REGIONAL DEVELOPMENT STRATEGY
OF THE REPUBLIC OF SERBIA
2007 - 2012

Belgrade, January 2007
Foreword


The necessity of implementation of the Regional Development Strategy of the Republic of Serbia was emphasized under the new Constitution. Namely, the new Constitution specified in the third part (Article 94) that “the Republic of Serbia promotes balanced regional development in accordance with the Law”.

Coordination of research within the Strategy formulation was entrusted to the Republic Development Bureau. Experts from relevant fields, state administration, economy and the civil sector participated in the formulation of the Strategy. The expert team consisted of 10 leaders of main topic areas including EU experts. The formulation of the Strategy itself took approximately 5 months, including the verification of partial (stage) results of work on the establishment of the Council. In this period, the Council’s operation was consolidated and competent ministries and local governments were consulted.


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INTRODUCTION

1. Starting Points, Goals and Principles

The Regional Development Strategy of the Republic of Serbia 2007-2012 (hereinafter: Strategy) is the first strategic development document of regional development defining in a comprehensive and consistent way basic development priorities of the country's regional development and the ways of reaching these priorities in the coming years.

The Constitution of the Republic of Serbia (hereinafter: Constitution) emphasized regional development and the country’s obligation to promote balanced regional development (Article 94), first of all, and the development of underdeveloped areas. Therefore, the Republic of Serbia establishes and formulates “the development of the Republic of Serbia, policy and measures for stimulating balanced development of certain areas of the Republic of Serbia, including the development of underdeveloped areas” (Article 97, point 12). The country will make the first step in pursuing Constitutional competencies of the Republic of Serbia by implementing the Strategy and laws that will regulate regional development.

The Strategy addresses the Autonomous Province of Kosovo and Metohija which is excluded hitherto as statistical data are not available.

Over decades, regional development was not regarded as an integral part of the overall socio-economic development. The essence of regional development was marginalized and analysed as a separate and not particularly important aspect of the overall development. The fact that development had its regional and spatial quality and that defining of institutional development mechanisms was by no means regionally neutral was constantly avoided. Regional differences were observed from the aspect of the development level, so that their economic-development, social and political repercussions were neglected. Faster development of undeveloped areas was often the goal to be reached, for the purpose of which certain funds were allocated and stimulating mechanisms were defined. Regional development goals were defined in a general way and were repeated for years. Incentive policy, as a kind of development compensation, failed to prevent further lagging of undeveloped areas. Such approach was inevitably leading towards deepening of regional and structural development problems. Consequences on the territory of the Republic of Serbia are apparent.

The basic motives for the country’s engagement in this area are enormous regional and inter-regional disparities that prevent development and initiate migration flows. Large and strategically important areas remain depopulated, and their resources unutilized. At the same time, developed centres record excessive concentration of population and economy, which produces negative results in the economic, social, spatial and ecological sphere. The role of the state in the new regional policy is based on removing and attenuating restrictions that endangered areas are faced with, i.e. it is based on their capacitating for auto-propulsive development. It refers, in particular, to providing assistance to areas with special development problems, through investments and stimulating inflow of capital so that these areas could compensate for their structural weaknesses. In order to provide efficient support of the state, it is necessary to ensure its continuity and keep the intensity of support in the long term.
The complexity of inherited regional problems of the Republic of Serbia along with the emergence of new regional “transition poverty” reached such levels that it was necessary to start defining a new concept of regional development. In that context, the primary goal of the Strategy was to pass new institutional solutions, as all previous experience, and the existing tendencies in the regional development indicated that inadequate regional development was not only the consequence of defects in the implementation of the regional development policy, but of disadvantages of systemic and institutional regulatory mechanisms.

The proportions of regional disparities indicate that the Republic of Serbia needs such a development document for the purpose of identifying the ways for reaching the main goal which is to stimulate balanced regional development of the Republic of Serbia.

Operationalization of this goal includes, first of all:

- **Enhancing regional competitiveness**;
- **Reducing regional discrepancies and poverty**;
- **Building institutional and regional infrastructure**.

*Note:*

The concept of the region in the Strategy implies “a local government unit on the territory of the administrative district” and does not match with the EU definition, where the region is defined as an economic region.

The concept of the region in the Strategy implies “administrative district” defined under the Law on State Administration (Article 38).

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**The Strategy is based on the three pillars:**

1. **Determining the development level – categorization and typology of areas**;
2. **Defining development policies for the purpose of stimulating regional development of the Republic of Serbia**;
3. **Institutional Development Strategy**.

Also, passing and implementation of the Strategy are necessary for pro-European orientation of the Republic of Serbia, in order to show, by taking clear and argument-based approach, that we dispose of own defined regional strategy which is tolerant of all regional particularities and regional development potentials and that follows, at the same time, European standards in this area.

The Strategy is harmonized with the goals of development strategies that regulate particular areas.
Basic Principles of the Regional Development Strategy

The Strategy finds its anchorage in adhering to key principles that every successful regional development policy is based on today:

- **Complete formulation of the regional policy** – the concept of the regional policy on poverty alleviation refers to the whole Republic of Serbia, with the differentiation of stimulating the development of particular regions in accordance with specific development problems.

- **Partnership** – partnership between local communities as social partners and institutions of civil associations.

- **Subsidiarity** – implies gradual territorial decentralization, transferring state competencies to lower levels (local communities).

- **Harmonization** – inter-ministerial harmonization of activities with the EU regulation.

- **Programme orientation** – consolidation of the Strategy and policy with other development strategies.

- **Support and evaluation of results** – the necessity to establish the system of stimulating balanced regional development (stable sources of funds), monitoring and evaluation of results.

2. Structure of Document by Chapters

The Regional Development Strategy consists of eight parts:

1. **Situation Analysis** provides an integral dynamic overview of all regional disparities, all factors relevant for evaluating the reached level of development, former restrictions and problems. Demographic disproportions, regional unemployment problems, new poverty scales, regional competitiveness, key aspects of human development, development and institutional problems are provided in detail. Special emphasis is given to the partial instrument in the overall SWOT analysis as well as to the compound analytical instrument for identification and systematization of key components of the regional development of Serbia;

2. **Defining priority goals and strategic orientations of the regional development of Serbia.** The overview of new development challenges with stress on the management problem and UN Millennium goals and a social component of development are provided at the beginning of the second part, following the overview of the most important theoretic aspects of regional development. Basic strategic goals and priorities are provided at the end. The vision of balanced regional development of Serbia determined seven strategic and operative goals of the Strategy: sustainable development, enhancing regional competitiveness, reducing regional disparities and alleviating poverty, curbing negative population trends, continuation of the decentralization process, economic integration of Serbian communities in Kosovo and Metohija, building regional institutional infrastructure;
3. **Balanced regional development policy.** This chapter consists of two parts: (a) determining the development level – categorization and typology of the area; and (b) defining stimulatory mechanisms and measures in all 14 most relevant development policies for creating new stimulatory environment on the regional level;

4. **Economic regionalization for access to EU funds.** Considering the importance of establishing NUTS regions, three types of statistical classification are provided, with the comparative experience of the most similar EU transition countries (Hungary, Slovakia, the Czech Republic, Poland);

5. **Institutional Development Strategy.** This part is one of the pillars of the Strategy. The existing institutional basis is provided in detail, and the emphasis is given to the new institutional framework of the regional development of Serbia through the overview of institutional solutions in transition countries;

6. **Action Plan.** As a logical epilogue of the Regional Development Strategy, it was necessary to provide a complete matrix of priority measures and activities, with deadlines, tasks and responsible institutions;

7. **Analysis of regional development possibilities** adds special quality to the Strategy providing the economic map of every region from the aspect of its development level, endangered development and development possibilities.

8. **Monitoring, reporting and modification (monitoring and evaluation).** An extremely important step towards the implementation of the Strategy is the realization of the process of the continuous collection of data and information for measuring the process of efficiency of the Strategy, i.e. timely reference to responsible institutions on “points” of efficiency or inefficiency of undertaken activities. Being under the influence of numerous internal and external factors, the Strategy needs to be amended after a certain period. The Republic Development Bureau in cooperation with the Republic Statistics Office will define the methodology for monitoring the Regional Development Strategy (the system of indicators, structural indicators, indicators on the regional level, etc). For that purpose, the competent institutions (RDB, RSO and ministries) need to be strengthened and modernized.
Ex-post Analysis of Regional Disparities

I ANALYSIS OF REGIONAL DISPARITIES

1. Demographic Analysis

1.1. Dynamics of Demographic Draining

MAIN FINDINGS: Over the last few decades the Republic of Serbia experienced specific demographic decline (demographic regression). During the last inter-census period (1991-2002), population development of the Republic of Serbia recorded extremely unfavourable tendencies which are to be recognized in worsening of the three demographic processes: (1) total depopulation (population decline); (2) natural depopulation (number of deceased inhabitants exceeds number of children born alive; (3) demographic ageing. The above mentioned processes are particularly present on the regional level.

STATE ANALYSIS

In the 1990s, a number of social, economical and political changes affected the population tendencies. The biggest influence on demographic changes had big migration trends. The war destruction influenced on a significant refugee inflow into the Republic of Serbia, whereas the economic and political instability affected considerable migration abroad. The complex outcome of these trends being only one component of aggregate tendencies together with natural trends as the consequence of biological depopulation, affected on the number of population in the Republic of Serbia in 2002, as well as on the regional disparity.

Graph 1: Average annual population growth rate in Serbia during the inter-census period

Demographic regression

Demographic changes affected by significant migration trends

Municipalities with positive population trend are mostly situated on the territory of Vojvodina (20) and almost exclusively in the South Backa and Srem Districts, as well as on the territory of the City of Belgrade (9) resulting from a relatively high population inflow, i.e. a relatively high share of refugees and internally displaced persons.

Municipalities with negative population growth rates are mostly situated in Central Serbia (97), while their number is significantly lower in Vojvodina (25).

Even 29 municipalities recorded a negative annual growth rate above -10‰, whereas in 9 of them it was higher than -15‰.

Demographic movements on the municipality level in the period 1971-2002 recorded the highest population outflow on the territory of the Municipality of Crna Trava (-74%, from 9,672 to 2,563), unlike the highest population inflow (excluding Belgrade municipalities) which was recorded on the territory of Novi Sad (45%, from 206,821 to 299,294).
Ex-post Analysis of Regional Disparities

The intensive process of depopulation in the period 1971-2002 (reduction rate above 10%) was noted on the territories of 79 municipalities.

Considering the demographic movements on the district level, the Zajecar (-10.4‰) and Bor (-9.8‰) Districts recorded the lowest average annual population rate, unlike the Srem (9.3‰ and South Backa District (8‰).

The intensive process of depopulation in the observed period (reduction rate above 10%) was noted on the territories of 79 municipalities.

An extreme depopulation trend, recorded in undeveloped and borderlands municipalities, is leading towards a complete depopulation of these areas.

The economic lagging (economic, infrastructural and social) affects on polarizability and multi-decade demographic depopulation trend.

According to the data of the vital statistics and the Census, the growth of 295,086 (4%) inhabitants on the territory of the Republic of Serbia was an outcome of a relatively high natural population increase in the inter-census period from 1981 to 1991.

Considering the other component of the demographic growth i.e. migration balance, the period 1971-1981 recorded positive migration balance of 129,000 inhabitants, while period 1981-1991 recorded significantly negative migration balance of – 83,900 inhabitants. The positive migration balance in the period 1991-2002 slightly alleviated the negative consequences of natural population increase.

### Table 1: Depopulation trend

<table>
<thead>
<tr>
<th></th>
<th>Republic of Serbia</th>
<th>Central Serbia</th>
<th>AP Vojvodina</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Increase</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1971-1981</td>
<td>526.000</td>
<td>444.000</td>
<td>82.000</td>
</tr>
<tr>
<td>1981-1991</td>
<td>93.500</td>
<td>114.400</td>
<td>-20.000</td>
</tr>
<tr>
<td>1991-2002</td>
<td>-83.436</td>
<td>-145.233</td>
<td>61.797</td>
</tr>
<tr>
<td><strong>Natural increase</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1971-1981</td>
<td>397.000</td>
<td>328.000</td>
<td>69.000</td>
</tr>
<tr>
<td>1981-1991</td>
<td>177.400</td>
<td>163.900</td>
<td>13.500</td>
</tr>
<tr>
<td><strong>Migration balance</strong></td>
<td></td>
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<tr>
<td>1971-1981</td>
<td>129.000</td>
<td>116.000</td>
<td>13.000</td>
</tr>
<tr>
<td>1981-1991</td>
<td>-83.900</td>
<td>-49.500</td>
<td>-34.400</td>
</tr>
<tr>
<td>1991-2002</td>
<td>2.652</td>
<td>1.418</td>
<td>1.233</td>
</tr>
</tbody>
</table>

**Graph 2: Municipalities with extreme average annual population growth rate (1991-2002)**
Map 1: Decrease in the number of population during the period 1971-2002
Natural Population Increase

The decline in the natural population increase on the territory of the Republic of Serbia continued in 2005, whereas the number of deceased inhabitants of 34,591 exceeds number of children born alive.

In Vojvodina, all seven districts recorded negative natural population increase, while in the Central Serbia only two out of 17 districts recorded positive population increase (the Raska and Pcinj District). In Vojvodina, the lowest rate of the natural population increase recorded North Backa District (-8.5‰), apart from South Backa District that recorded the highest rate (-2.9‰). The most significant decline in the number of population in Vojvodina recorded municipalities of Secanj and Zitiste (-12.5‰).

Out of 116 municipalities, negative population increase rate recorded 11 municipalities (96%) in the Central Serbia. The highest negative population ranking holds the Zajecar District (a decline in the number of population of -12.8‰) affected by the age structure (the first ranking district with regards to the age of population reaching 45 years), while the positive rate recorded the Raska District reaching 2.8‰.

The Presevo District is at the top of the ladder by the population increase rate (13%), while at the bottom is the Crna Trava District with -26.4 ‰.

Changes in values of the main components of population increase (death and birth rate) in the observe period affected on municipal redistribution by population increase rate. The extreme unfavourable tendencies (reflected in the constant decline in the population) in the observed period affected sharp and significant decrease in the number of municipalities (districts) with positive population increase.

Demographic Ageing

The socio-economic development of Serbia marked with the industrialization and deagrarianization processes (with simultaneous deruralization and urbanization) significantly determined the framework of trend and dynamics of development of age-gender structure and population ageing.

One of the key characteristics of the demographic development in Serbia is an ever growing unfavourable age structure. Changing of the age structure in the period 1971-2002 moved towards a decline in the share of young people with a simultaneous increase in the share of elderly people.

The population structure of the Republic of Serbia by age is formed by direct effect of birth/death rate. On the other hand, the aging process is affected by the secondary decline in the birth rate.
The other component of population increase that affected on the population structure was the death rate, as well as migrations. However, their influence on the process of demographic population ageing in the Republic of Serbia was inconsiderate.

The oldest district in the Republic of Serbia by all indicators is the Pirot District recoding the average population age of 44 years and the Zajecar District recording 18% population under 20 years and even 30% (almost twice as much) over 60 years, and at the same time the lowest rate of population increase (-12.8‰).
A drop in the birth rate on the territory of Central Serbia and Vojvodina accelerated population ageing from the base of the Age Pyramid, whereas the increase in the life span among middle-aged and elderly population intensified ageing from the top of the Pyramid.

One of the most reliable analytical indicators of the population’s age structure, and the process of the population ageing at the same time, is the Index of Ageing indicating young and elderly population ratio. The demographic theory says if the Index of Ageing exceeds 40 (number of elderly people per 100 young people) we speak about the elderly population. It can be seen from the given data that in 1971 Serbia had The Index of Ageing of 46.4, in 1981 – 50.1, in 1991 – 75.4, and finally in 2002 it even reached the value of 100.7.

According to the indicators by districts, the Zajecar District recorded the highest index of ageing (168), unlike the Pcinj District of 61.

According to the results of the Census from 2002, the average age in Serbia is 40.3 years, which significantly exceeds the marginal value of 30 years which has been accepted to be the medium value in the demographic theory.

Upcoming trends in the demographic development of the Republic of Serbia indicate the inevitability of accelerated population ageing. Namely, the ongoing unfavourable municipal age structure of population can be certainly expected, whereas the continued earlier trends in the municipalities of the highest demographic age will result their demographic “extinguishing” in the near future.
Map 2: Demographic age of population by districts in 2002
Map 3: The share of population aged 5-14 years in the aggregate population in 2002
Ex-post Analysis of Regional Disparities

Map 4: The share of population aged 65 years and over in the aggregate population in 2002
Infant Mortality Rate

In 2005, the infant mortality rate reached the bottom value in Serbia. Number of infant deaths under the age of 1 per 1000 live-born fell from 14.6‰ in 1991 to 11.0‰ in 1999, while in 2005, the lowest value has been recorded so far reaching 8.0‰.

Like in other developed countries, specific preventive measures in prenatal and neonatal care influenced the reduction of the infant mortality rate in Serbia.

Viewed by districts in the Republic of Serbia, the significant discrepancies are recorded with regards the infant mortality rate reaching the ratio 1:3. The highest infant mortality rate recorded the Toplica District (13.6‰), unlike the North Backa District with 4.5‰.

In demographic theory lower and higher infant mortality rates are defined by the values lower than 10‰ (18 districts) and higher than 10 (6 districts). Since, the infant mortality rate on the regional level hasn’t been related to the discrepancies on the general level of the district development in the Republic of Serbia, the more complex analysis of individual cases is required for some specified conclusions. This implies that each district has its own specifications affecting the observed phenomena, and therefore specific survey will be required.

In the “National Plan Action for Children”¹ the specific target has been defined: decrease in the infant mortality for 1/3 until 2015, and specifically decrease in discrepancies of the infant mortality between the districts, as well as in certain sensitive groups (such as: Romany, internally displaced and poor population).

¹ Children’s Rights Counsel of the Republic of Serbia
Life Expectancy

Positive tendencies in life expectancy of the population of the Republic of Serbia continued over 2003 as well, whereas the differences between male and female life expectancy remained on almost the same level. After the stagnation period at the end of the 1990s, steady growth of life expectancy was noted, while male life expectancy recorded growth with regards to female population. Tracking mortality tendencies via the indicator of life expectancy as the synthetic population indicator of mortality, the conclusion can be made that in the second half of the twentieth century the average life span of female population is extended for 18.5 year (from 56.9 in 1950 to 75.4 in 2004).

Although a precise and complete explanation of the differences between male and female longevity has still not been given, it is generally accepted that it is the result of a complex interaction of biological and a whole group of social factors, as well as differences in behaviour.

Viewed by the region, the significant discrepancies in the life expectancy on the level of districts haven’t been recorded. However, the index of life expectancy reached 0.817 in the Zlatibor District, and only 0.756 in the North Banat District.

Albeit the fact that not all the possibilities for reducing youth mortality, especially infant mortality, were used, the reduction of mortality of elderly people poses the opportunity for higher life expectancy.
Map 5: Life Expectancy Index
Economic Structure of the Population

The economic structure of the population is the most important structure with regards to the view of economic development representing the indicator of social and economic development of the country. Namely, the economic development directly changed the economic structure of the population, and on the other hand the tendencies and structure of labour structure and population affects the level and dynamics of economic development of specific area.

The aggregate population is divided into three main groups on the basis of its activity, such as: active population or labour force, persons with personal income and dependant population.

Out of aggregate population in the Republic of Serbia (2002), the active population comprise 3,398,227 (45.3%), dependant population 2,570,639 (34.3%) and persons with personal income 1,511,816 (20.2%).

In comparison with the data of previous Census, the decline in the share of active and dependant population was noted, while the increase in the share of persons with personal income. The reasons that affected fast increase of the persons with personal income can be wider range of population with pension insurance, including the persons of private-owned sector, as well as change in the age structure of employed persons.

The stated tendencies in the dynamics of population in the Republic of Serbia based on its activity are illustrated best by the economic dependency coefficient (number of persons with personal income and dependant population in relation with the number of active persons) which indicates the growing tendency in the observed period (from 108.4 in 1991 to 120.1 in 2002).

Graph 9: The structure of population in Serbia by economic activity.

Viewed by districts, the Toplica District recorded the highest coefficient value (144), and at the same time the highest activity rate of population (51%), unlike the Kolubara District with coefficient of 96.1% and the lowest activity rate (41%). The analysis of the economic activity of population in the Republic of Serbia (2002) on the municipal level shows that the Municipality of Crna Trava recorded the lowest rate (31.1%), while the Municipalities of Presevo (33.2%), Tutin (37.4), Bujanovac and Gadzin Han (38.1%) recorded relatively low activity rate more than 10% below the average of the Republic. The highest activity rates were recorded in the following municipalities: Osecina (66%), Koceljeva (55.9%), Trgviste (53.9%) and Ivanjica (53.8%). Ten municipalities in total exceed 50%. General activity rates of aggregate population in Vojvodina show that there no significant discrepancies on the municipal level in relation to the average activity rate of the Republic (44.9%). The minimal activity rate of 47.8% (Opovo) and the maximal activity rate of 40.8% (Nova Crnja) illustrates this best. On the ongoing dynamics of the population performing economic function i.e. active population can be affected...
through the joint influence of demographic and socio-economic factors. The demographic factors are comprised of biological and/or socially modified dynamics of birth and death rate, while socio-economic factors comprise significant social, economic and technological activities.

**Educational Structure of the Population**

The educational structure of the population has special impact in demographic researches, considering its influence on natural and migration trends of population.

In the educational structure aged 15 and over in the Republic of Serbia (2002), the completed secondary school education represents the most common type of education for both genders (41% of population), while the elementary school education holds the second-place ranking (24% principally older population). In the aggregate population, 6% (411,944) comprise those with college and 4% (285,056) with tertiary school qualification.

Viewed by districts, the Toplica District (13%) and the Jablanica District (12) recorded the highest percentage of population without school education. The highest number of population with college and tertiary school qualifications was recorded in the City Belgrade (21%), the South Backa District (13%), the Nisava District (11.6%) and the Sumadija District (9.5%) affected by the fact that the university centres are placed in the said districts.

The number of illiterate population has been significantly reduced for last 10 years. According to the data from Census 2002, the share of the illiterate in the aggregate population in the Republic of Serbia aged 10 and over amounts to 3.45% or 232,925 inhabitants (in 1991 the share was 6.10%). Therefore the conclusion can be made, that illiteracy of population is reduced to minimum not threatening to be bigger problem in the Republic of Serbia, especially having in mind the fact that it is common among elderly population.

The data from last Census support these facts, namely the highest number of illiterate population is among elderly population aged 60 years and over (80.7%) in agricultural households, as well as in the municipalities in Southern Serbia, such as: Bojnik (15.4%), Gadzin Han (13.2%), Zitoradja (11.8%) and Trgoviste (11.8%). In addition to this fact, about 20% of illiterate population is recorded among Romany.

The percentage of illiterate population in Vojvodina (2.41% in 2002 and 4.1% in 1991) is slightly lower then in the Central Serbia (3.83% in 2002 and 6.8% in 1991).

In the Republic of Serbia the distinctive discrepancy in the level of illiteracy between male and female population can be noted. Higher illiteracy was recorded among female population, whereas during the observed period the discrepancy by gender increased in the favour of male population. In 2002, the share of illiterate female population was 5.7%, and male population 1.1%.
Ex-post Analysis of Regional Disparities

The share of illiterate population in the Republic of Serbia depends on the level of socio-economic development in certain municipalities, and therefore undeveloped municipalities recorded higher share of the illiterate population compared to developed municipalities.

The varied transformation process in certain societies or areas, from traditional towards modern, viewed by the level of literacy as the indicator of social development, show that the traditional roles are changed easier by the following groups: men and younger generation, non-agricultural population and the population in Vojvodina being one of the more developed areas in the Republic of Serbia.

Achieved Level of Youth Education

The achieved level of youth education is a relevant indicator of an educational level of a part of labour force that will, in the near future, determine a country’s developing potential. This structural indicator determines the share of young people with completed secondary and tertiary education in the aggregate population of young people.

The structural indicator: achieved level of youth education in the Republic of Serbia reached 81.4% (2002), which is higher value compared to average of the EU countries for 6.4%.

The percentage of young population (20-24) with at least secondary school education in the Republic of Serbia (2002) reached 81.4%.

Viewed by gender, the percentage of young female population with at least secondary school education in the Republic of Serbia is 2% higher compared to the same indicator for young male population (80.6%).

The differences between the values of this indicator by gender (the Republic of Serbia) are not significant.

A regional aspect of this indicator shows that nine Serbian districts (the City of Belgrade, Sumadija, North Backa, Moravica, Nisava, Zlatibor, South-Backa, Pirot and Srem) have a higher percentage of educated youth than the Republic’s average. Two districts barely reach 80% of the Republic’s level (Pcinj – 63.9% and Branicevo – 62.5%). The significant discrepancy of this indicator by gender recorded the Kolubara District (overall indicator reached 74%, while the level of female education is 5.4% higher compared to young male population) and Pcinj District (overall indicator reached 63.9%, male population reached 67.5% and female population with secondary and college/university education reached 60.2%). Viewed by municipalities, the level of discrepancy by this indicator implies the relation of municipality with the lowest (Bujanovac) and the highest value (Nis) reaching 1:2.5.

The level of education generates unemployment, namely increased qualifications reduce unemployment. This certifies the share in aggregate unemployment of university education categories, whereas the category of doctoral degree is not included in unemployment (in all regions), while the share for bachelor’s degree ranges from 9.3% (the city of Belgrade) to 1.4 (the Macva District), and for master’s degree the highest share was recorded in Belgrade 0.3%.
More than 1/3 of all districts recorded above average share of young population with secondary and higher school education in the aggregate youth population. However, numerous factors (developmental level, economic potentials of the region, dominating branches of industry, development of educational institutions, as well as proximity to large educational centres, social values, standard of living, religion, tradition etc.) affect on disparity of this indicator in the Republic of Serbia. The ratio between the municipality with the lowers value of this indicator and the municipality with the highest value was 1:2.5.

**Early School Leavers**

“Early school leavers” is the structural indicator of social cohesion within the society registering the real volume of potentially imperilled population in the country. The young population aged 18-24 years due to early school leaving (maximum completed elementary school) is faced with the numerous problems, such as: economic and social instability, social debts, high risk of poverty, inadequate applying for a job on the labour market. This population hardly transits from school education to permanent employment.

The Republic of Serbia reached 17% by this indicator, which is 2.4% above the average of the EU countries (25 countries), and its higher aggregate number of young population has significant predisposition for bed socio-economic status.

The percentage of young population (18-24%) with maximum completed elementary school in the Republic of Serbia (2002) reached 17%. Viewed by gender, the percentage of young female population with maximum completed elementary school in the Republic of Serbia is 7.9% lower than the same indicator for young male population (17.7%).

In the Republic of Serbia, as well as in the great number of European countries, the male population will possibly early leave education than female population.

A regional aspect of this indicator shows that nine Serbian districts (the City of Belgrade, Sumadija, North Backa, Moravica, Nisava, Zlatibor, South-Backa, Pirot and Srem) have a lower percentage of early school leavers than the Republic’s average. Two districts reached the value twice above the Republic’s level are the Pcinj District (indicator 33.9%, ratio between the Municipality of Vranje with 19.4% and Bujanovac with 60% is 1:3.10) and the Branicevo District (35.4%, ratio between the Municipality of Pozarevac with 22.4% and Malo Crnice with 51.8% is 1:2.31), whereas one third of aggregate population aged 18-24 years has maximum completed elementary school. By this indicator, the City of Belgrade registered the lowest values, the aggregate (8.6%), the most developed municipality of Vracar and the least developed municipality of Lazarevac ratio is 1:4.5) as well as the value by gender is almost twice lower than the Republic of Serbia (male population reached 9.3% and female 7.9%).
Ex-post Analysis of Regional Disparities

The Oscillations in the Value by this Indicator are the Most Significant on the Municipal Level Where the Most Developed Municipality (Nis) and the Least Developed Municipality (Bujanovac) Ratio is 1:7.3.

The regional aspect of this indicator implies extreme polarization of the City of Belgrade in comparison with the other districts, whereas 16% of districts recorded higher percentage of young early school leavers in comparison with the Republic of Serbia.

Regional and Agrarian Demographic Analysis

The regional and agrarian demographic analysis demonstrates connection between two developmental dimensions: trends of agricultural population (its active part especially) as well as the contributions of that economic sector to the main economic operation results in the district’s economy. Namely, this analysis considers the level of change in economic municipal structure (districts) within two and more decades—from dominating agrarian towards industrial intensive economy, as well as whether the changed economic structure affected the increase in overall economic development.

15 municipalities are registered as distinctive agricultural areas whose indicator values more than twice exceeds the average of the Republic of Serbia, whereas the municipalities of Osecina and Zabari recorded the top values of the observed indicators.

The economic development changes the structure of active population, whereas the share of active population in agricultural activities declines, while the share in non-agricultural activities increases.

