



MED team and SDC representatives at Užice exploring local initiatives co-financed by the MED program

CAPITALIZATION OF THE MUNICIPAL ECONOMIC DEVELOPMENT PROGRAM

SDC FUNDED INITIATIVE

1.CONTEXT

The implementation of own source revenue in Serbia is intricately connected to broader governance, decentralization, and fiscal policy reforms. The decentralization process in Serbia aimed to transfer specific functions and responsibilities from the central government to local municipalities. Through the decentralization process, Local Government Units (LGU) were assigned various duties, including management of public utilities, and maintenance of local infrastructure. This decentralization process also aimed to facilitate better provision of services to citizens and to create conditions for businesses to flourish and contribute to local economic development. To effectively finance these functions, the adoption of local own source revenue became critical. Consequently, property tax emerged as a significant revenue source for local municipalities, aligning with international practices where property taxes serve as a fundamental mechanism for funding local governance.

Decentralization reforms, particularly the transfer of responsibilities from the central to the local level, have often not been accompanied by additional financial resources, leading to a slowdown in the reform process. At the same time, local governments in Serbia largely rely on regular transfers from the national level. In practice, the poorest municipalities, with the lowest levels of local own-source revenues, have received a proportionally higher share of financial transfers from the central government. However, when these transfers are perceived as the primary source of local government financing, the existing local tax potential remains underutilized. Relying on transfers as the main funding mechanism for local expenditures reduces the tax burden on citizens, which can enhance the political support of local leaders. Nonetheless, this practice, in the long run, weakens the fiscal autonomy of municipalities and reduces citizens' incentives to actively contribute to the financing of public services through tax payments.

The global economic crisis of 2007-2008 profoundly reshaped the landscape. Its impact on the Serbian economy significantly reduced the country's ability to secure funding from European Union banks, the International Monetary Fund (IMF), and the World Bank. The economic slowdown in EU countries restricted access to credit and led to higher

borrowing costs, resulting in increased interest rates and inflation. In this context, it became difficult for the central government to continue funding the poorest municipalities to cover their operating costs and provide public services.

The enactment of the Property Tax Law in 2007 at the national level established a framework for property taxation nationwide. Although the property tax law was not introduced as a direct response to the economic crisis, it was nonetheless used as a lever to strengthen municipalities' responsibility for local revenue collection, enabling them to better finance their public services.

This initiative was part of a broader set of fiscal reforms designed to enhance public finance and ensure [alignment with the standards set by the European Union](#). The initial implementation at the national level effectively constrained the discretion of local municipalities in managing and collecting property taxes. In other words, the law gave discretion to LGU to establish property tax rates within a designated range, to specify tax exemptions and reductions that are tailored to local conditions, to strengthen their mechanisms for tax collection.

1.1. Amendment to the Property Tax Law and Tax Procedure in 2014

The 2014 reform initiated a taxation model based on market value, aligning tax liabilities with the estimated market value of properties. This modification sought to establish a more equitable system, ensuring that property owners of higher-value assets contributed proportionately more to public revenues. By adopting this model, Serbia made a significant advancement in modernizing its property tax framework in accordance with international best practices.

The revised property tax legislation differentiated between individuals and legal entities, customizing the tax rates and calculation methods for each category. For individuals possessing residential properties, the tax rates are up to 0.4% dependent upon the municipality. Conversely, businesses and legal entities were subjected to a distinct system, wherein taxes were determined by their accounting records. This differentiation facilitated a tax structure that recognized the varied economic roles and responsibilities of individuals and corporations, thereby promoting fairness and accountability.

A progressive taxation framework was established for individuals with high-value properties, ensuring that those possessing more expensive assets incurred a higher tax rate. This policy was intended to foster fairness and equity within the tax system by imposing greater financial responsibility on affluent property owners. Through the introduction of progressive rates, the reform aimed to mitigate income disparities while generating additional revenue for public services, without imposing undue burdens on owners of modest properties.

Municipalities adopted zoning criteria and implemented more accurate evaluations of market conditions in different regions. This approach ensured that taxable values more accurately represented real market conditions, thereby reducing inconsistencies and outdated valuations. By empowering local authorities to classify zones and establish taxable values based on market prices, municipalities were afforded greater flexibility to respond to local economic and demographic conditions.

To enhance compliance with the reformed property tax system, stricter penalties for non-compliance were introduced. Property owners who delayed payments or underreported property values faced increased fines and potential legal ramifications. These measures were designed to deter tax evasion and ensure the efficient operation of the tax system. By emphasizing enforcement, the government aimed to bolster public trust in the system and maximize revenue collection.

