

Public Financial Management Performance Measurement Report

Serbia Municipalities

REPIM Ltd for SECO

This document is the cover PEFA report for the following six local government assessments in Serbia: Sremska Mitrovica, Uzice, Vranje, Paracin, Knjazevac, Osecina, final reports dated March 2015. An individual PEFA report covers the Summary Assessment and Section 3 for each local government.

May 2015

Currency and indicative exchange rates

Local currency unit = Serbian Dinar

100 RSD= €0.82 =US\$1.105

Fiscal Year

01 January - 31 December

Years covered

FYs 2011, 2012 and 2013 and

Information at time of Assessment

Preface

The 2014 Serbia municipality PEFA was carried out by a REPIM team contracted by SECO comprising John Short Team Leader and Leader of Sremska Mitrovica and Osecina PEFA's, Paul Harnett (Team Leader of Uzice, Vranje, Paracin and Knjazevac PEFA's, Stefan Teodosić, Sremska Mitrovica and Osecina PEFA's and Siniša Jovanović, Uzice, Vranje, Paracin and Knjazevac PEFA's.

The Assessment Team is grateful for all the support it has received from SECO, the Standing Conference Town and Municipalities, and most importantly from the Mayor, Deputy Mayor and officials of the six municipalities that the teams visited.

Special thanks is due to our counterparts in the municipalities who ensured that there was a time table of meetings, an office to hold these meeting and ensuring that their colleagues made themselves available. The team's ability to gather all the necessary information in each municipality over a period of five intensive days is a testament to the support and facilitation that was in place. Our grateful appreciation goes to Duško Šarosković and Jelena Rebić in Sremska Mitrovica, Vesna Pavlović in Osecina, Marko Marinković, Mirjana Drndarević and Zoran Adžić in Uzice, Goran Spirić in Vranje, Slobodan Janković and Mirjana Milutinović in Paracin, and Ankica Marković and Dragana Marinković in Knjazevac who ensured the field work in their individual municipality went smoothly.

The Team is also grateful to the members of the Regional Chamber of Commerce that the Team met. A full list of persons that provided evidence is listed as an annex to each of the Municipality PEFA reports.

Acronyms

AGA	Autonomous Government Agency
ATU	Administrative Territorial Unit
BC	Budget Circular
BSL	Budget System Law
CG	Central Government
COFOG	Classification of the Functions of Government
DBB	Direct Budget Beneficiaries
EBE	Extra Budgetary Expenditure
EC	European Commission
EU	European Union
FMC	Financial Management Control
FMIS	Financial Management Information System
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GIZ	Gesellschaft für Internationale Zusammenarbeit
GOS	Government of Serbia
IA	Internal Audit
IBB	Indirect Budget Beneficiaries
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPA	Instrument for Pre-Accession Assistance
IPSAS	International Public Sector Accounting Standards
ISPPIA	International Standards for the Professional Practice of Internal Auditing
IT	Information Technology
LSG	Local Self Government
LM	Line Ministry
MOE	Municipality Owned Enterprises
MOF	Ministry of Finance
MTBO	Medium Term Budget Outlook
MFBF	Medium Term Budget Framework
MTEF	Medium Term Expenditure Framework
MTFO	Medium Term Fiscal Outlook
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIFC	Public Internal Financial Control
PPL	Public Procurement Law
RS	Republic of Serbia
RINO	Register of Reconciliation (Settlement) of Financial Obligations
SAI	State Audit Institution
SCTM	Standing Conference on Towns and Municipalities
SECO	Swiss State Secretariat for Economic Affairs
SEIO	Serbia EU Integration Office SEIO

SN	Sub National
STA	Single Treasury Account
SWG	Sector Working Groups
TA	Technical Assistance
USAID	United States Agency for International Development

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Individual Municipality and Mean/Mode PEFA Scores

		Sremska Mitrovica	Uzice	Knjazevac	Vranje	Paracin	Osecina	Mean	Mode
HLG-1	Predictability of Transfers from Higher Level of Government	NR	NR	NR	NR	NR	NR	NR	NR
(i)	Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the municipal entity for inclusion in the latter's budget	A	C	A	C	C	C	B	C
(ii)	Annual variance between actual and estimated transfers of earmarked grants	NR	NR	NR	NR	NR	NR	NR	NR
(iii)	In-year timeliness of transfers from HLG (compliance with timetable for in-year distribution of disbursements agreed within one month of the start of the local government's fiscal year)	A	A	A	A	A	A	A	A
A. PFM-OUT-TURNS: Credibility of the budget									
PI-1	Aggregate expenditure out-turn compared to original approved budget	D	A	D	A	D	D	C	D
PI-2	Composition of expenditure out-turn compared to original approved budget	C+	A	C+	A	D+	D+	C+	D+
(i)	Extent of variation in expenditure composition excluding contingency items	C	A	C	A	D	D	C	A/C/D
(ii)	Average amount of expenditure actually charged to the contingency vote over the last three years	A	A	A	A	A	A	A	A
PI-3	Aggregate revenue out-turn compared to original approved budget	C	D	B	B	D	A	C	B/D

		Sremska Mitrovica	Uzice	Knjazevac	Vranje	Paracin	Osecina	Mean	Mode
PI-4	Stock and monitoring of expenditure payment arrears	A	D+	C+	D+	A	A	B+	A
(i)	Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in stock	A	D	C	D	A	A	B	A
(ii)	Availability of data for monitoring the stock of expenditure payment arrears	A	A	A	A	A	A	A	A
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency									
PI-5	Classification of the budget	A	A	A	A	A	A	A	A
PI-6	Comprehensiveness of information included in budget documentation	B	B	B	A	C	C	B	B
PI-7	Extent of unreported government operations	A	A	A	A	A	A	A	A
(i)	The level of extra-budgetary expenditure (excluding donor-funded projects) which unreported	A	A	A	A	A	A	A	A
(ii)	The income/expenditure information on donor-funded projects included in fiscal reports	A	A	A	A	A	NA	A	A
PI-8	Transparency of inter-governmental fiscal relations	NA	NA	NA	NA	NA	NA	NA	NA
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	C	C	C	C	C	C	C	C
(i)	Extent of municipality monitoring of AGAs and public enterprises	C	C	C	C	C	C	C	C
(ii)	Extent of municipality monitoring of sub national governments' fiscal position	NA	NA	NA	NA	NA	NA	NA	NA
PI-10	Public access to key fiscal information	A	A	B	B	B	A	A	A/B

		Sremska Mitrovica	Uzice	Knjazevac	Vranje	Paracin	Osecina	Mean	Mode
C. BUDGET CYCLE									
C(i) Policy-Based Budgeting									
PI-11	Orderliness and participation in the annual budget process	C+	C+	C	B	B+	B	B	C+
(i)	Existence of and adherence to a fixed budget calendar.	C	C	D	C	C	B	C	C
(ii)	Guidance of the preparation of budget submissions	D	D	D	C	A	D	C	D
(iii)	Timely approval by the legislature	A	A	A	A	A	A	A	A
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+	D	D+	A	D	D+	C	D+
(i)	Multi-year fiscal forecasts and functional allocations	D	D	D	A	D	D	C	D
(ii)	Scope and frequency of debt sustainability analysis	NA	NA	NA	A	D	NA	C	NA
(iii)	Existence of costed sector strategies	C	D	B	B	D	C	C	D/C/ B
(iv)	Linkages between investment budgets and forward expenditure estimates	D	D	D	A	D	D	C	D

		Sremska Mitrovica	Uzice	Knjazevac	Vranje	Paracin	Osecina	Mean	Mode
C(ii) Predictability and Control in Budget Execution									
PI-13	Transparency of taxpayer obligations and liabilities	B	B	B+	B+	B+	B	B	B
(i)	Clarity and comprehensiveness of tax liabilities	A	B	A	A	A	A	A	A
(ii)	Taxpayer access to information on tax liabilities and administrative procedures	B	B	A	A	A	B	B	A/B
(iii)	Existence and functioning of a tax appeals mechanism	C	C	C	C	C	C	C	C
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	D+	D+	D+	C+	C+	D+	C	D+
(i)	Controls in the taxpayer registration system	B	C	C	C	B	B	B	C/B
(ii)	Effectiveness of penalties for non-compliance with registration and declaration obligations	D	D	D	A	D	D	C	D
(iii)	Planning and monitoring of tax audit and fraud investigation programs	D	D	D	D	C	D	D	D
PI-15	Effectiveness in collection of tax payments	D+	D+	D+	D+	D+	D+	D+	D+
(i)	Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years)	D	D	D	D	D	D	D	D
(ii)	Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	A	A	A	A	A	A	A
(iii)	Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	A	A	A	A	A	A	A	A

		Sremska Mitrovica	Uzice	Knjazevac	Vranje	Paracin	Osecina	Mean	Mode
PI-16	Predictability in the availability of funds for commitment of expenditures	B+	B+	B+	B+	C+	B+	B+	B+
(i)	Extent to which cash flows are forecast and monitored	A	B	B	B	B	A	B	B
(ii)	Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	B	B	B	B	A	B	B	B
(iii)	Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	A	A	A	A	C	A	A	A
PI-17	Recording and management of cash balances, debt and guarantees	A	A	A	A	A	A	A	A
(i)	Quality of debt data recording and reporting.	A	A	A	A	A	A	A	A
(ii)	Extent of consolidation of the government's cash balances	A	A	A	A	A	A	A	A
(iii)	Systems for contracting loans and issuance of guarantees	B	B	B	B	B	B	B	B
PI-18	Effectiveness of payroll controls	C+	B+	C+	C+	C+	D+	C+	C+
(i)	Degree of integration and reconciliation between personnel records and payroll data	A	A	A	A	A	A	A	A
(ii)	Timeliness of changes to personnel records and the payroll	A	A	A	A	A	A	A	A
(iii)	Internal controls of changes to personnel records and the payroll	A	A	A	A	A	A	A	A
(iv)	Existence of payroll audits to identify control weaknesses and/or ghost workers	C	B	C	C	C	D	C	C