The overall value of the agricultural population in the Republic of Serbia in the period 1981-2002 decreased by more than 50% i.e. about 1.1 million of persons (from 24.6% to 10.9% in aggregate number of population).

From the regional viewpoint, in the Republic of Serbia the aggregate agricultural population was decreased by about million of persons (from 27.6% to 11%), while in Vojvodina was decreased by almost 200,000 persons (from 19.2% to 10.6%).

At the same time, the constant decline in the agricultural active population performing its occupation has been noted.

From the district’s viewpoint, the highest share of the agricultural in the aggregate population has the Kolubara District (25.4%), unlike the City of Belgrade with share of 2.3%.

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2 The classification of the population on the agricultural and non-agricultural according to the International Standard Classification of Occupations is based on the activity of active population. Therefore, the agricultural population comprise the following economically active persons: employees in agriculture, fishing industry and forestry (producers for market) and agriculturists (producers for their own needs) or manual workers in agriculture, fishing and other related industries, as well as all dependant person.
CONCLUSION: Regional demographic analysis is an integral part of the analysis of economic and other factors determining the level of regional development and the decline in the regional disproportions.

From the socio-economic aspect, a decline in the number of population, change in age structure of population as well as population aging comprise big problem affecting negative effects on the labour market and system sustainability of social insurance and health care. On the other hand, the unfavourable educational structure of the population represent the biggest risk for the national economy of the Republic of Serbia i.e. the inadequate level of qualifications, knowledge and skills of economically active population represent the biggest risk for the needs of economy and the labour market.

The change in aggregate economic environment, the needs of economy and developmental flows of new technologies call for adequate education and qualified individuals as well as the nation as a whole. This is a demand facing all countries and societies, no matter whether it is transition economy or not. The regional development of reconstruction and transformation of education in the Republic of Serbia comprise one of the presumptions of the aggregate socio-economic development. Therefore, investments into education and human capital have the character of capital goods.
Map 6: Share of active agricultural population in the aggregate active population in 2002
2. Employment and Unemployment

In the period 2001-2005 the employment rate decreased by 1.3%, while employment rate increased by 37.4%. In 2004 the aggregate number of employed population increased slightly by 0.5% and in 2005 by 0.9%. In the structure of aggregate employed population, the share of employed persons in the private-owned sector increased from 14.8% in 2000 to 25.3 in 2005. Therefore the conclusion can be made, that increase in the number of employed persons is affected by the privatisation process. The steady raise in the number of employed persons in the private-owned sector wasn’t sufficient to absorb overall redundant labour from the socially-owned sector. One part of this redundant population went to the labour market and in that way increased the number of employed persons.

Table 4: Employed and unemployed population

<table>
<thead>
<tr>
<th>District</th>
<th>Share in %</th>
<th>Employment rate</th>
<th>Unemployment rate</th>
<th>Growth rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Serbia</td>
<td>100.0</td>
<td>100.0</td>
<td>23.0</td>
<td>25.3</td>
</tr>
<tr>
<td>The City of Belgrade</td>
<td>29.7</td>
<td>16.0</td>
<td>21.1</td>
<td>23.3</td>
</tr>
<tr>
<td>North Backa</td>
<td>2.8</td>
<td>3.0</td>
<td>20.3</td>
<td>21.1</td>
</tr>
<tr>
<td>Central Banat</td>
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<td>3.1</td>
<td>12.6</td>
<td>12.1</td>
</tr>
<tr>
<td>North Banat.</td>
<td>1.8</td>
<td>2.0</td>
<td>16.2</td>
<td>18.0</td>
</tr>
<tr>
<td>South Banat</td>
<td>3.7</td>
<td>4.5</td>
<td>21.6</td>
<td>25.9</td>
</tr>
<tr>
<td>West Backa</td>
<td>2.4</td>
<td>3.5</td>
<td>22.4</td>
<td>23.9</td>
</tr>
<tr>
<td>South Backa</td>
<td>10.1</td>
<td>9.2</td>
<td>27.2</td>
<td>30.0</td>
</tr>
<tr>
<td>Srem</td>
<td>3.4</td>
<td>5.2</td>
<td>34.2</td>
<td>35.9</td>
</tr>
<tr>
<td>Macva</td>
<td>3.2</td>
<td>5.6</td>
<td>28.9</td>
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</tr>
<tr>
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<td>1.9</td>
<td>37.0</td>
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<td>Podunavlje</td>
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<td>2.8</td>
<td>25.5</td>
<td>27.9</td>
</tr>
<tr>
<td>Branicevo</td>
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<td>1.1</td>
<td>25.9</td>
<td>27.5</td>
</tr>
<tr>
<td>Sumadija</td>
<td>3.8</td>
<td>3.9</td>
<td>23.7</td>
<td>22.1</td>
</tr>
<tr>
<td>Pomoravlje</td>
<td>3.1</td>
<td>2.8</td>
<td>29.9</td>
<td>38.2</td>
</tr>
<tr>
<td>Bor</td>
<td>1.7</td>
<td>1.7</td>
<td>17.6</td>
<td>14.0</td>
</tr>
<tr>
<td>Zajecar</td>
<td>1.5</td>
<td>1.6</td>
<td>19.1</td>
<td>17.5</td>
</tr>
<tr>
<td>Zlatibor</td>
<td>3.4</td>
<td>4.9</td>
<td>21.4</td>
<td>22.4</td>
</tr>
<tr>
<td>Moravica</td>
<td>2.8</td>
<td>3.0</td>
<td>16.5</td>
<td>18.4</td>
</tr>
<tr>
<td>Raska</td>
<td>3.4</td>
<td>4.8</td>
<td>34.3</td>
<td>37.2</td>
</tr>
<tr>
<td>Rasina</td>
<td>2.7</td>
<td>3.2</td>
<td>16.2</td>
<td>17.2</td>
</tr>
<tr>
<td>Nisava</td>
<td>4.9</td>
<td>5.4</td>
<td>16.4</td>
<td>22.2</td>
</tr>
<tr>
<td>Toplica</td>
<td>0.9</td>
<td>1.5</td>
<td>17.0</td>
<td>23.4</td>
</tr>
<tr>
<td>Pirot</td>
<td>1.4</td>
<td>1.5</td>
<td>23.1</td>
<td>19.9</td>
</tr>
<tr>
<td>Jablanica</td>
<td>2.4</td>
<td>4.0</td>
<td>26.6</td>
<td>28.6</td>
</tr>
<tr>
<td>Pcinja</td>
<td>2.4</td>
<td>3.8</td>
<td>18.0</td>
<td>21.2</td>
</tr>
</tbody>
</table>

From the regional viewpoint, the highest increase in the employment rate in 2005 compared to 2004 recorded the following districts: Pomoravlje (10.2%), Macva (6.4%), South Backa (4.4%), Nisava (3.2%) and the City of Belgrade (3.1%). The highest decrease recorded the following districts: Pirot (9.0%), Zajecar (7.6%), Toplica (6.8%), Bor (5.1%) and Moravica (4.9%).

In the structure of aggregate number of employed persons in 2005 the highest share recorded the City of Belgrade (29.7%) and the South Backa District (10.1%), while the share of other districts doesn’t exceed 5% of employed population.
The share of employed persons in the private-owned sector against the aggregate employment recorded above the Republic’s average in the following districts: Pomoravlje (for 51%), Kolubara (for 49.8%), Raska (for 47.0%), Srem (for 41.9%), Macva (for 33.6%), Rasina (for 32.0%), Zajecar (for 30.8%), North Backa (for 28.9%), Moravica (for 27.3%) and Pirot (for 21.3%).

The lowest employment rate in 2005 was recorded in the following districts: Toplica (18.0%), Branicevo (19.5%), Macva (20.2%), Jablanica (20.6%), while the highest in: the City of Belgrade (38.9%), South Backa (35.5%) and North Backa. The high employment rate was recorded in the following municipalities: Savski Venac, Stari Grad, Vracar, Crna Trava, and Jagodina. The lowest employment rate was recorded in the following municipalities: Opovo, Sremski Karlovci, Malo Crnice, Zabari, Tutin, Gadzin Han, Razanj, Zitoradja, and Knic.

**Graph 14: The employment rate by districts in 2005**

**Graph 15: The unemployment rate by municipalities in 2005**
The high unemployment rate, high hidden unemployment, low share of employment in private-owned sector and insufficient mobility of labour force characterise the labour market in the Republic of Serbia. The high registered unemployment rate, hidden employment (redundant labour) indicate extremely unfavourable situation of the labour market, structural unemployment and its long-term character.

The long-term sustainable employment growth tendency good climate for new jobs and strengthening of labour institutions whose functioning affect a decrease in employment and lead to the accelerated approach to strict EU employment standards.

The existing structural disparities on the regional labour markets will be decreased by implementation of active measures tailored for the needs and specifications of each region. On the basis of determined risk level, the resources will be allocated for active employment programs in each region, and the partnership among the country, local administration, private and public sector will provide long-term benefits. The loans will be granted under most favourable conditions to the entrepreneurs who are willing to invest into undeveloped areas in order to increase employment.
Map 7: The unemployment rate of the population in Serbia in 2005
3. Human Development

3.1 Disparities in Income Distribution in Serbia

The most reliable indicator of disparities in the allocation of income is Lorentz curve and Gini index\(^3\). The Lorentz curve represents the quantitative relation between the percentage of income receivers and the percentage of total income distributed in the particular year. Due to the fact that there is not perfect equality or inequality in income distribution, the curve will spread differently to the right side of a straight 45 degree line through the origin. The higher the curve, the higher is the level of inequality.

The disparity analysis in the allocation of income was conducted according to the data of the Survey of household spending in the Republic of Serbia in the period 2003-2005. In 2004 the Gini coefficient accounted 0.31 indicating the growth of disparities compared to accounted value of 0.28 in 2003. In 2005 the Gini coefficient accounted 0.28 indicating repeated decline in comparison with 2004. The increase in the observed coefficient in 2004 was affected by the increase in spending of population with high personal incomes. This category of population (10% of the richest) spent on average 7.9 times more than 10% of the poorest population. The gradual decline in the income disparity was recorded in 2005, 10% of the richest spent 7.5 times more than 10% of the poorest.

The value of coefficient in the Republic of Serbia was lower than the coefficient in the observed countries in 2003. The Gini coefficient in the Republic of Serbia for the year stated accounted 0.28, while Estonia recorded 0.35, Latvia 0.38, Bulgaria 0.29, Romania 0.31 and Macedonia 0.39.

Generally, based on the data analyzed and calculated results a conclusion may be drawn up the disparity in the allocation of income in 2005 fell in comparison to 2004 (the values of coefficient amounted to 0.31 and 0.29 respectively).

<table>
<thead>
<tr>
<th>Year</th>
<th>Gini coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>0.28</td>
</tr>
<tr>
<td>2004</td>
<td>0.31</td>
</tr>
<tr>
<td>2005</td>
<td>0.29</td>
</tr>
</tbody>
</table>

\(^3\) The value of Gini coefficient ranges from 0 to 1. The value 0 indicates absolute inequality, while value 1 indicates absolute equality in the distribution of income.
3.2. **Regional Analysis of Human Development**

**The State Analysis of Human Development in South-Eastern Europe**

The level of regional development is determined by UN concept on the basis of HDI (Human Development Index). The indicator of human development consists of three basis components: life expectancy, the level of education (measured by literacy rate as well as combined primary, secondary and tertiary gross enrolment rate) and GDP per capita. The Human Development Index (HDI) of Serbia has been calculated by the UNDP methodology (United Nation Development Programme), reaching 0.811 in 2004. This value of index shows a high level of human development (above 0.800) and ranks Serbia 56 in the world and 5 in the South-Eastern European countries (the rank of Romania and Bulgaria, in front of Bosnia and Herzegovina, Albania and Macedonia).

The HDI trend analysis in the Republic of Serbia indicates continual growth in the period 2001-2004. In the period 2001-2004 apart from the Republic of Serbia (1.8%), the distinctive continual growth is also characteristic for Romania (1.2%) and Greece (1.1%).

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4 The HDI value ranges from 0 to 1, the closer value to 1, the higher the quality of living in specific region. The individual and the satisfaction of personal needs are the starting point of the analysis.
The HDI growth is characteristic also for other countries of South-Eastern Europe, but not in the same progression manner in those three countries. In 2004 (compared to 2003), the highest HDI growth rates recorded: the Republic of Serbia (1.8%), Bosnia and Herzegovina (1.8%) and Romania (1.6%).

The HDI analysis shows that the considerable improvement of the standard of living was noted in the period 2002-2004 in the Republic of Serbia due to an increase in education index as well as gross domestic product (GDP) on the purchasing power per capita and education index.

Graph 18: The HDI value of Europe and the Republic of Serbia in 2004.

The value of GDI in 2004 reached 0.800. That value ranks Serbia 6th among the countries of South-Eastern countries and 50th in the world. The value of the GDI does not deviate significantly from the HDI value, indicating that Serbia did not see a high disparity in the level of gender-related development in 2004. The growth of the GDI continued mostly due to the GDP growth on the purchasing power.

Graph 19: GDI in South-Eastern Europe in 2004.
3.3. **Regional Analysis of HDI**

The HDI Regional Analysis by districts shows significant disparity. The highest indicator of life expectancy recorded the Zlatibor District (74.0) and the lowest the South Banat District (70.4)

The highest literacy rate by districts recorded the City of Belgrade (98.7%), the South Backa District (98.6%) and the North Banat District (98.1%). The lowest literacy rate recorded the Toplica (91.3%) and Jablanica Districts (91.5%)

On the basis of education index\(^5\), the highest values recorded the City of Belgrade, the Districts of North Backa, Middle Banat, North Backa and South Banat, while the lowest recorded the Districts of Macva, Zajecar, Pcinj and Pirot.

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\(^5\) The values of HDI range from 0 to 1, the closer the value to 1, the higher the quality of living in the specific region. The individual and the satisfaction of personal needs are the starting point of the analysis.
Ex-post Analysis of Regional Disparities

into high-developed districts having almost equable HDI values. Out of all undeveloped districts, the lowest value of the quality of living (on the basis of HDI) was recorded in the Districts of Jablanica, Bor, Raska and Toplica.

Graph 21: HDI by districts 2002-2004
Map 9: HDI by districts 2002-2004
Ex-post Analysis of Regional Disparities

HDI on the Municipal Level in the Period 2002-2004

The HDI on the municipal level confirms the conclusions on regional disproportions in the Republic of Serbia. The specific elements of HDI are especially illustrative. For example, the municipalities which recorded the highest indicator values of life expectancy were: Zagubica, Cajentina, Sjenica, Razanj and Svrljig, while the lowest recorded the Municipalities of Novi Knezevac, Bela Crkva and Kanjiza.

According to education index, the municipalities with the highest level of education are the following: Subotica, the City of Belgrade, Sremski Karlovci, Vrsac and Kragujevac, while the lowest education values recorded the municipalities of Trgoviste, Zitoradja, Babusnica and Svrljig.

In the period 2002-2004, the highest value of GDP per capita was recorded in the municipality of Apatin (4002 US$), followed by Pancevo (2955 US$), Becej (2347 US$), the City of Belgrade (2158 US$) and Novi Sad (2108 US$), while the lowest values were recorded the Municipality of Presevo (298 US$), Bosilegrad (326 US$), Medvedja (332 US$) and Tutin (336 US$).

On the basis of HDI value, the conclusion can be drawn up that the highest quality of living reached the following municipalities: Apatin, Pancevo, the City of Belgrade, Novi Sad and Becej. The lowest HDI values recorded the Municipalities of Medvedja, Trgoviste, Presevo, Bosilegrad and Tutin. The conclusion can be drawn up that municipalities with the higher value of GDP per capita recorded higher HDI values. However, the low changes in other HDI components (life expectancy, combined enrolment rate and literacy rate) affected higher weights in the HDI value, compared to the GDP. Considering the above stated components, the HDI value doesn’t change as the GDP per capita. That is conceivable high correlation of change in GDP per capita and the HDI value.

The above-stated statement enables the possibility of investing into development and removing of obstacles to the development (the life expectancy, combined enrolment rate and literacy rate) as the precondition of faster growth of quality of living on the level of districts and municipalities in the Republic of Serbia measured by the HDI.
4. Infrastructural analysis

The transport infrastructure as an important efficiently factor of overall transport system, as well as the key precondition for achieving sustainable socio-economic development in the Republic of Serbia and its EU integration. The transport accessibility to the local and administrative centres in the Republic of Serbia is essential for the region and local units. The implemented infrastructure comprises the significant power of regional development and exploitation of comparative advantages for local unites via interrelation of tourist and agricultural areas with the economic centres in the country. The transport infrastructure and organization of transport comprise the fundamental developing base and one of main conditions for the quality of living of inhabitants. Therefore, the investments into all four dimensions of transport infrastructure (road, rail, river and air transport) need to be increased in order to achieve acceptable level of European standard and to enable fast, efficient and safe transport with reduced exploitation of transport capacities and negative effect on the environment.

**Road infrastructure.** In 2005 the Republic of Serbia disposed of 38,616 km long road network of categorized roads, out of which 62.9% comprise dual carriageways. The roads have sufficient capacities for current and estimated traffic in the predicted period.

Compared to other European countries, Serbia recorded higher density rate of overall road network from Bulgaria and Turkey, whereas the value is approximate to the one in Croatia, but still considerably lower from the required.

### Table 7: Length of roads* by functional categories and types of surfacing, 2004

<table>
<thead>
<tr>
<th>Roads - total</th>
<th>National Roads</th>
<th>Secondary or Regional Roads</th>
<th>Local Roads</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Modern surfacing</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>km</td>
<td>%</td>
<td>km</td>
</tr>
<tr>
<td>Republic of Serbia</td>
<td>38,133</td>
<td>62.1</td>
<td>5,070</td>
</tr>
<tr>
<td>District</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The City of Belgrade</td>
<td>1,250</td>
<td>91.8</td>
<td>237</td>
</tr>
<tr>
<td>North Backa</td>
<td>688</td>
<td>65.3</td>
<td>188</td>
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<tr>
<td>Central Banat</td>
<td>731</td>
<td>92.9</td>
<td>235</td>
</tr>
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<td>North Banat</td>
<td>606</td>
<td>88.6</td>
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</tr>
<tr>
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<td>897</td>
<td>86.9</td>
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<td>Srem</td>
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<tr>
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<td>Zajecar</td>
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<tr>
<td>Pećinja</td>
<td>2,753</td>
<td>32.7</td>
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</tbody>
</table>

* Motorways excluded from the total length of roads, as well as from regional roads

Source: RSO, Statistical Annual of Serbia 2005, calculated in RDB
The road network in the Republic of Serbia in 2004 consisted of 38,133 km long categorized roads (apart from motor-ways). Out of overall road network in the Republic of Serbia, 13.2% comprise main roads, 26.8% regional roads and 59.9% local roads.

14, 7 % roads of the aggregate road length of the Republic of Serbia, is situated in the most undeveloped areas (the Districts of Jablanica, Toplica and Pcinj). The value of dual carriageways in the Republic of Serbia reached 62.1%, while the most undeveloped areas recorded considerably worse condition (39.5%).

The road network in the Republic hasn’t been completely built and therefore cannot provide the adequate level of services according to EU standards in the virtue of technical and exploitation performances. Due to insufficient investments to road network, its maintenance hasn’t been regular and adequate. Therefore, a number of roads are in dissatisfactory condition with inadequate elements.

The municipal roads are in the considerable bad condition, out of which 57.7% are with surfacing built of broken stone and dirt. These roads are of primary significance for day-to-day functioning, development and activation municipal potentials, settlements and rural areas. The municipal roads comprise capillary network providing an accessibility of municipal areas in the virtue of micro and macro aspect. The length of municipal roads in the Republic of Serbia reached 60%, whereas in the most undeveloped areas exceeds 70% of aggregate categorised road network. The local government takes care of municipal roads. However, the single approach with regards to standard (single methodology, criteria), financing, building, exploitation and maintenance against its significance, volume, traffic structure and other, cannot be achieved. Since the road network has represented the state wealth, the complete and strong connection and cooperation between the country and local governments need to be established. The municipal roads are poor-quality roads built of inadequate, non-standard materials. The road protection of surface water is insufficient. The settlement of fill, the slope instability and soil slip are frequently seen. The carriageways showed insufficient bearing capacity. On the municipal roads and streets, the railway crossings which are not secured by protectors affect slowed down traffic and insufficient safety. Due to bad condition of municipal roads, the exploitation costs are high, while the traffic safety is reduced.

Graph 22: The share of primary routes and municipal roads with dual carriageways against the aggregate road network (average 2002-2004).
Rail infrastructure. The bad technological quality and low competitiveness compared to the European environment is characteristic for railway system due to long-term inadequate investments. The poor-quality transportation services, high indebtedness, low possibility of debt service payment, lack of own investments comprise evidenced facts.

The Republic of Serbia disposes of 88 railways (primary, regional and local character) 3,809 km long, out of which only 276 km (7.2%) comprise double track railways. 32.7% of the network is electrified. On one hand the rail network has sufficient capacities, but due to electrification, the length of double tracks, max. speed limit and shaft loading lags far behind. During the NATO bombing the rail infrastructure was considerably damaged. The investments into the Serbian railway system haven’t been enough for years. As the consequence, the railway lines are old, the technical and exploitation performances of infrastructural capacities are poor causing reduced delivery capacity, and the speed limits are bellow the prescribed (the speed is limited to < 60km/h on 52% railways, while only 3.2% railways allow speed >100km/h. The max. allowed bearing capacity of 22.5 t/shaft on the basis of European standards satisfies only 44% length of railways, whereas 39% of tracks have lower capacity than 18 t. The telecommunication equipment is on a very low level, while the electro technical facilities are on the bottom line of the technical normative. The information systems for tracking of carriages, goods, passengers and railway condition are insufficiently developed, and rather in a number of segments outdated.

Due to lack of adjusted and complete development plan for transportation system, the investments into the rail infrastructure are considerably low in comparison with road infrastructure (EUR 102 million).

The most developed districts have the longest railway length (Belgrade 308 km, South Backa District 315 km, South Banat District 254 km and West –Backa District 226km). On the other hand, the undeveloped districts recorded less railway length on their territory (the Jablanica District of 49 km, the Rasina District of 57 km and the Pirot District of 77km).

There is also evidenced problem of financing in uneconomical types of transportation. This very same problem affected on the development of the region. The uneconomical transportation on the basis of commercial aspect and the regional transportation aspect cannot be regarded in the same manner. The region and local communities require the transportation service no matter of number of passengers or the quantity of goods to be transported.

Inland waterway system. In comparison with other types of transportation, the river transport has been insufficiently used with regards to its potentials. It is not considerable used in transportation of goods, while the transportation of passengers by river is not evidenced. The aggregate length of inland waterway channels amounts to 1,419km in the Republic of Serbia (for bearing capacity of 150t). The Danube River, being the European transportation Corridor VII for the Republic of Serbia represent the strategic connection which should enhance the development of trade, tourism and services. Its whole length of 588km through the Republic of Serbia is floatable. In the Republic of Serbia, 85% of aggregate good’s traffic is performed on this river. The Sava River is the international river connecting 4 countries. The length of 207 km is floatable up to 1500 t of carrying capacity. Undistributed and safe shipping on the Sava River would enhance the regional cooperation and development, as well the inter-connection (via...
Ex-post Analysis of Regional Disparities

Danube) with the European network of inland waterways. Almost whole length of the Tisa River through the Republic of Serbia (164km) is floatable and is marked with IV category waterways. The hydro system “Danube-Tisa-Danube” is the multi-purpose water management system whose main function is irrigation and inland water drainage as well as the purpose of waterway system. It consists of 12 waterway channels in Banat and Backa (aggregate length of 600, 6 km) classified into five categories. The condition of inland waterway system is not satisfying due to reduced maintenance in the last 15 years.

Eight ports are situated on the Danube River through the Republic of Serbia: Apatin, Bogojevo, Backa Palanka, Novi Sad, Belgrade, Pancevo, Smederevo and Prahovo. The biggest ports on the Sava River are situated in Sabac, Sremska Mitrovica, and while on the Tisa River in Senta. Those ports are privatized or in the middle of privatisation process. The ports have considerable big capacities, but lack of financial resources for maintenance and development led to their ineffectiveness of basic port activities. The port capacities are about 30% utilized due to lack of goods for transhipment.

The current information systems are partially developed on the level of administrative activities.

Air terminals. The Republic of Serbia disposes of three airports aimed at passenger traffic in Belgrade, Nis and Pristina. Apart from these passenger airports, there are also military airports: Ponikve (in Uzice), Ladjevici (in Kraljevo) and Sombor. The public enterprise airport “Nikola Tesla” satisfies navigation and spatial conditions pretending to be the regional air traffic centre. The public enterprise “Airport Nis” posses the equipment with the satisfactory airport capacities, while the infrastructure requires relevant reconstruction and modernization.

Postal Traffic. The biggest part of infrastructure and employed persons in postal traffic comprise the Public Enterprise PTT “Serbia”, whereas the gradual expansion of network for postal and express delivery can be noted on our territory. The overall postal network consists of 1553 post-offices out of which 1,357 are stable, while the rest operates in the capacity of contractual post-offices. The processing capacities for parcel posts consist of: 3 main postal centres, 16 postal centres and 1 alternating post-office.

The most undeveloped region (the Jablanica District and the Pcinj District) has 71 post-offices i.e. on average 6,579 inhabitants per one post-office, while the Republic of Serbia has 4,806 inhabitants per one post-office.

The problems on regional level occurred due to lower volume of economic activities, i.e. in industry having considerable impact on economic activities of certain regions in the past. (such as mine Bor, Zastava, etc) and used postal services in the great volume.

The above stated factor caused the lower level of volume in postal services in these regions. On the other hand, in rural areas where the primary users are physical persons, the high migration of young and middle aged population cause decline in postal services in these regions.

The lower economic volume in certain regions as well as migration of the population from rural areas caused the decrease in volume of postal services in these regions.
The situation in the field of telecommunications by regions in the Republic of Serbia does not significantly vary by the type of a problem. The only fact considered can be the following: insufficient developed telecommunication infrastructure, lack of tariffs based on expenditures, insufficient penetration percentage (amounted to 34.3% in 2006), insufficient percentage of digitalization in public fixed telephony (out of 1,193 exchange lines only 653 or 54.7% are digital), insufficient number of Internet users, low percentage of broadband access or lack of broadband access, universal service inaccessibility, insufficient investment into the production telecommunications capacities on the regional level, unregulated conditions in the field of radio-broadcasting on the regional level, insufficient number of cable distributive networks as multi-purpose, broadband networks.

In the public fixed telephony, “Telekom Srbija” is the only public telecommunication operator providing all existing types of fixed telecommunication services to its users.

The mobile telephone is the most profitable telecommunication sector due to lower volume of investments compared to the fixed telephony. The mobile telephony is in the most intensive expansion. Apart from mobile operator “Telekom Srbija” a.d (state-owned 80%, and OTE Greece 20%) with about 3 million of users, there is also company “Telenor” (2.4 million of users), while the licence of third operator got “Mobilcom Austria”. In the mobile public telephony, the penetration and coverage are on a high level (about 72% of penetration, above 80% of territory coverage and above 95% of population coverage).

According to implementation rate as well as the condition of postal and telecommunication capacities, South Serbia is ranked among the most undeveloped. The region of south Serbia have only 19.5 users per of fixed telephony per 100 inhabitants, which is 58.6% above the Republic’s average (33.3 users per 100 inhabitants in 2004. The fixed telephone lines are insufficient to meet the demand, while the regional coverage by the mobile telephone signal is not satisfactory. The situation is extremely bad in Presevo, Bujanovac, Medvedja and Trgoviste. The lack of telephone lines represents serious factor which complicates starting up of new companies and limits the use of Internet in a number of municipalities. Therefore, the investments for network extension are required and preferred. Due to high level of regional disparities in the Republic of Serbia, the Government should stimulate the implementation of telecommunication infrastructure in small towns and rural areas in order crate preconditions for equable development of the telecommunication in those territories.
With regards to development of information society, Serbia is one of the bottom ranked countries in Europe. In the end of year 2005, the statistics showed that about 13.3% i.e. about one million of people use Internet in the Republic of Serbia (in the EU countries about 50% of population. With regards to the Internet access, the dial-up access is commonly used by the users in the Republic of Serbia, while only small number uses broadband internet access (wire or wireless internet).

The cable distribution system is being dynamically development process totalling above ½ million of users in the Republic of Serbia.

The considerable improvement is achieved on the institutional level by crating of the Republic Telecommunication Agency as an independent regulatory body in the telecommunications sector. Through the adapted policy in the telecommunications sector and the strategy for development in the Republic of Serbia in the period 2006-2010, the preconditions for introduction of universal service as well as for equable regional development are created.
5. Economic and Financial Analysis

**MAIN FINDINGS:** The unbalanced regional development is the main characteristic of the Serbian economy in 2005 according to main financial indicators.

