 1,600 proceedings run by state authorities and the bodies of the Autonomous Province of Vojvodina are currently accessible to the public. To fully implement the system established by this Act, it is necessary to adopt accompanying regulations, primarily the Regulation on the management and functioning of the Register of Administrative Proceedings, the content of the portal, entry, change and deletion of procedures, and the Regulation on the methodology for regulating administrative procedures (Vučetić & Dimitrijević, 2021, 79).

Special attention is given to optimizing administrative procedures by calculating the costs for both parties involved in the procedure and for local self-governments. The application of the Standard Cost Model (SCM) helps identify and reduce unnecessary administrative

burdens, promoting efficiency in administrative processes. By adopting these measures, local governments in Serbia can address existing challenges and improve their operational efficiency and service effectiveness.

#### 4.5 Inter-municipal cooperation

The Act amending and supplementing the Local Self-Government Act of 2018 significantly refined the framework for inter-municipal cooperation in Serbia. These changes have resolved many ambiguities and facilitated the application of this previously under-used approach to enhancing the efficiency and quality of local governance. Inter-municipal cooperation is now formalized through a cooperation agreement, whose key elements are defined in Article 88a (paragraphs 1–3) of the Local Self-Government Act. These elements include the name and seat of the joint body, services, enterprises, institutions or other organizations involved, the type, scope and manner of performing tasks, financing methods, management and supervision, provisions for other local self-government units to join or withdraw from the agreement, rights and obligations of employees, and other relevant issues.

The most notable innovation introduced in 2018 is the possibility of inter-municipal cooperation in the execution of delegated tasks, which have to be performed either by the state or the province. By combining the new norms of the Local Self-Government Act with provisions from the State Administration Act of 2005, local self-governments can now (for the first time) jointly perform delegated tasks within the existing legal system. Given the increasing number of tasks that local self-governments need to perform in the circumstances of limited material and personnel capacities, this form of cooperation is essential for enhancing operational efficiency.

The procedure for implementing this form of cooperation is regulated by Article 88a of the Local Self-Government Act (2007), which allows two or more local self-government units to propose the joint execution of certain delegated tasks to the Ministry in charge of local self-governments. It is done in accordance with the law governing state administration and the Government's regulation on the specific conditions and manner of joint execution of delegated tasks. Article 75 of the State Administration Act (2005)<sup>10</sup> stipulates that a state administration body may propose that the bodies of two or more local self-government units jointly ensure the execution of certain delegated tasks if it is determined that they cannot efficiently execute them independently. If these LSU accept the proposal, they prepare and submit a cooperation agreement to the Ministry of State Administration and Local Self-Government, which manages the joint execution of delegated tasks. Subsequently, acting upon the proposal of the Ministry and after obtaining a prior opinion of the Ministry responsible for the execution of that type of delegated tasks, the Government grants approval for the joint execution. The conditions and manner for such joint execution are regulated by a Government decree.

In practice, there has been a significant need for clarification of the financial aspects of inter-municipal cooperation, particularly in preparing budget sections related to funding joint legal entities. The focus has been on transferring original tasks and forming joint services, bodies and organizations, such as legal advocacy, local ombudsman, energy managers, emergency situations, and six types of inspections: communal, road, traffic, educational, sports, and tourist inspections.

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<sup>10</sup> Zakon o državnoj upravi (State Administration Act), *Službeni glasnik RS*, br. 79/2005, 101/2007, 95/2010, 99/2014, 47/2018 and 30/2018-dr. zakon.

#### 4.6 Single Administrative Point (SAP)

A Single Administrative Point (SAP) is a physical or digital contact point through which public services are provided to citizens or entrepreneurs without altering the competencies and internal relations of organizational units within administrative bodies and organizations. Currently, SAPs operate in line with the principle of personalization in organizing administrative functions, targeting specific categories of individuals. However, the ultimate goal of an SAP is to shift the paradigm of administrative operations. The administration and the entire public sector must transform from a complex system of “counters and offices” into a simplified, user-friendly system where all tasks, rights and legal interests are resolved in one place. In order to ensure this transformation, there is a need for extensive organizational, functional, technological, normative, informational and educational preparations. Otherwise, there is a risk that an SAP may be counterproductive, increasing the time and costs of service delivery and the exercise of citizens’ rights. To support this change, it is necessary to separate the organizational unit for direct communication with citizens (front office) from the unit(s) for handling and processing requests (back office). This organizational shift should be accompanied by a decentralization of procedures, allowing decisions on submitted requests to be made within the communication units.

