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MUNICIPAL ECONOMIC GROWTH ACTIVITY

Transfers to Poorer, Opportunities to Richer

As a result of adoption of the long awaited Law on Local Government Finances, 99 municipalities expect budget increases

It took four years of very intensive engagement of the Standing Conference of Towns and Municipalities, supported by USAID and other partners to result in adoption of the Law on Local Government Finances on July 14, 2006. As a result of the new Law, predictability and objectivity of the system will be greatly improved, imbalance in per capita revenues between richer and poorer municipalities moderated, property tax is made an own source revenue and local governments have got authority to collect own revenues. Some of the improvements in the text of the Draft Law have been made after the Draft was approved by the Government of Serbia and sent to the Parliament. Notably, the amendment that obliges all line ministries to provide information to the Ministry of Finance and Commission for Local Government Finances on all earmarked grants that they transfer to local governments was agreed at the debate on the Draft Law between the SCTM, Ministry of Finance and the members of the National Parliament, which was facilitated by MEGA program. This provision will contribute significantly to making the system of finance more transparent.

It is expected that the new Law will have great impact on local economic development and strengthening of local self-governance in Serbia: **new own source revenue (property tax) and revenue collection powers will considerably increase local financial autonomy and facilitate richer municipalities becoming engines of development in their regions, while poorer municipalities will get much more transfer revenues than before, thus creating conditions for more balanced regional development. Both poorer and richer communities will benefit from provisions that will enhance predictability of the system since they will facilitate development of municipal capital market.**

Municipality	Population	Budget 2006: Old System	Budget 2006: New System	Per Capita: Old System	Per Capita: New System	Increase per capita (%)
BOJNIK	13,118	40,556	84,358	3,092	5,939	192
REKOVAC	13,551	47,601	92,194	3,513	6,804	194
LEBANE	24,918	89,944	157,145	3,610	6,307	175
KNIĆ	16,148	58,491	108,605	3,622	6,726	186

Expected increase in revenues of poorest municipalities in Serbia.

Currently, the difference in per capita revenue between the richest and poorest local governments is 1:10. The law will reduce this gap to 1:5. While some cities have per capita revenues of approximately 30,000 dinars a year, 34 municipalities operate with revenues of less than 5,000 dinars per capita a year. As a result of the Law, beginning in January 2007 there will be no local government with annual per capita revenues below 5,000 dinars. As the table above shows, per capita revenues of the poorest local governments will almost double from approximately 3,000 to 6,000 dinars a year.

Furthermore, the Commission for Local Government Finances is established by the Law, consisted of three representatives of local governments and six from the Government of Serbia to monitor functioning of the IGF system and propose improvements thereof.