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# INSTITUTIONAL AND FINANCIAL CONDITIONS FOR THE DEVELOPMENT OF RURAL TOURISM IN THE REPUBLIC OF SERBIA: A CASE STUDY

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Branko Mihailović<sup>1</sup>, Katica Radosavljević<sup>2</sup>, Vesna Paraušić<sup>3</sup>, Danijela Pantović<sup>4</sup>

\*Corresponding author E-mail: [brankomih@neobee.net](mailto:brankomih@neobee.net)

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## ABSTRACT

This paper explores the institutional and financial conditions that determine the development of rural tourism in the Republic of Serbia, as well as the challenges faced by entrepreneurs in rural areas. Through a systematic examination of relevant institutional policies and financial mechanisms, the study aims to identify key factors that foster development and influence the sustainability of rural tourism. Additionally, by conducting interviews with the owners of five rural tourism households in Serbia as representative stakeholders, the authors analyzed specific circumstances and challenges in rural tourism, providing valuable insights into the practical aspects of institutional and financial regulation in this sector. This analysis offers policy recommendations for improving institutional and financial conditions for rural tourism, and provides guidelines for potential investors. Furthermore, the research aims to contribute to the promotion of entrepreneurship in rural areas, the further development of rural tourism in Serbia, and, consequently, the strengthening of rural sustainability.

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- 1 Branko Mihailović, Ph.D., Scientific Adviser, Institute of Agricultural Economics, Volgina Street no. 15, 11060 Belgrade, Serbia, Phone: +381 11 697 28 58, E-mail: [brankomih@neobee.net](mailto:brankomih@neobee.net), ORCID ID (<https://orcid.org/0000-0002-2398-6568>)
- 2 Katica Radosavljević, Ph.D., Senior Research Associate, Institute of Agricultural Economics, Volgina Street no. 15, 11060 Belgrade, Serbia, Phone: +381 11 697 28 58, E-mail: [katica\\_r@iep.bg.ac.rs](mailto:katica_r@iep.bg.ac.rs), ORCID ID (<https://orcid.org/0000-0002-5609-8399>)
- 3 Vesna Paraušić, Ph.D., Senior Research Associate, Institute of Agricultural Economics, Volgina Street no. 15, 11060 Belgrade, Serbia, Phone: +381 11 697 28 58, E-mail: [vesna\\_pa@iep.bg.ac.rs](mailto:vesna_pa@iep.bg.ac.rs), ORCID ID (<https://orcid.org/0000-0001-6193-5297>)
- 4 Danijela Pantović, Ph.D., Assistant Professor, Faculty of Hotel Management and Tourism Vrnjacka Banja, University of Kragujevac, Vojvodjanska Street No. 5A, 36210 Vrnjacka Banja, Serbia, Phone: +381365150024, E-mail: [danijela.durkalic@kg.ac.rs](mailto:danijela.durkalic@kg.ac.rs), ORCID ID (<https://orcid.org/0000-0001-8605-8614>)

## Introduction

Rural tourism is a form of tourism that provides visitors with a rural environment, which includes a range of experiences related to nature, culture, and people who have a distinctly rural personality. Rural living is all about immersing visitors in authentic, one-of-a-kind, and fundamental experiences (UNWTO, 2011). The primary objective of promoting this kind of tourism is to increase rural residents' incomes through a range of programs, services, and extra offerings (Bogdanov et al., 2007). By supporting and improving the region's underdeveloped tourism services through the provision of resources, whether in the form of funding or another kind, public and governmental institutions, as well as non-profit organizations, greatly aid in the growth of rural tourism (Gajić et al., 2017).

Unspoiled nature, or protected regions, such as national parks, are the destination of choice for both domestic and foreign travelers seeking active vacations and leisure (Tasić, 2018). A true cultural experience and intimate contact with the inhabitants are becoming more and more sought after by contemporary tourists. Tourists are increasingly drawn to images of ethnic communities in cultural attractions such heritage sites, museums, galleries, villages, cultural theme parks, performing arts venues, and festivals (Yang, 2011). The form of financial support still only somewhat addresses the growth of the rural sector through assistance for improving infrastructure and diversifying agricultural household incomes. (Official Gazette of the Republic of Serbia, No. 85, 2014). An organization must be established at the national level to promote balanced rural development. This organization should have branches in every administrative district and be instrumental in advancing Serbian rural tourism (Radović, 2020).

Although the Republic of Serbia's regulatory and legal environment for rural tourism has started to take structure recently, it is still inconsistent with service providers' demands and is centered on the industry's explosive growth. However, the growth of rural tourism also reduces the number of unresolved management, organizational, and institutional challenges (Radović et al., 2018). At least modest investments in material infrastructure are crucial, in addition to the required expenditures in organizational and human resource structures and the execution of systematic educational programs for the local population, which are intended to better integrate them into the development of the tourism offer and assist them in realizing the advantages of tourism development (Pavlović & Berleković, 2018). Starting from the assumption that institutional and financial issues are key to regulating and further developing the rural tourism sector in Serbia, the authors conduct a comprehensive and in-depth analysis of these factors from various perspectives and levels of analysis. The research aims to shed light on and enhance the understanding of the theoretical aspects of the subject matter, provide recommendations to policymakers for improving institutional and financial conditions for engaging in rural tourism, and develop guidelines for potential investors in this sector. The purpose of the research is most appropriately reflected in the formulation of practical recommendations for policymakers to enhance existing support policies in this field.