The regional anisotropies are the following: per number of companies 1:83, per number of unemployed persons 1:64, per archived aggregate income 1:222, per profit 1:239 and per loss 1:91. The highest disproportions per: number of companies, number of employed persons, aggregate income and profit were recorded within the South-Backa District, the Jablanica District and the Nisava District, while the biggest disproportions per loss was recorded in the City of Belgrade. Compared to 2001, all financial indicators recorded positive growth rate, apart from employment rate (decrease by 18.1%).

The City of Belgrade recorded the highest share in the structure of all indicators, while the Toplica District recorded the lowest share in the forming of financial indicators (apart from the Bor District with the lowest share in achieved profit). The disproportions among the districts: per income 1:222 and per profit 1:239.

**STATE ANALYSIS**

**Number of companies in the Republic of Serbia**

69,394 companies\(^6\) operated in the Republic of Serbia in 2005, higher by 6.6% in 2001 due to decrease in the number of small and medium sized companies (the number of large companies reduced by 38.3%).

The City of Belgrade recorded the highest growth in the number of companies, while the Pirot District the highest decline.
Table 8: Regional disposition of enterprises

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<td>4.5</td>
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</table>

* Ratio between the largest and the smallest municipality by the number of enterprises

The municipalities with the lowest number of companies are the following: Crna Trava (7) and Medvedja (15), while the highest number recorded the municipalities of Novi Sad (5,892) and Novi Beograd (4,947) with the share of 8.5% and 7.1% in the Republic of Serbia, respectively.

Within each specific district, the highest disproportions recorded the following: South-Banat, South-Backa, Kulubara, Nisava and Jablanica. Considering this fact, in one municipality operates above 70% of district’s companies (Zrenjanin, Novi Sad, Valjevo, the City of Nis and Leskovac, respectively), while the share of other municipalities is above 10%. In the Jablanica District, the ratio of the number of companies between Leskovac and Crna Trava was 1:120, while in the South Backa District between Novi Sad and Titel was 1:116.

Graph 26

The municipalities with the highest and the lowest number of employed persons.

The City of Belgrade and South Backa District recorded the highest numbers of employed persons (37.0% and 10.3%, respectively), while the lowest number was recorded in the Zajecar District (1.1%) and the Toplica District (0.6%). All districts recorded decline in the employment rate compared to 2001, while the lowest employment rates were recorded in the Bor District (35.7%) and the Toplica District (47.0%) (only 63 employed persons per 1000 inhabitants).
 Aggregate income in the Republic of Serbia

The achieved aggregate income in the Republic of Serbia in 2005 amounted to CSD 3,821.4 billion, indicating real increase by 29.5% compared to 2005.

The highest share in the aggregate economic income was recorded in the City of Belgrade (45.2%) and South Backa District 18.1%, while the lowest recorded the Zajecar District (0.5%) and the Toplica District (0.2%). In comparison to 2001, the highest increase of aggregate income was recorded in the Podunavlje District (209.4% nominally and 80.7% effectively) owing to company US Steel as well as in the City of Belgrade (180.3% nominally and 63.7% effectively). The highest effective decline of aggregate income was recorded in Middle Banat District (24.8%) and the Toplica District (39.9%).

### Table 9: Regional disposition of total revenues, profit and loss

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<th>District</th>
<th>Total revenues</th>
<th>Profit</th>
<th>Loss</th>
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<td>171</td>
</tr>
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</table>

* Ratio between the largest and the smallest municipality by generated total revenues, profit and loss
Ex-post Analysis of Regional Disparities

In 2005, the Municipalities of Razanj and Medvedja recorded the lowest aggregate income (inconsiderate share in the Republic of Serbia), while the Municipalities of Boljevac and Bojnik recorded the highest effective aggregate income compared 2001 (73.7% and 71.9 respectively).

The Municipalities with the highest recorded income in 2005 are Belgrade and Novi Sad (the share in the Republic’s economy amounted to 15.2% and 9.9% respectively, while the highest effective growth rate compared to 2001 recorded the Municipalities of Opovo (171.6%) and Zabari (233.8%).

Within the district’s level, the highest disproportions were recorded in the following: Middle-Banat, South-Backa, Branicevo, Nisava, Pirot, Jablanica and Pcinj, whereas one municipality reached above 75% of aggregate district’s income (Zrenjanin, Novi Sad, Pozarevac, the City of Nis, Pirot, Leskovac and Vranje, respectively), while the share of other municipalities was above 10%. In the Nisava District, the ratio of the aggregate income between the City of Nis and Dojevac was 1:586, while in South-Backa District between Novi Sad and Titel was 1:545.

Net profit of the Republic of Serbia

In 2005, the achieved net profit amounted to CSD 177,7 billion in the Republic of Serbia which is 2.7 times effectively more compared to 2001.

The districts with the highest share in achieved net profit are the City of Belgrade (21.7%) and South-Backa District (15.9%), while the lowest: Toplica (0.3%) and Bor (0.2%). In comparison with 2001, the highest increase of net profit was recorded in the Sumadija District and South Backa District (more than 11 times nominally and 6 times effectively in both districts), while only two districts recorded effectively lower net profit compared to 2005 (in South Backa by 0.2% and North Banat by 43.7%).

In 2005, the municipalities of Medvedja and Crna Trava achieved the lowest net profit (inconsiderate share in the Republic’s share), while the Municipalities of Apatin and Crna Trava recorded the highest effective fall of net profit in comparison with 2001 (91.7% and 83.8%, respectively).

The highest achieved net profit in 2005 was recorded in the Municipalities of Novi Sad and Novi Beograd, with the share in the Republic’s economy of 12.3% and 10.8 respectively, whereas the highest growth of net profit compared to 2001 was recorded in the Municipalities of Beocin (99 times) and Ivanjica (36 times).

Within each specific district, the highest disproportions were recorded in the following: Middle-Banat, South-Banat, Kolubara, Branicevo, Nisava, Jablanica and Pcinj, whereas one municipality achieves 80% above the...
In 2005, the achieved net profit amounted to CSD 209.9 billion in the Republic of Serbia comprising effective increase by 18.9% compared to 2001.

The highest share in achieved economic loss was recorded in the City of Belgrade (39.1%) and Sumadija District (12.2%), while the lowest: Pirot (0.5%) and Toplica (0.4%). In comparison with 2001, the highest effective decline of loss was recorded in the South Backa (68.3%) and Podunavlje (61.9%), while the highest increase of loss was recorded in the Sumadija District (4 to 9 times nominally and 5 times effectively) and the West-Backa District (4 times nominally and 2 times effectively).

In 2005, the municipalities of Golubac and Doljevac achieved the lowest loss, while the Municipalities of Golubac and Beocin recorded the highest effective fall of loss in comparison with 2001 (96.0% and 94.9%, respectively). The highest achieved loss in 2005 was recorded in the Municipalities of Kragujevac and Pancevo, with the share in the Republic’s economy of 10.8% and 3.6% respectively, whereas the highest effective growth of loss compared to 2001 was recorded in the Municipalities of Majdanpek (48 times) and Srbobran (20 times).

Within each specific district, the highest disproportions were recorded in the following: South-Backa, North-Banat, South-Banat, Podunavlje, Sumadija, Nisava and Pcinj, whereas one municipality achieves 70% above the district’s loss (Subotica, Kikinda, Pancevo, Smederevo, Kragujevac, the City of Nis and Vranje, respectively) and the share of other municipalities was above 10%. In the City of Belgrade, the ratio of achieved loss between Novi Beograd and Sopot was 1:2666, and in the Nisava District between Novi Sad and Titel was 1:1316.

### Municipalities with the highest loss

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Loss in 2001</th>
<th>Loss in 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kragujevac</td>
<td>22.6</td>
<td>21.2</td>
</tr>
<tr>
<td>Savski Venac</td>
<td>18.6</td>
<td></td>
</tr>
<tr>
<td>Stari grad</td>
<td>10.6</td>
<td></td>
</tr>
</tbody>
</table>

### Municipalities with the smallest loss

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Loss in 2001</th>
<th>Loss in 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Golubac</td>
<td>0</td>
<td>2.6</td>
</tr>
<tr>
<td>Doljevac</td>
<td>0</td>
<td>4.4</td>
</tr>
<tr>
<td>Crna Trava</td>
<td>0</td>
<td>5.8</td>
</tr>
</tbody>
</table>

The highest share in achieved economic loss was recorded in the City of Belgrade (39.1%) and Sumadija District (12.2%), while the lowest: Pirot (0.5%) and Toplica (0.4%). In comparison with 2001, the highest effective decline of loss was recorded in the South Backa (68.3%) and Podunavlje (61.9%), while the highest increase of loss was recorded in the Sumadija District (4 to 9 times nominally and 5 times effectively) and the West-Backa District (4 times nominally and 2 times effectively).
6. Analysis of Regional Competitiveness

The regional competitiveness implies the regional ability to attract, accelerate and support the economic activity affecting dynamic regional development. As the regional balanced economic development represents the number one economic target, in the same way the regional policy priority represents the developmental dynamic stimulation of economically lagged-behind areas for the purpose of reducing the influence of insufficient developed competitiveness components on the aggregate economic competitiveness.

The complete regional policy comprised of relevant developmental measures and based on the each region’s specificity is required to remove the regional development disparities in the field of competitiveness. Therefore, three groups of factors considerable affect on the regional competitiveness

- National factors (macroeconomic policy, institutional and regulatory bodies)
- Regional factors
- Factors specific for certain sector’s activities

In the same time, the entrepreneurial activity in a specific region is related to the following: the accessibility of educated labour force, the market closeness, the accessibility to the required raw-materials, regional economic power, the price of labour force on the market, as well as the infrastructural accessibility.

The regional competitiveness analysis is conducted through measurable competitiveness elements. In addition to above stated factors implying significance in removal of regional disparities, some “micro” indicators such as: operation results and business efficiency should be analyzed.

Graph 34: Labour productivity per districts.

The regional analysis of labour productivity shows that the South Backa District recorded the highest results reaching 25.8% above the Republic’s average, while the lowest was recorded in the Pcinj District reaching 51.3% above the Republic’s average. Thereby, the level of productivity in the South Backa District was 2.5 times higher than the one in the Pcinj District. The above stated fact indicates on considerable regional disproportions in company’s effective operation in certain regions. All four districts (South-Backa, the City of Belgrade, Podunavlje and West-Backa)
Districts reached the above-average level of labour productivity implying in that way that the average of the Republic of Serbia mostly depends on the South Backa District and the City of Belgrade. Good results, but above the average recorded the Districts of South Banat, North Backa and Braničevo. On the bottom line are placed the Districts of Toplica, Pirot, Zajecar, Pećinj and Jablanica with the productivity level above CSD 1,700.

Apart from the fact that the labour costs haven't been the most important competitiveness factor in the developed and developing countries, the above-average labour costs comprise limited factor in transition countries being distinctive competitiveness indicator. The growth adjustment of real salaries with the growth of productivity represent an important precondition for competitiveness maintenance, as well as for increase of employment, development of private-owned sector and attaining of foreign investments in the economic level, as well as the regional and local.

The regional labour costs analysis by regions was conducted with the aim to point out the labour cost rate and to remove regional disparities with regards to costs in certain districts.

The South-Backa District recorded the highest competitiveness level and the lowest work cost in operation reaching 8.7% in 2005 (only district with the labour cost above 10%), while the Pirot District recorded the highest labour costs. (22.1%).

The above-average share of labour costs recorded the following districts: South-Backa, Podunavlje, West-Backa, Macva, North-Backa and Srem, while the top rankings by the labour cost rate recorded the following districts: Pirot, Sumadija, Pećinj and Toplica. The City of Belgrade recorded the above-average labour costs reaching 14.1% with ½ of aggregate expenditures and almost ½ of gross economic incomes.

The labour cost analysis by employee is significant in the case of competitiveness assessment in certain sectors. This analysis is especially useful in the situations when high costs per employee invalidate the use of higher productivity level. The labour cost rate by employee is the significant economic competitiveness indicator from the investor's viewpoint, as well as from the aspect of attaining foreign direct investments.

Graph 35: Labour costs by districts in 2005, shares
Table 10: Labour costs per employee and per hour by districts in 2005

<table>
<thead>
<tr>
<th>Districts</th>
<th>Labour costs per employee (in RSD m)</th>
<th>Labour costs per hour (in RSD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Toplica</td>
<td>231,670.30</td>
<td>111.38</td>
</tr>
<tr>
<td>Jablanica</td>
<td>264,697.49</td>
<td>127.26</td>
</tr>
<tr>
<td>Zajecar</td>
<td>277,490.82</td>
<td>133.41</td>
</tr>
<tr>
<td>Macva</td>
<td>283,125.13</td>
<td>136.12</td>
</tr>
<tr>
<td>Moravica</td>
<td>292,059.12</td>
<td>140.41</td>
</tr>
<tr>
<td>Rasina</td>
<td>292,732.32</td>
<td>140.74</td>
</tr>
<tr>
<td>Kolubara</td>
<td>293,862.19</td>
<td>141.28</td>
</tr>
<tr>
<td>Raska</td>
<td>303,965.26</td>
<td>146.14</td>
</tr>
<tr>
<td>Pirot</td>
<td>311,033.22</td>
<td>149.54</td>
</tr>
<tr>
<td>Pomoravlje</td>
<td>314,309.07</td>
<td>151.11</td>
</tr>
<tr>
<td>Pcinja</td>
<td>316,255.53</td>
<td>152.05</td>
</tr>
<tr>
<td>Bor</td>
<td>317,267.85</td>
<td>152.53</td>
</tr>
<tr>
<td>Nisava</td>
<td>328,626.27</td>
<td>157.99</td>
</tr>
<tr>
<td>Srem</td>
<td>329,852.32</td>
<td>158.58</td>
</tr>
<tr>
<td>Zlatibor</td>
<td>334,996.85</td>
<td>161.06</td>
</tr>
<tr>
<td>North Backa</td>
<td>340,611.08</td>
<td>163.76</td>
</tr>
<tr>
<td>Central Banat</td>
<td>352,350.56</td>
<td>169.40</td>
</tr>
<tr>
<td>Sumadija</td>
<td>355,291.75</td>
<td>170.81</td>
</tr>
<tr>
<td>North Banat</td>
<td>380,541.25</td>
<td>182.95</td>
</tr>
<tr>
<td>Branicevo</td>
<td>406,480.50</td>
<td>195.42</td>
</tr>
<tr>
<td>West Backa</td>
<td>407,739.78</td>
<td>196.03</td>
</tr>
<tr>
<td>SERBIA total</td>
<td>413,653.11</td>
<td>198.87</td>
</tr>
<tr>
<td>Podunavlje</td>
<td>444,709.17</td>
<td>213.80</td>
</tr>
<tr>
<td>South Banat</td>
<td>455,726.80</td>
<td>219.10</td>
</tr>
<tr>
<td>South Backa</td>
<td>456,632.75</td>
<td>219.53</td>
</tr>
<tr>
<td>The City of Belgrade</td>
<td>508,907.62</td>
<td>244.67</td>
</tr>
</tbody>
</table>

The lowest labour costs by employee in 2005 were recorded in the Toplica District reaching about ½ of aggregate labour costs per hour i.e. 56% below the average. In the same time, the lowest labour costs by hour were recorded also in the Toplica District. The low labour costs by employee and by hour were recorded the following districts: Jablanica, Zajecar, Macva, Morava, Rasina and Kolubara. All four districts (the City of Belgrade, South-Backa, South-Banat and Podunavlje) recorded the labour costs by employee and by hour above the average. The City of Belgrade recorded labour costs of 23% above the average on the basis of employee. The reason of lower competitiveness recorded in the City of Belgrade with regards of labour costs by employee and by hour, compared to other regions can be in specific and pricy paid jobs performed only in the City of Belgrade. The similar reason can be given for the South-Backa District in which the City of Novi Sad is situated.
7. **Privatization Effects**

**MAIN FINDINGS:** In the period 2002-2006, 1,805 companies were privatized. The highest number of privatized companies (636 companies or 35.2% of overall privatized companies) is situated in the City of Belgrade (424) and the South-Backa District (212). From the municipal viewpoint, the highest number of privatized companies is situated in four municipalities: Novi Sad (113), Subotica (64), Nis (49) and Zrenjanin (48).

According to the data in the balance sheets of the companies and cooperatives in 2005, 2,237 socially and state-owned companies are to be privatized. In comparison with 2001, the number of socially-owned companies in the Republic of Serbia was reduced by 58.5%, while the share of private-owned companies against the aggregate number in the Republic of Serbia fell from 6.5% in 2001 to 2.5% in 2005. The increase in the number of the public utility companies affected the increase of the state-owned companies in the economic structure from 0.6% to 0.7%.

The highest number of non-privatized companies (1,232 companies; 55.1% of the aggregate number of socially and state-owned state sector) is situated in 7 districts: the City of Belgrade, South-Backa, South-Banat, Nisava, Jablanica, Sumadija and Macva. The companies situated in the City of Belgrade and South-Backa Districts recorded 12.6% of aggregate Republic's income (73.9% of income by non-privatized companies), while the highest loss was recorded in four districts: the City of Belgrade, Bor, Sumadija, Pomoravlje (25.1% of loss by economy; 76.1% of loss by non-privatized companies, overall number).

**The privatization results in the period 2001-2006**

In the period 2002-2006⁷, 1,805 companies were privatized and the financial effect reached EUR 2 billion income, whereas EUR 1 billion was ensured for investments. Owing to tender privatization, 68 companies were sold for EUR 958.2 million and the investments of EUR 875.3 were ensured. Owing to public sale, 1,324 companies were sold for EUR 660 million and the investment of EUR 187.6 million were ensured. Owing to the sale of shares from the Shares Fund on the stock exchange, the shares of 413⁸ companies were sold, whereas the Shares Fund recorded income of EUR 382.1 million.

From the municipal viewpoint, the highest number of the privatized companies is based in four municipalities: Novi Sad (113), Subotica (64), Nis (49) and Zrenjanin (48).

In the period 2002-2006 there was no successful privatization of the companies in the following municipalities: Lajkovac and Osecina in the Kolubara District, Zitoradja in the Toplica District, Lebana, Medvedja and Crna Trava in the Jablanica District and Trgoviste in the Pcinj District.

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⁷ The analysis was conducted up to 10th November 2006

⁸ Via the Shares Fond, the undistributed shares of 309 companies were also sold on the Stock Exchange, and after the tender/public privatization were transferred to the Shares Fund.
### Table 11: Privatization of enterprises in the period 2002-2006, by districts

<table>
<thead>
<tr>
<th>District</th>
<th>Number of enterprises</th>
<th>Total</th>
<th>Auctions</th>
<th>Tenders</th>
<th>Share Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Serbia</td>
<td></td>
<td>1,805</td>
<td>1,324</td>
<td>68</td>
<td>413</td>
</tr>
<tr>
<td>1 The City of Belgrade</td>
<td></td>
<td>424</td>
<td>285</td>
<td>8</td>
<td>131</td>
</tr>
<tr>
<td>2 North Backa</td>
<td></td>
<td>81</td>
<td>57</td>
<td>1</td>
<td>23</td>
</tr>
<tr>
<td>3 Central Banat</td>
<td></td>
<td>79</td>
<td>55</td>
<td>1</td>
<td>23</td>
</tr>
<tr>
<td>4 North Banat</td>
<td></td>
<td>79</td>
<td>53</td>
<td>1</td>
<td>25</td>
</tr>
<tr>
<td>5 South Banat</td>
<td></td>
<td>97</td>
<td>72</td>
<td>6</td>
<td>19</td>
</tr>
<tr>
<td>6 West Backa</td>
<td></td>
<td>79</td>
<td>55</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>7 South Backa</td>
<td></td>
<td>212</td>
<td>135</td>
<td>8</td>
<td>69</td>
</tr>
<tr>
<td>8 Srem</td>
<td></td>
<td>63</td>
<td>39</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>9 Macva</td>
<td></td>
<td>58</td>
<td>52</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>10 Kolubara</td>
<td></td>
<td>37</td>
<td>33</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>11 Podunavlje</td>
<td></td>
<td>30</td>
<td>23</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>12 Brancevo</td>
<td></td>
<td>44</td>
<td>39</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>13 Sumadija</td>
<td></td>
<td>37</td>
<td>29</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>14 Pomoravlje</td>
<td></td>
<td>34</td>
<td>26</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>15 Bor</td>
<td></td>
<td>24</td>
<td>24</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>16 Zajecar</td>
<td></td>
<td>31</td>
<td>26</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>17 Zlatibor</td>
<td></td>
<td>76</td>
<td>60</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td>18 Moravica</td>
<td></td>
<td>58</td>
<td>41</td>
<td>4</td>
<td>13</td>
</tr>
<tr>
<td>19 Raska</td>
<td></td>
<td>45</td>
<td>39</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>20 Rasina</td>
<td></td>
<td>41</td>
<td>34</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>21 Nisava</td>
<td></td>
<td>66</td>
<td>55</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>22 Toplica</td>
<td></td>
<td>16</td>
<td>11</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>23 Piro</td>
<td></td>
<td>18</td>
<td>18</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>24 Jablanica</td>
<td></td>
<td>45</td>
<td>41</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>25 Pcinja</td>
<td></td>
<td>31</td>
<td>22</td>
<td>3</td>
<td>6</td>
</tr>
</tbody>
</table>
Map 10: Privatization of companies in the period 2001-2006
Forthcoming privatization process

The privatization process of the socially-owned property should be finalized up to mid 2007, and after legally binding term, the process will be conducted in the insolvent companies, public state-owned companies. According to the data in the balance sheets of companies and cooperatives in 2005 the number of privatized companies amounted to 2237 up to 10th November 2006.

Table 12: Number of enterprises and number of employees in social- and state-owned sectors

<table>
<thead>
<tr>
<th>Type of ownership</th>
<th>Number of enterprises</th>
<th>Growth rates 2001-2005</th>
<th>Number of employees</th>
<th>Growth rates 2001-2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social</td>
<td>4,241</td>
<td>-58.5</td>
<td>561,165</td>
<td>-79.8</td>
</tr>
<tr>
<td>State</td>
<td>378</td>
<td>26.7</td>
<td>103,237</td>
<td>76.8</td>
</tr>
<tr>
<td>Economy overall</td>
<td>65,115</td>
<td>6.6</td>
<td>1,367,266</td>
<td>-18.1</td>
</tr>
</tbody>
</table>

In comparison with 2001, the number of socially-owned companies was reduced by 58.5%, while the share of socially-owned companies against the aggregate Republic’s number of companies drop from 6.5% in 2001 to 2.5% in 2005. The socially-owned companies in 2005 employing 10.1% of aggregate number of employed persons recorded 3.2% of aggregate income, 1.6% of profit and 14% loss in the economy. The recorded loss in ten times higher from achieved profit.

In comparison with 2001, the number of state-owned sector in 2005 was increased by 26.7% i.e. 101 company. The raise in the number of public utility companies influenced on the raise in share of state-owned companies from 0.6% to 0.7%. The companies in the state-owned sector employ 16.3% of the aggregate employment reaching 19.5% of the aggregate income, 15.5% of profit and 18.9% of loss in 2005.

The highest number of non-privatized companies (1,232 companies; 55.1% of aggregate socially and state owned sector) is based in 7 districts: the City of Belgrade, South-Backa, South-Banat, Nisava, Jablanica, Sumadija and Macva. The companies in the City of Belgrade and South-Backa District recorded 12.6% of Republic’s profit (73.9 % of profit by non-privatized companies), whereas the highest loss was recorded in four districts: the City of Belgrade, Bor, Sumadija and Pomoravlje (25.1% of loss by economy; 76.1% of loss by non-privatized companies, aggregate value). The biggest effects on the loss rate of these regions have the companies in the process of restructuring (the City of Belgrade-15 companies, Bor-7 companies, Sumadija-6 companies, Pomoravlje-9 companies).
Table 13: Indicators of doing business of enterprises in social- and state-owned sector in 2005

<table>
<thead>
<tr>
<th>Non-privatized enterprises</th>
<th>Share of non-privatized enterprises in economy (economy overall = 100)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
</tr>
<tr>
<td>Economy</td>
<td>2,237</td>
</tr>
<tr>
<td>The City of Belgrade</td>
<td>535</td>
</tr>
<tr>
<td>North Backa</td>
<td>75</td>
</tr>
<tr>
<td>Central Banat</td>
<td>36</td>
</tr>
<tr>
<td>North Banat</td>
<td>44</td>
</tr>
<tr>
<td>South Banat</td>
<td>147</td>
</tr>
<tr>
<td>West Backa</td>
<td>68</td>
</tr>
<tr>
<td>South Backa</td>
<td>174</td>
</tr>
<tr>
<td>Srem</td>
<td>78</td>
</tr>
<tr>
<td>Macva</td>
<td>83</td>
</tr>
<tr>
<td>Kohubara</td>
<td>57</td>
</tr>
<tr>
<td>Podunavlje</td>
<td>69</td>
</tr>
<tr>
<td>Branicevo</td>
<td>56</td>
</tr>
<tr>
<td>Sumadija</td>
<td>85</td>
</tr>
<tr>
<td>Pomoravlje</td>
<td>52</td>
</tr>
<tr>
<td>Bor</td>
<td>49</td>
</tr>
<tr>
<td>Zajecar</td>
<td>47</td>
</tr>
<tr>
<td>Zlatibor</td>
<td>74</td>
</tr>
<tr>
<td>Moravica</td>
<td>66</td>
</tr>
<tr>
<td>Raska</td>
<td>65</td>
</tr>
<tr>
<td>Rasina</td>
<td>54</td>
</tr>
<tr>
<td>Nisava</td>
<td>122</td>
</tr>
<tr>
<td>Toplica</td>
<td>32</td>
</tr>
<tr>
<td>Pirot</td>
<td>33</td>
</tr>
<tr>
<td>Jablanica</td>
<td>86</td>
</tr>
<tr>
<td>Pcinja</td>
<td>50</td>
</tr>
</tbody>
</table>

* Ratio between privatized enterprises in the period 2001-2006 and non-privatized enterprises

Five districts recorded the highest number of non-privatized companies: Pirot (33% companies or 7% of district), Bor (49 companies or 8.4% of district), Zajecar (47 companies of 7.9% of district), Toplica (32 companies of 9.7% of district) and Jablanica (86 companies or 8.2% of district).

**Graph 36: Districts with the highest number of non-privatized companies in 2005 (district=100)**

Non-privatized companies have the greatest impact to the operation indicator in the following Districts: Pirot, Bor, Zajecar, Toplica and Jablanica

The considerable influence on the district’s loss rate (more than 50%) have the socially and state owned companies in the following districts: Branicevo, Bor, Zajecar, Pirot and Jablanica.
Ex-post Analysis of Regional Disparities

Graph 37: Influence of non-privatized companies on the district’s loss rate 2005

From the municipal viewpoint the municipalities of Nova Crnja in the Middle Banat and Niska Banja operate without socially or state-owned company.

The highest number of non-privatized companies was recorded in the following companies: Stari grad, Subotica, Pancevo, Novi Sad, Kragujevac, Nis and Leskovac.

Table 14: Number of enterprises and number of employees in municipalities with the largest number of enterprises in social- and state-owned sector in 2005

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Number of enterprises</th>
<th>Number of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Social</td>
<td>State</td>
</tr>
<tr>
<td>1 City of Belgrade</td>
<td>448</td>
<td>87</td>
</tr>
<tr>
<td>2 Stari Grad</td>
<td>102</td>
<td>17</td>
</tr>
<tr>
<td>3 North Backa</td>
<td>60</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>Subotica</td>
<td>44</td>
</tr>
<tr>
<td>4 South Banat</td>
<td>122</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>Pancevo</td>
<td>49</td>
</tr>
<tr>
<td>5 South Backa</td>
<td>129</td>
<td>45</td>
</tr>
<tr>
<td></td>
<td>Novi Sad - City</td>
<td>88</td>
</tr>
<tr>
<td>6 Sumadija</td>
<td>62</td>
<td>23</td>
</tr>
<tr>
<td></td>
<td>Kragujevac - City</td>
<td>41</td>
</tr>
<tr>
<td>7 Nisava</td>
<td>101</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>Nis</td>
<td>74</td>
</tr>
<tr>
<td></td>
<td>Jablanica</td>
<td>70</td>
</tr>
<tr>
<td></td>
<td>Leskovac</td>
<td>52</td>
</tr>
</tbody>
</table>

Graph 38: Municipalities with the highest number of non-privatized companies in 2005 (district=100)
8. Development and Institutional Problems in Transition

In comparison with other countries in transition, the Republic of Serbia later started with the reforms having in mind well-known circumstances in the 90s. In the period 2001-2006 is characteristic by conducting of numerous reforms, stable economic development, restructuring and privatization of companies as well as started process of Serbian accession to EU which comprises numerous legal adjustments in all economic and social sectors. The main targets of economic policy were maintenance of macroeconomic stability along followed by simultaneous high economic growth rate (average growth rate of GDP in the period 2001-2005 amounted to 5.2%). The production activity in the period after 2000 was followed by positive processes of economic transition as well as the reforms of tax system, labour market and social sector. The considerable price liberalization and foreign trade operation were regulated by international financial institutions. The considerable improvement was made in implementation of structural reforms especially in the sector of privatization of companies as well as in consolidation and privatization of banking sector. The systems acts (350) were passed supporting the structural reforms.