The 2014 property tax reform also clarified and expanded exemptions and reductions to support specific demographics and property types. Properties utilized for agricultural purposes, cultural landmarks, and those owned by socially vulnerable groups received preferential treatment. These measures were intended to reconcile revenue generation with social responsibility, thereby protecting economically disadvantaged groups and preserving culturally significant assets.

A pivotal aspect of the reform involved granting greater autonomy to municipalities in establishing property tax rates. Local governments were empowered to determine rates within the framework delineated by national law, enabling them to adapt tax policies to local economic conditions. This shift not only enhanced local governance but also improved municipal revenues, facilitating

the provision of enhanced public services and infrastructure development tailored to community needs.

1.2. Challenges to implementing the Property Tax Law

The reform of property tax laws was designed to strengthen the subsidiarity principle, thereby promoting inclusive and sustainable governance. This principle would empower Local Government Units (LGUs) by enhancing their financial autonomy and enabling them to fund essential public services more effectively. Implementing this law would also allow Serbia to align with the EU and Switzerland standard of political, fiscal and administrative federalism devoting power and autonomy to the lowest level of government. However, LGUs have faced considerable obstacles in implementing the new regulations. The challenges LGUs encountered are multifaceted, encompassing significant limitations in technical capacity, inadequate human resources, and insufficient training programs. The following outlines the specific challenges experienced by the Local Government Units in implementing the laws before the program:

Administrative Capacity and Technical Expertise: Municipalities were tasked with assessing property values based on market conditions, a significant departure from the outdated cadastral-based system. However, many municipalities lacked the technical expertise and resources to accurately evaluate market-based property values and to collect data on the market. Developing accurate zoning criteria, conducting property assessments, and updating records required skilled personnel, advanced tools, and financial investment, which many local governments struggled to provide.

Inadequate IT infrastructure and obsolete tax collection systems hindered efforts to track taxpayers and enforce collections effectively. Furthermore, poor coordination between municipal departments and central authorities exacerbated the challenges associated with tax administration. Tax officials frequently need training in critical areas such as property valuation, tax collection procedures, and relevant legal aspects. This deficiency in knowledge regarding contemporary tax collection practices diminished overall operational efficiency.

Human Resource Constraints: Municipalities have struggled to recruit a sufficient number of staff, including

enumerators, who are essential for accurately assessing properties and ensuring tax compliance. This limited capacity has hindered their ability to maintain up-to-date property registries, resulting in substantial revenue losses. Additionally, there is significant staff turnover in the Local Tax Administration (Local Self-Government) due to the demanding workload and high levels of responsibility combined with low salaries. The frequent turnover of managers also contributes to these challenges, as it takes time to onboard new personnel, making it difficult to maintain consistency in operations.

Resistance from Property Owners: The transition to a market value-based taxation system has resulted in substantial increases in property tax liabilities for certain property owners, particularly those possessing high-value properties. This shift has led to public resistance and dissatisfaction, manifesting in disputes, delayed payments, and, in some instances, outright refusal to comply with tax obligations. Municipal governments are thus confronted with the dual challenges of enforcing compliance while simultaneously fostering public trust to mitigate the risk of widespread backlash. A significant barrier to effective compliance was the absence of enforcement mechanisms capable of deterring tax evasion or encouraging adherence to regulations. Municipal authorities often encounter limitations in jurisdiction and resources, which restrict their capacity to initiate legal proceedings against taxpayers who fail to meet compliance standards. Furthermore, inadequate coordination between local tax administrations and national agencies hampers efficient information exchange and enforcement initiatives. The presence of overlapping responsibilities and unclear mandates further complicates decision-making processes and impedes tax collection efforts.

Perception of inefficiency: Taxpayers often perceived property taxes as inequitable or extraneous, mainly due to perceived inefficiencies in municipal expenditure. Furthermore, a lack of transparency regarding the allocation and utilization of tax revenues diminished public trust in the tax system.

Inadequate and Outdated Property Databases: Many municipalities inherited outdated and incomplete property databases, which hindered the implementation of accurate market-based valuations.

Reconciling cadastral records, addressing unregistered properties, and integrating updated market data proved to be a daunting task. The absence of comprehensive and accurate property records created inefficiencies and left room for discrepancies in tax assessments. Timely updates regarding new constructions, ownership changes, and property use modifications are often not adequately documented.