## Literature review

For certain rural areas, rural tourism is a crucial development strategy (Carneiro et al., 2015). This type of travel has grown in popularity in recent years. It includes social, economic, ecological, and sustainable development since it helps to preserve values that are vital to the welfare of future generations (Tasić, 2018). Serbia is one of the most agrarian countries in Europe, with a large rural population. Notwithstanding the fact that 85% of Serbia is rural, the country has never targeted rural tourism in its tourism development (Radović, 2020). Furthermore, case studies of rural tourism in the literature go back to the late nineteenth century, proving that the idea is not new. It is frequently referred to as a strategy for reviving falling rural production or socioeconomic development (Rosalina et al., 2021). Along with natural resources, a diverse cultural and historical legacy, customs, and hospitality, rural tourism is an important tool for improving the quality of living and social vitality of people living in rural areas (Nedeljković, 2021).

Rural tourism makes up a sizable portion of the worldwide tourism business. Its proportion of the global tourist flow ranges from 12% to 30% (Ivolga & Shakhramanian, 2019). Employment in rural areas may rise as a result of rural tourism. Additionally, by drawing workers from seasonal or hidden jobs, rural tourism might increase agricultural productivity. Compared to other industry sectors, it is different (Smolović, 2022). The most important advantages of this type of tourism for rural economic diversification are its use as a distribution channel and its ability to effectively valorize rural areas' natural and cultural resources (Vujović et al., 2020). Rural regions could profit from the innovative dynamics established by small tourism organizations, especially if associated with the lifestyle incentives of respective entrepreneurs (Cunha et al., 2020). The demand for rural tourism is still rising. In order to escape from the rise of urbanization and industrialization, more and more people are looking for the natural beauty and authentic folk customs in the serene countryside, which is helping to boost rural tourism (Liu, 2020).

Serbia's rural areas offer a wealth of heritage or a strong sense of cultural identity, and they are rich in historical significance and tradition. According to Vukoičić et al. (2022), local culture is a source of activity, pride, and a warm welcome. The importance of traditional cuisine in the growth of rural tourism is also frequently underlined (Cvijanović et al., 2018). Numerous customs and traditions are manifestations of the rich spiritual culture of the rural community. Serbian tradition is kept alive by folk musical instruments, choreography, the costumes, traditional trades, myths, tales, and customs (Vukoičić et al., 2022). Rural tourism combines the economic, social, and environmental aspects of rural areas, and its growth would have positive economic and financial effects on the level of service providers (usually agriculture entities), on the level of local economic communities, as well as at the macro level and at the state level, during the actual transition period (Radović et al., 2018). In the following phase, businesses use that policy support to promote rural development (Yang et al., 2021). The findings (Kumar & Valeri, 2021) show that the main factors channeling rural tourism

development are infrastructure development, growing environmental consciousness, community and local government support, government funding availability, and private sector participation. Based on the “polluter pays” theory, the EU Environmental Liability Directive (2004/35/CE) offers a solid foundation for preventing and eradicating environmental harm (Sredojević et al., 2019). We contend that this viewpoint can provide insightful information on the interaction between rural social entrepreneurs and their institutional setting, which is still poorly understood (Lang & Fink, 2019). Nevertheless, the capacity of social entrepreneurs to promote innovations in structurally poor areas may be severely limited by several elements of the rural institutional setting, both in its social and regulatory meaning (Kibler et al., 2015). According to Van der Ploeg et al. (2017), rural development theory fundamentally departs from the determinism of modernization approaches by emphasizing the dialectics between the real and the prospective. After reviewing the literature, the authors (Radović et al., 2018) recommend the creation of new domestic financial institutions like Specialized Agricultural Banks and microcredit organizations, which call for a revision of the existing regulatory framework. Along with the pre-accession funds of the European Union (IPARD) and the current Strategy for Agriculture and Rural Development, it is also necessary to include the financing of rural tourism through potential financing modalities like joint ventures, public-private partnerships, and “business angels” as creative financing techniques in the Republic of Serbia (Radović et al., 2018).