		Sremska Mitrovica	Uzice	Knjazevac	Vranje	Paracin	Osecina	Mean	Mode
PI-19	Competition, value for money and controls in procurement	A	A	A	A	A	A	A	A
(i)	Transparency, comprehensiveness and competition in the legal and regulatory framework	A	A	A	A	A	A	A	A
(ii)	Use of competitive procurement methods	A	A	A	A	A	A	A	A
(iii)	Public access to complete, reliable and timely procurement information	A	A	A	A	A	A	A	A
(iv)	Existence of an independent administrative procurement complaints system	A	A	A	A	A	A	A	A
PI-20	Effectiveness of internal controls for non-salary expenditure	C+	C+	C+	C+	C+	C+	C+	C+
(i)	Effectiveness of expenditure commitment controls	C	C	C	C	A	C	B	C
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/ procedures	A	A	C	C	C	C	B	C
(iii)	Degree of compliance with rules for processing and recording transactions	A	A	B	A	B	A	A	A
PI-21	Effectiveness of internal audit	D	C+	D	D	D	D	D+	D
(i)	Coverage and quality of the internal audit function	D	A	D	D	D	D	C	D
(ii)	Frequency and distribution of reports	D	C	D	D	D	D	D	D
(iii)	Extent of management response to internal audit findings	NA	C	NA	NA	NA	NA	C	NA

		Sremska Mitrovica	Uzice	Knjazevac	Vranje	Paracin	Osecina	Mean	Mode
C(iii) Accounting, Recording and Reporting									
PI-22	Timeliness and regularity of accounts reconciliation	A	A	A	A	A	A	A	A
(i)	Regularity of bank reconciliations	A	A	A	A	A	A	A	A
(ii)	Regularity of reconciliation and clearance of suspense accounts and advances	A	A	A	A	NA	A	A	A
PI-23	Availability of information on resources received by service delivery units	A	A	A	A	A	A	A	A
PI-24	Quality and timeliness of in-year budget reports	C+	C+	C+	C+	A	C+	C+	C+
(i)	Scope of reports in terms of coverage and compatibility with budget estimates	C	C	C	C	A	C	C	C
(ii)	Timeliness of the issue of reports	A	A	A	A	A	A	A	A
(iii)	Quality of information	A	A	A	A	A	A	A	A
PI-25	Quality and timeliness of annual financial statements	A	A	A	A	A	A	A	A
(i)	Completeness of financial statements	A	A	A	A	A	A	A	A
(ii)	Timeliness of submission of the financial statements	A	A	A	A	A	A	A	A
(iii)	Accounting standards used	A	A	A	A	A	A	A	A

		Sremska Mitrovica	Uzice	Knjazevac	Vranje	Paracin	Osecina	Mean	Mode
C(iv) External Scrutiny and Audit									
PI-26	Scope, nature and follow-up of external audit	A	A	D+	D+	D+	D	C+	D+
(i)	Scope and nature of audit (including adherence to audit standards)	A	A	A	A	A	D	A	A
(ii)	Timeliness of submission of audit reports to legislature	A	A	B	B	C	NA	B	A/B
(iii)	Evidence of follow-up on audit recommendations	A	A	D	D	D	NA	C	D
PI-27	Legislative scrutiny of the annual budget law	D+	D+	D+	C+	D+	D+	D+	D+
(i)	Scope of the legislature's scrutiny	C	C	C	C	C	C	C	C
(ii)	Extent to which the legislature's procedures are well-established and respected	A	A	A	A	B	A	A	A
(iii)	Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	D	D	D	B	D	D	D	D
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature	B	B	B	B	B	B	B	B
PI-28	Legislative scrutiny of external audit reports	D+	D	D+	D+	D+	D	D+	D+
(i)	Timeliness of examination of audit reports by the legislature	A	D	A	A	A	D	B	A
(ii)	Extent of hearings on key findings	D	D	D	D	D	NA	D	D
(iii)	Issuance of recommended actions by the legislature	D	D	D	D	D	NA	D	D

		Sremska Mitrovica	Uzice	Knjazevac	Vranje	Paracin	Osecina	Mean	Mode
D. DONOR PRACTICES									
D-1	Predictability of Direct Budget Support	NA	NA	NA	NA	NA	NA	C	NA
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	A	D	D	D	NA	NA	C	D
(i)	Completeness and timeliness of budget estimates by donors for project support	A	D	D	D	NA	NA	C	D
(ii)	Frequency and coverage of reporting by donors on actual donor flows for project support	A	D	D	D	NA	NA	C	D
D-3	Proportion of aid that is managed by use of national procedures	B	C	D	D	NA	NA	C	D
NA= Not Assessed									
Scoring for mean for dimensions		A=4	B=3	C=2	D=1	NR=0	NA = not scored		
Indicators scores based on dimensions as normal M1/M2									



Public Financial Management Performance Measurement Reports

Serbia Municipalities:

Sremska Mitrovica, Uzice, Vranje, Paracin, Knjazevac, Osecina

May 2015

The quality assurance process followed in the production of each of these reports satisfies all the requirements of the PEFA Secretariat and hence receives the **'PEFA CHECK'**.

PEFA Secretariat

December 17, 2015

Summary Assessment

There is a significant inter-relationship between the centre of Government such as the Ministry of Finance and the municipalities in Serbia with respect to Public Financial Management. The overall legal basis is served by the Budget System Law, revenue collection is administered through a set of tax laws, procurement is regulated by one Procurement Law and the State Audit Institution is responsible for the conduct of external audits for the whole of the public sector. Municipalities depend on un-earmarked grants and earmarked grants from Central Government to finance the majority of their expenditures. The Central Government and municipalities operate under a shared Single Treasury Account with their own sub accounts within it and accounting and reporting within the Single Treasury account follow the same standards and timetable.

(i) Integrated Assessment of PFM Performance

1. Budget credibility

Budget credibility is closely linked to the budget formulation process and to the extent that the budget is forward looking. If the budget is not well prepared and does not take account of future expenditure implication of existing policies, expenditure on investment to project competition and the recurrent cost of implementation once completed, expenditures for executing the budget in any one year will be subject to demands for funding items not in the budget but which actually need supporting. This will require supplementary budgets or the by-passing of controls which then lead to arrears if revenues are not available.

During the period 2011 to 2013, the budget has been a weak predictor of the expenditure outturns with a mode score of A/C/D and an average score of C. The difference in the mode and mean results from two municipalities which managed to produce sufficiently accurate forecasts to score an A though some municipalities managed a C score mainly with respect to the variation between actual and budget expenditure at departmental levels.

The performance on realising budgeted expenditure is closely linked to revenue which come from own sources (property tax and a range of fees and charges which contribute significantly more of own source revenue and are difficult to forecast) and transfers from Central Government (general (including a share of income tax raised in the municipality) and earmarked grants). Mean score for own source revenue is C while the mode is shared between B and D although one municipality scored A.

With respect to transfers from higher level of Government (Indicator HLG-1), the deviation of actual from budgeted has a B mean score but a C mode. Earmarked transfers are, whilst a low proportion of all transfers, highly unpredictable. Earmarked transfers are mostly project related, which means that they depend on result of competition with projects proposals from other municipalities and sometimes on the availability of the funds from the Central Government level or from donors arrangements. As information on earmarked grants does not include sectors, the dimension relating to deviation from actual and budgeted could not be scored.

The stock of payment arrears is generally low with a mode of an A and a mean of a B. While three municipalities scored A, two scored D and another scored C. The database for arrears is good with all invoice dates entered into the accounting software. In order to discourage arrears, the Republic Ministry of Finance penalises municipalities who do not pay invoices to private firms after 45 days by suspending transfers until invoices have been paid.

2. Comprehensiveness and transparency

The budget is based on administrative, economic and functional classifications mirroring the structure developed at the Central government level and is consistent with all relevant international classification systems. There is also a programme structure being introduced to the classification system to serve as a strategic resource allocation and analytical tool, but this as yet in its infancy. The budget document generally contains significant details and information on revenues and expenditures, and key macroeconomic aggregates, deficit and its financing but not on financial assets. Neither is there a backward looking time series to compare the proposed budget. The budget is comprehensive in its coverage with no extra budgetary expenditures or revenues and any donor projects that exist are included as well.

Public access to financial information is good with mean score A and mode A/B score. Monitoring of fiscal risks arising from the municipality owned enterprise takes place but results are not consolidated into an overall report.

3. Policy-based budgeting

The Budget Circular is dependent on receiving information from the Ministry of Finance on transfers and this has always been considerably later than specified in the scheduled calendar. Although the budget formulation process is well established, it suffered some setbacks due to the untimely issuance of the budget circular which does not include expenditure ceilings. A weakness in budget formulation process has been the rather late involvement of the political class in the municipalities as there is no formal involvement by the Assembly in the budget process until the budget proposal is submitted to the Assembly for approval.

There is a participative process with the stakeholders where the members of Assembly are included but not formally. Their early consideration and endorsement of the strategic priorities, and their reflection in the budget envelopes for the sectors, would provide greater legitimacy to the budget circular and help in ensuring that the submissions to the budget department are in-tune with a municipality's chosen strategic direction. This would aid the capacity to maintain aggregate fiscal discipline and strategic allocation.

Both the time taken to produce the budget and the involvement of the political class are weak with a mode of D and a mean of C. Nevertheless the budget is always approved on time. Both fiscal and budgetary policy are generally missing a medium-term perspective which will stifle the introduction of programme budgeting. The budget estimates include expenditure on projects in the two outer years, but nothing on recurrent expenditure or revenue. Nevertheless, one municipality has been proactive in developing a medium term fiscal framework to guide its budget formulation.