Uneven Capacity Across Municipalities:

The municipalities where the program is implemented do not possess the same capacity to implement reforms effectively. Smaller and less developed municipalities encountered significant challenges in establishing new systems, training personnel, and adapting to these reforms. Consequently, disparities emerged in tax enforcement and collection efficiency throughout the country, thereby exacerbating regional inequalities.

Public Awareness and Communication:

The reforms introduced a complex and unfamiliar system for the calculation of property taxes, which necessitated effective communication with the public. Many municipalities encountered challenges in educating property owners about the new system, leading to significant confusion and misconceptions. Furthermore, the lack of robust public awareness campaigns presented additional obstacles for municipalities in securing both acceptance and compliance from property owners.

Ensuring Fairness in Taxation:

Municipalities faced significant challenges in ensuring that the new system was regarded as fair and equitable. Variations in zoning classifications, along with inaccurate market value assessments, resulted in perceptions of favouritism and bias. Effectively addressing these concerns while upholding transparency and fairness within the system constituted a primary challenge for local governments.

Revenue Stability During Transition:

During the transition period, municipalities encountered fluctuations in revenue as they adjusted to the new system. The delays in updating property records, assessing values, and enforcing compliance frequently resulted in short-term revenue deficits. Balancing the necessity for stable municipal finances with the implementation of reforms required meticulous financial planning and effective management.

Lack of public participation: Tax collection and administration require the involvement

and engagement of citizens throughout the entire process. Without actively including the population, the tax system cannot be inclusive and may lead to public frustration. In local decision-making processes in Serbian municipalities, public consultations often lacked genuine citizen involvement. This was due to weak autonomy of local self-governments, the absence of appropriate participation mechanisms, a lack of a strong culture of participation, political disillusionment, and non-transparent decision-making processes – all of which undermine public trust in government institutions. Economic hardship and lack of time force citizens to prioritize daily obligations over participation in political processes. The dominance of financial and political elites further reinforces the sense of powerlessness among the general population, which also negatively impacts citizen participation in local decision-making processes.



5 municipalities in Serbia benefited from Swiss Government funding to enhance citizen participation in local decision-making, as part of the “Accountable Local Finances and Citizen Engagement” program

2. THE PROGRAM APPROACH TO SUCCESS

In a complex political environment characterized by uncertainty, the program needed an innovative and politically savvy approach. This approach allowed for both strategic flexibility and operational adaptability. By thinking and working politically, the program was able to navigate changing power dynamics, take advantage of local opportunities, and continuously adjust its strategy to stay relevant and effective amidst evolving global financial and economic pressures. This adaptability has been essential for maintaining momentum, building institutional trust, and achieving tangible results.

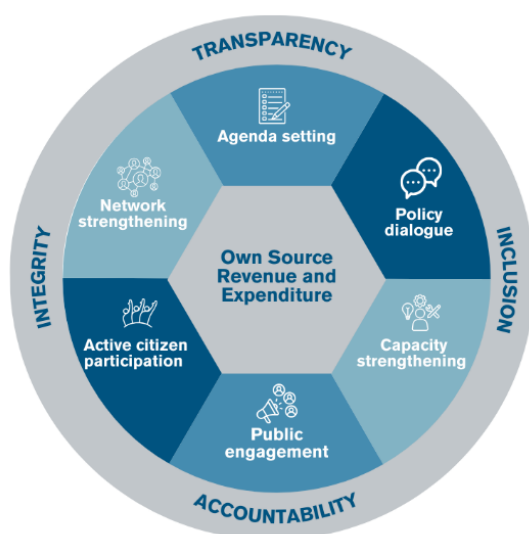
2.1. Strong results & programmatic foundation

The first phase of the program has laid a strong foundation through its initial results. It focused on continuously strengthening fiscal decentralization by supporting municipalities and citizens participation. Between **2013 and 2015**, the program significantly **increased property tax collection—by 152% overall and 123%** during the Performance-Based Incentive Fund period. This improvement was achieved through enhanced taxation systems and performance-based funding. Municipalities updated tax registries and conducted field inspections, which ensured fairer and more accurate tax assessments. The fund itself proved highly effective, **turning a CHF 1,000,000 investment into €1.63 million in increased revenue within a year**, while also financing various community development projects. Moreover, the introduction of an online property tax tracking system improved compliance and transparency, allowing citizens and businesses real-time access to their tax obligations.

The program also fostered inter-municipal cooperation, as **the number of joint initiatives tripled from 16 in 2013 to 47 in 2017**. Key projects like "Transparent Government—Good Government" and "E-Salter" exemplify this collaborative success, leading to a **92.7% satisfaction rate among citizens and the private sector**. These partnerships strengthened local economic development and governance capacity. Simultaneously, the program enhanced e-governance through new platforms for online submissions, consultations, and advisory services, streamlining public service delivery and increasing civic participation in local decision-making.