### **Materials and methods**

The research methodology of this study combines several methodological approaches to provide a comprehensive insight into the institutional and financial conditions for the development of rural tourism households in the Republic of Serbia. 1) The first step involves a thorough review of the current literature on rural tourism, focusing on relevant theoretical frameworks and previous research. This step provides the theoretical context for the analysis, helping to identify key concepts and factors that influence the success of rural tourism. 2) The next step is the analysis of relevant legal, strategic, and other documents (from agriculture and tourism), including institutional policies and financial mechanisms that shape the conditions for the development of rural tourism in Serbia. This approach provides the foundation for understanding the formal support structures and potential limitations faced by entrepreneurs. 3) A key part of the methodology is the case study, in which five representative rural tourism households (RTHs) are selected for interviews (2 RTHs from Vranje; 2 RTHs from Leskovac; 1 RTH from the municipality of Knić). Through semi-structured interviews with the owners of the surveyed households, we explore experiences and challenges related to the institutional and financial aspects of rural tourism at the micro level (Table 1). This step enables a direct understanding of the practical implications, contributing to a real understanding of the conditions faced by rural entrepreneurs in the process of developing tourism households. The interviews were conducted by telephone, with each interview lasting approximately one hour with each RTH owner. The research was conducted from November 2023 to March 2024. 4) The combination of these methods

enables a holistic approach to analyzing the conditions for the development of rural tourism in the Republic of Serbia. 5) For the conclusion, we used inductive-deductive methods to reach the most realistic conclusions and recommendations for improving the situation in this field.

**Table 1.** Interview questions for owners of rural tourism households (RTH) in Serbia

Key area	Questions for RTHs (Rural Tourism Households)
Institutional Framework	1. How would you describe the process of registering and formally aligning your rural tourism household with the applicable laws and regulations in Serbia?
Financial Support	2. Have you utilized or considered using financial mechanisms such as IPARD funds or other available sources of financing for the development of your rural tourism business?
Administrative Challenges	3. How have you managed the complex institutional framework encompassing rural tourism, considering the different jurisdictions of the Ministry of Tourism and the Ministry of Agriculture?
Administrative Challenges	4. Have you had the opportunity to use advisory services or support from consulting agencies regarding the laws and regulations related to rural tourism, and what was your experience?
Investments and Costs	5. What have been your key investments and costs in the process of developing rural tourism, particularly in relation to accommodation and food offerings?
Food Production	6. How have you met the requirements that the food provided in rural tourism is predominantly locally sourced, and what challenges have you encountered in doing so?
Hygienic Standards	7. How have you dealt with the hygienic-sanitary conditions and procedures that must be fulfilled for a rural household to offer food services?
Tax Environment	8. How would you describe the tax environment, particularly with regard to the possibilities of lump-sum taxation related to rural tourism?
Advantages and Benefits of Institutional and Financial Conditions	9. What are the advantages and benefits you have experienced through the existing institutional and financial conditions, such as low tax burdens or diversification of income sources?
Recommendations for Improvements	10. Based on your experience, what specific recommendations would you give to policymakers to improve the institutional and financial conditions for rural tourism in Serbia?

*Source:* Author's Research, November 2023 - March 2024.

## Results and Discussion

### Institutional and financial conditions in rural tourism activities in Serbia

An establishment or group of establishments that provide lodging services, food and drink preparation and service, or simply lodging-related hospitality services in a rural setting with elements of the local culture and tradition is known as a rural tourist household (RTH). The services are provided by a person using food, drinks, and beverages that are primarily manufactured from products they have made themselves. In lodging facilities with up to 30 individual beds, a single person can provide hospitality services to a

maximum of 30 service consumers (Official Gazette of the Republic of Serbia, No. 17/2019a). Among other things, the local government's tourism agency handles duties pertaining to enabling service delivery in rural tourism houses and handicrafts (Official Gazette of the Republic of Serbia, No. 17/2019b). According to the Law on Hospitality, Article 2, Item 16, A business corporation, other legal entity, entrepreneur, or individual that engages in hospitality activities in accordance with the guidelines set forth by this legislation is referred to as a hospitality provider. Additionally, the law's provisions state that, as long as they are the owner, co-owner, etc., an individual may provide hospitality services in lodging facilities with up to 30 individual beds for a maximum of 30 service users. Through the Rulebook on Incentives for the Improvement of Economic Activities in Rural Areas through Support for Non-Agricultural Activities (September 27, 2021), the Ministry of Agriculture, Forestry, and Water Management of the Republic of Serbia outlines the requirements that a household engaged in rural tourism must fulfill in order to apply for support measures for the development of rural tourism. The registry of rural households is currently maintained by the Ministry of Tourism and Youth, specifically through eTurista (<https://www.eturista.gov.rs/>). At the same time, as a form of diversification of activities and income on agricultural holdings, the registry of rural tourism households (RTHs) is also maintained by the Ministry of Agriculture, Forestry, and Water Management of the Republic of Serbia, specifically through the Directorate for Agrarian Payments (holdings registered in the Register of Agricultural Holdings). The number of RTHs is as follows: (1) in the eTurista database, 724 registered RTHs (Table 2), as of mid-2023 (internal data obtained from eTurista); (2) according to data from the Statistical Office of the Republic of Serbia (Agricultural Census 2012 and Agricultural Household Structure Survey 2018), the number of agricultural holdings engaged in rural tourism activities was 514 in 2012 and 302 in 2018 (<https://www.stat.gov.rs/sr-latn/>).