However, Serbia is faced with numerous development restrictions: low GDP per capita in 2005 reaching about USD 3500; high percentage of poor population (10-20%); high unemployment rate (20.8%); poor investment activities; extremely unfavourable country’s position in the terms of international competitiveness (87th position on the world rankings); significant foreign macroeconomic unbalance (high deficit); considerable regional disparities (1:7 with regards to European standards).

The European Bank for Reconstruction and Development-EBRD summarized the improvement of structural and institutional reforms by transition indicators in comparison with 28 countries in 2006. Nine transition indicators comprised six main reform fields: liberalization, privatization of companies, infrastructure, financial institutions and legal ambience. Each indicator was measured by the standard of developed market economies indicating synthesized improvement assessment achieved in specific field on the basis of various data, descriptive information and analysis. Transition countries achieved significant improvement in institutional and structural reforms during 2006.

Considering the average annual transition index (non-weighted arithmetic mean 9 indicator) among the transition economies indicates that 20 countries were more developed than Serbia in 2006 (index 2.7), whereas Azerbaijan, Belorussia, Bosnia and Herzegovina, Montenegro, Tajikistan, Turkmenistan and Uzbekistan recorded worse results. Hungary with the highest index value (4) was the closest country to the level of developed market economies. Apart from Hungary, in the group of the most developed transition economies were also classified: Estonia, Czech Republic, Slovakia and Poland (3, 7-3, 9).

The analysis of individual EBRD indicators in 2006 implies that Serbia earned higher index (4) for price liberalization being the standard in developed market economies, 3.7 for privatization of small-sized companies being the most developed transition sector and 3.3 for the foreign trade regime (trade liberalization and foreign exchange system). The Republic of Serbia recorded improvement in 2006 in two sectors: (1) privatization of...
small-sized companies and (2) competitiveness policy. The average increase recorded in the privatization process was: privatization of large companies (2.7), reform of banking sector (2.7) and company restructuring (2.3). Moderate result was achieved for security of market (2) and non-banking financial institutions as well as in the sector of infrastructural reforms.)

Table 15: The value of annual EBRD indicators for the Republic of Serbia

<table>
<thead>
<tr>
<th>EBRD indicator</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price liberalization</td>
<td>2.3</td>
<td>4.0</td>
<td>4.0</td>
<td>4.0</td>
<td>4.0</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Exchange rate and trade system</td>
<td>1.0</td>
<td>2.7</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td>Privatization of small enterprises</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
<td>3.3</td>
<td>3.3</td>
<td>3.7</td>
</tr>
<tr>
<td>Privatization of large enterprises</td>
<td>1.0</td>
<td>1.0</td>
<td>2.0</td>
<td>2.3</td>
<td>2.3</td>
<td>2.7</td>
<td>2.7</td>
</tr>
<tr>
<td>Restructuring of enterprises</td>
<td>1.0</td>
<td>1.0</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
<td>2.3</td>
<td>2.3</td>
</tr>
<tr>
<td>Competition policy</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.7</td>
</tr>
<tr>
<td>Reform of the banking sector</td>
<td>1.0</td>
<td>1.0</td>
<td>2.3</td>
<td>2.3</td>
<td>2.3</td>
<td>2.7</td>
<td>2.7</td>
</tr>
<tr>
<td>Reform of non-banking FI</td>
<td>1.0</td>
<td>1.0</td>
<td>1.7</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Infrastructural reforms</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Mean value of annual EBRD indicators</td>
<td>1.6</td>
<td>1.9</td>
<td>2.3</td>
<td>2.4</td>
<td>2.5</td>
<td>2.6</td>
<td>2.7</td>
</tr>
</tbody>
</table>

Source: EBRD Transition Report 2006

The Republic of Serbia completed the first phase of economic transition by implementation of macroeconomic stability. The foundations for the second reform phase are set which will be focused on the economic growth and structural changes. The economic policy in the forthcoming period will be concentrated on the acceleration of structural reforms providing economic growth and increase of the employment rate as well as standard of living. Transition EBRD indicators confirm that the Republic of Serbia successfully completed the first phase of transition. Starting from 2001, the economic and systems reforms affected on all sectors of economic system contributing to macroeconomic stability and effective growth of GDP, as well as to inflation reduction. The systems acts were enacted for public financial control. The reforms of monetary and banking sector caused positive results in the terms of price and currency stabilization, trust in local currency, liberalization of foreign exchange market, growth of foreign exchange reserves in the National Bank of Serbia. The reforms of foreign trade and customs system affected liberalization of foreign trade regime. The reforms included the improvement of jurisdiction, education, health services and government in the terms of rationalization of these public services and improvement of their efficiency.

Price Liberalization. Achieved positive effects in the field of inflation in the period 2000-2006 imply on achieved positive macroeconomic stability and significant inflation reduction, while the price disparities have been corrected and the price of oil has been increased. The inflation followed by conducted price liberalization was reduced from 111.9% in 2000 to 17.7 in 2005 i.e. 6.6% in 2006.

Exchange Rate and Trade Exchange System. The National Bank of Serbia conducted the foreign exchange policy within the regime of floating exchange rate. The policy of foreign economic relations was focused on preparations for the Serbian accession to EU, numerous negotiations on foreign trade liberalisation, juridical harmonization with EU legal normative, improvement of bilateral economic relations. The special attention was given to the improvement of bilateral economic relations with surrounding
countries and to the liberalization trade process with the West Balkan countries. **The high deficit in the current account balance** comprises the key macroeconomic unbalance.

In the forthcoming period the increased activity should be focused on the structural reforms in order to complete successfully the second phase of reforms. The privatisation of real sector has been finalized for small and medium sized companies, while the restructuring and privatization process of large systems are to be completed. The reform processes for public companies has just began.

The establishment of the Agency for Development of Small and Medium Enterprises on the territory of the Republic of Serbia in June 2001 and the extension of the network of these agencies throughout the whole country, as well as the adoption of the Strategy for Development of Small and Medium-sized Enterprises and Entrepreneurship and of the Law on the Guarantee Fund, meant that institutional bases for a faster development of SMEE was created.

**The restructuring process** embraced large socially-owned companies with development problems, special-purpose industrial companies and public companies of republic’s importance. In the middle of restructuring process are 74 large socially-owned companies with about 155000 employed persons.

**Competitiveness indicator.** EBRD indicates the lowest grade which means that no legal regulative or defined competitiveness policy existed in the country. The Law on Protection of Competition and the Price Act were enacted in the second mid of 2005. The Law on Protection of Competition provided the equality of all participants aimed at achieving of economic efficiency and accelerated economic growth.

**Banking sector** has been intensively reactivated over last 5 years of economic transition. The consolidation of domestic banks affected the strengthening of banking financial positions, reactivation of trust into bank and improvement of balance structure.

**Financial markets.** The legislative frame for financial market control was made in the Republic of Serbia by passing three systems laws in May 2006, as follows: Law on Securities and Other Financial Instruments (the basic regulative of financial market), Law on the Takeover of Joint-stock Companies (the basis purpose of this law is protection of minority shareholders) and the Investment Fund Law (provides establishing of investment funds as the most significant participant on the financial market. The domestic capital market has the character of post-privatized capital markets at the very beginning –insufficient efficiency, information unbalance, insufficient protection for investors and minority shareholders and systems risk as well as low liquidity.

The economy of the Republic of Serbia has potential to develop in the forthcoming period. However, this perspective depends on the political stability and favourable business environment. The Republic of Serbia started intensively with jurisdictional activity intended to last during whole process of Serbian accession to EU. In the forthcoming period, the efficient jurisdictional system as well as the implementation of laws will be essential for establishing of competent institutions and their functionality.
9. SWOT analysis

Advantages:

- **Valorisation of non-used natural potentials.** The favourable natural, geographic and traffic position of the Republic of Serbia situated in the middle of Balkans on the crossroads of main Pan-European traffic corridors VII (the Danube River) and X (road-rail) provide extraordinary potential for development. Non-use developmental potential of the Republic of Serbia comprises rich forest and mountain complexes (Stara planina, Golija, Mokra gora) and water potential (Vlasina lake, the regional park of Gornje Podunavlje).

- **Agricultural resources.** The Republic of Serbia has favourable natural characteristics for development of agricultural production-5.1 million ha of agricultural land (83.0% comprise cultivated areas), while 1/3 of the territory comprise forests. The lowland regions of Pomorlavije, Posavina, Tmnava, Krusevac and Leskovac are suitable for agricultural and farming production, while higher areas are suitable for stock farming, wine and fruit growing. The regions dispose of the sufficient quantity of water which can be protected from contamination by rational usage and building of required facilities.

- **Europe is oriented on traffic development in the Republic of Serbia on Pan-European corridors VII and X.** The Danube River being Pan-European Corridor VII is the most important water transport and strategic rout in Europe. It connects 10 countries and almost ½ million of people representing insufficiently used potential. It is the main entry to European market as well as to economic cooperation between the East and the West. The EU transport authorities declared the Danube River as one of the most important European priorities up to 2000. Its main purpose will be transferring of road transport to railways and rivers (25%). The building of Corridor X represents the part of strategic infrastructure as well as the national priority. In that way “the bottleneck of the Balkans” will be eliminated, while the Republic of Serbia will be an integral part of international transport corridors.

- **Developed regional traffic and energy infrastructure.** The road and rail network possesses sufficient capacities for current and predicated traffic in the forthcoming period. The lignite in the Kosovo basin (over 76%) represents the most important energy potential of the Republic of Serbia in the forthcoming period.

- **Macroeconomic stability.** The dynamic growth of GDP by 5.2% per annum (by 6.7% in the period January-July 2006) is the main characteristic of the Serbian economy. The inflation after conducted price liberalization was reduced from 40.7% in 2001 to 17.7% in 2005, i.e. 6.5% in the period January-November 2006.

- **Low-Cost Labour Cost.** The average salaries in the Republic of Serbia (in euros) lag behind the salaries in the surrounding counties. The low-cost labour force can be regarded as advantage with the purpose to attain direct foreign investments. In 2005 the average salary in the Republic of Serbia amounted to EUR 210, in the Republic of Slovenia
EUR 748, in Croatia EUR 591, in Hungary EUR 416 , in Austria EUR 1.438. The conclusion can be drawn up that Serbia has low-cost labour force, and therefore it can be more attractive for investments.

- **Improved investment climate.** Over the period 2004-2006, the significant improvement was made in the terms of making positive ambience for business and investments. The income tax rate of the companies was reduced from 14% to 10% being one of the lowest among the transition countries. In March 2006 the Government adopted the Strategy for stimulation and development of foreign investments. The Republic of Serbia continued to improve the business conditions. According to the World Band Report, the Republic of Serbia was ranked 68th for improved investment ambience (out of 175 countries) indicating significant improvement compared to previous year (95th position). 18 days are needed to set up a company, 111 day for register the property and 211 day for the issue of licence.

- **Increase in number of employed persons in the private-owned sector (increase in share of small and medium sized companies, SME).** The private-owned sector recorded significant growth as well as considerable influence on aggregate employment rate (share 54.4% in 2005 compared to 17.1% in 2001). It makes new jobs and reduces social tensions. The dominating share in the employment rate comprises private-owned SME (67.0% in 2005).

- **Regional Tourist Potential.** The regional analysis show that 8 regions recorded positive tourist trends. The highest tourist concentration recorded: Belgrade, the Zlatibor District, the Raska District, Novi Sad and Nis.

- **Free Trade Zone with the South-East European Countries.** The economic cooperation among Serbia and South-East European countries has been performed for the last couple of years on the basis of concluded agreements on free trade. The contracting countries agreed on free trade zone in the region. The bilateral agreements on free trade (28) are changed by new single multilateral agreement on free trade in South-East Europe - the Central European Free Trade Agreement- CEFTA).

- **Realized Donation Projects for Regional and Local Development.** From 2005 a great number of international institutions directed their donations for improvement of local infrastructure, development of human resources, implementation of innovative projects, expert and material help and other (EAR, USAID, GTZ, CHF, UNDP and likewise).

- **Change in Education Structure towards Higher Education Levels.** The change in the education structure of the population in the Republic of Serbia in the period 1971-2002 implies the positive trends in education structure towards higher education levels.

- **Staff Potential.** The share of secondary and tertiary education in the aggregate number of unemployed persons at the end of 2005 amounted to 7.2% (64,421). In the structure of the unemployed population with secondary and tertiary education, the highest share recorded the unemployed persons aged 26-30 years (26.2%), 31-40 (23.6%), 41-50 (20.3%), above 50 (20.3%) and 19-25 (9.5%).
• **Developed Regional Network of Secondary and Tertiary Education Institutions.** The great number of municipalities has elementary and secondary schools (only 14 municipalities don’t have secondary school). The development of college/university education based in bigger administrative, cultural and economic centres (152 faculties and colleges) affects on new staff potential in all regions of the Republic of Serbia.

• **High Number of Graduate Students per Annum.** Out of aggregate number of graduate students in the Republic of Serbia (about 20,000 per annum), most of them are graduate student of The Faculty of Engineering (3000 or 15%). In addition to this fact, the second ranked will be graduates of the Faculty of Sciences and the Faculty of Organization Sciences. This means that 1/5 of the university graduate have technical qualification comprising good foundation for implementation of new technologies.

• **Multiculturalism.** The multiculturalism is the principal of economic and social cohesion of various cultural groups within one society. The Republic of Serbia its ethnic structure along with religious, cultural and linguistic diversities comprise contemporary and complex society in which the communication and integration of various groups implies advantage and inevitability.

• **Institutional Network of Suprastructure Adjusted to the Needs of Population.** The main advantage of conducted policy of regional development is the development of superstructure’s institutional network (schools, cultural, health and social institutions). This affected positive educational and cultural potential.

• **Regional Potentials in Protected Environments.** 1430 plants determine the territory of the Republic of Serbia as one of the most significant centres of flora in the Europe. The total area of protected environment amounts to 6.5% of territory. Apart from the national parks (6), national reserves (98), areas with specific features (16), natural monuments (296) and parks (24), in the Republic of Serbia 215 plants and 426 animals are protected. The protected territories of international significance are: Ludasko Jezero (lake), Obedska Bara, Stari Begej-Carska Bara, Slano kopovo, as well as Golija-Studenica.

• **Adopted Numerous Ecologic Institutional Mechanisms.** In the period 2004–2005 numerous new legal frameworks for protection of environment adjusted with EU were adopted. The new acts will have the function of administrative supervision. The government in June 2006 adopted the Proposal to the National Programme for Protection of Environment.

• **Adopted Regional and Local Spatial Plans.** The significant bases of defining of regional development programmes have enacted regional and spatial plans.

• **Regional Cooperation of Local Institutions.** During the process of the Serbian Accession to EU, the municipalities and districts have disposed possibilities for international cooperation which enhances their economic and social cohesion. The Ministry of Foreign Affairs, since 2004 has been developing the capacities for maintenance with EU programmes for over-border and regional cooperation.

• **Adopted New Regional Stimulation Mechanisms.** The numerous regional stimulations were adopted in 2006 for attaining of new
investments and solving of unemployment problem, such as: direct fiscal stimulation, professional rehabilitation, employment of disability persons.

- **Multi-Decade Experience of the Development Fund of the Republic of Serbia in the Financing of Programs with regards to Regional Development.** The Development Fund being the central financial institution has been stimulating the regional development for 35 years.

- **The Development of Entrepreneurial Local Governments.** Owing to new legal solutions, adjustment process to the standards of the EU local administration along with donation help, the units of local governments in numerous municipalities of the Republic of Serbia accepted new principles of modern local administration: efficient, accessible and reliable local government.

- **Partnership of public and private-owned sector.** Changed economic and systems conditions initiated the strengthening of partnership between public and private-owned sector with the main purpose to adjust various interests of business sector, develop the community and to provide required services on the local level.

**Disadvantages:**

- **Proportion of the Underdevelopment of Southern part of Serbia as well as the territory of Stari Ras.** According to all indicators of achieved development, both territories (comprising 12.2% of the territory and 9.4% of the population of Serbia) have been the most underdeveloped areas in the Republic of Serbia.

- **New Underdeveloped Territories.** The transition period caused new underdeveloped municipalities, so called municipalities of “transition poverty” (former industrial centres).

- **Proportion of the Poverty.** Apart from economic growth in the Republic of Serbia in 2003, the index of poverty was 10.5%. The rural population is faced with higher degree of poverty (14.2%), and therefore the poverty in Serbia is the rural phenomena. The ratio of the poverty between the least poor population (Belgrade 4.2%) and the most poor (South-East Serbia) is 1:5.6. The defined factors affecting the standard of living and the poverty are the following: the household demographic characteristics, education, unemployment, type of settlement and regional position.

- **Water Supply Problem.** The quantity of water amounting to 1600m3 annually per capita in the Republic of Serbia is insufficient. The situation is more unfavourable with regards to the spatial and time disparity, as well as the quality of most domestic waters. The lowland territories rich with land resources are the poorest with the water (Vojvodina, Pomoravlje, Kolubara, Sumadija, Kosovo and Southern Serbia), while qualitative water resources have the territories on the border of the Republic of Serbia (Drina, Starovlaske planine, Sara, Prokletija, Vlasina, Stara planina, etc). About 80% of population has modern water supply systems, while 10% of population has no organised water supply systems.

- **Poor Equipment and Maintenance of Road and Rail Infrastructure.** The transport infrastructure is in the unsatisfying condition and has poor technical and exploitation performances above the EU standard. The worse situation is seen on municipal roads, out of which 57.7%
has carriageways with sur-facings built of broken stone and dirt. The rail network has sufficient capacities, but lags behind the EU standards with regards to electrification (32.7%), length of double-tracks (7.2%) and max. speed limit as well as shaft loading.

- **Low level of digitalized fixed telephony.** The situation in the telecommunications in not satisfactory due to lagging far behind the other developed European countries. The low percentage of digitalized telephone exchange lines (out of 1,193 exchange line, 653 or 54.7% are digitalized. With regards to development of information society, the Republic of Serbia holds the bottom ranking in Europe (13.3% of population or about 1 million uses Internet).

- **Low Level of Regional Investments.** The actual investment activity is on the low level compared to the investment needs. The share of investment to fixed assets in GDP in 2005 amounted to 17%, which is below the level of new EU counties as well as surrounding counties (Bulgaria 23.8%, Romania 23.1% and Croatia 29.3%). From the regional viewpoint, the polarization between Belgrade and the rest of Serbia is significant.

- **Uncompleted Privatisation and Economic Restructuring.** The termination of privatization of companies in state-owned sector (2007 year) and restructuring of public companies (2008) comprise the most prioritized aims of the structural reforms. Non-privatize companies (2237 state and socially-owned companies) are faced with big development problems (26, 4%, of employed persons, 17.1% of profit and 32,9% of loss in 2005). The insolvency of these companies affects on the increase in regional disproportions.

- **Social Transition Tensions, Regional Disparities with regards to Employment, Unemployment and Salaries; High Unemployment Rate, Discrimination of Specific Groups (disabled persons, Romany, refugees and internally displaced person.)** From the district’s viewpoint, the ratio between the highest and the lowest employment rate in 2005 was 1:2,2. The regional disparities with regards to salaries are significant: the City of Belgrade (25.7% above the Republic’s average), the Toplica District (40.9% below the Republic’s average). The most imperilled persons are: refugees and internally displaced persons (about ½ million), Romany (about 108,000) and disabled persons (about 350,000). These imperilled categories comprise about one million of population. Its main characteristic is unemployment and insufficient educational level.

- **Maladjustment to Market Conditions - Non-Competitive Product and Non-Existence of ISO Standard.** The competitiveness of domestic product is not satisfying. The process of standard harmonization and implementation of technical regulations is very slow. Today we have numerous obligatory standards which are rather complicated and unadjusted with the European standards.

- **Small-Sized Estates.** Small rural estates (below 3 ha) are the main characteristic of Serbian agriculture. Small number of agricultural producers can apply modern production techniques. This situation affect on the low production and market diseconomy.
Regional Concentration of Tourist Activity in Three Regions. The main characteristic of the tourist activity of the Republic of Serbia is the low dispersion on the regional level i.e. the main tourist centres are: the City of Belgrade, the Zlatibor District and the Raska District. These three regions reached 50% of the aggregate number of stays and overnights of the domestic tourist and recorded the highest concentration of tourists (70 per 100 inhabitants).

Regional and technological Lagging Behind with regards to Installed Capacities, Dominant Share of Traditional Industrial Production. The most traditional industrial sub-sectors of low technological intensity against share in GDP are the following districts: Branicevo (78.0%), West-Backa District (68.8), North-Backa District (65.7%), Middle-Banat (59.0%) and Zajecar (65.7%). High technological industrial sub-sectors are based in the following districts: Pcinj (60.4%), Zajecar (40.7%), Rasina (36.1), Podunavlje (29.9%) and Sumadija (27.5%).

More than 50% of the regions didn’t adjust their material and natural resources. Accepted modern concepts of regional development should contribute to higher valorisation of current capacities as well as to better utilization of other local community potentials (region).

Poor regional connection among companies (clusters, incubators, technological parks). The undeveloped system of business connecting via clusters, business and technological incubators as well as technological parks comprise the foundation of regional policy.

Low natural increase of population, significant depopularization trend. Process of demographic depopulation has been intensive for 3 decades in the borderland municipalities. This affected compete demographic depopulation of these territories. In the period 1971-2002, 79 municipalities recorded the decline of population (more than 10%).

Migrations- unbalanced urbanisation and “atomisation” of rural territories. The concentration of the population in urban areas recorded significant raise in the last Inter-Census period (from 13.9% o 28.2%). Big urban centres (Belgrade, Novi Sad, Nis, Suboica and Kragujevac) have about 46% of urban population.

“Regressive” age pyramid. The decline in the birth rate in the Republic of Serbia accelerated ageing of the population, while increase in the middle life-span o the middle aged and elderly population intensified ageing from the top of age pyramid. This caused forming of regressive type of age pyramid in the Republic of Serbia.

Unfavourable age and qualified structure of unemployed population. The structure of employed population wit regards to education in 2005 in really unfavourable, due to high share of unqualified persons (31.4%). The age structure of unemployed persons is also unfavourable –about 39.8% in the aggregate number of unemployed persons aged 41 and more.

Maladjustment of education system with new requirements of market economy. The education system of the Republic of Serbia has not been completely adjusted with the EU standards. A great number of youth is neither qualified nor prepared for work.
Ex-post Analysis of Regional Disparities

- **Numerous ecologic problems.** The quality of superficial and inland waters is not satisfactory, as well as the quality of air.

- **Lack of functional spatial strategic document on the state level.** The spatial plan of the Republic of Serbia enacted 10 years ago represent the only effective strategic document in the field of spatial planning on the level of the Republic of Serbia. Considering the fact that it is non-functional in numerous segments, it requires significant revision.

- **Regional instability and long-term tensions due to status of Kosovo.** The Serbian communities on Kosovo are faced with difficult economic, social and security situation. The security instability along with unemployment and poverty represent the cause of long-term tensions in the region, as a whole.

- **Lack of institutional infrastructure for regional development.** The main disadvantage of recent regional policy is connected to undeveloped institutional network for equitable regional development.

- **Poor program and project capacities for participation in international tenders.** Insufficient staff personal is the main cause why the most undeveloped areas don’t have enough advanced programs for participation in international tenders.

- **Problems in implementation of reform laws.** The position of local governments was considerably improved by passed Law on Local Governments and Law on Financing of Local Governments. However, the reform of local governments hasn’t been completed.

- **Lack of coordinated direction for state resources in order to decrease regional disparities.** The state resources cannot be adequately coordinated without numerous institutions and entities involved in various aspects of regional development such as: economic development, rural development, the development of infrastructure, social development, local development, protection of environment. This is affected by the lack of legal regulative and competent institutional network.
II GOALS AND STRATEGIC ORIENTATIONS OF THE REGIONAL DEVELOPMENT OF SERBIA

1. Theoretical Assumptions of Balanced Regional Development

1.1. Sector and Regional Approach to Economic Development

The problem of regional disparities is a characteristic, first of all, of underdeveloped countries due to their large territorial discrepancies and their deep historical roots. The manoeuvre space for civil action is narrowed by scarce material base, undeveloped social and economic institutions, lack of expert staff and modern work habits.

Globalization processes led to re-distribution of economic power in the world. The behaviour of economic actors is not characterized by spontaneous reactions of impersonal market forces, but aggressive strategy is applied instead, the strategy of force against its rivals. Domination effects between the two economic units are present when one of them is acting in an asymmetric and reversible way on the other one. Dominant economic units with their innovative spirit, as mainstays of technical progress, are engaged in “creative destruction” of the existing state, which always implies the existence of the domination effect, i.e. asymmetric and unequal relations between enterprises of uneven force. Therefore, literature often points out that in the world of imperfect competition, the dominance coefficient is always striving to be higher than one, which is manifested through accumulated withdrawal of the economy from the state of balance, without a visible tendency towards automatic renewal of this or the other balance position. Domination is therefore a destabilizing phenomenon. Inequality and irreversibility, as important components of the domination effect, are basically contrary to reciprocal dependency of enterprises which serves as a basis for the general balance theory drawing the conclusion of automatic nullification of misbalance.

The domination phenomenon characterizes not only the relations between enterprises and affiliates in the specific economic environment, but relation between certain areas and zones, between national economies as well. Economic growth processes are uneven and unbalanced and cannot be included into the classic concept of static balance (F.Peru). Owing to the fact that different enterprises, industries and sectors develop at uneven rates, the growth of overall production is accompanied with misbalance caused by structural changes in the economy, therefore, the main goal of the growth theory is to explain the nature and origin of structural changes. However, driving enterprises and industries producing asymmetric effects on their environment are nothing but dominant economic units.

The modern theoretic analysis of mainstays of market growth emphasizes structural changes in the economy, and is built upon the concept that development is actually emergence of new and disappearance of old industries and sectors. The development process is therefore characterized by differentiated growth rates of various industries, i.e. some industries left the area of equal growth rates implied by the model of statistical balance. The development is unbalanced, retreating from the stationary sector.
balance. New industries open a cumulative process of growth around new industries, with other related activities concentrating like in clusters. Owing to technical progress, the development is polarized in certain technically leading sectors of industry. This sector polarization of production is one of the essential elements in the regional growth theory.

The meaning of territorial grouping of economic activities is not exhausted only in larger economic effects and higher economic growth rates achieved in this way. Concentration is, at the same time, an assumption that development impulses can be transferred to other parts of the region as well from one region to another. Economic growth implies not only polarization, but certain spatial expansion of production. The mainstays of growth i.e. established industrial complexes must be strong enough to expand their incentives to former economically insufficiently activated areas be means of prices, commodity and monetary flows. Polarization effects precede and condition the emergence of the expansion effects.

One of important theoretic questions is what the mainstay of growth should be like and what requirements it should satisfy to produce expected economic changes in the region, according to regional conditions. This question faces us directly with the dichotomy of the sector and regional approach and their conflict character in the area of regional economy. The sector aspect emphasizes economic benefits more than spatial concentration, while regional approach naturally leans towards the spatial dispersion of production. One of them represents the interest of individual industries, while the other one represents the interest of larger and smaller regional communities. Sector approach prevailed over regional approach, certainly due to the inability to find the way leading to their optimum combination. Mainstays, when they do not respect regional criteria and are not based on regional conditions, may end up as solitary industrial nuclei with insignificant effect on the structure and economic growth of the region, which is what happened many times when making practical steps in the application of the theory.

1.2. Concept of Balanced Regional Development

“No economic parity without national equality” the syntagm dating back to the beginning of the 1960s was the quintessence of the concept of regional policy i.e. regulation of inter-regional relations. Faster development of all regions with emphasis on faster development of undeveloped regions was to be provided after the initial effort put into realization of industrialization methods, in order to reduce regional disproportions and achieve the principle of equality. Certainly, there is only little balance left over the previous six decades in the Republic of Serbia (and on the territories of former Yugoslav republics) since neither “revolutionary progress” was made nor regional differences were alleviated. We could only speak about excessive (theoretically as well) optimism.

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9 “This misbalance is one of major disadvantages in the present economic development of our country. But not only that! The principle of brotherhood and unity that our country rests upon, categorically seeks to remove this misbalance. We can remove this misbalance in two ways: a general equalization on the basis of the existing economic position or by means of industrialization.” (Kidric, B. 1948. On some problems of our industrialization – Economic problems of the Federal People’s Republic of Yugoslavia. Belgrade)
The concept of “misbalance” due to its vagueness and different meaning and the aspect of understanding, caused a lot of theoretical obscurity and misinterpretations. The term “balanced regional development”, itself, could be observed from two aspects: socio-political and economic due to which balance was treated either as socio-economic goal or as a method of industrialization. The phenomenon of “balanced regional development” could be defined in the most concise way as creating “equal possibilities for all people”; however the idea of equality as equivocal value stems from the fact that equal possibilities have numerous economic, social and political aspects. The domination of economic relations i.e. primacy of the economic factor is the basis of the process of creating equal opportunities for all regions. Constant interlacing of economic and social factors influences the alleviation of relative, first of all, and in the later (more mature) stage, absolute inter-regional differences.