On a national level, the program influenced reforms by ensuring that local government voices contributed to four legal amendments adopted by the national government. Municipalities also took steps toward financial transparency by revamping their websites to publish key budget, permit, and tax documents. This action reduced bureaucratic inefficiencies and increased public trust. Overall, these combined efforts created a more accountable, efficient, and participatory local governance ecosystem.

2.2. The inclusive system approach



In its second phase, the program focused on ensuring that citizens and businesses in targeted municipalities benefit from more participatory and accountable local governance, along with improved public services, achieved through greater awareness and rule-based management of property tax as a key source of municipal revenue.

Building on this foundation, the third phase aimed to strengthen the financial autonomy of local governments and reinforce trust between citizens and local authorities, by advancing democratic practices and improving service delivery in line with citizens' needs.

Across both phases, the program maintained a systemic and inclusive approach to fiscal decentralization, with a particular emphasis on implementing property tax legislation and strengthening local sources of revenue and expenditures. This approach went beyond public financial management, recognizing that local revenue and spending challenges are also societal issues. It emphasized the need for active engagement of civil society and communities in shaping transparent, responsive, and sustainable models of local governance.

This inclusive system strategy implemented by the program is structured around six fundamental pillars: **agenda setting**, **capacity strengthening**, **citizen participation**, **awareness-raising**, **policy dialogue**, and **network strengthening**. Within this framework, four cross-cutting aspects—**accountability**, **transparency**, **integrity**, and **inclusion**—have been

iteratively incorporated into the implementation, review, and execution of the program at both local and national levels. This ensured that the program contributed sustainably to the fiscal, administrative, and political decentralization efforts in Serbia.

A. Agenda setting

Strategic Political Agenda-Setting and Media Engagement: The program adopted an innovative approach to political agenda-setting, utilizing extensive media relations for visibility and as a strategic tool to engage national stakeholders in tax reform. The goal was to create systemic and sustainable changes in the mindset and behaviour of public authorities. By actively engaging with media channels, the program elevated the importance of property tax reform, positioning it as a national priority and attracting the attention of both the public and key government ministries. Public engagement through media coverage was crucial in motivating line ministries to publicly align themselves with the successes of the MED taxation initiative. This strategy led to significant exposure in national media outlets and major news broadcasts across Serbia, reinforcing the legitimacy and relevance of the reforms.

Shifting Political Behaviour and Local Government Commitment: A significant outcome of the program was its influence on political behaviour at the local level. The ruling party began recognizing and rewarding mayors and local officials who actively implemented property tax reforms and helped increase local revenues. This represented a major shift in political attitudes—from a previous reluctance to enforce taxation due to fears of voter backlash to a proactive commitment to applying tax laws fairly and consistently. This transformation in behaviour among local leaders was pivotal to the program's success. By enforcing property tax without exemptions and prioritizing revenue generation for municipal development, local officials contributed to a broader national narrative: **property tax is a legal obligation and a key driver of local progress**. The engagement of line ministries and national authorities further reinforced this perception among citizens and local governments, solidifying the reform as a core government priority.

B. Policy dialogue to strengthen fiscal decentralization and digitized taxation

Strengthening Legal and Policy Frameworks:

The program significantly influenced legislative reforms to enhance local revenue systems. Through policy dialogues with government officials, local authorities, and community representatives, amendments to the Law on Property Taxes, the Law on Tax Procedure and Tax Administration and the Law on Fees for the Use of Public Goods were developed, emphasizing transparency, accountability, and fairness in revenue administration. This participatory approach strengthened local governance and municipal autonomy in budgeting and decision-making. In addition, from 2018 the program facilitated 163 legislative amendment proposals, with 65 approved by the Ministry of Finance and adopted by the National Assembly of Serbia. These reforms promoted economic efficiency, public interest, and institutional integrity, aiming to reduce corruption risks and ensure fair resource distribution.

Advancing Fiscal Decentralization and Local Tax Autonomy:

In collaboration with the Standing Conference of Towns and Municipalities (SCTM) and local leaders, the program played a pivotal role in advocating for tax administration reforms and fiscal decentralization—efforts that culminated in the Decentralization of the Property Transfer Tax initiative. The 2022 amendments to the Law on Property Taxes aimed at shifting responsibility for specific taxes from the national Tax Administration to local governments, enhancing local autonomy and responsiveness to community needs. Although the reform was reversed in 2024, it demonstrated the program's ability to engage effectively at the highest political levels and influence complex policy arenas.