**Table 2.** Report on the total number of facilities by type and sub-type, and by the structure of accommodation units, 2023. year

<b>TOTAL BY TYPE: Rural Tourist Household: (724)</b>				
<b>Serial number</b>	<b>Structure of the facility</b>	<b>Number of accommodation units</b>	<b>Number of beds</b>	<b>Number of individual beds</b>
1.	Double room with two separate beds, sleeping area for one person	652	1,304	1,304
2.	Double room with a double bed, sleeping area for two people	740	740	1,480
3.	Single room with a bed, sleeping area for one person	217	217	217
4.	Triple room with three separate beds, sleeping area for one person	195	585	585
5.	Triple room with a double bed, sleeping area for two people, and one separate bed, sleeping area for one person	269	538	807

<b>TOTAL BY TYPE: Rural Tourist Household: (724)</b>				
<b>Serial number</b>	<b>Structure of the facility</b>	<b>Number of accommodation units</b>	<b>Number of beds</b>	<b>Number of individual beds</b>
6.	Quadruple room	225	771	903
	Total:	2,298	4,155	5,296
	Total number of camping plots:	169		

Source: RTH e Turista; <https://www.eturista.gov.rs/>

Since they are an essential precondition for the growth of rural tourism, Table 3 lists all of the incentives for regional development in the Republic of Serbia from 2018 to 2021. Sixty-two percent of the entire structure of these incentives was made up of cash acquired from the state budget (Radović et al., 2024, p. 346). However, because these incentives “were not directed towards the priorities of regional development,” the State Audit Institution (SAI) found that they have not made a substantial contribution to lowering regional development inequalities in the Republic of Serbia (SAI, 2023).

**Table 3.** Incentives for Regional Development in the Republic of Serbia 2018-2021.

<b>Sources of Funding for Incentives</b>	<b>Total Incentive Amounts 2018-2021 (in billions of dinars)</b>
Ministry of education, science, and technological development	196
Ministry for european integration	169
Ministry of construction, transport, and infrastructure	153
Other sources of funding	311
Total:	829

Source: State Audit Institution (SAI), 2023.

According to the Law on the Budget of the Republic of Serbia and the Regulation on the Conditions, Methods, Allocation, and Use of Incentive Funds for the Development and Improvement of Rural Tourism and Hospitality in the Territory of the Republic of Serbia, the Ministry of Tourism and Youth issued a public call in February 2025 for the allocation of funds to support the growth and enhancement of rural tourism and hospitality (Official Gazette of RS, No. 13/25). The following standards, which are listed in Table 4, will be followed for allocating incentive payments.

**Table 4.** Criteria for Evaluating the Approval of Funds by the Ministry of Tourism and Youth

Serial num.	Criterion	Description	Maximum number of points
1.	Type and scope of project activities	The working group for decision-making on participation in the financing of rural tourism and hospitality development and improvement projects evaluates the type and scope of works (construction of new facilities, adaptation or reconstruction of existing structures, as well as accompanying content aimed at enhancing tourist traffic).	35
2.	Contribution to sustainable development, preservation of natural resources, and engagement of the local population	The decision-making working group evaluates whether and to what extent the project contributes to the preservation of natural resources in the rural environment, as well as the creation of new employment opportunities.	25
3.	Contribution to the improvement of the quality of rural tourism offerings	The decision-making working group assesses the extent to which the project's implementation contributes to the quality of rural tourism offerings.	20
4.	The fulfillment of objectives and alignment with planning documents	It is assessed to what extent the proposed project impacts the increase in tourist traffic through the development of rural tourism, encourages more balanced regional and local development while preserving the natural environment, local culture, traditions, and customs, as well as its alignment with the Tourism Development Strategy and other planning documents in the field of tourism.	20
<b>Maximum number of points</b>			<b>100</b>

Source: "Official Gazette of the Republic of Serbia", number 13/25.

Additionally, a competition to promote Vojvodina's rural tourism has been announced. The deadline for applications is April 22. The Provincial Secretariat for Agriculture stated a competition to promote non-agricultural enterprises in Vojvodina in 2025 in order to stimulate economic growth in rural regions. A maximum of two million dinars in non-refundable money may be requested per application. The purpose is to increase rural employment, female employment, and rural tourism through the allocation of non-refundable support. (Provincial Secretariat for Agriculture, Water Management, and Forestry, 2025). In 2021, the Ministry of Agriculture, Forestry, and Water Management – Agrarian Payments Administration held a competition to determine the terms and procedures for obtaining the right to incentives for enhancing rural economic activity through support for non-agricultural activities. According to Article 5 of the regulation, the maximum incentive amount per beneficiary for investments is 2,350,000 dinars. Municipal support is also available. The municipality of Pirot, for instance, announced a competition called "Competition on the conditions and procedures for obtaining the right to incentives for the improvement of economic activities in rural areas through



support for non-agricultural activities in 2024.” In order to align with the CAP and improve the sustainability of agriculture and rural areas, the EU offers users financial and technical assistance through IPARD, the pre-accession assistance instrument for rural development, which is part of the Instrument for Pre-accession Assistance (IPA) for countries in the process of joining the EU. Albania, Montenegro, North Macedonia, Serbia, and Turkey are the candidate countries for membership and the beneficiaries (Umetić, 2023).