According to Article 42 of the General Administrative Procedure Act (GAPA), a party may address a Single Administrative Point if the exercise of one or more rights requires the actions of one or more authorities, which also applies to local self-government units. Under Article 42 (§ 2) of the GAPA, establishing an SAP does not affect the competence of authorities or the party’s right to directly address the competent authorities. The subsequent GAPA provisions define the basic SAP functions, which include advising the applicant on necessary documents, receiving and forwarding submissions to the competent official, and informing the applicant about the actions taken and decisions made. The Government Regulation on Single Administrative Points (2023) further outlines the implementation of SAPs in Serbian local governments. These SAPs serve as centralized hubs for various administrative services, improving accessibility and efficiency.

The types of SAPs implemented in Serbian local governments include: Social Assistance Services, providing (financial) support to energy-vulnerable consumers to manage energy costs; Child Support Services, allocating child allowances and additional support for energy-vulnerable families; Vital Record Management, handling the registration of and updating death facts within the Local Tax Administration registers; Personal Data Administration, managing procedures for changing personal names and updating public enterprise records; Local Tax Records Update, dealing with changes in personal names and data updates within Local Tax Administration records; Newborn Financial Support, consolidating financial support for newborns into a single administrative point known as e-Baby; Preschool Cost Subsidies, administering child allowances and cost reimbursements for preschool institutions; Social and Communal Service Subsidies, assisting and subsidizing communal service costs; and Property Tax Management, overseeing the submission of property tax declarations and updates on communal service user data (Jerinić et al., 2022, 315).

There are several critical practical insights beneficial to local self-government units interested in introducing an SAP. Personalization within an SAP involves grouping or simultaneous resolution of administrative procedures related to specific life events (birth, death, real estate transactions). Organizationally, various units within a local self-government or in combination with public enterprises or institutions can participate in an SAP, which may sometimes extend

for specific tasks to regional or national bodies. Normatively, minimal interventions were needed, primarily regulating data exchange among organizational units or adopting internal organizational guidelines by local self-government heads.

Some forms of SAP can be implemented electronically, as stipulated by the Electronic Government Act of 2018. An electronic SAP is a web portal or software solution enabling electronic administrative procedures by one or more authorities. Introducing an electronic registry (Document Management System – DMS) would facilitate data exchange within the local self-government system and provide electronic services to citizens and businesses. Digitalizing administrative procedures allows most SAPs to transition to electronic forms on the eGovernment Portal (Jerinić et al., 2022, 317).

The implementation of various efficiency-driven reforms and initiatives has resulted in significant cost savings for Serbian local governments. For example, the total annual savings for 14 pilot local government units amounted to approximately €42,284. The savings for parties (citizens and businesses) were even higher, totaling approximately €56,358. Thus, the overall annual savings on both sides exceeded approximately €98,642. These savings demonstrate the tangible benefits of improving efficiency and effectiveness in local government operations (Jerinić et al., 2022, 316).

#### **4.7 Obtaining Data *ex officio***

The General Administrative Procedures Act has revolutionized public administrative operations by requiring authorities to autonomously access and process official records, and thus streamline decision-making (Articles 9, 102, 103 of the GAPA). Direct data requests from citizens are minimized, ensuring efficiency in identification and documentation. The Electronic Administration Act of 2018 introduced a new era of digital communication in public services. This system significantly reduces bureaucratic burdens, integrating over 400 public entities and empowering more than 10,000 employees. The transformative impact is evidenced by saving citizens from filing over 4 million individual documentation requests, millions of hours of queuing and administrative processes (Jerinić et al., 2022, 318).

### **5 Conclusion**

While undergoing substantial reforms, the Serbian local government system continues to grapple with inherent challenges stemming from its monotypic nature and demographic shifts. The lack of differentiation in the normative framework, coupled with significant disparities in the size and population of municipalities, calls for a new approach to local governance. The ongoing demographic regression, particularly in smaller and underdeveloped regions, further aggravates these challenges, which ultimately impact service delivery, economic development and financial sustainability. Possible policies should be to implement differentiated governance models that reflect the varying sizes and capacities of municipalities and to develop targeted demographic policies aimed at revitalizing smaller and underdeveloped regions. Additionally, establishing a more equitable system of intergovernmental transfers and investing in regional development programs can help mitigate disparities and promote balanced local development.