Digital Transformation of Local Tax Systems:

One key achievement was the implementation of the Unified Information System of Local Tax Administration (UIS LTA) in 2018, which integrated over 3 million property tax users and 145 local tax administrations, allowing secure online access to tax balances and payments. By linking with other government databases, UIS

LTA improved data management and revenue stability for municipalities. The program also developed additional services on the UIS LTA, including an electronic service for submitting eco-fee applications online and an e-Certificate service for online tax payment confirmations, enhancing taxpayer access and compliance. Partnerships with organizations like GIZ and the Republic Secretariat for Public Policies helped integrate local governments into Serbia's national eConsultations Portal, enhancing transparency and civic engagement.

Strategic Advocacy and Partnerships:

Bottom-up advocacy efforts were made to improve the implementation of the Law on Property Taxation, the Law on Tax Procedure and Tax Administration and the Law on Fees for the Use of Public Goods, ensuring municipalities had fair tax frameworks. Strategic partnerships with the Swiss Agency for Development and Cooperation (SDC) aligned local policy priorities with democratic governance principles, fostering inclusive decision-making led by mayors for sustainable reforms.

C. Capacity strengthening on the legal framework and digitized taxation

Capacity Building for Municipal Tax Authorities:

The program implemented training programs for municipal tax authorities and legal professionals to improve their understanding of tax laws. These sessions covered legislative updates, focusing on the implications for property taxation and enforcement, while emphasizing best practices in assessment and collection to reduce corruption and enhance compliance. Training also addressed the legal framework for property taxation, including compliance mechanisms and dispute resolution procedures. By equipping staff with a solid understanding of legal standards, the program promoted transparency, accountability, and protection for marginalized communities.

Technical Assistance and Legal Guidance:

Continuous technical assistance strengthened the legal, administrative, and ethical capacities of local governments. Municipalities received expert guidance on complex property tax regulations to ensure consistent and fair implementation. Training

for tax officers in standardized valuation techniques enabled accurate property assessments based on market trends, fostering a fair taxation system for all socioeconomic groups.

Digital Transformation and Data Integrity:

To modernize tax operations, the program included workshops on digital databases and automation tools, which streamlined processes and increased accuracy. Improved data management enhanced accountability and minimized disputes. The UIS LTA also introduced user-friendly online payment platforms, making compliance easier for all taxpayers, especially disadvantaged groups. This modernization improved service delivery, reduced administrative burdens, and increased public trust in local tax systems.

D. Network Strengthening and Stakeholder Engagement

Strengthening Stakeholder Collaboration for Effective Tax Administration:

Effective tax administration depends on strong collaboration among municipalities, tax authorities, citizens, IT system provider, and policymakers. This program has been key in creating a coordinated network that facilitates the implementation of tax reforms, empowering municipalities to manage tax collection efficiently, ensure compliance, and adapt to regulatory changes, thereby enhancing public trust in the tax system. A crucial aspect is the integration of legal changes into digital tax systems. The program has improved coordination among legal, technical, and financial teams to ensure legislative amendments are uniformly implemented. Consequently, updates to property tax laws are swiftly reflected in tax assessment and collection databases, maintaining compliance and data integrity.

The program enhanced coordination among national institutions, allowing municipalities to establish transparent tax systems that align with government policies and taxpayer needs. Key contributors include:

- **Municipal Governments:** Central to tax collection and enforcement, ensuring assessments align with local regulations in collaboration with the Ministry of Finance.
- **Local Tax Administration Offices:** Responsible for property assessments and compliance, these offices implement fair tax policies that encourage voluntary compliance.

- **Property Registries and Cadastral Offices:** They provide essential data for accurate tax assessments, helping reduce errors by maintaining up-to-date records.
- **IT System Provider:** This firm digitize tax system and ensure updates from legislative changes are accurately reflected in platform.
- **The Standing Conference of Towns and Municipalities (SCTM):** Serbia's national association of local governments, plays a vital role by supporting local self-governance, promoting inter-municipal cooperation, and advocating for municipal interests. Its involvement ensures local perspectives are included in policy dialogues, contributing to a more responsive tax administration.