However this general lack of forward planning is also reflected in weak scores for the existence of costed sector strategies and linking future recurrent expenditure to investment with a C mean for both of these dimensions. However, with respect to costed sector strategies, two municipalities have made considerable effort to develop these and have scored B while one of these has fully linked recurrent costs of investment within its three year fiscal framework and has as a result scored A. This municipality has also more loans than the other municipalities and has developed fiscal sustainability analysis as part of its fiscal strategy.

4. Predictability and control in budget execution

Municipality administered taxation is based on a property tax that was previously implemented at the Central Government level and transferred to municipalities in 2009 who then had to establish their own administrative structures. The taxation system is based on comprehensive legislation providing clarity on the tax liabilities of taxpayers with no discretionary powers. The provisions for tax concessions are transparently set out.

Taxpayer education is reactive rather than proactive which in part reflects the information in the gazette which is considered sufficient, but also the small administration. However there is some proactive education in two municipalities due to some technical assistance. The appeals mechanism lacks an independent arbitration mechanism between petitions to the tax administration processed either at the municipality, then if taken further the Ministry of Finance district level, and finally the courts.

The database of properties and land is expanding and there are links to some external databases such as the Ministry of the Interior and Cadastral, though more could be done in this regard. One municipality has linked geographic information system (GIS) with the tax database which has increased compliance significantly. Property tax clearance certificates are required for participation in public procurement purposes as well as access to certain state aid. Overall the mean score is a B.

Penalties are well defined and are high enough to be a deterrent in the law but are rarely enforced with a mode of D and a mean of C which is explained by one municipality scoring A as a result of using Compliance Procedures. Arrears are consequently high scoring D in all municipalities. However, arrears are also high due to the cumulative impact of high interest rates charged and the inherited arrears from when the property tax was administered by the Central government. The Law does permit write-off after 5 years but this is not implemented.

Audit investigations are carried out on an ad hoc basis when staff time is available. Payments are made directly into the Single Treasury account via the banking system with cash payments received at the office being transferred the next day. Taxpayer records are maintained electronically and updated when payments are received.

On the expenditure side, overall measures to improve execution and strengthen controls have been implemented throughout the public sector in Serbia as a result of the adoption of the Budget System Law. Overall the predictability of the availability of funds for the commitment of expenditure merits a B+. Supplementary budgets are generally few and follow the same

procedures for the annual budget. All municipalities' cash balance is consolidated in their single treasury bank account.

The number of loans is low but is accounted for in the accounting system and where a loan is undertaken, the procedures require approval by the Ministry of Finance (Public Debt Law) with limits on borrowing linked to previous budget execution. There are no fiscal targets established reflecting in part the lack of forward budget planning. Procurement processes and procedures are based on the national system under the Public Procurement Law and score A in all respects. The evidence from the assessment relating to procurement was that the regulations relating to shopping and opening competition were followed in its entirety. All procurement that should use open completion, used open competition. In the instances of complaints, if the complaint is accepted by the Commission, the contractor is obliged to reimburse the fee to the bidder. Procurement was discussed with the Chamber of Commerce to triangulate information from procurement officers in the municipalities. There were no specific concerns expressed.

The payroll controls are well established and are working well; however payroll audits are infrequent depending on if the State Audit Institution has carried out an external audit. This is the case apart from one municipality which has implemented an Internal Audit department which has carried out payroll audits as well as developing and implementing internal audits. Other municipalities have an internal audit function in their establishment but have not as yet set up the internal audit function – this is a clear weakness in the overall control system.

Apart from in one municipality commitment controls do not exist – control is at the invoice rather than at the purchase decision stage after procurement procedures have been fulfilled. The degree of compliance in processing and recording of transactions is high with an A score mean and mode. Some municipalities have established rules and procedures for other non-procurement activities while in others, these are relatively underdeveloped. While the mean is a B, the mode is C reflecting the split between developed and not developed set of rules and compliance in the municipalities.

However, financial management and control in terms of Public Internal Financial Control (PIFC), based on the Law is not established. Internal controls for non-salary expenditure are part of the system of internal controls, which is regulated by the “Rulebook on common criteria and standards for establishment, functioning and reporting on system of financial management and control in the Public Sector” (Official Gazette of RS No 99/2011), which is harmonized with European PIFC regulations.

5. Accounting, recording, and reporting

Considerable effort has been directed towards improving the quality and comprehensiveness of the accounts and financial reports in line with the adoption of the single treasury account, accounting and reporting throughout the whole of the public sector in Serbia. Apart from the lack of accounting and reporting on commitments in all but one of the municipalities, in-year and annual accounting, recording and reporting score an A that reflects the well-established system and its timeliness. The accounting system is set up so that it is possible to produce reports at the level of service delivery units that provides transparency as to resource allocation at this level. Currently, the accounting and reporting system is on the cash basis with some

accrual elements. The intention is to gradually implement accrual accounting on IPSAS standard.

6. External scrutiny and audit

The external audit is mainly compliance and transaction orientated with some elements of system reviews, occasionally highlighting substantive concerns. All but one municipality is audited annually. Audits are carried out on the financial statements. The evidence of follow up on recommendations is somewhat mixed with a C mean and D mode. Two municipalities have followed up on recommendations and have established a response mechanism. Audit reports are generally sent to the Assembly in a timely manner but the level of scrutiny is cursory and recommendations are not issued.

With respect to the budget approval process there is a well-established set of procedures, but the time available for their implementation falls short of the one month to score a B apart from one municipality that raises the mode of D score to a mean of C score. The assembly as a whole only assesses the annual budget when it is presented though there is a prior but short time frame committee stage. Virement rules reflect the national procedures in the Budget System Law of up to 5 per cent with considerable number of reallocation.

(ii). Assessment of the Impact of the PFM weaknesses on budgetary outcomes

Aggregate fiscal discipline

Process weaknesses, such as the absence of an effective MTFF, the lack of timely availability of information on annual transfers and inconsistent delivery of earmarked transfers from the Central Government, and late involvement of the political process in the budget formulation process have the potential to threaten aggregate fiscal discipline.

Also the relatively recent handover of property tax administration as well as the structure of own sourced revenue has seen large fluctuations in revenues which have been hard to estimate. The general absence of rolling over expenditure commitments from existing policies into the medium term ensures that potential fiscal problems cannot be anticipated. Weaknesses in the external oversight mechanisms and the ineffectiveness of the assembly scrutiny of the government financial operations make the system further vulnerable.

The well-functioning mechanism for avoiding payment arrears offsets the lack of commitments controls at the purchase decision stage after procurement procedures have been fulfilled. Nevertheless, municipalities would be better positioned to control and monitor execution of the budget by addressing commitment control and thus maintain overall budget discipline.

The evidence from the assessment is that there are municipalities that have introduced good practice in one or some of these areas and have improved performance. These municipalities have demonstrated that it is possible to introduce good practice which others could follow.

Strategic allocation

The strategic allocation of resources is rendered weak by the absence of medium-term fiscal and budget frameworks, inadequate policy-budget linkage through sector strategies, and the

lack of early involvement of the political process in the budget formulation process. These weaknesses constrain a municipality's ability to allocate resources efficiently over the medium term to reflect a realistic timeframe for implementation of policy. However, the infrequent use of supplementary budgets in most cases does indicate that the strategic priorities determined through the budget formulation process are maintained but only on an annual basis. Implementing strategic priorities is also weakened by inconsistent delivery of earmarked grants.

Operational efficiency

There is a single-year budget horizon apart from one municipality and considerable variability in revenue realization in relation to expenditure from both municipalities' own source revenue and transfers from Central Government. Weaknesses in the accountability mechanisms from the absence of internal audit (apart from one municipality) and the scrutiny of external audit as well as the deficiency of external audit recommendations render these ineffective as counter checks on inefficient use of resources.

On the revenue side, operational efficiency is compromised by the accumulation of tax arrears. There is a need to introduce measures to target of arrears collection and well as write off clearly uncollectable arrears. Lack of effective tax debt collection undermines credibility of tax assessments and the principle of equal treatment to taxpayers. The consolidation of cash balances; cash flow forecasting and cash management have enhanced budget execution and improved operational efficiency.

(iii) Prospects for reform planning and implementation

Municipality Public Financial Management has benefited from the implementation of the Budget System Law, the Procurement Law and the creation of the State Audit Institution. The Single Treasury Account and the associated accounting system has meant that by and large accounting, recording and reporting is effective providing timely information for management. The procurement system has a legal and regulatory framework that is transparent, comprehensive and provides for competition. The impact of audits carried out by the State Audit Institution can be measured by the implementation of its recommendations and improvements in management and control in the municipalities that the SAI have audited. Some reform initiatives have yet to be implemented in most municipalities particularly with respect to Internal Audit. While programme budgeting is being rolled out to municipalities the absence of a medium term fiscal framework and sector strategies can only make programme budgeting premature and ineffective.

A comprehensive PFM reform at the local government level can be achieved only within a wider central level PFM reform, especially having in sight the uniformity of the local government regulatory and functional framework as well as the nature of much of PFM systems across both central and local government. Since there is a parallel PEFA assessment on the central government level and a need for PFM improvement as a part of EU accession process it is expected that the requirements toward acceleration of the local government PFM will be increasingly present.

1: Introduction

Objectives of the PFM-PR Local government finances in Serbia represent around fifteen percent of total public expenditures. Local self-governments (LSG) are responsible for a wide range of functions, including both infrastructure and social services. So far, hardly any diagnosis on subnational PFM performance is available. In the framework of its engagement in Serbia, SECO is envisaging the design and development of a PFM reform and strengthening program at subnational level in Serbia. As an entry point, Public Expenditure and Financial Accountability (PEFA) assessments are to be conducted in a representative set of selected LSGs in Serbia. The PEFA assessments thus shall serve as a diagnosis tool to identify strengths and weaknesses of the PFM system at subnational level. Additionally, by highlighting systemic PFM weaknesses at subnational level, the PEFA assessments will also provide meaningful inputs for PFM reforms at national level. The findings of the individual municipal PEFA assessments will furthermore allow the identification of structural PFM problems at subnational level and its implications for the national level.