**Table 5.** Implementation of Measure 7 of the IPARD II program as of August 31, 2023

	First call	Second call	Total
Budget - EU contribution 2014-2020.	15,000,000 €	11,251,837 €	26,200,000 €
Total number of submitted projects	311	294	605
Number of rejected projects	95	23	118
Number of withdrawn projects	31	12	43
Number of contracted projects	110	71	181
Number of discontinued projects	2	0	2
Number of contracted projects - number of canceled projects	108	71	179
Realized budget contribution to the EU 2014-2020.	12,437,219 €	10,019,993 €	22,457,212 €
Realization of the available budget	82,91%	89,05%	85,71%

Source: <http://www.minpolj.gov.rs/ipard-program-2014-2023/#>

The Republic of Serbia is confronted with significant obstacles in creating a competitive economy and changing domestic laws to more closely resemble those of the European Union (Vapa Tankosić et al., 2023). As of August 31, 2023, 179 projects were contracted for Measure 7, based on the demands of potential customers that were evaluated and submitted. There are 108 contracted projects based on the First Call and 471 based on the Second Call. 605 requests were made during the two public calls (Table 5); however, none of the requests met the requirements, meaning they did not adhere to the established standards (Radović et al., 2023., str. 471). Advisory services for producers, forest owners, and small and medium-sized companies in rural areas are included in the list of priority activities and programs meant to be financed by the EU. These services are meant to help these enterprises improve their economic performance and integrate them into the value chain and the development of rural tourism (Official Gazette of the Republic of Serbia, No. 98/2016). As of February 29, 2024, the European Union had 26.2 million euros in total available funding based on Measure 7 of the IPARD II Program, of which 82.59% had been realized. 28.9% of the projects submitted (Table 6) satisfied the requirements (Radović et al., 2024). The ability to use available resources effectively over an extended period of time for tourism purposes is a crucial component of competitiveness in the tourism sector, which helps both inhabitants and end users, or tourists (Cvijanović et al., 2011).

**Table 6.** Implementation of Measure 7 as of February 29, 2024

Number of published calls(competitions)	Budget - EU contribution 2014-2020(in €)	Submitted projects	Contracted projects	Realized budget contribution to the EU2014-2020(in €)	Realization of the available budgetto the EU2014-2020(in %)
First call	15,000,000 €	311	102	11,321,556	75.48
Second call	11,251,837 €	294	73	10,318,050	91.70
Total	26,200,000 €	605	175	21,639,605	82.59

Source: <http://www.minpolj.gov.rs/download/29.2.2024.pdf>.

### Results and discussion of interviews with owners of rural tourist households

**Financial support.** Representatives of rural tourism in the city of Vranje (only two rural tourist households - RTHs) considered the IPARD program and Measure 7 as a source of financing, with one of them planning to apply for the announced competition for this year. On the other hand, one entity used the credit line from the Ministry of Tourism, while another applied this year for funds under the Public Call of the Ministry of Tourism for the development of rural tourism, which was open until April 15 of this year. There was increased interest in the categorization of rural tourist households after the announcement of the Ministry of Tourism's Public Call for the development of rural tourism due to its favorable conditions (90% non-refundable funds and 10% own contribution). Therefore, the state's measures for the development of rural tourism positively influence the encouragement of the rural population to engage in accommodation and catering services, generate income, and, of course, remain in the countryside. An interviewed owner of a rural tourist household from Leskovac states that they have not used available funding sources for the development of their rural tourism business but are considering utilizing them. They have currently submitted documents for the Ministry of Tourism's competition for funds intended for rural households with a project for the purchase of garden furniture. The owner of another rural tourist household from Leskovac also mentions that they have not used any financial support (neither from the state nor from the city of Leskovac). All investments were financed with their own capital. They are considering using subsidies from the Ministry of Tourism of the Republic of Serbia for the development of their rural tourist household. "We only received a small financial grant from a non-governmental organization from Switzerland," says the owner of an RTH from the municipality of Knić. The rural tourist household is located near a nearby lake. They cannot receive financial support from domestic funds because no legal regulations have been passed regarding the construction of buildings near the lake, and therefore, they cannot legalize their facility. As a result, they cannot obtain financial support for rural tourism.