E. Public engagement and awareness raising on revenue sources and expenditures

Enhancing Taxpayer Awareness and Understanding:

Many property owners have struggled to understand their tax obligations due to limited knowledge of tax laws, leading to confusion and non-compliance. To address this, the program initiated public awareness campaigns to educate and sensitize taxpayers about their responsibilities and recent legislative changes. These efforts focused on transparency and voluntary compliance by clarifying who is required to pay property taxes, how amounts are calculated, and what exemptions are available. In collaboration with Local Tax Administrations (LTAs), the program simplified complex tax regulations into clear language, enabling municipalities to offer direct support to taxpayers.

Expanding Access to Tax Information: To provide tailored property tax services to citizens, the Program organized local roundtables with citizens and taxpayers to identify their needs, demands and expectations. Based on these consultations, tax services were adapted to better meet citizens demands. Improvements to the tax system were developed in cooperation with local governments, line ministries and national institutions and were widely disseminated and explained to citizens and taxpayers through local and national media channels.

Strengthening Transparency and Public Trust: The program also promoted transparent communication about how tax revenues fund essential public services, such as road maintenance and education. This approach strengthened public support for local tax policies. Regular reporting on tax collection and spending has become standard practice, with municipalities publishing reports on official websites and newsletters. This enhances accountability and builds public confidence in local governance.

F. Active citizen participation in revenue collection and expenditure

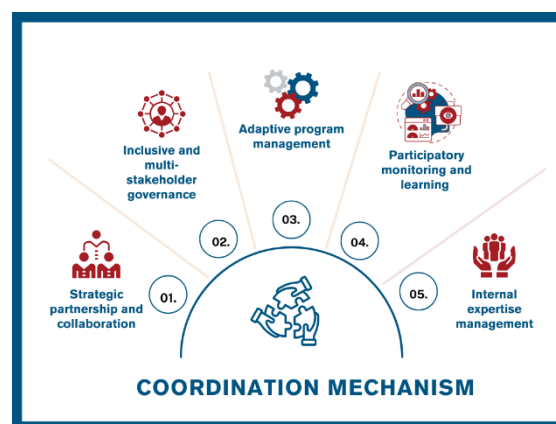
Strengthening Citizen Engagement in Local Revenue Collection: Local governments and citizens are increasingly engaging in dialogue about municipal revenue collection, which are essential for funding local services. Public consultations and participatory budgeting initiatives help citizens understand how revenues are generated and used, thereby strengthening trust and improving tax compliance. Municipalities strive to enhance transparency by using formal mechanisms such as public debates, the development of citizen budget guides, and similar tools. Additionally, they adopt innovative approaches, engaging younger audiences through school visits and educational videos, promoting early awareness of taxation and long-term civic responsibility.

Advancing Participatory Budgeting and Fiscal Transparency: The program has advanced participatory budgeting practices in 44 municipalities, allowing residents to voice priorities and influence fund allocation. This inclusive approach has led to more accountable governance and improved service delivery. In collaboration with Transparency International Serbia, the Local Transparency Index (LTI) was launched to promote budget transparency. As a result, 36 municipalities now publish public hearing reports summarizing citizen proposals and the rationale for their acceptance or rejection, enhancing clarity and commitment to financial accountability.

Institutionalizing Citizen Participation and Co-Financing Mechanisms: The program has embedded citizen participation into municipal governance, enabling citizens to propose local initiatives and fostering a culture of engagement. It also introduced co-financing mechanisms to combine public

resources with citizen funds for local projects, promoting community ownership and collaborative development. By incorporating citizen input into local planning, municipalities have created a more inclusive and sustainable governance model.

3. PROGRAM MANAGEMENT APPROACH



The program management approach represents a best-practice model in adaptive, inclusive, and multi-level governance. It has shown that effective coordination is about cultivating trust, flexibility, and local ownership. The program's ability to align diverse actors—from municipal tax officers to national ministries and international donors—around a shared agenda of property taxation and good governance has proven crucial for both its success and sustainability. The result is a well-synchronized ecosystem where technical progress is reinforced by political commitment, institutional alignment, and public engagement. The key elements of the program coordination mechanisms are as follows:

Inclusive and Multi-Stakeholder Governance: At the core of the program's coordination is the Steering Committee, which includes representatives from key ministries, the SDC, the Office for IT and e-Government, and the SCTM. This committee facilitates strategic orientation, monitoring, and annual adaptation of the program's focus, allowing for participatory decision-making and alignment with local priorities. The SCTM is essential for the program's sustainability, promoting inter-municipal cooperation and good governance.

Strategic Partnerships and Collaboration: The program engages a diverse range of stakeholders, including local governments,

the private sector, regional agencies, and civil society. Their key efforts include:

- Joint planning and co-financing for local development.
- Public-private dialogues and forums to align priorities and support local economic development.
- Collaborative initiatives to synchronize legal changes and administrative procedures.
- Engagements with regional agencies and media to elevate taxation as a national issue.