Process of preparing the PFM-PR. SECO is the lead donor in the management and contracting of consultants including the production of the Concept Note for the assessment and Terms of Reference for the assessment team. The assessed local governments, the EU, World Bank, IMF and the PEFA Secretariat are acting as Peer Reviewers. In addition the Standing Conference on Towns and Municipalities (SCTM)¹, UNDP, the Ministry of Finance and the State Audit Institution (SAI) are involved, in the process as part of the Oversight Team

The methodology for the preparation of the reports. The assessment was carried out using the standard PEFA methodology, covering the 28 indicators, 3 donor indicators as well as the performance indicator HLG-1 to assess the predictability of transfers from a higher level of government. Each of the six municipalities that have been assessed have fully participated in training, providing interviews and documents during field visits and commenting on their own reports. In additional relevant national laws and relevant reports have been accessed.

The scope of the assessment as provided by the PFM-RP. Individual PEFA assessments have been conducted in a representative set of six LSGs. They were selected following the *Supplementary Guidelines for the application of the PEFA Framework to Sub-National Governments* and according to the following criteria:

- Population size;
- Economy (industrial: agricultural) or main source of revenue
- Organizational structure (e.g. municipal, town, district),
- Geographical representation
- Political representation (government and opposition);
- Willingness to participate in the PEFA assessment and engage in PFM reforms.

¹ SCTM is the association of Serbian towns and municipalities gathering and joining interests of local authorities and representing them vis-à-vis the central government. SCTM is dedicated to build up capacities of local governments to provide services to its citizens. PEFA assessments at subnational level will provide meaningful input for SCTM's advocacy work at central level.

The Standing Conference on Towns and Municipalities has conducted preparatory work by informing its members about the envisaged PEFA assessments and the subsequent PFM reform and strengthening program. A one-day information workshop has taken place in July 2014 to familiarize interested LSGs with the PEFA methodology. Representatives of six LSGs have participated at the workshop. Following the introduction workshop, all six LSGs have expressed their interest in participating in the PEFA assessments in written form.

The six LSGs and their main features are presented below:

Table 1 Coverage of Municipality PEFA

City/ Municipality	Population	Geographical area	Organizational structure	Total budget expenditures (planned for 2014) in RSD	Expenditures per capita in RSD
	7,163,976	Serbia	Consolidated General Government ^{2t}	1,739,135,800,000	242,761
	7,163,976	Serbia	Local Government	264,531,000,000	36,925
Sremska Mitrovica	85,902	North Serbia - Vojvodina	City	2,679,916,000	31,197
Uzice	78,018	West Serbia	City	2,466,400,000	31,613
Vranje	85,802	South Serbia	City	2,181,130,000	25,421
Paracin	58,301	Central Serbia	Municipality	1,502,977,256	25,780
Knjazevac	37,172	East Serbia	Municipality	888,000,000	23,889
Osecina	12,571	West Serbia	Municipality	338,479,000	26,925
Total	357,766			10,056,902,256	28,110
Serbia Municipalities	7,163,976				22,285
Sample as percentage Local Government as % of General Government	5%			3.8%	
	15.2%				

The above set of LSGs is representative from a geographical point of view. In addition, the sample is equally divided between cities and municipalities. Overall the sample includes entities of different size in terms of population. Moreover, the sample encompasses local governments with different budgets. Differences in total budget expenditures planned for 2014 in municipalities and cities and between municipalities and cities show that there is a positive correlation between population and overall spending.

There are considerable differences in per capita spending between the six local governments. The pattern shows more similarities for the three municipalities than for the three cities. The differences in per capita expenditures and the irregularities of these expenditures might reflect differences in the quality of PFM at local level, which the PEFA assessment will likely

² Public Finance Bulletin Number 124 December 2014 Table 2

illustrate. The sample represents 5 percent of total population in Serbia and 3.8% of total municipality expenditure. Local Government is 15.2% of General Government.

The assessment team comprised four members (John Short, assessment team leader, Paul Harnett, Sinisa Jovanovic, and Stefan Teodosic) who split into two teams and one team carried out field missions in two municipalities and the second team carried out field missions in four municipalities³. The Municipality PEFAs were organised as follows:

1-2 October 2014	A training workshop was attended by two officials from 5 municipalities and three from one municipality. Representative of SECO and SCTM also participated. This workshop followed the standard PEFA Secretariat training modules but also presented the data requirements, their likely sources and the scoring requirements for each indicator and its dimensions. A timetable for field visits was agreed with each municipality.
3 Oct 2014	Meetings between PEFA consultants and SECO, World Bank, EC and STCM as part of the Steering Group
13 - 17 Oct 2014	Field mission in Sremska Mitrovica and Uzice
20 - 24 Oct 2014	Field mission in Knjacevac
3 - 7 Nov 2014	Field mission in Osecina and Paracin
10 - 14 Nov 2014	Field mission in Vranje
19 Oct – 8 Dec 2014	Drafting of PEFAs
9 Dec 2014	Transmittal of 6 municipality PEFA
10 Nov -15 Dec 2014	Drafting of systematization report
15 Dec 2014	Transmittal of systematization report
24 Feb 2015	Comments received
March 2015	Revised PFM-PMF Report
April 23 2015	Dissemination workshop
May 2015	Final PFM-PMF Report based on final comments

During the time between field missions, each of the indicators was scored and a narrative for each indicator drafted and shared between the assessments teams. The initial draft PEFA for Sremska Mitrovica was translated into Serbian and sent to the counterparts for comment. During this period the assessment teams followed up with counterparts to ensure any missing information was received. Assessment teams were able to discuss the assessment and likely score with the counterparts. Each municipality had the opportunity to discuss the scoring with PEFA team at an early stage. A meeting was held with the Central Government PEFA team on 19 November 2014.

Once all the individual PEFA reports were drafted in English they were translated into Serbian and sent to each of the municipalities for their comments.

The reports were reviewed by the PEFA Secretariat, SECO, EC, UNDP and the World Bank.

³ John Short (Team Leader and Leader of two municipality PEFAs, Sremska Mitrovica and Osecina), Paul Harnett (Team Leader of 4 municipality PEFAs Uzice, Knjacevac, Vranje, and Paracin), Stefan Teodosić (two municipality PEFAs, Sremska Mitrovica and) Osecina) and Siniša Jovanović (four municipality PEFAs Uzice, Knjacevac, Vranje, and Paracin).

2: Country Background Information

2.1: Description of the Country Economic Situation

The population of Serbia was estimated at the end of 2013 to have a population of 7,146,759 people, which represents a decrease of 34,746 people compared to 2012.

An examination of the Human Development Index (HDI) which is a summary measure of three dimensions of human development: leading a long and healthy life (measured by life expectancy at birth); being knowledgeable (measured by literacy and school enrolment); and having a decent standard of living (measured by GDP per capita) shows Serbia ranked 77 out of 187 countries in 2013 with a HDI index of 0.745. Serbia falls in the High Human Development category but the 2013 position shows a drop from 67 out of the 182 countries scored with a HDI index of 0.829 in 2007⁴.

Just over 9 per cent of the population is below the poverty line which ranks Serbia as 117 out of the 130 countries measured – the lower the ranking the higher the poverty in the country.⁵ The Gini coefficient is 38 ranking Serbia as 60 out of the 155 countries measured (the 155th country Sweden had a Gini Coefficient of 23).⁶ Nevertheless despite these good indicators, the period since 2009 has been challenging with real fall in living standards. Table 2 presents the basic macro-economic indicators for Serbia.

Between 2009 and 2014, Serbia's GDP in real prices fell in each year except 2010 and 2011 when there was modest growth and 2013 where growth was 2.6 per cent. Real growth is projected to fall in 2015 after decline in 2014 of 1.8 per cent. Serbia has been impacted negatively by the overall worldwide recession. With slightly falling population levels, per capita income had recovered in euro terms in 2013. Services account for around 62 per cent of GDP, industry 32 per cent and the remaining 8 per cent in agriculture.

From a high of some 90 per cent in 2001, inflation has been brought under control. Although annual average inflation has been under 10 per cent since 2009, it has only been in 2014 that it has dropped to below 3 per cent.

Serbia's current account deficit as a percentage of GDP has been on a declining trend from 2009 to 2012 but recovered in 2013 to -4.6 per cent of GDP as exports particularly to the European Union countries grew. The balance of payments was positive in all years except 2010 and 2013 reflecting the size of financial inflows including remittances. Foreign net direct investment has been on an upward trend since 2009 when it was at its lowest point. Foreign exchange reserves have averaged over Euro 10,000 million over the period although the dinar has declined against the euro on an annual basis.

The employment level declined from 1.9 million in 2009 to 1.7 million in 5 years. Just under 60 per cent are employed in services with 24 per cent in agricultures and the remainder in industry. Unemployment levels stood at 730,000 in 2009 (a rate of 16.1 per cent in 2009) and were 767,000 and 18.9 per cent in 2014. Nominal net salaries grew in each year but, but

⁴ Norway was ranked first with a HDI of 0.971 and Niger 182nd with an HDI of 0.34. UNDP Human Development Report 2009. The same two countries filled the same position in the 2014 report.