**Challenges in administration.** On the website of the city of Vranje, under the "Tourism" banner, all the information needed for the process of categorizing household

accommodation facilities is highlighted, along with phone numbers for further inquiries. Additionally, there is an option to visit the City Administration offices of the city of Vranje by appointment, where all necessary logistical, technical, and administrative assistance is provided for submitting categorization requests. Since October 1, 2020, the process has been carried out electronically via the e-Turista portal ([eturista.gov.rs](http://eturista.gov.rs)). There is also cooperation with the Tourist Information Center, the Tourist Organization of the City of Vranje, for forwarding relevant information. Practice has shown that due to digital illiteracy, elderly individuals face difficulties; however, this is compensated by involving younger people. "The household was registered with the help of the relevant department of the City Administration, as they assisted me with properly registering the plots," says the owner of an RTH from Leskovac. The registration was done electronically, they were registered on e-Turista, and the officials at the City Administration were very helpful. They were provided with instructions for categorization, and after submitting the request and paying the fee, a commission came and categorized the facility, issuing a decision. "The rest we are learning as we go," they emphasize in this RTH. The owners of the second household from Leskovac are a husband and wife who are professionals in law and economics. Initially, they had a dilemma about which institution to approach for the categorization of their household. They see the biggest problem in obtaining feedback from the relevant institutions. At the same time, there is a need for education in this field. They assist other rural households in this activity. For example, if a rural household intends to breed indigenous animal breeds in a traditional manner, they direct them to the appropriate institutions. The categorization of rural households is carried out by the Department of Economy and Agriculture, Division for Sustainable Development, City of Leskovac. An interviewed owner of an RTH from the municipality of Knić mentions that they are registered as an ethnographic rural household; however, the problem will arise with re-registration, as they are the only household engaged in rural tourism near the nearby lake. They rate the support of the local self-government regarding familiarization with the legal regulations in this area as average.

**Advisory support.** In the City Administration of Vranje, specifically within the Department for Economy and Economic Development, expert tasks related to tourism are carried out, while a separate unit for agricultural matters has recently been established. Within these units, advisory services are provided, although a higher level of cooperation and synergistic action is needed both locally and nationally. This cooperation is primarily required between the Ministry of Tourism, the Ministry of Agriculture, and other relevant stakeholders, particularly regarding the status of: 1) rural tourism households and 2) agricultural holdings. In the process of categorizing RTH, the clients are informed about the regulations, including the minimum technical requirements and the prescribed standards depending on the category, ranging from one \* to four \*\*\*\* stars, for the arrangement and furnishing of the facilities, as well as the necessary documentation required for the acceptance of the categorization request to ensure that the request is complete. Similarly, financial obligations are outlined, including the regular payment of taxes and accommodation fees, as well as operation within the e-Turista system – regular

guest check-ins and check-outs and the issuance of receipts in the prescribed manner, all in accordance with the Ministry of Tourism's user manual. "We have not used advisory services or support from consulting agencies regarding the laws and regulations related to rural tourism," says the owner of an RTH from Leskovac. At the same time, the owner of another RTH from Leskovac notes that they hired a private tourism consultant. At that time, they did not have the support of the Leskovac Tourist Organization. However, today they do have the support of this organization (they requested that their flyers be taken to the Tourism Fair in Belgrade). The owner of the RTH from the municipality of Knić has used consulting services from an NGO based in Switzerland. They also use the platform [www.selo.rs](http://www.selo.rs) for education and have simultaneously utilized advisory services from the Tourist Organization of the Knić Municipality.

**Investments and costs.** In addition to investments in the facilities themselves and their equipment, there are costs associated with categorization, including the payment of national administrative fees for submitting the application (currently 380.00 RSD) and for the issuance of a decision (660.00 RSD), as well as the costs for obtaining a medical certificate, sanitary book, and notary services (if there are co-owners of the property, notarized authorization or consent is required). Once the categorization application is accepted and the decision is issued, the rural tourism household (RTH) becomes active, and from the date the categorization decision is delivered to the applicant, the obligations, such as paying the accommodation tax and tax, are activated for the next three years. Since 2019, changes in the legal regulations in the field of tourism and hospitality have provided benefits for individual entrepreneurs – owners of rural tourism households, as they are no longer taxed based on turnover or overnight stays, but rather based on the total accommodation capacity or the number of individual beds. This change is supported by data showing that, in 2020, there were 10 categorized accommodation facilities in the city of Vranje, and as of March 1, 2024, this number has increased to 86, with 67 in Vranje (45 apartments, 1 RTH, 1 house, and 20 rooms) and 19 in Vranjska Banja (17 rooms, 1 apartment, and 1 RTH). Taxes are collected in a flat rate based on a decision from the Vranje branch of the Tax Administration, while the accommodation tax is based on a decision from the Local Tax Administration (LTA), which determines the annual accommodation tax amount, to be paid quarterly. The total annual amount is determined by multiplying the prescribed coefficient for non-categorized areas (Vranje is a non-categorized tourist area) of 1000.00 RSD by the number of individual beds in the respective facility. The owner of an RTH from Leskovac, when asked about the key investments and costs in the registration process and later involvement in rural tourism, mentions the following: "The costs for obtaining cadastral property lists, fees for categorization, and there will be other costs as well, since we haven't started working with guests yet, but we hope to do so by summer. We haven't finished arranging the yard and equipping some important rooms and supporting facilities. We also plan to build new facilities." He further points out that obtaining construction permits is very slow, and the fees for requests, projects, location conditions, permits, and decisions from the Ministry of Environmental Protection, opinions, and nature protection conditions