The financial landscape of Serbian local governments is characterized by a diverse revenue structure, entailing a heavy reliance on centrally controlled funds. While total revenues have seen nominal growth, the issue of fiscal autonomy remains a pressing concern. The over-reliance on

allocated revenues, especially the income tax on salaries, and the limited fiscal independence of local governments underscore the need for a more balanced and sustainable financial framework. Specific policy measures to enhance fiscal autonomy could include granting local governments greater authority to set and collect local taxes and fees, such as property taxes or local business taxes, and reducing dependence on central transfers by diversifying local revenue sources. Implementing fiscal equalization mechanisms can also help to address regional disparities and ensure all municipalities have sufficient resources to meet their obligations. Enhancing fiscal autonomy would empower local governments to make independent decisions regarding revenue generation and expenditure and foster greater accountability and responsiveness to local needs.

Expenditure trends reveal a steady increase in spending, where a significant portion is allocated to general public services, economic affairs, and community development. Yet, the functional classification of expenditures indicates a need for better resource allocation and prioritization, particularly in the areas of education and social protection. While investments in infrastructure and economic development are crucial, a balanced approach that addresses social needs is essential for sustainable development. To improve resource allocation efficiency, it is recommended that local governments conduct comprehensive needs assessments to prioritize spending in critical areas such as education and social protection. Adopting performance-based budgeting practices can also ensure that resources are allocated effectively, and outcomes are regularly evaluated. Additionally, enhancing capacity-building programs for local officials can improve financial management and planning capabilities.

The efforts to improve the efficiency and effectiveness of Serbian local governments have yielded positive results. Key reforms in various administrative and procedural areas have streamlined processes, reduced bureaucratic burdens, and enhanced service delivery. Efficiency and transparency have been further increased by introducing centralized portals, single administrative points and the requirement for data processing *ex officio*. These reforms have not only saved time and resources but have also improved the overall user experience for citizens and businesses interacting with local governments. In the future, it is essential to continue investing in digital infrastructure and e-governance initiatives, ensuring that technological advancements are accessible in all municipalities, including those in underdeveloped regions. Future reforms should focus on integrating innovative technologies such as artificial intelligence and data analytics to further enhance service delivery and decision-making processes.

Functional analyses have highlighted the need for better management of employee functions, specialization, and resource allocation. Optimizing human resources and ensuring that employees are equipped with the necessary knowledge and skills to perform their tasks effectively are crucial for improving service delivery and achieving organizational goals. Implementing targeted training and professional development programs for local government employees can enhance their competencies and improve service delivery. Furthermore, adopting modern human resource management practices, such as performance evaluations and incentive structures, can motivate employees and align their objectives with organizational goals.

Inter-municipal cooperation is another potential tool for enhancing the efficiency and quality of local governance and consequently the financial sustainability of local government units. The amendments to the Local Self-Government Act have facilitated the application of this approach, allowing local governments to jointly execute delegated tasks and share resources. Encouraging the formation of inter-municipal partnerships and providing legal and financial support for collaborative projects can maximize resource utilization and improve service provision.

The introduction of Single Administrative Points (SAPs) has further improved service delivery by providing a centralized hub for various administrative services. By consolidating

services and streamlining procedures, SAPs have made it easier for citizens and businesses to access the services they need, and contributed to reducing administrative burdens and improving overall satisfaction. To further expand the benefits of SAPs, their scope should be broadened to include more services and integrate them with digital platforms.

The Act on the Register of Administrative Procedures and the Electronic Administration Act may contribute to streamlining decision-making and reducing bureaucratic burdens. The transformative impact of these laws is evident in the significant time and cost savings for both citizens and local governments. Looking ahead, continuous updates to legal frameworks governing e-governance are necessary to keep pace with technological advancements and emerging challenges such as data security and privacy concerns. Implementing robust cybersecurity measures and developing clear regulations on data protection will be crucial to maintaining public trust in digital government services.

In conclusion, the Serbian local government system is at a crossroads, being subject to ongoing reforms and initiatives aimed at enhancing financial sustainability, efficiency, and effectiveness. While progress has been made, challenges remain, particularly in the areas of fiscal autonomy, revenue diversity and resource allocation. To achieve these goals, it is imperative for policymakers to prioritize reforms that enhance fiscal autonomy, diversify revenue streams, and promote equitable resource allocation. Additionally, anticipating potential challenges such as economic fluctuations, technological disruptions, and demographic changes will enable local governments to develop resilient strategies. The ongoing focus on improving efficiency, streamlining administrative processes, and fostering inter-municipal cooperation will be crucial for ensuring long-term success and sustainability of local governance in Serbia. By addressing these challenges and building on the successes achieved thus far, Serbian local governments can create a more responsive, efficient and financially sustainable system that effectively serves the needs of its citizens and promotes local development.

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