⁵ CIA World Factbook 2015

⁶ The Gini Coefficient measures the degree of inequality in the distribution of family income in a country. The more nearly equal a country's income distribution, the lower its Gini index. The more unequal a country's income distribution, the higher its Gini index. If income were distributed with perfect equality the index would be zero; if income were distributed with perfect inequality, the index would be 100.

declined in real terms in 2013 and 2014. Nominal pension benefits also grew in each year but the impact of inflation has meant that in year since 2009 they have declined in real terms on a declining trends (apart from 2009 when they increased by 3.3 per cent). Under the recent fiscal consolidation measures salaries in the public sector have been temporarily decreased by 10%, while pensions have been reduced by 22% on the amount over 25.000 RSD.

Table 2 Basic macroeconomic indicators

	2009	2010	2011	2012	2013	2014
Gross domestic product, current prices, in bl dinars	2,880.1	3,067.2	3,407.6	3,584.2	3,876.4	3,878.0 ²
Gross domestic product, in millions EUR	30,654.7	29,766.3	33,423.8	31,683.1	34,262.9	33,059.1 ²
Gross domestic product, per capita, EUR	4,187.3	4,082.4	4,620.4	4,401.0	4,783	-
Gross domestic product, real growth, in %	-3.1	0.6	1.4	-1.0	2.6	-1.8 ²
Prices, growth rates						
Consumer prices by COICOP, end of period	6.6	10.3	7.0	12.2	2.2	1.7
Consumer prices by COICOP, period average	8.4	6.5	11.0	7.8	7.8	2.9
Foreign trade, in million EUR²						
Export of goods	5,961.3	7,393.4	8,441.4	8,738.9	10,996.7	11,157.0
Export of goods, %	-19.8	24.0	14.2	3.5	25.8	1.4
European Union	3,195.5	4,235.2	4,868.5	5,357.2	6,898.5	7,204.1
Import of goods	11,327.0	12,423.5	14,250.0	14,716.7	15,469.0	15,526.3
Import of goods, %	-30.4	9.7	14.7	3.3	5.1	0.4
Capital goods ⁷	2,038.6	2,335.9	2,879.6	2,995.8	3,800.3	3,458.0
Intermediate goods ⁷	3,410.5	4,389.6	4,938.0	5,132.3	5,166.4	5,024.4
Foreign trade deficit	-5,365.7	-5,030.1	-5,808.6	-5,977.9	-4,472.3	-4,369.2
Export of goods	5,961.3	7,393.4	8,441.4	8,738.9	10,996.7	11,157.0
Balance of payments, in million EUR						
Current account deficit (BPM 5) ^{5,8}	-1,910	-1,887	-2,870	-3,177	-1,586	-
Current account deficit, as % of GDP	-6.2	-6.3	-8.6	-10.0	-4.6	-
Current account deficit (BPM 6) ^{5,8}	-	-	-	-3,639.6	-2,098.3	-1,984.7
Current account deficit, as % of GDP	-	-	-	-11.5	-6.1	-6.0
Balance of payments, total ^{5,8}	2,363.5	-928.7	1,801.5	1,137.2	-696.7	1,796.7
Foreign direct investments, net, in million EUR^{5,8}						
	1,372.5	860.1	1,826.9	669.2	1,228.8	1,236.3
Foreign Exchange Indicators, end of period						
Foreign currency reserves of NBS, in million EUR	10,602	10,002	12,058	10,915	11,189	9,907
USD/RSD, end of period	66.73	79.28	80.87	86.18	83.13	99.46
USD/RSD, period average	67.47	77.91	73.34	88.12	85.17	88.54
EUR/RSD, end of period	95.89	105.50	104.64	113.72	114.64	120.96
Employment, salaries and pension benefits						
Employment level, average (thousands) ⁹	1,889	1,796	1,746	1,731	1,715	1,698
Unemployment level, period average (thousands)	747	744	753	762	775	767
Unemployment rate, ILO definition ¹⁰	16.1	19.2	23.0	23.9	22.1	18.9 ¹¹
Net salaries, period average, in dinars ¹²	31,733	34,142	37,976	41,377	43,932	44,530
- real growth rates	0.2	0.7	0.2	1.1	-1.5	-1.5
Pension benefits, period average, in dinars	19,788	19,890	21,285	22,450	23,378	23,553
- real growth rates	3.3	-5.9	-3.6	-2.2	-3.4	-2.1

Source: RSO, NBS, NEA and EPF

1 Since January 2011 methodology for the GDP statistics has been changed. 2 RSO estimation. 3 MoF estimation, Fiscal Strategy for 2015, with projections for 2016 and 2017. 4 4 Data for foreign trade with Montenegro included in 2006. 5 Since 01.01.2010. general trade system were introduced which include all goods that enter country or leaves it, except for goods in transit. Data for 2007, 2008 and 2009 are changed according to new methodology. 6 RSO corrected the data for 2012 and 2013. 7 New classification in order from 2004. 8 BPM 5 methodology in order from 2007 and BPM 6 methodology in order from 2012. 9 RSO corrected the data on the number of private entrepreneurs and employed by them from March 2009, inter alia, because of regulation of evidence of Republic institute for health insurance. 10 According to Labour Force Survey, population aged 15 and above. 11 Based on the LFS average data for four quarters of 2014. 12 New methodology for salaries, applied from 2009. as RSO extended coverage of observation units. In calculation of average salaries, beside salaries paid to employees in enterprises, institutions and organizations, into account are taken also salaries paid to entrepreneurs.

Overall government reform programme and rationale for PFM reforms

The driving force for overall reform and PFM reform in particular is adhering to good international practice, but also in the context of the standards and requirements to meet European Accession. The 2013 SIGMA report indicates that in the policy making and co-ordination area, the main challenge for Serbia is to ensure that policy is planned in a more co-ordinated manner. Clearer links need to be established between the existing planning documents, such as the Government Annual Work Plan and the Fiscal Strategy. Medium-term planning should be further developed. The connection between political priorities and administrative planning needs to be strengthened. There is no institutionalised mechanism for transforming political priorities into strategic documents of the administration (Government Annual Work Plan – GAWP, Medium-Term Expenditure Framework, sectoral strategies). There are no central medium-term planning documents, and the GAWP does not specify policy priorities and is not connected with the budget. Another challenge relates to the coherence of the strategic planning and budgetary planning cycle. The strategic planning system requires greater coherence, as approximately 90 strategic documents exist, at sector and sub-sector levels, which include priorities that are often donor-driven rather than by the Government. Interlinkages between those documents are often weak.⁷

The municipality PEFA assessment is to be used as baseline data to assist in this process in terms of improving PFM in municipalities. It is intended to provide a basis for information and monitoring to facilitate and update the dialogue on PFM and assist in the preparation or revision of a PFM reform strategy (and related action plan) as well as a PFM capacity development programme.

⁷ OECD (2013), “Serbia Priorities Report 2013”, SIGMA Country Assessment Reports, 2013/03, OECD Publishing. <http://dx.doi.org/10.1787/5jz2rql40pbs-en>

2.2: Budgetary Outcomes

Table 3 presents the consolidated budget and fiscal position in Serbia from 2009 to 2014.

Table 3. Consolidated general government, from 2009 to 2014						
in mil. Dinars						
	2009	2010	2011	2012	2013	2014
I PUBLIC REVENUES	1,207,250	1,285,824	1,365,288	1,475,063	1,541,123	1,629,692
1. Current revenues	1,200,777	1,278,435	1,362,641	1,472,118	1,538,054	1,620,752
1.1. Tax revenues	1,054,588	1,111,492	1,191,079	1,292,564	1,366,595	1,439,037
Personal income tax	133,481.8	139,051.5	150,824.4	165,261.6	156,084.8	146,484.4
Corporate income tax	31,213	32,593	37,806	54,780	60,665	72,744
Value added tax	296,927	319,369	342,446	367,472	380,624	409,564
Excises	134,781	152,167	170,949	181,097	204,761	212,473
Customs	48,040	44,285	38,805	35,783	32,504	31,026
Other tax revenue	37,072	45,980	43,543	42,605	43,459	57,313
Social contributions	373,073	378,047	406,706	445,566	488,496	509,432
1.2. Non-tax revenue	139,715	159,553	168,916	176,609	168,389	172,775
2. Grants	6,473	7,390	2,646	2,945	3,069	8,940
Total as % of GDP	41.9	41.9	40.1	41.2	39.8	42.0
II PUBLIC EXPENDITURES	1,327,913	1,419,451	1,526,125	1,711,986	1,739,498	1,878,878
1. Current expenditures	1,208,424	1,281,677	1,386,692	1,543,753	1,611,929	1,697,194
Expenditure for employees	356,113	363,083	402,612	441,341	462,942	457,714
Purchase of goods and services	186,412	204,416	218,144	238,132	239,431	256,776
Interest payment	22,378	34,193	44,806	68,206	94,534	115,171
Subsidies	63,076	77,859	80,481	111,497	101,218	117,006
Social assistance and insurance	555,632	579,184	608,969	652,495	687,585	696,843
<i>of which: pensions</i>	387,306	394,035	422,816	473,676	497,765	508,060
Other current expenditure	24,812	22,942	31,680	32,082	26,220	53,683
2. Capital expenditures	93,271	105,105	111,151	126,328	84,024	96,660
3. Activated guarantees*	2,188	2,675	3,272	3,738	7,897	29,651
4. Net lending	24,031	29,994	25,010	38,166	35,648	55,373
Total as % of GDP	46.1	46.3	44.8	47.8	44.9	48.4
III CONSOLIDATED BALANCE (I - II)	-127,137	-141,016	-163,484	-245,188	-212,097	-258,126
As % of GDP	-4.4	-4.6	-4.8	-6.8	-5.5	-6.7

Source Ministry of Finance Bulletin Public Finance

Expenditures have risen annually in nominal terms and have ranged between 44.8 per cent of GDP to 48.4 per cent of GDP over the period. Revenues also grew. The combined effect of revenues and expenditures has been a budget deficit that ranged between 4.4 per cent of GDP in 2009 and 6.8 per cent of GDP in 2012. In 2005 there was a budget surplus of 1.1 per cent of GDP.