However, the concept of “balanced regional development” usually implies even, equal and proportional territorial development, as a method of development of undeveloped areas. The gist of “proportional development” is not to be considered statically, but as “the process of constant establishment of proportional sector development”. Balance understood in this way is quite adequate for explaining intraregional relations; however its pragmatism is reduced through focusing on inter-regional relations. However, the practice showed that overcoming the dual character of balanced development (as a socio-politic goal and as methods of development) is possible only on the certain development level of the overall economy.

1.3. **Solidarity or Economic Compensation**

The strategy of achieving goals of regional development should give answer to the starting, unavoidable question: **What is the relation between undeveloped and developed area in the long term, and what are institutional solutions that regulate exchange relations between these regions?**

If we classify the basic reasons for understanding the development policy of undeveloped areas into three groups: (a) political, (b) humanitarian and (c) economic, we can define solidarity as the most important segment of the humanitarian aspect (equality, social security, dignity). Although both solidarity and political and social equality are very important, the economic solution of interregional relations is a priority condition. Practical implications of the standpoint that “the development of undeveloped areas is the interest of developed areas as well” are becoming increasingly applied.

The dilemma between solidarity and economic compensation greatly simplifies the whole problem. In our modalities of solving interregional relations, the compensation was applied as the basic method for regulating the mentioned relations. A wider interpretation of compensation relates to economic conditions for the operation of enterprises in specific macro wholes, while more focused definition explained compensation in terms

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10 The term, ethymologically speaking, was taken over from the Russian language.


12 Understandably, this theory had the largest number of followers, in former socialist countries (Bulgaria, Eastern Germany, Czechoslovakia, Poland) with different interpretations of some issues.
of conditions for exchange. The attenuation of price disparities between agrarian products and raw materials on one side and products in the manufacturing industry on the other side, had its direct regional dimension, as undeveloped areas are, almost all of them, based on raw materials. Without further analysis of the problem of price disparity and regional backwardness, on the macro level, what is important is the following: “If complementarity of the economies of developed and undeveloped regions is impaired, and their interaction is significantly reduced, developed areas will have to seek its impulses for the development of production on their own markets”\(^\text{13}\). Of course, if complementarity is accepted and demand between regions is improved, the spreading effect will prevail and necessary impulses of polarization will vanish.

Generally, there will always be compensatory relations, as additional corrections of interregional relations, however it cannot be accepted as a dominant method. Harmonized development of developed and undeveloped regions on a long term basis and finding institutional solutions that will regulate conditions for exchange have the pivotal position in interregional relations. “Indemnification” of any kind will not eliminate the problem of backwardness or lack of development\(^\text{14}\), but the problem will only be postponed.


\(^{14}\) The term “undeveloped” meaning poor should be basically differentiated from the term "backward". The former refers to undeveloped production factors, while the latter means “unsuccessful combat against poverty”. (Querini, G. 1988. “Economic Development and Undevelopment” Zagreb: Stvarnost)
2. New Development Challenges

2.1. Globalization and Dimensions of Poverty

Dominant development challenges, today, are connected with the global economy, and the idea of strengthening global systems of both economic systems and environment management. Critical issues refer to prevailing development models. One broader approach, oriented towards people, is missing, including the cultural and social dimension as well.

Eight “new social questions”:

1) Globalization was originally generated from the private sector, while regionalism is produced from the public sector. In economic terms, the public sector is “running” more slowly than the private sector;

2) Globalization sharpens competitiveness. However, extreme competitiveness produces numerous social problems;

3) Social restructuring does not keep pace with economic and technological restructuring. The labour market, education system, and the pension system are not changing in accordance with dramatic economic and technological changes;

4) Neo-liberal policies, introduces in the 1980s do not solve old accumulated problems, such as: unemployment, poverty, equal income distribution. In fact they only intensify them;

5) New social issues have two components: firstly, the intensification of old problems, and secondly new dangerous elements (international crime, urban dualism, new forms of international migrations, drugs as global industry, terrorism);

6) The world entered the period of global wealth due to increasing national and individual poverty. Absolute poverty is increasing in many parts of the world. If we disregard insignificant reduction of poverty in India and China, the situation in the developing countries is gloomy. The combination of neo-liberalism and globalism creates global wealth, while, on the other hand, there are new social problems, new distribution of problems, growing social fragmentation and declining social cohesion;

7) Mega-cities, especially in the South, are becoming “empires of poverty”. There, crime is booming, and resources are being destroyed. New social issues include new dimensions: poverty, inadequate habitation, health problems, unemployment, crime, drugs, and different forms of child crime and weak education. Alongside, growing inequality, spatial and social fragmentation, the phenomenon of “city divided against itself” is present as well (Matthew);

8) There are not equivalent social incentives on the global and regional level, except in EU countries. At the end of XIX century will-known politicians (Otto von Bismarck) understood that the market force must be balanced with social measures. Those were the foundations of social states. The private sector was less free, but more civilized. Today, the imperative is to increase the responsibility of countries for the purpose of alleviating all forms of poverty.

Almost a half of the world population survives on less than 2$ per day, and hundreds of million of people today live worse than 10-20 years ago.
The progress in developing countries in the second half of XX century was generally more dramatic and without precedents\textsuperscript{15}. Longevity is extended and education has developed. However, over the last two decades, poor countries are lagging behind, income distribution has worsened, and the gap between the richest and poorest countries has deepened. The poverty rate at the beginning of the century is still high. Most countries of Latin America, Africa and transition countries recorded low or negative economic growth and the standard of living which stagnated or declined in most cases. \textbf{More than one billion people survived on less than one dollar per day.}

\textbf{Globalization is extremely complex and changeable process which brings along both benefits and problems.} But owing to the manner in which the global economy is functioning today, many developing countries, especially small and undeveloped ones, experience more problems than benefits. Private financial flows are usually not directed towards poor, insecure countries, while, on the other hand, brain drain and capital drain from undeveloped countries have become one-way processes\textsuperscript{16}. Natural resources are used up, but export revenues are usually low, while indebtedness is high. Human and financial resources for development purposes are scarce. Over the previous years, development aid was less than the targeted 0.7\%\textsuperscript{17}.

\textbf{The relationship between undeveloped countries and enormous burden of debts.} Even back in 1964, the United Nations Conference on Trade and Development – UNCTAD identified less developed countries among developing countries. Later in 1971 precisely 24 countries were identified as the least developed countries. In 1998, a more precise fact was presented – 49 countries with population over 600 million (10\% of the world population) were classified as the least developed countries. The fact is that the International Community has been unable to precisely identify the needs of undeveloped countries for more than 40 years, to undertake specific actions for the purpose of faster growth and development and to achieve the goals. Several UNCTAD reports emphasized that “rapid expansion of export revenues is fundamental for any debt strategy, and without them, achieving goals of increasing growth in debtor countries and financial sustainability cannot be reconciled”\textsuperscript{18}.

\textsuperscript{15} Jolly, R., Emmerij L., Ghai, D and Lapeyre, F. 2004. UN Contributions to Development Thinking and Practice. Bloomington and Indianapolis. Indiana University Press
\textsuperscript{16} Measurement of global gaps is complicated and results significantly depend on applied measures. The absolute gap in the average per capita income between rich and poor countries has enormously deepened. Generally, the relative gap has varied insignificantly, but sharp regional differences still exist. The gap between 20 richest and 20 poorest countries doubled over the previous three years according to the World Bank data.
\textsuperscript{17} In 1970 the UN adopted the targeted 0.7\% of the donor gross national income for the official report
2.2. Global Management Problem – UN Millennium Goals

The essential development challenge of today and in the future relates to global economy management. During 1990s the eradication of poverty was more stressed, and the period 1997-2006 was declared the first UN Decade for the Eradication of Poverty. The UN Millennium Declaration pointed out the importance of good governing in the country and on the global level. This Declaration called for multilateral trade and the financial system which is open, just, regulated, predictable and non-discriminatory. However, how to achieve this remains unclear. The responsibility lies upon many different actors, not only powerful, rich nations, as most developing countries have their role as well.

The UN challenge is to pay more attention to management issues, increasing knowledge and understanding the global economy, to analyse alternative ways of economic organization, consider measures for prevention or reduction of negative consequences of globalization on poor countries and nations and to promote activities for reaching these goals.

There are more than 400 regional and universal multilateral effective treaties, while Conferences on Environment held in Rio in 1992 and Johannesburg in 2002 focused their attention to development challenges once again, connecting the environment with broader social and economic issues. However, certain resistance to the establishment of obligatory mechanisms for strengthening and allocation of resources exists, especially among rich industrial countries.

2.3. Social Aspect of Development

Over the last two decades, the focus was primarily on economic growth and the restricted set of economic goals. Social aspects of development are marginalized. The United Nations criticized dominant approaches and required broader, human oriented development: or “adjustment with a human face.”

One of the most important initiatives was the Human Development Report published annually by UNDP since 1990. The goal was to analyse how economic growth turns into human development. The reports connected concern for development and human rights, put people into the center of development and defined human development as freedom of choice. The freedom of choice was combined with the need for national and international action for the purpose of strengthening human potentials by improving nutrition, health, literacy, training and civil and political rights. The Human Development Index composed of indicators of life expectancy, education and income, was used to rank countries. Human Development Reports analysed global trends and focused, among other things, on growing differences between the rich and the poor.

Sustainable development is included in the Millennium development goals and a few indicators will be used for monitoring the progress, however time restrictions for reaching these goals still does not exist.

Извештаји о хуманом развоју су анализирали глобална кретања и фокусирали се, између остalog, на све веће разлике измеђu сиромашних и богатих

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Millennium development goals are an important step forward, setting the eradication of poverty as the main goal and including important social objectives: improving health care and education. The list of Millennium Development Goals is a simplified overview drawn out from the context of much broader issues. These goals do not make up the overall development agenda. The important aspects are still missing, and the means for reaching these goals are unspecified.

The paradigm of development and the policies pursued particularly over the 80s and 90s failed to meet the expectations related to fast economic growth and the eradication of poverty. In fact, some 60 to 80 countries in development and transition recorded a decline in the level of production and the standard of living over the two previous decades. The reasons are numerous and complex. Industrial countries failed to meet their obligations related to transfer of resources, writing-off of debt was insufficient, trading conditions were unfavourable, and many poor countries experienced political instability, bad governing and conflicts.

Alongside widespread poverty, undeveloped countries recorded the processes of marginalization of farmers, a high rural exodus rate, galloping urbanization, slums and mass unemployment. Furthermore, social-cultural gaps were often dramatic – between the past and the present, original and colonial, modern and traditional, foreign and local, village and town, young and old, leading to growth of tension, insecurity and disruptions with unavoidable negative effects on the social revolution. Widespread belittling of traditional cultures and social patterns do not ease the situation.

The Human Development Report is an important step forward with its perception of people in the social context. The Human Development Index is based on social indicators which describe infrastructural development that provide wider choices to people and improve their skills. Life span, a good indicator of general health of people, is determined with the items such as clean water, adequate sanitary conditions, satisfactory medical practice and nutrition. Education is a good indicator of access to information, while the purchasing power shows individual possibilities for purchase of material goods.

If people are social beings, their relations are of essential importance. The freedom of choice is very important, but it does not occur in the social vacuum. From the moment of birth we depend on other people and our relationships with them are important not only for our material, but for our emotional and spiritual life as well. We can discuss whether social factors promote or inhibit individual freedom of choice; therefore they need to be discussed in this context. However, this approach does not reflect all the importance and complexity of man’s social life.
3. Regional Policy as EU Priority

3.1. EU Regional Policy Perspective

From the very beginning, 1958, EU regional policy was one of the most important EU instruments. In all documents, EU emphasized the importance of the policy of balanced regional development, in particular. Therefore, the preamble itself of the Rome Agreement of 1958 set the following goal:

“EU member states will seek to provide balanced development by alleviating the differences in the levels of development of certain regions and backwardness of less privileged regions”.

The European Union only reinforced already defined goals in later documents. The latest EU Constitution gives emphasis to “improving economic, social and territorial cohesion and solidarity among member-states”.

After almost fifty years, the stress was also given to regional disparities. This is quite clear, as GDP variations and unemployment are still high. Certainly, after EU enlargement, this gap has deepened.

One of the greatest dangers, noticed from the beginning of European integrations, are regional disproportions that could endanger the overall structure. The question is: Why is special regional policy developed on the community level, when regional policy of member states already exists?

Most authors generally agree that regional policy of EU is important for the following reasons:

- The interest of developed countries is to improve the economic situation in less developed member states. Integration of EU economies, especially within the EU-15, is becoming stronger. The spillover effect is also getting stronger. On the other hand, country's weak economic performance will certainly produce negative effects on the common market of the EU. From that aspect, regional policy of EU could be defined as mechanism which enables a member state to actively stimulate the economic activity of the other member state. If regional disproportions were smaller, integration effects would be equally distributed among regions and member states. At the same time, poorer member states could, through increasing their efficiency, contribute more to the EU budget through paying taxes. Their better economic performance would also alleviate the general level of

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25 “For the purpose of promoting the overall harmonized development, the European Union will develop and perform businesses that lead towards strengthening of its economic and social cohesion. The Union will particularly seek to attenuate the differences between regions and backwardness of the least privileged regions, including rural areas as well” (Article 130a, the Single European Act, 1986)

26 The "Draft Treaty Establishing the Constitution for Europe", 2004

27 Observation of only EU-15 variations: GDP amplitudes are still high, ranging from 25% of the average European GDP in poor areas of Greece and Portugal, to 212% of the average European GDP in Hamburg. Also, the asymmetry in the employment level is 7% in Austria and 24% in Spain

inflation thereby alleviating town planning and population problem in large EU cities, caused by migration. The outcome for EU citizens is positive.

- The other reason for the existence of regional policy is of economic nature – high price for member states. Not all the countries have the same number of undeveloped regions. Some of them have serious problems (Greece, Portugal, most of recently joint countries), while other countries have relatively small problems (Denmark and Holland). These countries would find it difficult to finance their poor regions on their own, especially if they would have to impose strict control over their public finance in accordance with EMU convergence criteria. Necessary funds from richer regions of some member states (such as Germany and France) could only be collected on the level of the Union and allocated to the most backward regions of the EU.

- The third reason is that common regional policy improves political cohesion and the “spirit of the community”. Therefore, poor countries do not feel abandoned. Although reasons for backwardness are versatile, the above fact is very important because there is a well-established “center-periphery” gap between rich and poor regions. A large number of the most backward regions are, by rule, grouped on the periphery, especially in the Mediterranean region. It means that these countries would probably be unwilling to continue further integration, if they knew they would have to bear all expenses on their own. After the enlargement, the number of countries with significant differences in the development level of certain regions grew.

The EU’s regional policy is an important instrument for dealing with problems related to the common market and the integration process in general (e.g. higher norms in terms of environment protection, communication, emergence of depressed regions due to disappearance of borders, i.e. termination of border trade etc.)

As a supranational coordinator, the European Union is also trying to connect:

- Regional policy with other EU policies (common agricultural policy, social policy, environment policy);
- Goals of the EU’s regional policy within one member state with the regional policy of the national government;
- Goals of regional policies of member states, especially when member states are neighbouring countries;
- The EU’s regional policy, regional policies of member-states and the initiatives managed by regional and local organizations and authorities.

Previous experience of the European Union shows the existence of countinuous disparities of GDP per capita either between individual member states or regions within. However, the EU’s regional policy achieved certain results in terms of initiating the process of development, i.e. bringing them closer to the average. By implementing previous instruments of regional policy, the countries that would otherwise be unable to fulfill the set conditions were introduced into the single monetary system and their macroeconomic stability was improved. Furthermore, transfers of funds played an important role in the initiation of the development process.
It can be expected that a large number of regions whose development has been supported/stimulated and cohesion countries that have been aided by EU will lose their status in the future due to EU enlargement, i.e. the decision on restricting funds allocated to structural funds/cohesion fund. The average value of this macroeconomic aggregate on the EU level will reduce after the accession of Eastern and Southern European transition countries with a low average GDP per capita. By maintaining the existing criteria of 75% and fixed, relative share of funds in GDP, the European Union assumes that the majority of present users will lose this status after 2006.

Creators of regional policy and Union’s bodies implementing the policy are already faced with challenges of the existing problems in transition countries, candidates for EU membership in the coming period. There is a deep gap in their development so that around 10% of funds from structural/cohesion fund were allocated for interventions outside EU member states. This percentage is estimated as relatively small, considering the existing disparities. However, a large portion of these funds was allocated to direct financing of investment projects, while it was estimated that a smaller portion would be used for their institutional and human resource preparations, including acquiring mechanisms for communicating with the corresponding EU bodies. The experience of structural funding of cohesion countries will certainly be applied to new members and candidate countries. On the other hand, new EU member states themselves (or candidate countries that will keep this status for a certain period of time in future) need to understand the deep existing gap, face it and actively formulate own national development strategies that would adequately include the regional aspect in the manner as compatible with the EU’s regional policy in order to use the aid from structural funds in the best possible way, i.e. willingness of other member states to allocate funds for interregional re-distribution as mechanisms of support to alleviating the existing territorial differences and better utilization of development potentials that will be available after the EU accession.

3.2. EU Pre-Accession Funds

In order to simplify the external aid system, as well as to reach maximum results by using the allocated financial funds, the European Commission passed a decision by which all pre-accession funds (Phare, ISPA, SAPARD and CARDS) are superseded with the new pre-accession instrument (IPA – Instrument for Pre-accession Assistance). The Instrument for pre-accession assistance – IPA was established by the European Council regulation No. 1085/2006 of July 17, 2006. As regards financial allocation, IPA will provide a total amount of 11.468 million euros over the period 2007-2013. The funds of the assistance and the criteria for implementation of the new instrument are based on experience acquired within the application of the previous assistance programmes.

IPA beneficiaries are classified into two categories:

- Candidate countries for EU membership (Turkey, Croatia and Macedonia);
- Potential candidate countries for EU membership (the Republic of Serbia, Montenegro, Bosnia and Herzegovina and Albania).
The basic condition for using all five IPA components is that a beneficiary country has the status of a candidate and an established decentralized system for fund management. As the Republic of Serbia in the process of European integration currently holds the status of a potential candidate, and has a centralized management of EU funds (through EAR) starting from 2007, the Republic of Serbia will use the first two out of five components, instead of the CARDS financial instrument.

Support priorities and fields of action are established by the National Indicative Programme document which is prepared for each country – beneficiary of the financial assistance for the period 2007-2009. This document is prepared by the European Commission based on the priorities of the European partnership and EC reports on fulfillment of conditions of the stabilization and association agreement, as well as national strategic documents of beneficiary countries.

IPA consists of five basic components:

1. Assistance with the transition process and institution building – harmonization with acquis communautaire, building of administrative and judiciary capacities etc.
2. Regional and cross-border cooperation – support to common projects of border regions
3. Regional development – investment into infrastructure (environment protection activities)
4. Human resources development – assistance to preparations of candidate countries for programming, management and implementatio of the European Social Fund within the European
5. Rural development – support to candidate countries with implementatio of European programmes related to rural development

Potential candidate countries for EU membership will be allowed to use funds of the first two components, whereas it would be possible for programmes/projects of the remaining three components to be funded from the first component. Candidate countries for EU membership will be able to use all 5 components.

1) Assistance to transition and building of institutions. This component is the most important for all the activities related to building institutions and support to transition countries – potential candidates for EU membership. This component provides support to candidate countries, as well as to potential candidates and their efforts to strengthen own democratic institutions and the rule of law, reform the state administration, respect human and minority rights, improve the civil society, economic development, reform of education, environment protection, as well as to improve regional cooperation of balanced regional development of countries – beneficiaries of financial assistance and acquis communautaire i.e. legal heritage of EU.
2) **Cross-Border Cooperation.** This component will finance projects of cross-border cooperation between institutions from border regions of one country and the institutions from border regions of a neighbouring country (regardless whether the neighbouring country is an EU member state or not) in all area that the two countries consider to be the priority. The priorities are defined in planning documents called Operational programmes.

3) **Regional Development.** The third component will be available to candidate countries in order to prepare them for the implementation and management of the cohesion policy of the Community, especially for their adjustment to the European Fund for regional development and the Cohesion Fund.

4) **Human Resources Development.** This component is aimed at preparing the candidate countries for programming, implementation and management of the European social fund within the European Employment Strategy. This process will include the goals of the Community in relation to social inclusion, education and training and gender equality.

5) **Rural Development.** The last component is intended for candidate countries for the purpose of implementation and management of common agricultural policy of the Community. The implementation of the assistance within this component will contribute to sustainable development of the agricultural sector and rural areas as well as to more successful implementation of acquis communautaire related to the Common Agricultural Policy.

The new pre-accession instrument, although it requires the introduction of the corresponding structures for the EU fund management, also requires the corresponding financial resources from the national budget that will support IPA funded projects. IPA implementation rules, prepared by the European Commission, will establish the necessary percentage for co-financing the projects funded from the IPA programme. The specified percentage will be covered by the national budgetary funds.

**Estimation of Needs of the Republic of Serbia in the period 2007-2009**


The Document lays down general objectives of the Government for a three-year period, sector priorities for financing from donors’ funds and macro-financial estimates of the necessary funds.

Five key inter-sector priorities of the Document: economic development/employment/; education; state administration reform; environment protection; infrastructural development and rural development were adopted by the Commission for Coordination of Development and Humanitarian Assistance, presided by the Prime Minister of the Government. The Document will be revised every year for the purpose of defining national strategic priorities, in order to contribute to the formulation of the National Development Plan.
Considering that the Document identifies inter-sector priorities, and bearing in mind its annual revision as well as the revision of the Multi-beneficiary indicative programme document, this Document will be one of key supports in the process of IPA programming.

**Pursuing Decentralized System of EU Fund Management**

The purpose of introduction of new institutions is moving from the centralized to decentralized system of implementation of the European Union assistance, which is a gradual preparation of the Republic of Serbia for taking over the responsibilities for fund management from the European Commission upon the EU accession. By taking over part of responsibilities in fund management, the Republic of Serbia is given an opportunity to establish and practically apply necessary internal procedures and structures.

The process of introduction of the decentralized system of implementation is time-consuming and demands direct participation and consensus of the Government’s institutions, implying the necessity of continual surveillance over its development and the creation of action plans which clearly define the tasks that need to be fulfilled. In addition to this, it is necessary to analyse the capacities of certain institutions for fulfillment of tasks related to decentralized system of implementation, as well as to identify and provide adequate technical assistance and funds for financing part of expenses of these reforms. For that purpose, it is necessary to identify the state authorities that will fulfill the tasks related to decentralized system of fund management, build new institutions, establish the necessary legal changes, prepare the basic programme for education of staff, and provide funds from the national budget for successful implementation of a decentralized system of fund management.

Parallel to the process of pursuing a decentralized system of fund management, one of the key objectives of implementation of the stabilization and association process is efficient implementation of priorities set out in the European Partnership and the Multi-beneficiary indicative programme document, as well as increasing the efficiency of foreign assistance in fulfilling the Government’s priorities that were envisaged under strategic documents, including the National Strategy for Economic Development of Serbia 2006-2012, the National Strategy of Serbia’s Accession to the EU, Needs of the Republic of Serbia in the period 2007-2009, the Regional Development Strategy of the Republic of Serbia 2007-2012, Poverty Alleviation Strategy, State Administration Reform Strategy, including other strategies of competent ministries. In relation to this, in order to promote the efficient implementation of reforms, it is necessary to ensure that the budget and programming of the international assistance are completely harmonized with the priorities defined in the mentioned strategic documents. Considering all the above mentioned, it is necessary to further strengthen the capacities of competent ministries for the purpose of improving the planning of priorities through the development of the overall and realistic department plans of activities that would enable successful harmonization of programming of the budget and international funds.

Considering that the processes of taking over the leading role of the Government in programming of EU funds, and the adoption of the programme budgeting are in their initial stages, it is necessary to undertake...
all the activities that will contribute to the harmonization of these two processes and to efficiency and rationality of planning the budgetary revenues and expenditures in the coming period.

4. Goals and Strategic Orientations of Balanced Regional Development of the Republic of Serbia

**Sustainable Development.** Increasing the standard of living of present generations is acceptable if the sources of wellbeing and the development factors are improved, which in turn increases the development potential of future generations. Sustainable development should result in long-term balanced development of all three components of well-being (economic, social and the environment component).

**Enhancing Regional Competitiveness.** The key development goal of the Republic of Serbia is better well-being of its citizens. In order to achieve this goal, the Republic of Serbia needs to orient its economic development strategy towards enhancing the regional competitiveness, reducing unemployment and poverty. Only by enhancing the regional competitiveness in the coming period, the average annual GDP growth rate in the Republic of Serbia can reach 7% until 2012, i.e. to reach the level of GDP per capita of around US$ 8,000. This objective demands efficient implementation of all transition and reform processes that can activate country’s regional development potentials – human, material and natural – and make the economy of the Republic of Serbia attractive to faster development of the domestic private sector and faster inflow of foreign capital. The country’s primary objective is the creation of sound market conditions and attraction of foreign direct investments. Strong orientation of the Republic of Serbia towards faster EU accession requires the creation of “a stable and functioning market system” and “the capacity to cope with competitive pressure of EU” (Copenhagen criteria), i.e. creation of “the most competitive knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion” (the Lisbon goals).

**Alleviation of Regional Disparities and Poverty.** Regional disproportions in the development levels of the Republic of Serbia are the highest in Europe and are increasing from year to year. Regional differences, observed on the level of districts (NUTS 3 level), measured by the index of endangered development are 1:7 (JDI of Belgrade is 0.8, while JDI of the Jablanica District is 5.4), while the ratio between the most developed and the most undeveloped municipality29 (NUTS 4 level) was 1:15 in 2005. Realization of this goal is of extreme importance, considering the unfinished transition process. Furthermore, rundown of certain economic systems and the transition process resulted in worsening of the parameters of undevelopment in the traditionally undeveloped South of Serbia30 and the area of Stari Ras31 and caused the former developed industrial areas of the Republic of Serbia to be in a very difficult economic and social situation, which initiated the emergence of new undeveloped areas (Eastern Serbia,

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29 Excluding Belgrade municipalities, measured according to the achieved national income per capita

30 The South of Serbia consists of the municipalities of the Jablanica District (Bojnik, Vlasotince, Lebane, Leskovac, Medvedja I Crna Trava) and the Pcinj District (Bosilegrad, Bujanovac, Vladicin Han, Vranje, Presevo, Surdulica and Trgoviste)

31 The area of Stari Ras consists of the following municipalities: Priboj, Prijepolje, Tutin, Sjenica, Nova Varos and Novi Pazar
parts of Central Serbia, regional centres of mining and traditional industry) and devastated areas\textsuperscript{32}. Alongside the economic growth in the period 2000-2005 every tenth inhabitant of the Republic of Serbia is poor, which is to be explained by the effect of transition changes in the operation of the economic system. Regional disproportions should be less than 1:3 until 2012.

**Curbing negative population trends.** Depopulation (an intensive process of demographic exhaustion was recorded in 79 municipalities), migration trends (starting from 1981 the negative migration balance that was attenuated in the period 1995-2000 by inflow of refugees and displaced persons), negative natural increment (22 districts have negative natural increment), demographic aging (out of seven stages of demographic aging, all regions are in three stages: the oldest population age, older population age and old population age), infant mortality rates (double of the average of EU countries) and life expectancy (1.5 years less than the EU average) are very serious demographic and development problems.

**Continuation of the Decentralization Process.** The Republic of Serbia was highly centralized country until 2000 with restricted autonomy for local governments. After the transition reforms, the position of local government units has significantly improved and a higher decentralization level was achieved. The framework for democratic action was systemically established, its financial position was improved, cities and municipalities were given a wider scope of original and entrusted jobs, highly affirming the local government of the Republic of Serbia with regards to the previous period. After the adoption of the Constitution, systemic assumptions for further strengthening of the local government were created.

**Economic Integration of the Serbian Community in the Autonomous Province of Kosovo and Metohija.** Considering that the Serbian community in the autonomous province of Kosovo and Metohija is faced with the most difficult forms of life and work, one of the priority strategic goals is economic integration of this region into the Serbian economy.

Considering the basic goals and orientations of this Strategy, it is necessary to pass a law in the coming period that will regulate the area of regional development and to pass a set of institutional solutions: (a) different by-laws, (b) carry out economic regionalization of the area (NUTS 2 and NUTS 3) for the purpose of accession to EU funds, (c) establish the institutions that are responsible for the realization of the strategy, (d) consolidate statistical monitoring with EU standards.