are priced at tens of thousands of dinars. The costs for geodetic measurements and parcel marking, certificates from the police, courts, tax certificates, and concludes that the administration is expensive in every sense and slow. This owner covers all the previously mentioned costs with personal funds, and also invests in the equipment, reconstruction, and construction of the facility. Additionally, he projects future costs for advertising the household, etc. The owner of another RTH from Leskovac points out: “The categorization fees are the largest costs in the process. Also, there is a fee per bed. Income tax is calculated on a flat-rate basis. We invested in new construction as well as in the reconstruction of an old, traditionally built building. The cost of construction materials was high. Since our household is located in the mountains, we also incur logistics costs. The road infrastructure was poor; otherwise, we would have more guests.” The owner of an RTH from the municipality of Knić states that, in order to register their rural tourism household, they had to build a septic tank with a treatment plant. On the other hand, the largest investment was the construction of a kitchen. At the same time, due to the expansion of capacity, four new bathrooms were built, so each room now has its own bathroom for better categorization (3 stars: \*\*\*). The total investment in the kitchen and bathrooms amounted to 30,000 euros.

**Food production.** The practice among rural tourism households in Vranje has demonstrated that the most common service offered is bed and breakfast, although half-board services are also available. This contributes to the development not only of agritourism but also of rural tourism, as local households establish networks, collaborate, and derive mutual benefits. If a household does not engage in its own agricultural production, it is required to procure such products from the same or neighboring villages to serve its guests—tourists. In rural tourism households, only locally sourced products, homemade food, and traditional beverages may be served. Therefore, a stronger connection is needed between rural tourism households and food producers and processors. An interviewed owner of a rural tourism household (RTH) from Leskovac stated that they have not yet started hosting guests and are still in the early stages of their business. Initially, they will only offer accommodation, with plans to introduce food services later. They will assess the necessary requirements for this expansion. Currently, they lack information on conditions and standards but would like to have accurate and reliable guidance. Another interviewed RTH owner from Leskovac emphasized: “In our household, we prepare food. However, the livestock population in the village has declined, making it difficult to obtain local meat and dairy products. We do have locally sourced eggs. Our goal is to motivate agricultural producers who have ceased production to start supplying us and the wider market. With the support of GIZ and the Ministry of Tourism of the Republic of Serbia, a lecture on ‘Rural Tourism and Agriculture’ is being held at our household. We host between 30 and 40 young participants in these sessions. Additionally, we are launching a new educational program on ‘Agricultural Production and Livestock Farming.’ There is a strong interest in this training.” The owner of an RTH in the municipality of Knić owns a land parcel, while his parents are engaged in agricultural production, ensuring a stable food supply.

They grow their own fruits and vegetables, while meat, milk, and dairy products are sourced from other local agricultural producers within the village.

**Hygienic standards.** For the categorization process of rural tourism households in Vranje, the applicant is required to obtain a sanitary booklet, which is issued by the competent Institute of Public Health after the necessary sample testing. Following this, an active rural tourism household undergoes inspections not only by the tourism inspection authorities but also by the sanitary inspection services. Both interviewed owners of rural tourism households (RTH) in Leskovac stated that they have encountered no complications. They submit samples to the Hygiene Institute of Leskovac, which then issues the sanitary booklet. Inspectors from the Department of Inspection Affairs in Leskovac conduct on-site visits to rural tourism households. An interviewed RTH owner from the municipality of Knić explained that they converted their old kitchen into an apartment while simultaneously constructing a new kitchen, which represented a significant investment. The hygienic and sanitary conditions and procedures that must be met for a rural household to provide food services are quite demanding for the average individual or household.

**Tax environment.** The tax environment for rural tourism in Vranje is highly stimulating, as noted in response to question number 4 (investments and costs). The favorable taxation policy has led to an increase in the number of categorized accommodation facilities. The owner of a rural tourism household (RTH) in Leskovac considers the tax environment for rural tourism to be beneficial. However, they emphasize that they are still in the early stages of business development and will become more familiar with taxation as their operations expand. Another interviewed RTH owner from Leskovac highlighted the following: “We are categorized as a fourth-tier tourist destination, and the tax rate for this category is excessively high. There is a significant disparity in the development of mountain and lowland villages, making it necessary to provide incentives for mountain villages, as they are the most vulnerable.” On the other hand, the RTH owner from the municipality of Knić operates only during the summer season and points out that the tax system does not accommodate seasonal operations. They work from May to September, while taxes are calculated for the entire year. Additionally, they receive warnings from the e-Taxes platform for not reporting guests, despite having no visitors outside the season. This issue underscores the misalignment between the digital taxation system and the realities of seasonal rural tourism, making the tax environment less favorable.