Table 4 presents an analysis of revenue.

Table 4. Consolidated General Government Revenue, from 2009 to 2014						
As % of Total						
	2009	2010	2011	2012	2013	2014
I PUBLIC REVENUES	100.0	100.0	100.0	100.0	100.0	100.0
1. Current revenues	99.5	99.4	99.8	99.8	99.8	99.5
1.1. Tax revenues	87.4	86.4	87.2	87.6	88.7	88.3
Personal income tax	11.1	10.8	11.0	11.2	10.1	9.0
Corporate income tax	2.6	2.5	2.8	3.7	3.9	4.5
Value added tax	24.6	24.8	25.1	24.9	24.7	25.1
Excises	11.2	11.8	12.5	12.3	13.3	13.0
Customs	4.0	3.4	2.8	2.4	2.1	1.9
Other tax revenue	3.1	3.6	3.2	2.9	2.8	3.5
Social contributions	30.9	29.4	29.8	30.2	31.7	31.3
1.2. Non-tax revenue	11.6	12.4	12.4	12.0	10.9	10.6
2. Capital revenues	0.0	0.0	0.0	0.0	0.0	0.0
3. Grants	0.5	0.6	0.2	0.2	0.2	0.5

Derived from Table 3

The salient features of Table 4 are

- Tax revenues represent some 88 per cent of total revenue. Within tax revenues
 - Social contributions is the single most important element of revenue collection at around 30 per cent of the total
 - Value Added Tax is the second most important contributor to revenues and contributes some 25 percent of the total.
 - Excises has become the third most important and is on an increasing trend since 2009.
 - Personal Income tax is the now fourth most important revenue contributor, but has been on slight declining trend.
 - Corporate income tax though relatively small has shown an increasing trend in relative share.
- Non tax revenues range between 10.6 and 12.4 per cent of total revenues.

Table 5 presents expenditure by economic category.

The salient features of Table 5 are:

- Current expenditures represent on average around 90 per cent of total expenditure ranging between 90.2 and 92.7 per cent of the total with capital expenditure ranging from 4.8 and 7.4, and net lending between 1.6 and 2.9 per cent of the total.
- Within current expenditure, expenditure on social assistance and insurance is on a declining trend from a high of 41.7 per cent of total spending in 2009 to 37.1 per cent in 2014. Within this category, expenditure on pensions is the dominant element

- Expenditure on employees peaked is consistently around 25 per cent of the total while purchases of goods and services have stood at around 14 per cent being at 14.4 per cent in 2010 and 13.7 per cent in 2014.
- Subsidies have shown a downward trend from 7.8 per cent in 2005 to 5 per cent in 2009.
- Interest payments have been on steep increasing trend. In 2009 they were 1.7 per cent of total expenditures but became 6.1 per cent of the total in 2014.

	2009	2010	2011	2012	2013	2014
PUBLIC EXPENDITURES	100.0	100.0	100.0	100.0	100.0	100.0
1. Current expenditures	91.0	90.3	90.9	90.2	92.7	90.3
Expenditure for employees	26.8	25.6	26.4	25.8	26.6	24.4
Purchase of goods and services	14.0	14.4	14.3	13.9	13.8	13.7
Interest payment	1.7	2.4	2.9	4.0	5.4	6.1
Subsidies	4.8	5.5	5.3	6.5	5.8	6.2
Social assistance and insurance	41.8	40.8	39.9	38.1	39.5	37.1
<i>of which: pensions</i>	29.2	27.8	27.7	27.7	28.6	27.0
Other current expenditure	1.9	1.6	2.1	1.9	1.5	2.9
2. Capital expenditures	7.0	7.4	7.3	7.4	4.8	5.1
3. Net lending	1.8	2.1	1.6	2.2	2.0	2.9

Derived from Table 3

Table 6 presents the public debt situation. Since 2009 public debt has increased significantly from 32.8 per cent to 70.9 per cent of GDP. Both direct and contingent liabilities have increased in each year (apart from contingent liabilities in 2014) for both internal and external sources of debt.

Table 6: Public Debt of Republic of Serbia in the period 2009 - 2014*

	End 2009	End 2010.	End 2011.	End 2012	End 2013	End 2014.
A. Direct liabilities						
Internal debt	4,050.2	4,571.8	5,440.6	6,495.6	7,054.6	8,225.2
External debt	4,408.6	5,872.7	7,238.6	8,621.0	10,244.9	11,991.5
A. Direct liabilities - total	8,458.8	10,444.5	12,679.2	15,116.7	17,299.5	20,216.7
B. Contingent liabilities						
Internal debt	135.0	340.0	535.8	722.6	857.1	687.3
External debt	1,257.4	1,372.5	1,573.8	1,877.8	1,984.7	1,857.6
B. Contingent liabilities - total	1,392.4	1,712.5	2,109.6	2,600.4	2,841.8	2,544.9
Total public debt A+B	9,851.2	12,156.9	14,788.8	17,717.0	20,141.3	22,761.6
Debt to GDP**, in %	32.8	41.8	45.4	56.2	59.6	70.9

* central government debt

** GDP in accordance with ESA 2010 methodology

Source Ministry of Finance Bulletin Public Finance

Conclusion

Serbia has high expenditure to GDP ratios and although revenue receipts are also high relative to GDP, they do not cover recurrent expenditure. With capital expenditure and net lending to add, Serbia has an increasing fiscal deficit. Interest payments as a result have increased as a share of total expenditure reflecting the increases in public debt. There have been decreases in social assistance and insurance expenditure as a share of the total over the period examined.

2.3: Legal and Institutional Framework for PFM

Legal framework

The Constitution is the supreme law of the country. A new Constitution of the Republic of Serbia was adopted by the National Assembly of the Republic of Serbia at its first special session in 2006 held on 30 September and was endorsed by a referendum held on 28th and 29th October 2006. Part 3 section 2 articles 91 (Taxes), 92 (Budget), 93 (Public Debt), 94 (Balanced Development), 95 (National Bank of Serbia) and 96 (State Audit Institution) provide reference to Public Finances and the Law. Part 4 covering Competences of the Republic of Serbia has as number 11 “control of legality of managing resources of legal entities; financial audit of public finances; collection of statistical and other data of public interest”.

The Constitution also makes provision for local government (including municipalities and autonomous provinces).

Under the Constitution, the National Assembly is the supreme representative body and holder of constitutional and legislative power in the Republic of Serbia to.

1. Adopt and amend the Constitution,
2. Decide on changes concerning borders of the Republic of Serbia,
3. Call for the Republic referendum,
4. Ratify international contracts when the obligation of their ratification is stipulated by the Law,
5. Decide on war and peace and declare state of war and emergency,
6. Supervise the work of security services,
7. Enact laws and other general acts within the competence of the Republic of Serbia,
8. Give previous approval for the Statute of the autonomous province,
9. Adopt defence strategy,
10. Adopt development plan and spatial plan,
11. Adopt the Budget and financial statement of the Republic of Serbia, upon the proposal of the Government,
12. Grant amnesty for criminal offences.

Within its election rights, the National Assembly has the authority to

1. Elect the Government, supervise its work and decide on expiry of the term of office of the Government and ministers,
2. Appoint and dismiss judges of the Constitutional Court,
3. Appoint the President of the Supreme Court of Cassation, presidents of courts, Republic Public Prosecutor, public prosecutors, judges and deputy public prosecutors, in accordance with the Constitution,
4. Appoint and dismiss the Governor of the National Bank of Serbia and supervise his/her work,

5. Appoint and dismiss the Civic Defender and supervise his/her work,
6. Appoint and dismiss other officials stipulated by the Law.

The National Assembly shall also perform other functions stipulated by the Constitution and Law.

The framework for public financial management is legislated through the Budget System Law⁸ which regulates the following: planning, drafting, adoption and execution of the Republic of Serbia Budget; planning, drafting, adoption and execution of Autonomous Provinces' and local self-government units' budgets (hereinafter: local governments' budget); drafting and adoption of financial plans of the Republic Pension and Disability Insurance Fund, National Health Insurance Fund and National Employment Service (hereinafter: the organizations for mandatory social insurance); budget accounting and reporting, financial management, control and audit of public resources' users and Republic of Serbia Budget, local governments' budgets and financial plans of organizations for mandatory social insurance; mandate and organization of Treasury Administration, and Ministry of Finance administration bodies (hereinafter: the Treasury) and local governments' treasuries; other issues of importance for budget system functioning. The Law on Public Debt ("Official Gazette of RS" No. 61/05") covers all central and municipality borrowing.

The Legal framework on public procurements in Serbia is set by the Public Procurement Law ("Official Gazette RS" 124/12). All municipalities have had to set out the guidelines and rules for procurement consistent with the Procurement Act. Specific procedures are subsequently established by an Act specific to each organisation as required by the PPL and the Rulebook on Contents. This Internal Act regulates the procedures for public procurement within the Contracting Authority. With regard to external audit, Serbia's State Audit Institution (SAI) was established with the SAI law in 2005 but it became operational only in September 2007, following election of the five Council members by the parliament. Implementation of audit activities started gradually during 2008.

The Legal Framework for Local Government

With respect to local government, there are, in addition to the Budget System Law, the Law on Self-Government ("Official Gazette of RS" No. 129/2007) and the Law on Financing the Self-Government ("Official Gazette of RS" No. 62/2006). The Law on Property Taxes is part of the body of taxes that regulates taxes and deal with taxation at the municipality levels. As well there are individual municipality statutes which legalises the operations of the municipality and applies these Laws to the municipality. Nevertheless, much of what happens in a municipality is conditioned by the Laws that are for the whole of the public financial system in Serbia. All municipalities thus operate under the Single Treasury Account and the same accounting system. While IT systems may not operate identical software in all municipalities, they have to be able to communicate with the Treasury's system and produce accounts as prescribed by the Budget System Law. There are some areas of the Budget System that are not universally applied; for instance not all municipalities have established Internal Audit Units nor is Internal Control as set out in the Law fully implemented. The Audit and Procurement Laws also are applied across Serbia to both Central and Local Governments. Some municipalities have yet to be audited.