\textsuperscript{32} In 2004, the Government of the Republic of Serbia adopted the Decree on the criteria and indicators for identifying devastated areas of the Republic of Serbia (The Official Gazette of RS, No. 58/04) on the basis of which it passed the Decision on determining devastated areas (municipalities) of the Republic of Serbia (The Official Gazette of RS, 63/04). Pursuant to the Decree, the following municipalities were given the status of the devastated area: Majdanpek, Bor, Priboj, Medvedja, Knjaževac, Prijeponje, Kragujevac, Loznica, Leskovac, Kraljevo, Sid, Raska and Dimitrovgrad. In 2006, the following three municipalities were added to the list: Vlasotince, Svrljig and Kursumlija.
### Matrix of Regional Development Goals of the Republic of Serbia

<table>
<thead>
<tr>
<th>Goals</th>
<th>Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainable development</td>
<td>Structural indicators of EU</td>
</tr>
<tr>
<td>Enhancing regional competitiveness</td>
<td>Labour productivity, regional competitiveness indices, the share of propulsive sectors in the industrial structure</td>
</tr>
<tr>
<td>Alleviating regional disproportions and poverty</td>
<td>Index of Endangered Development, GVA, unemployment rate, salaries</td>
</tr>
<tr>
<td>Stopping negative population trends</td>
<td>Population indicators</td>
</tr>
<tr>
<td>Continuation of the decentralization process</td>
<td>Original budgetary revenues of local communities, Human Development Index, Entrepreneurship Index, infrastructural indicators</td>
</tr>
<tr>
<td>Economic integration of Serbian communities in AP of Kosovo and Metohija</td>
<td>Economic indicators</td>
</tr>
<tr>
<td>Building institutional regional infrastructure</td>
<td>Report of competent institutions</td>
</tr>
</tbody>
</table>
III BALANCED REGIONAL DEVELOPMENT POLICY

1. Determining the Development Level – Area Categorization and Typology

1.1. Operationalization and Measurement Problems

The relation between dimensions of development and indicators. Relations between dimensions of development and indicators contribute to more effective operationalization of development and overcoming unavoidable difficulties, from the “decomposing” stage to the measuring concept. Dimensions of regional development, defined herewith, as criteria of regional development, are complex phenomena that cannot be measured directly. Quantification of characteristics of certain dimensions of development (indicators) is expressed with different units of measurement, measurement scales, depending on the nature of appearance and the process.

The process of “turning the strategic goal into indicators” should satisfy a few conditions: (a) internal validity (the level of correspondence of the goal and its operational definition), (b) reliability (precise data) and (c) external validity (the reality of assumptions interconnecting operationally defined categories).

Balanced regional development, as a strategic goal, consists of 5 dimensions of development. Each dimension consists of a group of indicators, in which Economics is represented with 6 indicators, Education with 2 indicators, Demography with 2, Infrastructure with 2, and Ecology with 1 indicator. The number of indicators in certain dimensions indirectly implies their weighing in the methodological process upon defining the composite development deficiency index.

<table>
<thead>
<tr>
<th>Strategic objective</th>
<th>Dimensions</th>
<th>Indicators</th>
<th>Scale of measuring instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balanced regional development</td>
<td>Economy (D₁)</td>
<td>I₁, I₂, I₅, I₆</td>
<td>C₁</td>
</tr>
<tr>
<td></td>
<td>Education (D₂)</td>
<td>I₇, I₈</td>
<td>C₂</td>
</tr>
<tr>
<td></td>
<td>Demography (D₃)</td>
<td>I₉, I₁₀</td>
<td>C₃</td>
</tr>
<tr>
<td></td>
<td>Infrastructure (D₄)</td>
<td>I₁₁, I₁₂</td>
<td>C₄</td>
</tr>
<tr>
<td></td>
<td>Ecology (D₅)</td>
<td>I₁₃</td>
<td>C₅</td>
</tr>
</tbody>
</table>

The process of operationalization of the strategic goal defined another important analytical aspect – “measurement” of the following regional dimensions:

1. Level of development (I₁, I₂, I₅, I₆)
2. Level of jeopardy (I₃, I₄, I₇, I₈)
3. Development possibilities (I₉, I₁₀, I₁₁, I₁₂, I₁₃)

Methodologically, a few remarks should be made: the problem of different difficulty of indirect measuring on different observation levels is very frequent, depending on the international, national or local level\textsuperscript{35}. The lower is the observation level the higher is the necessity of direct measuring.

Measuring of collective characteristics meets two types of difficulties: (1) automatic observation of administrative units, as economic-geographic regions and (2) the dilemma of how to measure the characteristic of collectivity: aggregately or globally. Aggregate attributes usually prevail over global ones (as they are usually of qualitative nature).

### 1.2. Development Defficiency Index

The Development Deficiency Index (DDI) is a complex index whose methodology was developed for the purpose of allocating indirect or direct regional stimulus.

The starting point for creating the structure of this composite index is the achievement of the three strategic goals of the economic development of the Republic of Serbia (competitiveness, knowledge-based development and infrastructural development) and seven sub-goals defined within this Strategy – sustainable development, enhancing development competitiveness, alleviating regional discrepancies and poverty, stopping negative population trends, continuation of the decentralization process, economic integration of the Serbian community of AP of Kosovo and Metohija with the Republic of Serbia and building the regional institutional infrastructure.

The necessity to apply a new methodological basis (which primarily includes the introduction of a larger number of indicators as well as different dimensions of development) emerged from country’s changed economic and social conditions, i.e. its smaller territorial units (provinces, regions, districts etc.).

Namely, the previous methodological means for measuring the development level in the Republic of Serbia was based on the synthetic development indicator\textsuperscript{36}. Although the synthetic indicator was composed of a smaller number of indicators, its basic disadvantage was particularly that it contained only economic and infrastructural dimension of development. The transition process further emphasized the complexity of the problem of undeveloped areas due to which it was necessary to change analytical-methodological instruments, improve the economic dimension and introduce new dimensions of development – educational and ecological. This is the second novelty of DDI. The next novelty refers to the change of the unit of observation. Namely, by introducing “statistical regions”, districts became the units of observation for the first time. Generally, DDI indicates 5 dimensions of development of every district – economic, demographic, educational, infrastructural and ecological dimension.


\textsuperscript{36} The synthetic indicator represented weighted values of the following indicators: (1) NI per capita; (2) the aggregate employment rate; (3) trade turnover; and (4) number of PTT subscribers per 100 inhabitants.
Balanced Regional Development Policy

- **Dimensions**
  - Economy (6 indicators)
  - Demography (2 indicators)
  - Education (2 indicators)
  - Infrastructure (2 indicators)
  - Ecology (1 indicator)

- **Indicators**
  - GVA per capita
  - Earnings per employee
  - Employment rate
  - Unemployment rate
  - SME Index per capita
  - Index of the Unemployed per vacancy
  - Demographic draining
  - Index of Ageing
  - Level of youth education
  - HDI
  - Level of youth education
  - HDI
  - Share of R+L roads with modern surfacing in R+L roads overall
  - PTT per 100 citizens

- **Index of Dimension**
  - DDI of economy
  - DDI of demography
  - DDI of education
  - DDI of infrastructure
  - DDI of ecology

**Development Deficiency Index - Composite Index**

<table>
<thead>
<tr>
<th>Development dimensions</th>
<th>economy</th>
<th>demography</th>
<th>education</th>
<th>infrastructure</th>
<th>ecology</th>
</tr>
</thead>
<tbody>
<tr>
<td>no of indicators per sector</td>
<td>1 2 3 4 5 6</td>
<td>7 8 9 10</td>
<td>11 12</td>
<td>13</td>
<td></td>
</tr>
</tbody>
</table>

13 indicators

**Development Deficiency Index - components**

- DDI=100

- economy
- demography
- education
- infrastructure
- ecology
Each dimension of development is decomposed into several (representative) indicators. Of 13 indicators that make up DDI, the following indicators play the most important role in creation of the index: economic indicators (6); two indicators per each area of demography and infrastructure and one indicator from ecology.

The methodological procedure implies determining standard values of individual indicators.

The values of some indicators range from 0 to 1. Values closer to 1 show higher development potential with regards to values closer to 0. DDI is an arithmetic mean of standardized values of indicators, expressed as the level index. This is the way to determine the level of development deficiency of each district, serving as the basis for the territorial differentiation of regional stimulations per district.

The application of this methodology indicated that differences between districts are stand in the ratio 1:6.8, i.e. the Jablanica District has 6.8 times higher development deficiency (134% index) than the City of Belgrade with the lowest DDI (19.8%).

Observing the individual indicator values (S1-S13) it is apparent that standardized values per certain indicators for these two districts are moving towards extreme values. Precisely, of 13 indicators making up the composite DDI, the City of Belgrade records maximum (1.000) values of 8 indicators (S1, S2, S5, S6, S7, S8, S10, S13), while the Jablanica District, unlike the City of Belgrade, has most indicators (9) with the values ranging from 0,000-0.100 (S1, S2, S3, S4, S5, S6, S7, S12, S13).

### Graph 39

<table>
<thead>
<tr>
<th>Standard value of indicators and arithmetic average (AA) of all values - Jablanica District RANK 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>S1</td>
</tr>
<tr>
<td>-----</td>
</tr>
<tr>
<td>0.128</td>
</tr>
</tbody>
</table>

### Graph 40

<table>
<thead>
<tr>
<th>Standard value of indicators and arithmetic average (AA) of all values - City of Belgrade RANK 25</th>
</tr>
</thead>
<tbody>
<tr>
<td>S1</td>
</tr>
<tr>
<td>-----</td>
</tr>
<tr>
<td>0.072</td>
</tr>
</tbody>
</table>

37 S1 – GDP per capita (2005); S2 – average salaries per employee (2003-2005 average); S3 –unemployment rate (2004-2005); S4 –employment rate (2004-2005); S5 – SME development index per capita (2005); S6 – number of unemployed persons per 1 job vacancy (2004-2005 average); S7 – population growth rate (1971-2002); S8 – ageing index (2002); S9 – achieved level of youth education 20-24 (2002); S10 – HDI (2002-2004); S11 – percentage of local and regional roads with modern carriageway in the total local + regional roads of the district (2202-2004); S12 – PTT per 100 inhabitants (2002-2004); S13 – percentage of inhabitants without connections to the plumbing and sewer system (2004).
Map 11: The Development Deficiency Index 2006
1.3. Undeveloped Areas

According to the analysis of the municipal development level, categorization and typology of areas were conducted. The undeveloped area consists of 37 municipalities of the Republic of Serbia, while the typology into two basic groups was conducted according to basic development indicators within this group of municipalities:

1. Economically undeveloped areas and
2. Areas with special development problems

12.4% of population inhabits the undeveloped area of the Republic of Serbia.

Economic dimension of the achieved municipal development is the basic dimension when determining the undeveloped area. In that sense, national income per capita and the unemployment rate were used as the most representative indicators of the municipal development level, and the indicators of structural changes at the same time.

The analysis showed that according to the national income per capita (2002-2004 average), 29 municipalities recorded values below 50% of the average of the Republic of Serbia. These are mostly municipalities that have been considered to be “traditionally” undeveloped areas for decades, on the basis of which these municipalities were classified in the first group – economically undeveloped areas.

Basic characteristics of these three groups are: decade-long undevelopment of the South of Serbia and Stara Raska (Tutin, Sjenica, Novi Pazar, Prijepolje and Priboj), and the emergence of new transition poverty. These areas are faced with accumulated economic (without industrial capacities, decline of large systems, undeveloped entrepreneurship, a slow privatization process), structural (high unemployment) and social and demographic problems. Of 29 municipalities, seven of them fail to reach 1/3 of the average of national per capita income of the Republic of Serbia, including two industrial centres as well – Bor and Majdanpek. The most unfavourable situation is recorded in the following two districts of the South of Serbia – Jablanica and Pcinj – where even 10 municipalities were given the status of the undeveloped area.

Apart from these municipalities, the municipalities that are undergoing the process of intensive depopulation, alongside structural problems in the long-term period, were recorded on the map of regional undevelopment. These are municipalities of the second group – areas with special development problems (eight municipalities +AP Kosovo and Metohija).

This group of areas is characterized by: intensive depopulation, structural problems in the economy, border line life and difficult economic position of Serbian municipalities and the Serbian Community in AP Kosovo and Metohija. Due to its specificities, this group of municipalities consists of three sub-groups.

The first group is composed of demographically endangered areas (five municipalities).

38 Development indicators: (1) NI per capita (2002-2004 average); (2) unemployment rate (2004-2005); (3) a decline in population 1971-2002.
These are municipalities which recorded an enormous decline in population in the period 1971-2002 exceeding 40%.

**The second sub-group is composed of border line areas with structural and demographic problems (3 municipalities).** These are municipalities where alongside unadjusted economic structure and lack of human resources the border line position is an important limiting factor.

**The third sub-group consists of municipalities in AP Kosovo and Metohija.** Serbian population on the territory of AP Kosovo and Metohija which is in specific, difficult economic position is characterized by extremely high unemployment.

Generally, comparing this categorization according to the previous Law on Undeveloped Areas which classified 37 municipalities into the group of undeveloped areas, even 24 municipalities have not changed their status.

### Table 17: UNDEVELOPED AREAS

<table>
<thead>
<tr>
<th>Criteria</th>
<th>No of municipalities</th>
<th>No of citizens</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Economically undeveloped areas</td>
<td>29 municipalities: Majdanpek, Preševo, Bosilegrad, Medveda, Tuten, Trgoviše, Bor, Sjenica, Zagubica, Svržig, Lebane, Crna Trava, Vlasotince, Bela Palanka, Ražanj, Prijepolje, Novi Pazar, Krupanj, Doljevac, Priboj, Bajnik, Vladičin Han, Bujanovac, Varvarin, Kuršumlija, Mali Zvornik, Dimitrovgrad, Srem, Karlovci, Brus</td>
<td>690.809 (9,2% overall population of RS)</td>
</tr>
<tr>
<td>2. Areas with special development problems</td>
<td>8 + AP of Kosovo and Metohija</td>
<td>116.085 (1,6%)</td>
</tr>
<tr>
<td>(a) demographically endangered areas</td>
<td>Decrease in the number of citizens of more than 40% (1971 - 2002)</td>
<td>5 municipalities: Gadžin Han, Babušnica, Zabari, Rekovac, Malo Crniće</td>
</tr>
<tr>
<td>(b) border areas with structural and demographic problems</td>
<td>Decrease in the number of citizens of more than 20% (1971 - 2002)</td>
<td>3 municipalities: Nova Crnja, Sećanj, Bela Crkva</td>
</tr>
<tr>
<td>(c) Serbian municipalities and communities in the AP of Kosovo and Metohija</td>
<td></td>
<td>municipalities + inhabited places</td>
</tr>
<tr>
<td>Total</td>
<td>37 + AP of Kosovo and Metohija</td>
<td>806.894 + AP of Kosovo and Metohija</td>
</tr>
</tbody>
</table>

---

39 The Law on Underdeveloped Areas of RS by 2005, comprised 59 municipalities: 37 municipalities on the territory of Central Serbia and AP Vojvodina, and 22 municipalities on the territory of AP Kosovo and Metohija.
Map 12: Undeveloped areas 2006
2. Development Policies aimed at Stimulating Regional Development

2.1. Fiscal Policy

SITUATION ANALYSIS

Fiscal Policy is one of the most important components of the development policy oriented towards the harmonization of regional development. This statement is based on the fact that instruments and measures of fiscal policy, in almost all countries striving towards economic growth, can be used to alleviate regional differences. Fiscal policy should have the key role in creating the country’s regional development policy equally in the area of creating specific, fixed-purpose state funds for regional harmonization, different forms of state aid, fiscal measures for stimulating investments into undeveloped areas or other instruments for enhancing regional competitiveness, the level of knowledge and infrastructural development on the regional level. The fiscal policy in the Republic of Serbia, however, has not taken into consideration the regional aspect of development, at least not enough, being primarily the consequence of the absence of regional policy and the strategy for alleviating country’s regional discrepancies.

Key fiscal priorities that are expected to contribute to achieving balanced regional development:

- Transfer of powers and responsibilities to the local level – decentralization, followed by fiscal decentralization and development of capacities of the local self-government for taking over new powers and requirements under fiscal administration; and
- Creating conditions for attracting investments and solving unemployment problems of undeveloped areas.

Distribution of power between the central and local level of government is one of important preconditions for the overall democratization of the society, and for harmonization of its economic growth and development as well. Articles 4 and 9 the European Charter of Local Self-Government envisage that “public responsibilities shall generally be exercised, in preference, by those authorities which are closest to the citizen” (the principle of subsidiarity) and that “local authorities shall be entitled to adequate financial resources of their own, of which they may dispose freely within the framework of their powers”. Following these recommendations, the Republic of Serbia entered the process of decentralization after the democratic changes.

Local communities in the Republic of Serbia generate income from three basic sources: (a) from own income and taxes, (b) taxes collected by the Republic of Serbia which are permanently ceded to the local self-government and (c) from transfers, i.e. income that the Republic of Serbia cedes to local communities for the period of one year. Differentiation between local and Republic sources of income is important as it enables local communities to pursue their own income and expenditure policy thus being able to change their financial position. The financial analysis of local communities in the Republic of Serbia over the previous five years indicates that only 40% of the aggregate income of the local self-government is generated from own funds, while 60% of income are generated from shared taxes with the Republic of Serbia. By passing the Law on Local Self-Government (2002),
the processes of fiscal decentralization and the affirmation of local self-government, especially in the area of financing the budget of municipalities and cities, were initiated. The scope of public revenues ceded to the local self-government, of which, according to the scope, the most important are personal income tax of persons who are performing craft activities and tax on other income, was expanded as prescribed by the Law. Along with the income from the property tax that has also been ceded to the local self-government starting from April 2001, these measures provided higher independence to the local self-government. However, as the primary income of local communities and the income ceded to them by the Republic of Serbia on a permanent basis are not enough for regular funding of local needs, it is necessary to supply these funds by means of annual transfers. Before the adoption of the new Law on Financing of Local Self-Government (mid-2006), the system of annual transfers had been functioning in this way:

- First of all, the aggregate funds necessary for financing of local communities were projected in the general balance of public revenues and expenditure of the Republic of Serbia, rendered by the Government, according to which the scope of funds to be transferred to municipalities and cities in the following year was determined;
- The next step was to distribute the composite sum to individual local communities, in accordance with the criteria of the Law on Local Self-Government;
- The final step was to specify the percentage of the totally collected contributions from sales tax and personal income tax that would be allocated to local self-governments, which was entered into the annual Law on scope of funds and share of municipalities and cities in sales tax and personal income tax.

**Table 18: Allocation of aggregate public revenues according to types of collection and vertical government level**

<table>
<thead>
<tr>
<th></th>
<th>2004 (in million dinars)</th>
<th>2005 (in million dinars)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tax</td>
<td>Contribution</td>
</tr>
<tr>
<td>Republic/Federation¹</td>
<td>320,225</td>
<td>152,951</td>
</tr>
<tr>
<td>AP Vojvodina</td>
<td>3,419</td>
<td>26,538</td>
</tr>
<tr>
<td>Local communities</td>
<td>65,708</td>
<td>2,230</td>
</tr>
<tr>
<td>Cities</td>
<td>33,684</td>
<td>2,230</td>
</tr>
<tr>
<td>Municipalities</td>
<td>32,024</td>
<td>/</td>
</tr>
<tr>
<td>Total</td>
<td>389,351</td>
<td>181,719</td>
</tr>
<tr>
<td>Republic/Federation¹</td>
<td>82.2</td>
<td>84.2</td>
</tr>
<tr>
<td>AP Vojvodina</td>
<td>0.9</td>
<td>14.6</td>
</tr>
<tr>
<td>Local communities</td>
<td>16.9</td>
<td>1.2</td>
</tr>
<tr>
<td>Cities</td>
<td>8.7</td>
<td>1.2</td>
</tr>
<tr>
<td>Municipalities</td>
<td>8.2</td>
<td>/</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Republic/Federation¹</td>
<td>59.3</td>
<td>28.3</td>
</tr>
<tr>
<td>AP Vojvodina</td>
<td>11.0</td>
<td>85.4</td>
</tr>
<tr>
<td>Local communities</td>
<td>73.9</td>
<td>2.5</td>
</tr>
<tr>
<td>Cities</td>
<td>68.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Municipalities</td>
<td>80.6</td>
<td>/</td>
</tr>
<tr>
<td>Total</td>
<td>59.0</td>
<td>27.5</td>
</tr>
</tbody>
</table>

Source: MF – Treasury Department

Note: 1) The category of revenues of the Republic and Federation were merged into one since as of April 2003 until May 2005 institutions of the State Union were financed from the republic budget.
After the abolishment of the sales tax and the introduction of the multiphase value added tax, the scope of funds transferred from the budget of the Republic of Serbia to municipalities and cities was increased, and the distribution of personal income tax between the Republic and municipal budget was changed, increasing the share of municipalities and cities in this tax to 40%, starting from 2005.

Main disadvantages of the mentioned system for determining and distribution of annual transfers are the following:

1. The decision on the aggregate sum of funds for allocation was not passed following the objective criteria on the basis of real needs of financing local communities, but more arbitrarily, mostly on the basis of the level of transfer over the previous years;

2. The system of allocation of the aggregate sum of transfer to certain municipalities and cities was based on the criteria that were not consistent to the necessary extent, resulting in a system of allocation which was not based on any clear concept – the system that neither acted in accordance with the current expenses nor followed the real needs of local communities;

3. Weights allocated to certain criteria for transfer distribution were established mostly arbitrarily resulting in an inadequate system of allocation of funds;

4. The Law on Transfers used to be passed late, usually in December, which rendered municipalities and cities unaware of almost 45% of the aggregate income to the last moment, making the system of public finance of local communities very unpredictable and practically disabling the budgetary planning on the local self-government level.

Along with the adoption of the Law on Financing of Local Self-Government (The Official Gazette of the RS, no. 62/06), the process of fiscal decentralization was intensified. This Law, which will become effective on January 1, 2007, shall provide for the strengthening of the financial autonomy of local communities, simultaneously enabling higher predictability in planning public finance on the local level. In order to increase the transparency, stability and predictability of the system of financing of the local self-government, the Law envisaged that the aggregate sum of annual transfers of non fixed purpose should correlate to the level of the Republic’s GDP, while the methodology and criteria for calculation of transfers in certain municipalities and cities were regulated in detail with the application of numerous objective criteria and a clearly defined formula for transfer allocation, thereby avoiding any possibility of arbitrary decision making. Alongside general (non fixed-purpose) transfers, the following transfers were envisaged as well: transfers for harmonization (intended for municipalities whose income from ceded taxed per capita...
are lower than 90% of the Republic’s average), **compensation transfers** (for the purpose of compensating part of lost income due to changes in the Republic’s tax regulations), and **transition transfers** (for compensating part of lost income due to the change in the methodology for determining transfers). In this way, progress is made in horizontal fiscal harmonization, thereby creating an important element in the overall implementation of the balanced regional development policy. Strengthening of fiscal autonomy of the local self-government is reflected through the allocation of rights of establishing the rate level, collection and control over collection of property taxes, thus enlarging the list of source income of municipalities and cities and increasing their share in the overall local budget structure, in accordance with European Council principles. By giving municipalities and cities the possibility of free establishment of the property tax rate on their territory, with the prohibition of exceeding the legal maximum rate, the entrepreneurial spirit of local communities is encouraged and possibilities for enhancing local and regional competitiveness are created. Local communities are also given powers entitling them to own collection of primary taxes on their territories, with the obligation to establish local tax administration, thereby allocating an important instrument for improving own financial position to municipalities. Higher efficiency in collecting primary income is attempted through decentralization of the tax administrative apparatus, which should increase local public expenditures and reduce the burden on the republic budget imposed by transfers. Furthermore, this measure should contribute to increasing the level of services that local communities provide to all its users.

The fiscal autonomy comprises the right of local communities to incur indebtedness. The area of public indebtedness was originally established by the Budget System Law, but the provisions of this Law were significantly hampering local communities to incur indebtedness. The Law on Public Debt (The Official Gazette of RS, no. 61/05) adopted by mid-2005 precisely defined the possibility of the local self-government to incur indebtedness for the purpose of financing the deficit of current liquidity as well as for long-term indebtedness aimed at investing into capital infrastructure. The Law envisaged indebtedness limits, so that the indebtedness of local communities for financing the current liquidity cannot be higher than 5% of the totally generated income of the local budget in the previous year (with due date by the end of the current budget year), while indebtedness for the purpose of financing or refinancing of capital investment projects cannot exceed 50% of the totally generated current budgetary revenues of the local self-government in the previous year, with an additional provision that the annual installment for repayment of long-term indebtedness cannot exceed 15% of the current income of the previous year. Local self-government is not given the possibility to issue guarantees while their available indebtedness forms include usual credit arrangements and issuance of debt securities (municipal bonds). In order to prevent the possibility of excessive indebtedness, the Public Debt Administration was established within the Ministry of Finance, while local communities were imposed the obligation of six-month reporting to the competent Ministry on types of indebtedness, the amount of debt, repayment of debt and interest rates. Furthermore, the possibility of provisional suspension of the transfer of funds from the budget of the Republic of Serbia to the local level was laid down in case local authorities do not act in accordance with the provisions of the given Law.
The fiscal policy also offered a wide range of measures related to attraction of investments and solving unemployment problems. Alongside universal incentives for investments on the whole territory of our country, pursuant to the **Law on Corporate Profit Tax** (which include: faster depreciation, incentives for concession investments, capacitating for work, professional rehabilitation and employment of disabled persons, tax loans for investments into fixed assets, employment of new persons on a permanent basis and the so called “big tax holiday”), provisions of Articles 47 and 50b of this Law contain the regional aspect of stimulation of investments, which implies encouragement of the economic activity and solving unemployment issues in undeveloped areas. These incentives enable two-year reduction of the corporate profit tax proportionate to the generated profit that an enterprise realized in its newly-founded affiliate which operates in the under developed area, as well as relieves for paying the corporate profit tax in the period of five years, proportionate to investment for the enterprise which:

1. Invests the amount of more than 6 million dollars in its fixed assets;

2. Uses 80% of the value of its fixed assets for performing the registered activity on the territory of special interest for the Republic of Serbia;

3. Employs at least 5 persons on a permanent basis in the period of investment, 80% of which should be residents of the territory of special interest for the Republic of Serbia.

The incentive containing a regional component refers to introduction of non-taxable census of 5,000 dinars within the **personal income tax**, which is an important incentive for economically undeveloped areas as it provides higher tax relieves for regions and activities with low salaries.

Previously realized tax and customs duty relieves on the territory of the Republic of Serbia, could be illustrated with the following data:

<table>
<thead>
<tr>
<th>Table 20: Custom and tax incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2003</strong></td>
</tr>
<tr>
<td>Amount</td>
</tr>
<tr>
<td>1. Custom incentives</td>
</tr>
<tr>
<td>2. Tax incentives</td>
</tr>
<tr>
<td>2.1 Write-off of fiscal debt</td>
</tr>
<tr>
<td>2.2 Rest</td>
</tr>
<tr>
<td>2.2.2 Development</td>
</tr>
<tr>
<td>2.2.3 Foreign direct investment</td>
</tr>
<tr>
<td>2.2.4 Common purposes</td>
</tr>
<tr>
<td>2.2.5 Investments</td>
</tr>
<tr>
<td>2.2.6 Regional Aid</td>
</tr>
<tr>
<td>2.2.7 Rebuilding</td>
</tr>
<tr>
<td>TOTAL</td>
</tr>
</tbody>
</table>


Note: 1) Acc. to Art 115 of the Law on Tax Procedure and Tax Administration (Official Journal RS, no 80/02, 84/02, 23/03, 55/04, 61/05, 85/05, 62/06) refers to possibilities of a partial or total write-off of taxes in the privatization process, i.e. restructuring of enterprises, and in line with the decision of the Government.
Alongside direct tax measures, the fiscal policy devised certain financial instruments for stimulating investments and employment. Therefore, the Government’s Decree on the terms and conditions of attracting foreign direct investments (The Official Gazette of RS, no. 56/06), effective as of July 2006 and fixed for a three-year period, regulates conditions for the allocation of funds for the purpose of financing investment projects in the production sector, service sector and research and development. The funds are allocated in accordance with the number of job vacancies that will be available after the investment in the period of the following three years, while effects of investment on the development of economically undeveloped municipalities are regarded as important criteria for the allocation of funds. Also, regional employment plans were envisaged as well, enabling legal entities and entrepreneurs to obtain subsidies in a single amount of 90,000 dinars per newly-employed person with whom they signed a permanent basis employment agreement for the purpose of equipping their work posts, where the primary condition for the allocation of funds is the effect of the business programme on increasing employment in the activities of strategic importance for the development of the region.