This collaborative framework ensures effective implementation and continuity during political and economic changes.

Adaptive Program Management: The program features an adaptive management approach, allowing for flexibility in response to evolving needs. Without a fixed Theory of Change in its first phase stages, the program could shift focus, such as moving from SME support to property taxation reform. A flexible budgeting model facilitates agile decision-making, crucial for navigating varying donor requirements. However, this flexibility has changed in the last two phases, making it more difficult to navigating programmatic complexity.

Internal expertise management: The program's internal expertise is a vital asset, enabling high-quality support and effective management of external providers. However, challenges arise from inflexible logframes and centralized oversight, limiting the ability of leaders to adapt to local contexts

Participatory Monitoring and Learning: The program has established a participatory monitoring and evaluation system that includes:

- Forecasting opportunities, interests, and needs for planning.
- An annually updated Plan of Operations with a monitored task-timeline matrix.
- The “Snowflake” tool to assess progress against the logframe.

4. SELECTED RESULTS PER OUTCOME

OUTCOME 1:

Participation: LGs ensure inclusive local participation of citizens/taxpayers in decision-making to provide improved demand-based service delivery.

The program has made a significant impact on promoting inclusive governance. Budget allocations for priorities driven by citizens have more than tripled, and citizen participation—particularly among women—has exceeded expectations. Although the quality of reporting in public consultations still requires improvement, the overall trend indicates a growing culture of participation, transparency, and accountability within local governments.

Key Achievements

- **CHF 407,384** allocated for citizen-prioritized projects — a 280% increase from the baseline.
- **5,718 citizens** actively engaged in local decision-making — surpassing the target of 2,250.
- **1,866 women** involved in project identification and co-financing — exceeding the target of 750.
- **29 LGs** published public hearing reports on time, but only 11 met full transparency standards — highlighting progress but also the need for continued support in quality reporting.

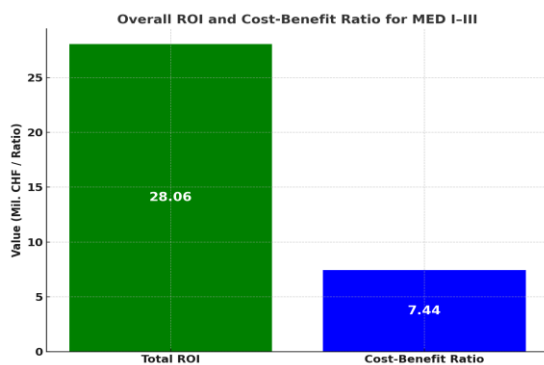
OUTCOME 2:

Taxation: Local governments collect and manage property tax and other revenues administrated by local governments more transparently and efficiently to increase and sustainably secure own source revenues

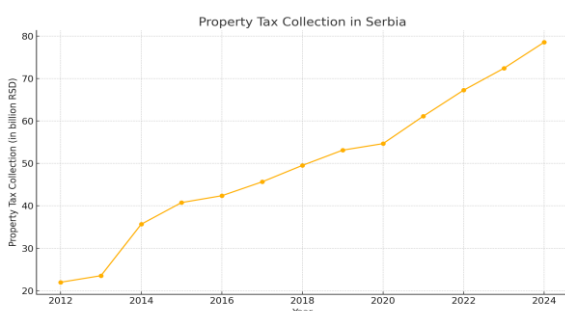
The program has exceeded its revenue and property registration targets, demonstrating the effectiveness of strategic investments in tax administration and local capacity. These results mark a crucial step in enhancing municipal autonomy and ensuring long-term financial resilience.

Key Achievements

- **35.1%** increase in registered taxable residential property area across 44 local governments — more than double the 15% target.
- **CHF 79.845 million** collected in own-source revenues in 2024 — a 58.7% increase from the 2020 baseline.
- **13** new staff hired across 10 Local Tax Administrations (LTAs), expanding municipal capacity for property registration and tax collection.
- Return on Investment of 28.06 million CHF from an initial 4.36 million CHF, achieving a stellar Cost-Benefit Ratio of 7.44.



From 2012 to 2024, Serbia's property tax revenue has shown steady growth and resilience, marked by a significant 51.5% surge in 2014 following key legal reforms. This sustained annual growth of 3% to 12% has positioned property tax as a reliable cornerstone of municipal finance, crucial for deepening fiscal decentralization and strengthening local governance.