**Recommendations for improvement.** Interviewed rural tourism households (RTH) in Vranje (two households) suggest that enhanced and more intensive intersectoral cooperation between tourism and agriculture is necessary. This should begin with the harmonization of legal regulations, followed by the development of strategic planning documents at both the national and local levels. These documents must be consistent and aligned, with mutual recognition and integration of shared measures and objectives. The ultimate goal is to foster rural development, including rural tourism as a distinct form of tourism, and to promote non-agricultural activities as recognized by the Agricultural

Law. These activities are closely related to other non-agricultural enterprises, which in turn correlate with the development of tourism in unspoiled nature, clean environments, and rural areas. To facilitate this, it is crucial to reduce administrative procedures, lower fees for various permits and certifications, increase financial incentives, organize informational meetings and training sessions, and distribute instructional materials either in print or online. Prospective and existing household owners should be guided on the necessary requirements to encourage them to expand their offerings, meet standards, and receive the necessary support. This would enable them to operate successfully, generate income, and contribute taxes to the state (Interviewed RTH owner from Leskovac). A significant disparity exists between rural tourism in Southern and Eastern Serbia compared to Western Serbia and Vojvodina. Mountainous rural villages are generally neglected. Out of 20 rural households, only 7 are actively engaged in tourism (second interviewed RTH owner from Leskovac). These households commenced operations in 2020 with incoming guests. They believe that young people would return from abroad to engage in rural tourism if provided with adequate support. In contrast, in Vojvodina, large land parcels receive substantial subsidies, whereas in mountainous regions, land parcels are small and fragmented. Women in rural (mountainous) areas require additional support, such as eligibility for early retirement benefits. They face challenging working conditions and, in most cases, do not own the land or properties where they reside. They participated in an educational program in Italy and, upon returning, motivated others in their communities. However, institutional support on the ground remains essential. A notable innovation in the sector is the introduction of scientific and educational tourism, attracting teachers and students for outdoor lectures. This model follows the “Diffuse Hotel” concept, inspired by Italian cooperative models where agriculture is inseparable from tourism. The initiative promotes the idea of uniting rural households engaged in tourism. A shared reception desk and joint promotional efforts are implemented, while other agricultural households are also integrated into the network (second interviewed RTH owner from Leskovac).

Infrastructure deficiencies (roads, sewage systems, electricity, etc.) present major barriers to the registration of rural households. Additionally, the stringent requirements for registering rural tourism enterprises create further obstacles (interviewed RTH owner from Knic). Consequently, a key recommendation is to introduce tax relief measures during the initial 1-2 years of operation for rural tourism businesses. It is also necessary to officially recognize seasonal rural tourism enterprises and ensure that small rural farms have improved access to financial resources. Given that re-registration is required every two years, the registration process should be simplified. Although legalization applications have been submitted, the status of many structures remains unresolved. Furthermore, it would be beneficial to assist elderly individuals in adapting to digitalization by providing both educational and financial support. One interviewed rural tourism operator has been in business for approximately 20 years and states that, given the administrative demands of the sector, at least one employee should be dedicated solely to electronic guest registration and deregistration. They argue that

digitalization has complicated rather than facilitated the operations of rural tourism businesses (interviewed RTH owner from Knic).

### Conclusions

Considering the analyzed institutional and financial conditions for the development of rural tourism in the Republic of Serbia, the following challenges in this sector have been identified: 1) A complex institutional framework regulating this domain; 2) Jurisdiction shared between two ministries (tourism and agriculture); 3) Limited support for potential investors in terms of administrative and legal advice; advisory services are insufficient, while consulting agencies are private and expensive; 4) High investment costs, especially for those aiming to offer both accommodation and food services; 5) The requirement that food services must predominantly use domestically produced ingredients, implying that households must engage in food production; 6) Numerous hygiene and sanitary requirements and procedures that must be met for a household to provide food services. On the other hand, the benefits provided by the existing institutional and financial conditions include: 1) Low tax burdens for individuals; 2) Various available funding sources, including the Ministry of Agriculture, Forestry, and Water Management, the Ministry of Tourism and Youth, and municipal-level support; 3) The accredited Measure 7 within the IPARD program; 4) Diversification of income sources, among others. Based on the conducted research, the key policy recommendations for public policymakers in this field are as follows: enhancing advisory services in terms of their human capacity to provide better support for potential investors; improving logistical support at the level of local self-government units (LSG); and increasing support funds at the national level (from the state budget) through funding calls issued by the Ministry of Agriculture, Forestry, and Water Management or the Ministry of Tourism and Youth.

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### Conflict of interests

The authors declare no conflict of interest.

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