Goals

As the fiscal policy is one of the most important components of the development policy oriented towards harmonization of regional development, it is vested with high responsibility for the successful realization of the formulated regional development strategy. In order to justify high expectations, the fiscal policy should be formulated in such a manner as to simultaneously fulfill several important goals.

First of all, the main goal of the fiscal policy in the coming period should relate to providing full support in carrying out a stable and sustainable macroeconomic policy. Therefore, the concept of the fiscal policy in the following period should be designed in the manner as to support sustainable and stable economic development, enhance competitiveness of the overall economy, continue structural reforms, solve the problems of transition effects in the area of employment, as well as to alleviate poverty.

Furthermore, the fiscal policy should be oriented towards removing regional discrepancies in the level of the economic development of the region, being one of the most complex development problems. This implies measures and activities of the fiscal policy aimed at preventing the expansion of regional differences, and gradual alleviation of regional disproportions. Therefore, the fiscal policy should be focused on further active implementation of the following measures:

- Fiscal decentralization and the development of capacities of local communities for taking over new powers, competencies and requirements imposed by fiscal decentralization;
- Improving conditions for attracting foreign investments and reduction of unemployment in underdeveloped areas.

It is important to emphasise that the implementation of responsible fiscal policy in the following period requires unconditional coordination with other forms of the development policy.
Main tasks of the fiscal policy, apart from stable and sustainable macroeconomic policy, are fiscal decentralization and improvement of conditions for attracting foreign direct investments and alleviation of unemployment in undeveloped areas.

**Policy, Measures and Activities**

Over the previous period, the fiscal policy has failed to consider the regional component to the necessary extent, especially taking into account seriousness of regional development problems. There are few, regionally determined, fiscal incentives at the moment, while the process of fiscal decentralization in the first five years after the democratic changes was carried out in a slow manner, to be intensified in mid-2006.

In order to achieve the objective related to the improvement of conditions for attracting investments and alleviation of poverty in regional undeveloped areas, the activities should have two directions. The **first direction** refers to the modification and improvement of the existing instruments, while the **other** refers to the introduction of new instruments of fiscal policy with the stressed regional component.

**Numerous fiscal stimulants are available for the purpose of accelerating the development of undeveloped areas: tax relieves for production, fiscal relieves for employment of new persons, fiscal relives for profit and investments.**

Tax incentives for capital investment refer to purchase of goods and services, modernization of fixed assets, employment, scientific research and technology etc. Higher depreciation rates, initial write-offs, tax loans, incentives and tax exemptions on income and salaries, customs duties, property taxes etc. are usually regarded as incentives.

**Tax incentives** or stimulants are types of fiscal concession of the state authority to some tax payers (in terms of the tax base and tax rate) in order to use the tax benefit for the purpose of accelerating the development of undeveloped areas.

The measures aimed at stimulation of economic growth and alleviation of regional and sector disparities in the economy are of special importance. These incentives are called tax investment incentives. However, investment incentives do not necessarily have to be of tax character. Investments can be stimulated through different subsidies allocated from the budget to investors in other ways outside the context of the tax policy. The following are the types of tax incentives:

- related to tax payers, as tax exemption;
- related to the tax base as deduction;
- related to levied tax as tax loan.

Tax stimulants, exemptions, incentives and other elements of fiscal policy for stimulating regional development shall be defined under tax regulations. Alongside the most important incentives such as additional relieves and tax exemption, related to income tax and profit tax, various new types of fiscal stimulants will be introduces for stimulating investments, employment and economic growth in undeveloped areas.
It is necessary to complete the process of building institutional infrastructure and completely develop the capacities of local communities for taking over new responsibilities, competencies and requirements imposed by fiscal decentralization in order to achieve the goals of the fiscal policy oriented towards further fiscal decentralization. It is necessary to adopt the Law on Restitution of Property to the Local Self-Government that would greatly improve the conditions for incurring indebtedness of local communities, further strengthen their financial position, and have effects on the development of the market of municipal bonds that is currently not operating. It is important to intensify the activities of decentralization of the central tax administration, in order to make this measure effective in the shortest possible period of time (more efficient collection of primary revenues of local communities, increasing the overall fiscal revenue of local self-government units, independent decision-making of local authorities and improving the general level of services to beneficiaries on the local level).

The expected synergic effect of the proposed measures of fiscal policy should result in curbing the expansion of regional differences, enhancing regional competitiveness and harmonization of the country’s regional development.
2.2. Loan Policy

SITUATION ANALYSIS

Loan policy aimed at regional development was pursued, over the previous period, mainly through the Development Fund of the Republic of Serbia. It implied financing SMEs and stores under the conditions which were more favourable than market conditions, as well as approving micro loans and loans for unemployed persons who invested their severance pay into new business start-up. Stimulation of this sector was extremely important, as it had very restricted access to bank loans. The institutional infrastructure is supplemented by the Guarantee Fund, and the Serbian Investment and Export Promotion Agency. The Guarantee Fund stimulates the banking sector to direct loans to SMEs, by means of sharing risk in case the loan is returned. By reducing the differences of issued guarantees of the Guarantee Fund (80% of risk coverage) the banks’ policy on long-term investments changes as well. Long-term loans have priority in issuing guarantees, while loans with the maturity date longer than three years and projects financed from the financial and commodity credit lines (commercial banks, EAR etc) have priority within long-term loans. It should be emphasized that loan guarantees with the maximum effective interest rate of 10% were envisaged.

Observing the loans granted by the Development Fund of the Republic of Serbia by districts in the period 2002-2006, the share of undeveloped areas in the total credit financing is in decline, while the share of developed areas is growing. For example, the share of Pcinj District in 2002 was 3.2%, to fall to 1.6% in 2005, while the share of the City of Belgrade rose from 11.1% in 2002 to 17.2% in 2006. Therefore, it is obvious that the Development Fund has not pursued the policy of stimulating regional development over the previous period.

Table 21: Approved credits of the Development Fund by regions, period 2002-2006

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>%</td>
<td>Amount</td>
<td>%</td>
<td>Amount</td>
</tr>
<tr>
<td>THE CITY OF BELGRADE</td>
<td>2,170.1</td>
<td>17.1</td>
<td>1,323.6</td>
<td>13.4</td>
<td>1,718.3</td>
</tr>
<tr>
<td>NORTH BACSA</td>
<td>398.2</td>
<td>3.1</td>
<td>62.3</td>
<td>0.6</td>
<td>232.9</td>
</tr>
<tr>
<td>CENTRAL BANAT</td>
<td>266.9</td>
<td>2.1</td>
<td>186.3</td>
<td>1.9</td>
<td>107.6</td>
</tr>
<tr>
<td>NORTH BANAT</td>
<td>226.0</td>
<td>1.8</td>
<td>171.0</td>
<td>1.7</td>
<td>372.9</td>
</tr>
<tr>
<td>SOUTH BANAT</td>
<td>455.3</td>
<td>3.6</td>
<td>387.1</td>
<td>3.9</td>
<td>389.3</td>
</tr>
<tr>
<td>WEST BACSA</td>
<td>252.3</td>
<td>2.0</td>
<td>111.0</td>
<td>1.1</td>
<td>247.7</td>
</tr>
<tr>
<td>SOUTH BACSA</td>
<td>1,103.4</td>
<td>8.7</td>
<td>543.1</td>
<td>5.5</td>
<td>717.3</td>
</tr>
<tr>
<td>SREM</td>
<td>226.2</td>
<td>1.8</td>
<td>333.9</td>
<td>3.4</td>
<td>249.0</td>
</tr>
<tr>
<td>MACVA</td>
<td>1,295.3</td>
<td>10.2</td>
<td>438.0</td>
<td>4.4</td>
<td>615.9</td>
</tr>
<tr>
<td>KOLUBARA</td>
<td>447.9</td>
<td>3.5</td>
<td>168.0</td>
<td>1.7</td>
<td>391.5</td>
</tr>
<tr>
<td>PODUNAVLJE</td>
<td>156.6</td>
<td>1.2</td>
<td>163.0</td>
<td>1.6</td>
<td>194.8</td>
</tr>
<tr>
<td>BRANJEVO</td>
<td>162.0</td>
<td>1.3</td>
<td>151.5</td>
<td>1.5</td>
<td>238.8</td>
</tr>
<tr>
<td>SUMADJA</td>
<td>1,092.6</td>
<td>8.6</td>
<td>864.3</td>
<td>8.8</td>
<td>530.6</td>
</tr>
<tr>
<td>POMORAVLJE</td>
<td>451.0</td>
<td>3.5</td>
<td>102.1</td>
<td>1.0</td>
<td>366.0</td>
</tr>
<tr>
<td>BOR</td>
<td>177.7</td>
<td>1.4</td>
<td>242.8</td>
<td>2.4</td>
<td>126.6</td>
</tr>
<tr>
<td>ZAJECAR</td>
<td>166.3</td>
<td>1.3</td>
<td>231.8</td>
<td>2.3</td>
<td>244.6</td>
</tr>
<tr>
<td>ZLATIBOR</td>
<td>1,088.0</td>
<td>8.6</td>
<td>586.0</td>
<td>5.9</td>
<td>1,009.0</td>
</tr>
<tr>
<td>MORAVICA</td>
<td>363.8</td>
<td>2.8</td>
<td>672.7</td>
<td>6.8</td>
<td>554.6</td>
</tr>
<tr>
<td>RASKA</td>
<td>560.9</td>
<td>4.4</td>
<td>763.7</td>
<td>7.7</td>
<td>1,094.5</td>
</tr>
<tr>
<td>RASNA</td>
<td>602.2</td>
<td>4.7</td>
<td>495.5</td>
<td>5.0</td>
<td>662.2</td>
</tr>
<tr>
<td>NESAV</td>
<td>427.2</td>
<td>3.3</td>
<td>486.9</td>
<td>4.9</td>
<td>626.2</td>
</tr>
<tr>
<td>TOPlica</td>
<td>176.0</td>
<td>1.3</td>
<td>473.8</td>
<td>4.8</td>
<td>208.6</td>
</tr>
<tr>
<td>PIROT</td>
<td>150.1</td>
<td>1.2</td>
<td>29.0</td>
<td>0.3</td>
<td>128.2</td>
</tr>
<tr>
<td>JUZENICA</td>
<td>120.9</td>
<td>0.9</td>
<td>452.0</td>
<td>4.6</td>
<td>377.5</td>
</tr>
<tr>
<td>PSINJA</td>
<td>205.4</td>
<td>1.6</td>
<td>383.9</td>
<td>3.9</td>
<td>226.8</td>
</tr>
<tr>
<td>TOTAL</td>
<td>12,644.4</td>
<td>100.0</td>
<td>9,823.7</td>
<td>100.0</td>
<td>11,666.6</td>
</tr>
</tbody>
</table>

Source: Fund for Development.  
Note1: The amount is given in millions of dinars.  
Note 2: Data for 2006 refer to the period until 18.10.2006.
The Law on the Budget of the Republic of Serbia for 2006 envisages that 1 billion dinars would be used for stimulating regional development. The loans will be granted at 1% annual interest rate, with the repayment period of 5 years and the grace period of one year with the application of the currency clause. Loans for durable assets will be granted under the following conditions: repayment period of three years and the grace period of one year. The maximum loan amount that can be granted depends on the number of persons employed:

1. up to 24 persons – up to 15 million dinars;
2. from 25 to 50 persons – up to 25 million dinars;
3. from 51 to 99 persons – up to 35 million dinars;
4. over 100 persons – without limit.

Furthermore, direct and indirect financing and crediting of projects aimed at balanced regional development were envisaged under the National Investment Plan.

### Table 22: Lines of NIP directly or indirectly impacting on a more balanced regional development (period 2006 – 2007)

<table>
<thead>
<tr>
<th>Title</th>
<th>Ministry</th>
<th>Amount RSD m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing industrial areas and parks</td>
<td>ME</td>
<td>3,903.3</td>
</tr>
<tr>
<td>Credits to stimulate employment and revive production in UDA</td>
<td>ME</td>
<td>1,275.0</td>
</tr>
<tr>
<td>Micro-credits for employment</td>
<td>ME</td>
<td>850.0</td>
</tr>
<tr>
<td>Start-up credits for the beginners</td>
<td>ME</td>
<td>595.0</td>
</tr>
<tr>
<td>Incubators to stimulate entrepreneurship</td>
<td>ME</td>
<td>255.0</td>
</tr>
<tr>
<td>Support to the development of local communal infrastructure</td>
<td>ME</td>
<td>836.5</td>
</tr>
<tr>
<td>Gasification</td>
<td>MCI</td>
<td>4,174.8</td>
</tr>
<tr>
<td>Roads of national significance</td>
<td>Corridor 10 – Highway Nis – Dimitrovgrad – Leskovac – Presevo and bypasses around Belgrade</td>
<td>MCI</td>
</tr>
<tr>
<td>Construction and rebuilding main and regional roads</td>
<td>MCI</td>
<td>7,397.9</td>
</tr>
<tr>
<td>Construction and rebuilding local roads</td>
<td>MCI</td>
<td>7,239.1</td>
</tr>
<tr>
<td>Adaptation of the regional airport Ponikve</td>
<td>MCI</td>
<td>124.5</td>
</tr>
<tr>
<td>Reconstruction of the Ostruznica railway bridge</td>
<td>MCI</td>
<td>212.5</td>
</tr>
<tr>
<td>Investment into exploitation of the Danube</td>
<td>MTTTS</td>
<td>737.8</td>
</tr>
<tr>
<td>Investment into infrastructure of tourist resorts</td>
<td>MTTTS</td>
<td>1,747.2</td>
</tr>
<tr>
<td>Attraction of direct investments – as a support for the creation of new jobs, equal</td>
<td>MF</td>
<td>1,700.0</td>
</tr>
</tbody>
</table>
| Goals: The main goal of the loan policy in the area of regional development is stimulation of balanced regional development through more favourable terms and conditions compared to market conditions. Considering the instruments and the field of action of the loan policy, the basic sub-goals are the following: infrastructural development, foundation of new enterprises and expansion of new capacities in underdeveloped areas, export promotion, promotion of employment, allocation of larger amount of budgetary funds for regional development, and allocation of the privatization funds for financing development projects in undeveloped areas etc. Within the institutions that implement these programmes, it is necessary to emphasise the role of the Guarantee Fund, and to retain the existing role of the Development Fund of the Republic of Serbia with the establishment of...
Balanced Regional Development Policy

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a special organizational part that will be responsible for financing regional projects and financing export of the Republic of Serbia aimed at more balanced regional development.

Policy, Measures and Activities

Loan policy measures can be summarized in the following way:

1. Financing and crediting infrastructural projects;

2. Granting incentive funds for business start-up, as well as improving equipment and expanding capacities of the existing enterprises;

3. Incentive loans for newly-employed persons and redundant labour as a consequence of the transition process;

4. Loans for export stimulation;

5. Higher allocation of budgetary funds and the privatization funds for financing balanced regional development;

6. More favourable crediting of industries with the capacity to become propulsive sectors in the observed region (in some regions these are agricultural projects, tourism projects or projects in some industrial sectors etc.);

7. To establish a special organizational unit within the Development Fund that will deal with incentive crediting of development projects of undeveloped areas;

8. To reduce fees for loans in undeveloped areas collected by the Guarantee Fund;

Financing and crediting of infrastructural projects, granting incentive funds for the foundation of new enterprises and the expansion of the already existing capacities are basic measures for the revival of undeveloped areas. Considering that the Development Fund has already developed the methodology and the necessary infrastructure for pursuing these measures, it is necessary to improve its role through the establishment of a special organizational unit that would deal with regional development issues. For the purpose of successful implementation of these measures, it is necessary for the Development Fund of the Republic of Serbia to achieve a high level of coordination and joint operation with the Ministry of Finance, Ministry of Economy and Ministry for Capital Investments, and with local government authorities. A good signal of support to these measures is the allocation of funds envisaged by the National Investment Plan for the realization of the following two programmes:

- The programme of investment into undeveloped areas for the purpose of balanced regional development establishing terms and conditions for realization of special funds for financing the development of undeveloped areas, through building of utility service infrastructure, building of new and expansion of the existing industrial facilities, starting new and enlarging the existing craft shops aimed at increasing the number of employees. Namely, 1.257 million dinars were allocated from the funds envisaged by the National Investment Plan for this purpose;

- The loan support programme for business start up which implies granting loans for business start up, in order to enable these target
Balanced Regional Development Policy

groups to start own businesses. 595 million dinars were allocated from the funds envisaged by the National Investment Plan for this purpose. The programme includes financing business start up, through crediting programmes of entrepreneurs and legal entities. Loans are fixed-purpose and serve for purchase of fixed assets, purchase of business premises and partly for securing durable assets.

Apart from measures earmarked as the basic measures for stimulating the development of undeveloped areas, the following can be used as additional measures: (1) incentive loans for newly-employed persons that were laid off in the transition process, (2) incentive crediting of agricultural areas and (3) favourable crediting of projects of those economic sectors that are regarded as propulsive sectors for the specific undeveloped area.

Regional development can also be encouraged through granting short-term loans to exporters—domestic legal entities and entrepreneurs by the Serbian Investment and Export Promotion Agency. For the purpose of stimulating regional development the Serbian Investment and Export Promotion Agency should finance export programmes of undeveloped areas under even more favourable conditions compared to incentives generally envisaged for the whole territory.

Following positive experience of other countries and for the purpose of better allocation of the privatization funds (their primary allocation for investments, not for consumption) it is necessary, pursuant to Article 61 paragraph 2 of the Privatization Law, to earmark cash proceeds from the privatization process in such manner as to redirect certain percentage or the amount of funds to crediting more profitable projects of undeveloped areas.

When approving guarantees, the Guarantee Fund charges commission which raises the price of the total loan. Stimulation of regional development is possible by means of reducing the commission charges for projects from undeveloped areas. Furthermore, it is possible to stimulate regional development through increasing the share of guarantee in the total loan value. In this way, banks would be also stimulated to grant loans to enterprises and entrepreneurs from less developed areas.

40 The Credit Financing Programme for unemployed persons, surplus of labour and innovators can be taken as the methodological basis for the implementation of these measures, through granting micro loans for employment. 850 million dinars were allocated from the funds envisaged by the National Investment Plan for this purpose. Enterprise and entrepreneurs on the territory of the Republic of Serbia, i.e. physical persons registered as unemployed at the National Employment Agency, the employed registered as surplus of labour under the condition they invest funds from the severance pay into own business, as well as innovators will be entitled to use these funds.

41 The Agency is currently granting loans ranging from EUR 30,000-45,000 in the dinar counter value with the repayment period of 3-6 months, and exclusively to 12 months with 3% interest rate for export amounting to EUR 10 million, for export amounting to EUR 5-10 million the interest rate is 4%, and for export of EUR 1-5 million the interest rate is 5%.
2.3. State Aid

**SITUATION ANALYSIS**

State aid is an important instrument aimed at balanced regional development. According to EU regulation, regional state aid is one of allowed means of assistance, while instruments for providing the assistance include: **subsidies and tax exemptions, ownership shares, state guarantees and loans under conditions more favourable than market conditions.**

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Share of regional state aid in GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Republic</td>
<td>1997</td>
<td>0.03</td>
</tr>
<tr>
<td>Estonia</td>
<td>1998</td>
<td>0.2</td>
</tr>
<tr>
<td>Hungary</td>
<td>1997</td>
<td>0.2</td>
</tr>
<tr>
<td>Poland</td>
<td>1998</td>
<td>0.05</td>
</tr>
<tr>
<td>Slovenia</td>
<td>1997</td>
<td>0.07</td>
</tr>
</tbody>
</table>

*Source: Regional Development and Policy in the Transition Countries, John Bachtler, European Policies Research Centre, 1999.*

In most European countries, regional state aid is allocated within sector-oriented budgets, considering the criteria of regional development when providing assistance. In Central and Eastern European countries, regional state aid was allocated to: (a) municipalities or regional development agencies, on the basis of regional development programmes, (b) directly to the sector of small and medium-sized enterprises (SMEs). The assistance to small and medium-sized enterprises was provided through the following instruments: granting favourable loans, providing subsidies for tax rates, issuing guarantees and providing tax incentives. The share of the total regional state assistance in these countries ranged from 0.03% and 0.02% of GDP.

In August 2005, the Treasury Administration was founded as an administrative body within the Ministry of Finance, whose competence, among other things, includes recording and monitoring the state aid, being in accordance with the recommendation of the European Commission representative – General Directorate for Competition. So far, the Report on list of types and scopes of state aid in the Republic of Serbia for 2003 and 2004 has been made up and adopted by the Government on May 4, 2006. The Report on allocated state funds in 2005 is in the status of proposal and has been sent to the regular procedure of obtaining the opinion, before it is submitted to the Government for adoption. The said Report was prepared, to the greatest possible extent, in line with the EU methodology in the area of reporting. The new methodology was also applied on the 2003 and 2004 data which are contained in this Report for the purpose of real reporting and comparability with the 2005 data. In this way, a more realistic report is obtained on both aggregate funds allocated by the state and according to certain categories and instruments of the state aid in all three reporting years. According to the above data, the share of totally allocated state aid in GDP is as follows: 3.1% in 2003, 2.8% in 2004 and 1.5% in 2005. The tendency of decline in the share of the state aid in GDP is apparent, although this share is still far above the EU average (0.5%). As the legal and institutional framework related to regional development did not exist in the Republic of Serbia in the previous period, regional state aid was allocated through the Development Fund of the Republic of Serbia by granting loans under more favourable conditions (lower interest rate
Balanced Regional Development Policy

than the reference interest rate at the banking market). The amount of the allocated regional state aid was partly provided by the Ministry of Finance, pursuant to the annual Budget Law, and concerning the other part funds were allocated from the Development Fund of the Republic of Serbia. Activities of the Development Fund of the Republic of Serbia related to regional development include: financing foundation, initiation of business and development of small and medium-sized enterprises and independent shops in underdeveloped and devastated areas and in nationally mixed regions, especially in the South of Serbia. In order to stimulate the development of the most undeveloped municipalities, approving loans at even lower interest rates, as well as higher share of the Development Fund in financing investments were planned. Alongside the Development Fund of the Republic of Serbia, state financial and technical assistance for balanced regional development was allocated through the Guarantee Fund, National Employment Agency and the Agency for the Development of SMEs and Entrepreneurship. Starting mid-2006, regional incentives were provided by the Serbian Investment and Export Promotion Agency (SIEPA) as special stimulants for investment into municipalities with high unemployment rates.

Apart from the budgetary funds of the Republic of Serbia and the budget of local authorities, important source of regional assistance were donations of international institutions and state donors. From the beginning of the transition process, in the period 2000-2005, Serbia received more than 3.5 billion euros of international assistance. This assistance influenced the alleviation of regional differences to a significant extent, in the areas of both humanitarian and technical-development assistance. EU funds will be the most important source of international assistance in the coming period. In the EU accession stage, the Republic of Serbia will be able to use the new Instrument for Pre-Accession Assistance (IPA) that will incorporate all the existing pre-accession funds (PHARE, ISPA, SAPARD and CARDS) starting from 2007. IPA funds will provide assistance to regional development, and this component will be available only to countries with the status of a candidate for EU accession. In accordance with that, if Serbia acquired this status fast, significant funds would be provided for the stimulation of regional development. Based on the experience of other Central and Eastern European countries there is a serious problem of small absorption of available EU funds, primarily due to weak institutional capacity of competent ministries and regional development agencies. Furthermore, the Republic of Serbia has still not created legal and institutional framework in the area of state aid control, which is one of the conditions for EU accession.

Goals

It is necessary to achieve dynamic and balanced regional development in the coming period through coordinated and planned usage of state aid funds. By using state aid funds it is necessary to achieve the following two goals: (a) reduction of regional differences in order to achieve balanced regional development (b) optimum allocation of funds, adhering to the principle of efficiency. In accordance with this, regional state aid should be allocated following the principles of the market economy and sustainable regional development, for the purpose of overcoming natural and alleviating social and economic regional disparities.
In the area of international aid that will be directed to regional development, it is necessary to achieve the following goals:

- To strengthen institutional capacities for efficient utilization of the regional component of IPA funds;
- To gradually harmonize procedures and criteria for the allocation of regional state funds in line with EU rules in this area. This approach will be more efficient, as Serbia in the pre-accession stage, as well as after the EU accession, will not have to change the procedures and criteria for the utilization of EU funds, primarily the European Regional Development Fund (ERDF) and the Cohesion Fund, except in cases when it is deemed necessary.

In the following period, the allocation and utilization of funds of regional state aid will be regulated in accordance with EU rules on state aid control. In accordance with that, it is necessary to build institutional and legal framework for state aid control, as one of priority goals.

**Policy, Measures and Activities**

Funds of the Republic’s budget, local government’s budget and funds provided by international assistance will be directed to regional development programmes. The amount and type of incentive for regional development will be established within the Budget Memorandum at the proposal of the Ministry of Economy and the Ministry of Finance. In case the project is financed by international institutions or countries, the competent Ministry or the Government will coordinate financing from different sources. Collection and allocation of funds for the purpose of pursuing regional policy will be performed through the Development Fund, in cooperation with the corresponding authority, i.e. organization responsible for regional development. Funds which are aimed at balanced regional development should be allocated to programmes and projects in the following areas: stimulating employment, development of economic infrastructure (energy, telecommunications, and transport), development of social infrastructure (health care and education), economic development (industrial zones, business parks, business incubators, innovation centres, information and counseling centres), environment protection and development of tourism. Also, this Strategy lays down the support to regional allocation of funds for stimulating the development of villages by introducing LFA (Less Favourite Areas) criteria.

Alongside building of regional development institutions, it is necessary to allocate funds to undeveloped areas under particularly favourable conditions. Apart from the Development Fund, it is necessary to continue allocation of funds to institutions that are directly assisting regional development, primarily the National Employment Agency, Guarantee Fund and the Agency for the Development of SMEs and Entrepreneurship. In accordance with that, it is necessary to strengthen institutional capacities of the National Employment Agency and allocate larger amount of funds to active employment measures in undeveloped areas. Strengthening of the capacities of regional agencies for SMEE development would contribute to spreading information on lending facilities, new technologies, possibilities for education, export of products etc.

In order to increase institutional capacities in undeveloped areas it is necessary to provide different forms of technical assistance. One of important segments is technical assistance in the realization of cooperation...
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projects between public and private partnership on the local and regional level. Furthermore, financial and technical assistance is necessary for the purpose of creating regional development plans, as well as building business incubators in cooperation with local authorities.

In the following period, international donor funds should be directed to undeveloped areas to a greater extent. Of special importance is the utilization of donors' funds for approving micro loans, through banks and non-commercial institutions, to enterprises in undeveloped areas.

Considering that Central and Eastern European countries recorded a relatively low percent of realization of the totally approved EU funds, institutional capacities of competent ministries and regional development agencies for using IPA funds should be increased. This would enable the Republic of Serbia, after it has acquired the status of a candidate country, to have the satisfactory absorption capacity for the utilization of the regional component of IPA funds.

2.4. Employment Policy

SITUATION ANALYSIS

The labour market in the Republic of Serbia is characterized by significant differences particularly reflected through more unfavourable situation in rural areas compared to city areas, in southern compared to northern parts of the country, and the concentration of significant resources in University centres.

Most regions are faced with significant demographic and social problems such as a high share of elderly population, a high level of hidden unemployment especially in the areas where economic development is based on machine and textile industry, and a high share of immobile agricultural population.

With regard to perspectives for employment and the capacities of the labour market, the Republic of Serbia can be divided into three groups:

1. regions characterized by relatively favourable situation with regards to the labour market and employment possibilities;
2. regions with medium risk, and
3. regions with high risk.

Classification of the Republic of Serbia into three regions is the basis for the development and implementation of the general and differentiated employment policy adjusted to specificities of these regions. Different needs resulted in approving tax relieves to economic entities that invest certain funds into these regions and employ at least five persons. The areas such as Bor, Majdanpek and Kragujevac are defined as the areas of special importance for the country and are included within special measures of the employment policy. Employment and creation of new jobs on the principle of regional differences were stimulated within the National Employment Agency and the Development Fund, through regional programmes.

The alleviation of differences and reaching balance between economic, social, cultural and spatial development possibilities are key strategic orientations of the Republic of Serbia.
Regional discrepancies are significant in the Republic of Serbia, including the situation at the labour market. General strategic orientations for overcoming regional disparities are the following:

- To develop a general concept of regional policy that would include all existing instruments of financial support to business and the labour market;
- Formulation of special regional development and employment strategies with the cooperation of all relevant local actors, as well as activating social partners in the area of employment, education and development on the regional level;
- Continuation of development of local self-government which implies the expansion of the scope and responsibilities of local government authorities. Identifying and taking care of local needs and the development of the strategy for local economic development;
- Improving system measures for the purpose of enhancing possibilities for business start up and employment;
- Development of infrastructure which provides conditions for balanced regional development;
- Development of concrete programmes that would attract foreign and domestic investments;
- Expansion of active labour market policy measures with special attention and additional funds directed to less developed regions;
- Directing international development credit support and donors’ pilot projects to especially affected regions.