⁸ Budget System Law ("Official Gazette of RS" No. 54/2009, 73/2010, 101/2010, 101/2011, 93/2012, 62/2013, 63/2013 – corrected and 108/2013)

The specific laws relating to Local Government are as follows:

Law on Self-Government ("Official Gazette of the Republic of Serbia", no. 129/2007) regulates the local government units, the criteria for their establishment, responsibilities, authorities, supervision of their acts, protection of local self-government and other issues of importance for the realization of the rights and duties of local governments. According to the Law, the term "Local government" is related with the right of citizens to manage public affairs of immediate, common and general interests of the local population, directly or through freely chosen representatives in local governments, and the right and ability of local authorities to regulate and manage public affairs under their competencies and interests of the local population. Cities have the same competencies as municipalities, with an additional right to organize communal police and ensure the smooth conduct of its affairs.

- The bodies of the Municipality are: the Assembly of the Municipality, the President of the Municipality, the Municipal Council and the Municipal Administration. (Article 27) – the same goes for the City: Assembly, Mayor, City Council and City Administration(s).
- The Assembly of the Municipality is the highest body of the Municipality carrying out functions of local government set out by the Constitution, law and the Statute. Municipal Assembly brings the statute, general legal acts, adopt the budget and the final statement, brings the development plan and the municipal spatial plan, schedule the municipal referendum and decide on the election of municipal executive bodies (see also: Constitution of Serbia, Article 180 and Article 191, paragraph . 2 to 4)
- The executive bodies of the Municipality are the President of the Municipality and the Municipal Council.
- Local government may establish enterprises, institutions and other organizations that perform public service, in accordance with the Law and its statute.
- The cities can also establish City municipalities that perform certain tasks within the jurisdiction of the city, and the city and regulates their organization. Uzice and Vranje decided to use this possibility.
- Funds which finance the jurisdiction of the municipality shall be provided from taxes and other revenues established by law and these funds make their original income together with funds from the national and provincial budgets.
- The system of providing revenue to fund original and delegated duties of local governments includes three basic types of income: original public revenues, assigned public revenues and transfer funds from the state budget. In addition, the Autonomous province Vojvodina can assign earmarked transfers to its municipalities and cities.
- The amount of source of income is determined by local governments in accordance with the law (for example, taxes and fees), while Republic determines the amount of assigned revenue and transfer funds. Assigned revenues represent revenues of the Republic, which is wholly or partly ceded to municipalities and cities in whose territory they are collected (for example, 80% of the income tax).
- In accordance with the principle of budgetary balance, the budget revenue is allocated to expenditures for specific purposes and users, thus to finance the performance of original and delegated tasks to be covered by the planned revenues. Budget users are municipal bodies, organizations, enterprises and public services, as well as budgetary funds that perform or used for performing original and delegated local governments.
- There are direct budget beneficiaries (bodies and departments of municipalities and cities) and indirect budget beneficiaries (institutions and public enterprises established by the local authorities, local communities, authorities and budget funds established by

local authorities). They prepare financial plans, on which are planned income and expenses. Indirect beneficiaries submit its plans to direct users (who are responsible for their supervision).

- Transfers from the state budget can be earmarked and non-earmarked.
- Municipalities have budgets, which must outline all receipts and expenses to finance their competence and execution of these budgets audited by the State Audit Institution.
- Municipalities can borrow.
- For Sremska Mitrovica, the Statute of the Autonomous Province of Vojvodina is also relevant, because AP Vojvodina in performing duties from its competence cooperates and coordinates with local government units on its territory.

Law on Financing the Self-Government ("Official Gazette of the Republic of Serbia", no. 62/2006, 47/2011, 93/2012, 99/2013 and 125/2014) defines the provision of funds to local governments for performing original and entrusted duties.

According to this Law, all revenues of local governments are considered as a general budget revenue and may be used for any purpose, in accordance with the law and the decision of the local government budget, except for those whose income is earmarked character established by law.

Local government has rights to original revenue generated on its territory, as follows:

- 1) property tax, except the tax on transfer of absolute rights and inheritance tax and gift tax;
- 2) local administrative fees;
- 3) local utility taxes;
- 4) local taxes;
- 5) The fee for the use of public goods, in accordance with the law;
- 6) The concession fee;
- 7) other fees in accordance with the law;
- 8) income from fines imposed in misdemeanour proceedings for offenses prescribed by the assembly of the local self-government, and confiscated assets in this process;
- 9) income from leasing or the use of real property and personal property owned by the Republic of Serbia, used by local governments or authorities and organizations of the local government unit and indirect beneficiaries of its budget;
- 10) income from leasing or the use of real property and personal property owned by local governments;
- 11) income on sales service users of the budget of the local government which is contracted to provide natural and legal persons;
- 12) interest income on funds local government budget;
- 13) income from donations to the local government;
- 14) revenues based on voluntary tax.

Republic cedes to the local government revenues from fees earned on the territory of the local government. To determine the level of certain types unconditional transfer, assessment of income (total and per structure per individual local government units) shall be carried out based on the achievement of these revenues in the last year for which data are available, as well as on the parameters of the fiscal strategy.

All local government units have the right to a general transfer. The Republic of local governments can provide earmarked transfer to perform certain tasks within their original intra scope. The competent ministry or special organization shall determine the amount of dedicated

transfer and the criteria for its distribution to individual local government units and the dynamics of the transfer of funds.

The Law on Property Taxes. A new property tax system was introduced in 2013 to commence in 2014 with the Law on Property Taxes (Official Gazette RS br. 26/2001, Official Gazette SR, br. 42/2002 - decision SUS and Official Gazette RS, br. 80/2002, 80/2002, 135/2004, 61/2007, 5/2009, 101/2010, 24/2011, 78/2011, 57/2012 - decision US, 47/2013 and 68/2014). The municipality tax is based on property and land. The owner of a property is liable for the tax except when a rental agreement is in place for more than one year so that the person who is renting is liable for payment. Liability to pay property tax is assessed on a number of factors relating to the municipality – location with respect to one of 4 zones, the type of property and its size (usable square metre) and the average market prices for that type of property (which is based on information on sales). These factors determine the tax base and a progressive rate of tax on properties is applied, according to the Decision on tax rates (Assembly No. 436-202/2013-I of 29.11.2013.) property tax rates are as follows:

1. on the immovable property of a taxpayer that keeps books (according to accounting standards which values assets): 0.4%
2. on the property by the taxpayer who does not keep books: 0.15%
3. on the immovable property of a taxpayer that does not keep books, except on land:
 - Under SD 10 million: 0.25%
 - between SD 10 to 25 million 0.25% + 0.60% on the amount that exceeds 10 million,
 - between SD 25 million to 50 million 0.40% + 1% on the amount that exceeds 25 million,
 - above SD 50 million 0.40% + 2% on the amount that exceeds 50 million.

Two factors can reduce the tax payable. The assessment on a property is reduced by 1 per cent for each year of its age up to a total of 40 percent and owners who occupy the property receive a reduction of 50 per cent of the assessment.

Institutional framework

The Ministry of Finance is responsible for the state budget; determining of consolidated balance of public revenue and public spending; system and policy of taxes, tariffs and other public revenue; public expenditure policy; management of available public funds of the Republic of Serbia; public debt and financial assets of the Republic of Serbia.

The Treasury Administration, as an administrative body within the Ministry of Finance, is acting as a payment agent for governmental entities and is responsible for overall financial planning and cash management as well as control of expenditures, budget accounting and reporting and the financial IT system encompassing direct and indirect budget beneficiaries, together with the system of public revenues and expenditures. The Treasury also is responsible for the Centralized payroll for employees of the Republic budget beneficiaries, monitoring and control of activities carried out by public enterprises and record keeping and monitoring of state aid.

Revenue collection is administered by Customs Administration and Tax Administration (domestic taxes). Also within the Ministry of Finance is the Public Debt Administration which ensures liquidity of the state and supporting governmental bodies, public enterprises and other state institutions in financing projects having the public importance. External audit is the responsibility of State Audit Institution and reports to the Assembly. The Public Procurement

Office (PPO) is set up as an independent governmental agency with the mission to help the establishment of sound procurement procedures and practices ensuring that public funds are spent in an efficient and transparent way, thus complementing government's overall drive in containing corruption.

The Fiscal Council is an independent state body, accountable to the National Assembly of the Republic of Serbia. On March 31, 2011, the National Assembly adopted a decision on the appointment of the Fiscal Council members. The Fiscal Council's work is stipulated by the Budget System Law. The Fiscal Council mission is to assess the credibility of the fiscal policy in terms of compliance with established fiscal rules and to provide the publicity and responsibility in fiscal policy implementation. By making an independent survey of fiscal policy and stimulating professional discussions on fiscal policy, the Fiscal Council should improve fiscal responsibility trends. The National Assembly approves the budget and scrutinises audit reports produced by the SAI.

The Ministry of Finance (under the authority of the Minister) manages the budget preparation process which includes determining the macro framework, preparing the Memorandum on the Budget, holding budget hearings and preparing the annual budget for presentation to Parliament. The Ministry of Finance liaises with MDAs and Local Governments with respect to the budget preparation process. The Treasury manages cash resources, budget execution, the payroll, accounting and reporting through the Consolidated Treasury Account System and FMIS. Internal financial control is implemented through financial management and control in the beneficiaries and internal audit in beneficiaries with harmonization managed and performed by the Ministry of Finance – Central Harmonization Unit. As well the Ministry of Finance conducts budget inspection under the BSL. Annual financial statement of the Republic of Serbia and annual financial statements of the organizations for mandatory social insurance are subject to external audit, in compliance with the provisions of the law regulating the jurisdiction of the Supreme Audit Institution.