OUTCOME 3:

Policy Dialogue: Supported legal and policy reforms lead to sustainable, efficient and transparent local democratic processes and local own source revenues.

The program has effectively influenced national legal and policy frameworks to foster systemic improvements in local taxation and participatory governance. Since the baseline assessment in 2021, when only one legal reform was recorded, one additional national-level legal reform has now been adopted. The first reform was the amendment of the **Law on Fees for the Use of Public Goods in 2023**, which is a significant step toward clarifying and modernizing local revenue collection. This was followed by further reforms to the regulations and rulebook governing the eco-fee, aimed at ensuring more precise and accountable management of environmental revenues.

Key achievement:

- **One legal reform adopted** at the national level since 2021, reflecting growing commitment by national decision-makers to strengthen the legal environment for local fiscal transparency, participation, and sustainability.

5.LESSONS LEARNED

Drawing from the implementation of the program across multiple phases, a set of key lessons has emerged that highlight what works—and what hinders—effective and sustainable impact in the context of local governance, fiscal decentralization, and citizen participation. These insights reflect practical experience from the field, grounded in direct engagement with local governments, civil society, and national stakeholders, and provide valuable guidance for future programming.

Sustainable Change Requires Alignment with Stakeholder Interests and Realities

To achieve lasting impact, interventions must resonate with the interests and perceived realities of beneficiaries and stakeholders. Efforts to shift mindsets are effective only when they are aligned with stakeholders' goals—viewing institutions and individuals as rational actors ("homo economicus") pursuing value. Programs

succeed when stakeholders perceive external support as a contribution to achieving their own objectives.

Linking Unrelated Priorities Undermines Sustainability

Conditioning support in high-demand areas (e.g., property taxation) on performance in donor-prioritized but less relevant domains (e.g., public participation) does not yield sustainable outcomes. Demand-driven approaches that are grounded in field presence and contextual understanding are far more effective than top-down, conditional programming that fails to reflect local priorities.

Flexibility in Design and Implementation Enhances Impact

Overly rigid frameworks—such as detailed logframes, complex sub-indicators, and restrictive budget lines—can hinder innovation and responsiveness. In contrast, adaptive project models with fewer, high-level indicators and performance-driven logic enable more effective implementation, reduce administrative burdens, and improve impact. It is crucial to pair flexibility with strategic clarity rather than to replace it with procedural control.

Strong, Skilled Teams and Clear Structures are Critical Enablers

The presence of well-qualified, experienced, and context-aware teams is essential for responsive management, innovation, and risk mitigation. Success is further supported by clearly defined roles, which enhance accountability and operational efficiency. Dedicated teams for citizen engagement and active political backing are particularly crucial for building trust and institutional legitimacy.

Early, Inclusive Stakeholder Engagement Builds Ownership and Long-Term Commitment

Engaging key stakeholders early in the design phase fosters ownership, relevance, and trust. This inclusive approach ensures that diverse perspectives inform program strategies, resulting in more context-sensitive and sustainable solutions. Especially in domains like policy reform, early and meaningful engagement secures buy-in and supports systemic change over time.

6. CASE STUDIES

6.1. How MED program digitalized property taxation in Serbia

Through inclusive systemic thinking and strategic policy engagement, the program helped establish the [Unified Information System \(UIS\) for property tax management](#), aligning with Serbia's national e-Government strategy. This transformation empowered local governments, streamlined tax collection, and boosted public trust through greater transparency and efficiency. Despite capacity gaps and political complexity, MED supported 31 municipalities in data migration, improved inter-agency cooperation, and enhanced taxpayer experience with digital services. The initiative not only strengthened local revenues—generating an additional CHF 5.16 million—but also demonstrated how targeted digital governance reforms can reinforce fiscal decentralization and accountability, even amid global disruptions like the COVID-19 pandemic.

6.2. A three-steps participation model

The [Užice Participation Model \(UPM\)](#) represents a pioneering approach to participatory local governance in Serbia. By linking property tax reform with inclusive civic engagement, Užice successfully revitalized citizen participation through a structured, three-step model involving information-sharing, consultations, and joint implementation of small-scale community projects. These initiatives, often led by informal civic groups, strengthened public trust, improved municipal services, and enhanced transparency and accountability in budget allocation. The UPM not only empowered local voices—particularly in rural and marginalized communities—but also inspired replication in 15 other municipalities. With a focus on co-financing, volunteerism, and responsiveness to local needs, Užice has set a new standard for citizen-driven governance and social cohesion at the local level.



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