The assessment and collection of taxes is administered by two agencies under the Ministry of Finance - Tax Administration and Customs Administration. Each tax has its own guiding legal framework of laws (such as the Value Added Tax law, which was published in "The Official Gazette of RS" No. 84/04, 86/04 and 61/05 and Customs Tariff Law "Official Gazette of the Republic of Serbia", No. 61 /2007 "Official Gazette of the Republic of Serbia", No. 5/2009 "Official Gazette of the Republic of Serbia", No. 33/2009), regulations, decrees and by-laws.

The State Audit Institution (SAI) is regulated by the Law on State Audit Institution (Official Gazette of RS", br. 101/2005, 54/2007 and 36/2010). SAI performs audit according to the annual audit programme, which mandatorily encompasses the audit of Budget of Republic of Serbia, the organizations for mandatory social insurance, appropriate number of local governments, National Bank of Serbia in the part related to the public funds usage and appropriate number of Public Utilities and other entities established by public fund users. It performs financial, compliance and efficiency audits.

Each municipality has its own structure for managing its finances and these are outlined in the preface to each of the municipalities assessed.

3: Individual Municipality Assessments

The individual Chapter 3 and summaries for each of the municipalities assessed are separate reports

- 1. Sremska Mitrovica**

- 2. Uzice**

- 3. Vranje**

- 4. Paracin**

- 5. Knjazevac**

- 6. Osecina**

4: Reform Programme

The overall legislative basis for well-functioning public finance management is in place. Municipality public financial management has benefited from the implementation of the Budget System Law, the Procurement Law and the creation of the State Audit Institution.

The nature of the legal basis for PFM in Serbia is that its coverage is across all government structures. The Single Treasury Account and the associated accounting system has meant that by and large accounting, recording and reporting is effective, providing timely information for management. The procurement law provides for transparency, comprehensiveness and competition in the legal and regulatory framework. The impact of audits carried out by the State Audit Institution can be measured by the implementation of its recommendations and improvements in management and control in the entities that the SAI has audited. This applied to central and local government alike.

In areas relating to internal control, effectiveness of the legal basis is dependent on the existence of and timely update of rulebooks in keeping with the legislation and any amendments. The extent to which the formal rules are effectively applied in daily practice is important to good budget execution. In some municipalities, these rule books are lacking and though not a reform in themselves their creation will implement reforms already initiated. Commitment control is an area that could benefit from rule books and procedures. Similarly, other reform initiatives have yet to be implemented in most municipalities particularly with respect to Internal Audit. All of these are catered for in the Budget System Law, so often it is not a reform that has to be newly introduced, but an existing reform that has to be implemented fully.

The 2010 Central government PEFA report had highlighted important challenges which largely remain valid to date. The weakest area had so far been budget planning, including policy based budgeting and planning for investment cycles. Important steps in this direction are being currently undertaken with preparations for programme budgeting which is legally mandated to be introduced in year 2015 for all budget beneficiaries.

While programme budgeting is being rolled out to municipalities as well as central government ministries, the absence of a medium term fiscal framework and sector strategies can only make programme budgeting premature and ineffective. The Fiscal Council has been set up as an independent state body to assess the credibility of fiscal policy in terms of compliance with established fiscal rules and to provide the publicity and responsibility in fiscal policy implementation. Delay in issuing the subsequent Budget Call Circular and the lack of forward guidance on transfers by the Ministry of Finance is not conducive to successful programme budgeting in the municipality context. For programme budgeting to be effective, work will also have to be carried out in identifying suitable performance indicators that can be measured.

These issues mean that implementing programme budgeting will be a challenge. The SCTM has already carried out training on programme budgeting in municipalities, but for effective implementation, the set of preconditions described above will have to be in place to make this reform effective.

Overall reforms cover not only central government but also municipalities. Many municipalities have received technical assistance from donors to improve performance in a number of areas of financial management and when any of the municipalities assessed has received such technical assistance, this is referenced in the individual assessments. However, this support is not systematically provided to all municipalities.

Disclosure of Quality Assurance Mechanism

The following quality assurance arrangements have been established in the planning and preparation of the PEFA assessment report for the following six local self-governments in Serbia: Sremska Mitrovica, Uzice, Vranje, Paracin, Knjazevac, Osecina, final reports dated 22 May 2015.

1. Review of Concept Note and/or Terms of Reference

- Draft concept note and/or terms of reference dated 31 July 2014 was submitted for review on to the following reviewers:
 - 1) PEFA Secretariat (31 July 2014)
 - 2) Aleksandar Crnomarkovic, World Bank (25 August 2014)
 - 3) Marko Paunovic, IMF (13 August 2014)
 - 4) Vladan Petrovic and Danka Bogetic, Delegation of the European Union to the Republic of Serbia (6 August 2014)
 - 5) Milovan Filimonovic, Ministry of Finance of the Republic of Serbia, (11 August 2014)
 - 6) Iva Vasilic, State Audit Institution of the Republic of Serbia, (13 August 2014)
 - 7) Daliborka Petrovic, UNDP (22 August 2014)
 - 8) Aleksandar Bucic, Standing Conference of Towns and Municipalities (6 June 2014 – comments already reflected in the version of 31 July 2014)

Final concept note and/or terms of reference: 29 September 2014, forwarded to reviewers, on 1 October 2014 (English version) and on 23 October 2014 (Serbian version) including a table⁹ showing the response to all comments raised by the reviewers. The Serbian version of the concept note was also shared with all selected municipalities.

2. Review of draft report(s)

- Draft reports dated 9 December 2014 (individual municipal assessment reports) and 16 January 2015 (PEFA summary assessment and systematization report) were submitted for review on 16 January 2015 to the following reviewers:
 - 1) PEFA Secretariat
 - 2) Aleksandar Crnomarkovic, World Bank
 - 3) Marko Paunovic, IMF
 - 4) Vladan Petrovic and Danka Bogetic, Delegation of the European Union to the Republic of Serbia
 - 5) Jelena Rebic, Sremska Mitrovica
 - 6) Ana Jovanovic and Radmila Backovic, Uzice
 - 7) Goran Spiric and Dragan Spiric, Vranje

⁹ For minor comments (e.g. typos, language) a revised version of the document with tracked changes may suffice.

- 8) Slobodan Jankovic and Vladan Miletic, Paracin
- 9) Dragana Marinkovic and Vesna Zivkovic, Knjazevac
- 10) Vesna Pavlovic and Miodrag Stanisic, Osecina
- 11) Milovan Filimonovic, Ministry of Finance of the Republic of Serbia
- 12) Daliborka Petrovic, UNDP
- 13) Aleksandar Bucic, Standing Conference of Towns and Municipalities

3. *Review of final draft report*

A revised final draft assessment was forwarded to reviewers on 20 April 2015 and included a table showing the response to all comments raised by all reviewers.

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- Law on General Administrative Procedures Official Gazette SRJ 33/97 and 31/2001 and Official Gazette RS 30/2010)
- Law on Public Debt (“Official Gazette of RS” No. 61/05”)
- Law on Financing the Self-Government (“Official Gazette of RS” No. 62/2006)
- Law on Property Taxes (“Official Gazette of RS” No. 26/2001, "Official Gazette of SRJ" No. 42/2002 – decision of SUS and " Official Gazette of RS ", No. 80/2002, 80/2002 – other law, 135/2004, 61/2007, 5/2009, 101/2010, 24/2011, 78/2011, 57/2012 – decision of US, 47/2013 i 68/2014 - other law)
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- Law on Tax Procedure and Tax Administration („Official Gazette of RS “No. 80/2002, 84/2002 - corrigendum 23/2003 - corrigendum 70/2003, 55/2004, 61/2005, 85/2005 - other law, 62/2006 - other law, 63/2006 - corrigendum, 61/2007, 20/2009, 72/2009 - other law, 53/2010, 101/2011, 2/2012 - corrigendum 93/2012, 47/2013, 108/2013 i 68/2014)
- Public Procurement Law (“Official Gazette RS” 124/12)
- Law on Free Access to Information of Public Importance (“Official Gazette RS” 120/2004, 54/2007, 104/2009 & 36/2010)
- Rulebook on Contents act which shall regulate the procedure for public procurement within the Contracting Authority ("Official Gazette of RS", no. 106/13)
- The Rulebook on Standard Classification Framework and the Chart of Accounts for the Budget System (“Official Gazette RS” 103/2011, 10/2012, 18/2012, 95/2012, 99/2012, 22/2013, 48/2013 and 61/201)
- The Rulebook on Amendments and Supplements to The Rulebook on Standard Classification)
- Rulebook on common criteria for organization and standards and methodological guidelines for conducting and reporting of internal audit in Public Sector" (Official Gazette of RS, No 99/2011)
- Rulebook on common criteria and standards for establishing, functioning and reporting on system of financial management and control in Public Sector" (Official Gazette of RS, No 99/2011)

Municipal legal framework (Common to all) ¹⁰

¹⁰ For individual municipalities these are referenced under the relevant Indicator as appropriate.

- Municipality Statutes
- Decision of administrations
- Decision on zoning
- Decision on tax rates , annually
- Decision on the Budget, annually
- Decision on the final account, annually
- Audit reports (5 municipalities)
- Procedures for financial and other controls;

Other

- World Bank Republic of Serbia Municipal Public Finance Review July 2014
- Diamond Jack, Guidance of Note on Sequencing PFM Reforms and Good Practice Note on Sequencing PFM Reforms January 2013 PEFA.org
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PEFA Documents

- Performance Measurement Framework January 2011
- Supplementary Guidelines for the application of the PEFA Framework to Sub-National Governments January 2013
- Field Guide May 2012