**Goals**

- Increasing economic activity and employment based on faster SMEE development (subsidies for new employment, favourable loans for creation of new jobs, approving funds for professional training, re-training and additional training);
- Increasing the female and youth employment rate;
- Increasing employment of endangered and marginal groups (disabled persons, Romany population and refugees and displaced persons) by means of realization of special programmes aimed at these groups;
- Reducing the high unemployment rate, creation of new jobs and strengthening labour market institutions;
- Reduction and prevention of long-term unemployment in the overall employment, by undertaking measures and activities for strengthening the cooperation between the National Employment Agency and employers in order to identify the number and structure of job vacancies and introduction of long-term unemployed persons into programmes for active seeking of employment;
- Strengthening active employment measures which imply stimulation of entrepreneurship, self-employment by means of business start up, subsidies for employment of certain categories of unemployed persons in the amount of contributions on mandatory social insurance paid by employer, additional education and training, training for active seeking of jobs in clubs, support of business centres in self-employment, employment in public works;
- Higher investment into development of human capital (education) and lifelong learning;
• A higher share of flexible forms of work (half-time job, temporary employment, multiple activities etc.) in the overall employment;
• Introduction of new flexible forms of employment (Institutionalization of organizations for temporary employment);
• Reducing non-formal employment;
• Development of underdeveloped regions;
• Support to active aging;
• Improvement of social dialogue.

Policies, Measures and Activities

• Introduction of unemployed persons who are in the records of the National Employment Agency into active employment policy programmes, additional education programmes and training;
• Establishing incentives for youth employment;
• To enable long-term unemployed young people to use various services by introducing them into measures of active employment policy through the National Employment Agency;
• Creation of conditions for return and employment of our citizens who are employed abroad, especially young people;
• Stimulating employment of disabled persons;
• Adjusting the education system to the needs of the market economy, especially to SMEE programmes;
• To facilitate the access of SMEE to cheaper capital by means of special credit lines, especially less developed regions, development of the system of micro-financing and facilitation of access of SMEE to new markets;
• Spreading the practice of flexible employment forms adequate for the elderly, especially women;
• Increasing the number of elderly population included in the programmes of active employment policy;
• Improving the position and stimulation of female employment at the labour market;
• Stimulation of unemployed persons and socially endangered persons to actively seek employment;
• Improvement of relations and cooperation between the National Employment Agency and centres for social work;
• Introducing unemployed persons into programmes for active seeking of employment, programmes for additional education and training, self-employment programmes and new employment;
• Organization of public works;
• Strengthening of the control function of institutions on the labour market related to the application of legal regulations in the area of labour relations (inspection surveillance);
• Development of standards of learning and education of adults and certification of acquired knowledge;
• Improvement of social dialogues on all levels;
• Stimulation and development of foreign investments;
• Stimulation of the development of tourism with the possibility of employment.
Institutional solutions:

- Foundation of regional development funds;
- Possibility of foundation of adequate institutions for business start up on the regional/local level;
- Strengthening of local institutions (establishment of centres for adult education etc) and its capacities;
- Further development of local councils and their share in providing conditions for new employment;
- Foundation of sectors for business changes in municipalities.

2.5. Policy of Foreign Economic Relations

SITUATION ANALYSIS

Main priorities of the policy of foreign economic relations are the following\(^2\): increasing the value of foreign direct investments; export growth; liberalization of foreign trade regime; preparations for WTO and EU accession. Realization of these goals implies, apart from political and macroeconomic stability and efficient functioning of all state institutions, intensive cooperation of domestic and foreign economic entities. The regional aspect of the policy of foreign economic relations refers primarily to two components:

- Cross-border and interregional cooperation and
- Stimulating the development of free zones.

State borders usually divide territorial communities in the economic, social and cultural sense. These territorial units (municipalities, cities and districts) are usually faced with similar development problems and challenges, and they could jointly use their economic potentials to a greater extent. In that case, the state border is an impediment to territorial governance and economic and cultural development. For that reason, the country should stimulate the cooperation of border regions with neighbouring, cross-border regions in satisfying common development needs. Positive tendencies in the macro environment important for intensifying of economic cooperation are, first of all, the continuation of the process of enlargement of common market and the creation of the free trade zone, including improvement of investment and business climate in South-Eastern Europe. The European Charter on Small and Medium-Sized Enterprise will contribute to economic connection of the region, on the basis of which, Western Balkan countries establish close mutual cooperation, and the cooperation with the European Commission for the purpose of realizing the full potential of small enterprises. The Republic of Serbia is in the centre of the region of the free trade zone that will be established providing access to the market of 30 million people. Furthermore, the Republic of Serbia is the only country in the region that entered into the Free Trade Agreement with the Russian Federation and provided access to the market of 150 million people.

There are three types of border regions in the Republic of Serbia, with special characteristics and development needs:

- the border with Hungary i.e. border with EU;
- the border with Romania and Bulgaria will be EU border starting from January 2007;

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The financing of regional development through the IPA funds

- the border with former Yugoslav republics (Croatia, Macedonia, Bosnia and Herzegovina and Montenegro);
- the administrative border with AP of Kosovo and Metohija.

Cross-border cooperation programmes with EU member states (Hungary, Romania and Bulgaria) are of special importance, as they can contribute to approaching and familiarizing with EU procedures and postulates. Cooperation with former Yugoslav republics can primarily be oriented towards stimulating political, economic and social stability of the regions, renewal of broken ties and establishment of new economic relations, as well as towards cooperation in formulation and development of policies on their way to the European Union.

The European Union supports, through financial programmes, cross-border cooperation of institutions from border line regions with their neighbours. In the period 2004-2006 these programmes were called Neighbourhood programmes, while in the following budgetary period 2007-2013 this cooperation will be financed through the second component of IPA – cross-border and regional cooperation (IPA-CBC). In the period 2004-2007 the Republic of Serbia participated in five Neighbourhood programmes (with Hungary, Romania, Bulgaria, Adriatic programme and CADSES programme)\textsuperscript{43}.

The cross-border and regional cooperation is realized in numerous ways: cooperation between regional development centres and non-governmental organizations, contacts and mutual projects of expert organizations, fraternization of cities and municipalities of the Republic of Serbia with other cities in the region, as well as cooperation between economic entities.

Free zones that could serve as a measure for stimulating regional development of the economy are the other aspect of regional development policy, connected with the policy of foreign economic relations. Based on the previous regulation on free zones, 14 free zones were established on the territory of the Republic of Serbia, most of which dealt with warehousing of goods for the domestic market. After the adoption of the Law on Free Trade Zones (2006) the existing free zones are bound to harmonize their operation with the regulations of the new law and to get new approvals\textsuperscript{44} from the Government.

The Government passed the Decree on the criteria for defining the area of free trade zones, which prescribes that determining the zone area is economically justified if the following conditions have been met:

- that area should have the air harbour or river pier; or it should be connected with the highway which is a part of the European highway network; or it should be the area whose projects for stimulating economic development were approved within NIP for the period 2006-2012;
- the planned scope of capital investment should be higher than 3 million euros, 50% of which should be foreign investment;
- the economic activity of the zone should have positive effect on the balance of payment of the Republic of Serbia;

\textsuperscript{43} As a result of previously organized open competitions within these programmes, the implementation of 40 projects under Hungary, Romania and CADSES programmes is underway. This programme is implemented by the Ministry of Foreign Economic Relations on behalf of the European Agency for Reconstruction which is a contractual party.

\textsuperscript{44} So far, approvals of work have been given to the free zones in Pirot, Subotica and Zrenjanin.
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- the minimum envisaged employment in the zone should not be less than 100 persons, over the first two years;
- the planned purchase of equipment for production should include new equipment which serves for transfer of modern technologies and reduction of operating costs.

The operation in free trade zones is attractive due to customs preferentials, certain tax exemptions, and a simplified administrative procedure. Customs and tax preferentials are applied in the following situations: a zero tariff rate is applied on import of goods intended for performing activities and building facilities in the free zone, and other customs fees are not payable, including VAT. VAT is not payable both on import of goods in the zone (with the exception of goods for end consumption in the zone) and on providing transportation and other services to users of the zone directly connected to import of goods into the zone. The user of the zone enjoys usual tax incentives, related to the profit tax, property tax, personal income tax in accordance with the laws which regulate these tax forms. If goods from the zone are put into circulation on the territory of the Republic of Serbia, it is liable to payment of all taxes and customs duties. The Decision on the establishment of the free zone is rendered by the Government, via the Ministry of Finance, and is based on the report on economic justification of establishing the free trade zone. The criteria which serve as the basis for the assessment of economic justification of the establishment of the zone include: (a) the zone should be situated in the undeveloped area of the Republic of Serbia and (b) performance of economic activities in the zone have positive effect on the development of economic entities doing business outside the zone. This is the way to stimulate the economic activity of the undeveloped area, which is another instrument by means of which fiscal policy can influence regional harmonization of development in the Republic of Serbia.

Furthermore, the new Law also requires active participation of local authorities as possible founders of the zone and also enables additional incentives provided by the local self-government for doing business within the free zone. Economic activity of the free zone is of great importance for the overall economic development, and especially for the development of regions where the free zone is situated. Therefore, the opinion of local authorities is required prior to the establishment of the zone, and if local authorities adopt measures for stimulating the development of the zone, the potential founder of the zone is obliged to submit to the Government, apart from the application for the establishment, the decision of local authorities on incentive measures.

The establishment of the zone should be based on real possibilities, not only on the “wish” of local authorities or regional authorities to have a free trade zone on their territory. This approach is the reason why many free zones never came to existence, and why the initial investment remained unused.
Goals

Goals of the regional development policy in the area of foreign economic relations are the following:

- Strengthening of the existing structures for managing programmes of cross-border cooperation of the European Union and the Ministry of Foreign Economic Relations, as an integral part of regional development;
- Economic and social development on the basis of interregional, cross-border cooperation, market integration and increasing coherence among local communities;
- Stimulation of the foundation and development of free zones, as measures for regional economic development.

Policies, Measures and Activities

Necessary activities for the realization of these goals are the following:

- Ratification of the Madrid Convention on Transfrontier Co-operation CE;
- Continuation of cooperation with relevant partners (representatives of central government, local self-government, chambers of commerce and consulting companies) through the consulting process of defining state, regional and local priorities for the formulation of cross-border and regional cooperation programmes;
- Continuation of work on the Operational programmes for the financial instrument IPA for cross-border cooperation programmes of the European Union which are underway and the formulation of the Operational programmes for new regional cooperation programmes;
- Implementation of projects financed from the current and future programmes of cross-border cooperation of the European Union;
- Creating stimulatory measures for the development of free zones in undeveloped areas.

Considering the defined goals and necessary activities of cross-border and interregional cooperation, every municipality in the Republic of Serbia bordering (there are 46 of them with international borders excluding AP of Kosovo and Metohia) with the EU member country or non EU country must include chapters on cross-border cooperation programmes into its regional development programme that would be based on the regional development strategy. These programmes can include the following activities:

- Development of entrepreneurship and small and medium-sized enterprises (SMEE): assistance in elaboration on cross-border networks for economic cooperation of SMEs;
- Cooperation in tourism: mutual promotion, marketing studies, mutual reservation plans;
- Promotion of urban and rural development: the analysis of cross-border areas, planning and protection of cross-border area (nature’s parks, industrial areas, forests), joint elaboration and management of natural resources and infrastructure in order o prevent natural catastrophe etc.
- Creating the integral labour market and development of joint initiatives in employment: establishment of cross-border partnerships between employment agencies of these countries and providing information to workers, cooperation in professional training, mutual recognition of diplomas, introduction of employment services for neighbouring areas;
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- Cooperation in the area of research, technological development, education, culture, communication, health care and civil protection: elaboration and utilization of mutual resources in the above area, in order to improve competitiveness of the cross-border region, organization of cultural events;
- Environment protection and investment into renewable sources of energy: prevention, control and rehabilitation of endangered environment, stimulating regional utilization of energy, waste recycling, building mutual equipment for the treatment of waste waters and mutual utilization of infrastructure, utilization of alternative energy sources, etc.
- Development of infrastructure of cross-border importance: removing obstacles in public transportation, ensuring access to integrated (mutual) transportation networks or groups, providing cross-border possibilities in telecommunications, common plants for energy and water supply;
- Cooperation between citizens and institutions: learning foreign languages, creating funds with restricted resources (micro projects) in order to implement smaller projects for citizens;
- Technical assistance: Feasibility studies during the preparation of extensive cross-border strategies, projects, and in the course of introducing joint management structures;
- Joint fight against cross-border crime and terrorism;
- Protection of minority rights and promotion and development of human and civil rights and values of the civil society;
- Adoption and implementation of standards (ISO, EC, NASSR).

Considering the development of free zones, stimulatory measures that local self-government can propose include:

- Exemption of users in the zone from the payment of fees for the development of city building land;
- Exemption from municipal administration fees (fees for obtaining the construction and planning permit, utility service fees etc.);
- Free connection to the system within public utility companies;
- Exemption from all fees in the certain period of using facilities;
- Stimulation for more efficient infrastructural equipping of the zone (electrical energy, water and sewer system, telecommunication cables, internal railways, production and warehousing facilities etc.).

It is well-known that free zones users enjoy additional customs duty and tax relieves that were defined by related laws. First of all, imported equipment, machinery and construction material are not liable to customs duty and VAT. Furthermore, import of intermediate goods for export-oriented production is exempt from customs duties, while goods intended for sales at the domestic market are liable to customs duty only to import component. Import of all goods into the free zone is exempt from VAT, except products intended for end consumption, as well as providing transportation and other services to free zone users that are directly in connection with the import of goods into the zone. The free zone, i.e. the economic entity managing the zone may, also, prescribe certain stimulatory measures, such as the reduction of rent for land or premises, if free zone users generate adequate annual turnover, or if they employ a specified number of persons.

45 The Customs Law and the Law on Value Added Tax.
2.6. Investment Policy

SITUATION ANALYSIS

The current investment activity, with regards to development needs, is low. In the period 1991-2000 investment into fixed assets in the Republic of Serbia were falling at an average annual rate of -13.0%, while in the period 2001-2003 the rate was -0.6%. The average annual investment decline rate in the period 1991-2003 was -10.4%. A sharp reduction of investment activity indicated technical-technological backwardness of production capacities. A significant increase in the share of investment of the private sector from 20.3% in 2000, i.e. 26.5% in 2003 to 45.5% in 2004 was recorded, owing to the privatization process and higher participation of the private sector. In the period 2004-2005 real growth of investment activity was recorded. Increasing investments into economic infrastructure and new technologies and equipment is a basic presumption for reaching higher GDP growth rates, enhancing competitiveness and export growth.

It is estimated that the share of investments into fixed assets in GDP was 17% in 2005, being below the level of new EU member states and the surrounding countries (Bulgaria 23.8%, Romania 23.1% and Croatia 29.3%). Investments amounting to 25% of GDP are necessary to overcome technological backwardness and to achieve dynamic economic development.

According to the regional aspect of investments, there is a deep gap between the City of Belgrade and the remaining part of the Republic of Serbia. In 2004, investments per capita in Belgrade were 2.1 times higher compared to the Republic’s average. A higher level of investments per capita with regards to the average was reached in the South-Backa District (2.7% higher) and the Nisava District (0.8% higher). A low level (below 20% with regards to the average) was recorded in Srem, Toplica and Jablanica Districts. A high level of investments per capita was realized in the municipalities of Vracar, Lazarevac, Novi Beograd, Obrenovac, Palilula, Savski Venac, Stari Grad, Zitiste, Apatin, Novi Sad, Paracin, Kladovo, Kosjeric and the City of Nis. The lowest level (below 30% with regards to the average) was recorded in Sremski Karlovci, Bogatic, Krupanj, Malo Crnice, Knic, Raca, Rekovac, Boljevac, Prijob, Cicevac, Merosin, Razanj, Svriljig, Babusnica, Zitoradje, Bojnik, Crna Trava, Bosilegrad, Vladicin Han and Trgoviste. Comparing the share of investments by districts in the total investments of the Republic of Serbia, a growing tendency was recorded in the share of the City of Belgrade (from 37.1% in 2001 to 45.1% in 2004). The South-Backa District accounts for 8.1%. The Nisava District accounts for 5.1%, while other areas accounted for 24.8%.
Table 24: Investments by districts

<table>
<thead>
<tr>
<th></th>
<th>Share in the Republic of Serbia, %</th>
<th>Level indices per capita</th>
</tr>
</thead>
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<td></td>
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<tr>
<td>Undistributed</td>
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</tr>
<tr>
<td>North Backa District</td>
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<td>1.7</td>
</tr>
<tr>
<td>Central Banat District</td>
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<td>1.2</td>
</tr>
<tr>
<td>North Banat District</td>
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<td>1.2</td>
</tr>
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<td>South Banat District</td>
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<td>Bor District</td>
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<td>Zaječar District</td>
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<td>Raska District</td>
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</tr>
<tr>
<td>Pcinja District</td>
<td>2.0</td>
<td>1.3</td>
</tr>
</tbody>
</table>

Source: RSO and RDB
Note: Investments comprise social, cooperative, mixed and state property. Undistributed investments cannot be broken down by municipalities (power – transmission lines, railway tracks, TT lines, highways)

A stable economic, financial and political system (macroeconomic stability), and ensured legal security of property and investment are important preconditions for creating a favourable investment climate. The tax system provides significant relieves for investors classifying it among the most stimulating fiscal systems of the transition countries. The privatization concept is market and investment oriented and enables inflow of foreign capital through direct investments into enterprises. SIEPA and the Agency for SMEE Development were founded contributing to the revival of investment activity. In the period 2001-2005, the institutional framework, relating to investments, was partly rounded off by passing the Law on Planning and Construction, Law on Concessions, Law on Lien on immovable property inscribed in the register, Law on Financial Leasing, Law on Guarantee Fund, and by the adoption of the Action Plan for removing administrative barriers to foreign investments. The Law on Business Entities envisages foundation of business entities and entrepreneurs, enterprise management, right and obligations of founders, partners, members and shareholders, affiliation and reorganization of business entities. Beginning March 2006, the Government adopted the Foreign Investment Stimulation and Development Strategy. After the adoption of the Strategy, the following
laws were passed, regulating areas of importance for foreign investors: the Law on Foreign Currency Operations, Law on Free Zones, Law on Financing Local Self-Government, Arbitration Law, Law on Investment Funds, amendments of and supplements to the Law on Planning and Construction and a set of laws referring to the protection of intellectual property rights. The new Draft Law on Foreign Investment was formulated envisaging the introduction of the “one-stop-shop” that will enable more efficient realization of investments.

Goals

1. Providing permanent sustainable economic development;
2. Increasing employment;
3. Growth of exports;
4. Balanced regional development;
5. More efficient usage of existing resources.

One of the goals of the investment policy is gradual reduction of regional differences, by means of more rational and complete utilization of development factors of certain areas on the basis of market criteria and by pursuing adequate stimulatory policy. Key assumptions of production and export growth are investments into modernization of equipment and production processes. Additional investments into human capital (knowledge, education, specialization etc), research and development will provide high GDP growth rates, but growth of competitiveness of the Republic of Serbia as well. Foreign direct investments also bring modern technology and management into the country, provide export markets and activate processes that improve operation of domestic enterprises.

The Decree on terms and conditions for attracting foreign direct investments (period of application: 3 years) stimulating (through budgetary funds of the Republic of Serbia) investments with favourable effect on the creation of new jobs, transfer of new knowledge and technology, as well as on harmonization of the territorial development of the Republic of Serbia was passed end-June 2006. The total funds that can be allocated are specified according to new jobs, assessing projects following the criteria of the Decree (from 2,000 to 10,000 euros for each job position).

Policy, Measures and Activities

1. The programme orientation of development incentives aimed at realization of regional development programmes and projects;
2. Co-financing of balanced regional development by budgetary funds of the Republic of Serbia, local self-government budgetary funds and other sources;
3. Incentives of importance for balanced regional development that will be allocated in accordance with rules on allocating the state funds and regulations on financing local self-government for: entrepreneurial investments, current operation of business entities, economic restructuring; capacitating staff for implementation of regional policy, preparation of equipment and devices directly used for environmental protection, utilization of renewable energy sources;
4. Incentives in the form of subsidies, favourable loans, guarantees, and tax relieves defined under the tax regulation, capital investment, and giving the status of the area with special development problems.
Investment incentive mechanisms are regulated by special policies, such as: fiscal and loan policies, policy on foreign economic relations, foreign investment policy, and entrepreneurship development policy. Additional investment incentives include:

- **Faster depreciation** is a special type of depreciation whereby taxpayers are offered tax incentive in the form of delayed payment of taxes by means of initial approval, early depreciation and faster depreciation;

- **Subsidies** for building production capacities in less developed regions for small and medium-sized enterprises and shops (certain percentage of the total investments). Subsidies are granted for the projects financed from the funds other than loans;

- **Interest rate allowance** for enterprises in undeveloped areas that receive investments, by getting allowances for loans and obligations for financing investment into industrial equipment, buildings, research work and human resources;

- **Participation of the country and other government levels in enterprises in undeveloped areas.** This share can be up to 50% of the enterprise’s capital or it can participate with certain percentage in building costs or purchase of investment equipment.

### 2.7. Foreign Investment Policy

#### SITUATION ANALYSIS

**Inflow of foreign direct investments into the Republic of Serbia is characterized by deep discrepancy in different regions of the country.** More developed and prosperous areas, such as Belgrade and AP Vojvodina, attract much more capital compared to poor and undeveloped areas like most municipalities in Central Serbia. The situation like this causes less interest for investments into municipalities where foreign investors had no positive experience that would set an example for future investments.

Considering the inflow of foreign investments as one of the criteria of attraction of certain municipality, a classification of *the most successful, i.e. the most attractive municipalities in the Republic of Serbia* can be made. Investors are usually interested in these municipalities for their location, i.e. geographic position, work force profile, promptness and dedication of local administration, and successful examples of foreign investments. The regional analysis of foreign investments shows that foreign direct investments were not made into a large number of municipalities.

For these reasons, it is necessary to open an office in each municipality responsible for local economic development issues. These offices would provide services to investors who are interested for initiation of business, as well as to the existing investors. These services would imply facilitated implementation of the necessary administrative procedures, and would serve as the basis for foundation of opening one-stop-shop envisaged under the new Draft Law on Foreign Investment. These offices would manage the policy of stimulating foreign investments on the local level, i.e. they would propose the introduction of tax and other relieves (e.g. more favourable conditions of land lease) by using new competencies of the local self-administration laid down under the Law on Financing Local Self-Government. They would also organize promotional activities.
For the successful formulation of local development plans and the policy on stimulation of investment, municipalities should dispose of full property capacity, which implies the necessity of defining the property of municipalities by passing the **Law on Property of Local Self-Government** thereby enabling free disposal of the property by local self-government. Considering the disposal of the Republic’s property by municipalities, as now is the case with city building land, it is necessary to simplify administrative procedures. First of all, it is necessary to abolish the obligation of getting the consent of the Republic Directorate for Property of the Republic of Serbia related to leasing the city building land through amendments of the **Law on Funds owned by the Republic of Serbia**.

The Ministry for Foreign Economic Relations is preparing a set of laws that would regulate the property restitution, privatization of the building land, the area of planning and construction. The goal is to establish the functional real estate market and facilitation of administrative procedures for issuing necessary permits. This will result in a real estate market where all types of property will be equally present and where the price will be formed on the basis of supply and demand.

Tax incentives that could influence the alleviation of regional differences are inefficient, as the status of the undeveloped area and the area of special interest, for which tax incentives were envisaged under the Law on Corporate Profit Tax, were not defined. It is expected that this irregularity should be removed by passing the **law that would lay down the stimulation of balanced regional development**.

The incentives for investors that can be provided by local self-government relate to the **exemption from payment of the land lease**. Undeveloped areas should use this possibility for attracting foreign investments.

The establishment of **regional agencies for attracting and promotion of foreign investments and other agencies that will manage the issues of local economic development** should be supported by state institutions, as proposing of these initiatives results in plans and strategies related to local, i.e. regional development which handle the problems of the area more thoroughly compared to national documents.

By establishing **industrial parks in undeveloped areas** the concentration of economic activities at the location that would be attractive for foreign investors can be achieved, thus stimulating the economic development on the local level. After the implementation of the Law that would regulate the operation of industrial parks, funds for the development of industrial parks, i.e. stimulants for managers who would build primary and secondary infrastructure in these locations, will be allocated from the budget. The criteria for the allocation of funds will depend on the level of development of the area where the industrial park will be located.
Policy, Measures and Activities

For the purpose of removing administrative barriers to foreign investments, aimed at balanced regional development, it is necessary to undertake the following measures and activities:

- **To pass the Law that would regulate restitution of property after the adoption of the Law on reporting and recording of seized property;**
- **To pass the Law which regulates property issues of local self-government;**
- **To adopt the new Law which will regulate the area of foreign investments and improve the competitive position of the Republic of Serbia related to incentives for foreign investments and precisely determine the conditions that an investment should satisfy in order to acquire the status of investment of special interest (a world-known brand, new employment and/or high technology); as incentives for investments of special interest free allocation of land, exemption from payment of fees for land development, as well as providing the necessary infrastructure to the given land should be considered.**
- **To adopt amendments to the Law on Funds in the Ownership by the Republic of Serbia that will annul the provisions on the mandatory consent of the Directorate for Property and instead of the consent, lay down the obligatory registration of the agreement at the Directorate that would be able to act by virtue of its office in case of infringement of regulations;**
- **To adopt the new Law on Planning and Construction (or a special Law on Building Land) that would contain provisions of the procedure of leasing the building land, and would be binding for the local self-government; this Law will simplify and reduce the procedure of issuing construction permits within 15 days, and to establish a special service within municipalities for collection of requests for issuing construction permits;**
- **To pass the Law on Industrial Parks;**
- **To establish clear criteria and penalties in relation to the specification and collection of local fees, including the environment protection fee that should be introduced by previously designated competent authority in order to avoid legal insecurity.**
2.8. Competitiveness Policy

SITUATION ANALYSIS

The policy of competitiveness of goods and services is a basic element of every open and market economy. The policy of competitiveness is a set of incentive elements of competitiveness, legal support and the strategy of competitiveness. Therefore, it is necessary to establish the competitive market, to regulate it on the legal basis and to keep it on the highest possible level in accordance with internationally valid standards, rules and principles. At the same time, the competitiveness policy should not only alleviate competitive discrepancy between regions, but enable the economy to act as one whole on the internationally competitive market.

The key goal that the competitiveness policy sets before the economy of the Republic of Serbia is reaching the highest possible level of competitiveness determined by such production levels that will: (1) enable a high average economic growth rate of 7% until 2012 and (2) increase the standard of living of all citizens.

In the period 2000-2005, the adequate application of the stabilization policy, as well as by pursuing accelerated structural reforms in the Republic of Serbia contributed to the establishment of a market environment which is far more attractive for investors and which guarantees market-based principles of operation. Competitive positions of the Serbian economy were improved in 2005 which is reflected by indicators of competitiveness of relevant international institutions. The global competitiveness index of the World Economic Forum indicates the improvement of national competitiveness of the Serbian economy in 2005, while the World Bank indicator of the level of business operation for 2006 indicates legislative activities over 2005 that are directed towards increasing the level of operation in the coming years.

In order to increase the competitiveness of the Republic of Serbia, the Government passed a conclusion on the preparation of the strategy that would relate to the issue of enhancing productivity and competitiveness of the economy of the Republic of Serbia. Enhancing productivity and competitiveness of the Serbian economy will directly lead to increasing of investment, especially foreign direct investment, export growth and new employment.

The Government’s indicators of engagement and transparency are the most important determinants of the national economic competitiveness and all factors of competitiveness, alongside political stability, quality of passed laws and regulations, and their implementation, the rule of law and monitoring over corruption. The quality of institutional solutions is important, first of all, for all social processes, and especially for efficient market economy, market operations, entrepreneurial activity as well as social cohesion. At the same time, the influence of cost efficiency (competitiveness) on the overall economic growth is reflected through the influence of public consumption and the quality of institutions, therefore institutional solutions need to be oriented towards economic prosperity and improvement of the quality of living.
Balanced Regional Development Policy

Goals

The competitiveness policy is aimed at creating a competitive market economy, through the improvement of macroeconomic and business environment, strengthening of institutions and the legal system, and increasing the technological capacity of the economy.

From the regional aspect, the strategic goal of the region should be reaching the satisfactory level of competitiveness of goods and services and achieving the level of competitiveness of the economy itself.

The measures that need to be implemented for the purpose of strengthening regional competitiveness relate to:

- Successful termination of economic restructuring; continuation of the privatization process of large economic systems first of all; import of modern technologies and new technological solutions into the production process that must contribute to the specialization of the export sector; creating an environment for growth of inflow of foreign direct investments;
- Emphasising price and costs competitiveness of the economy;
- Implementation of the Strategy for development and improvement of the SME sector;
- Shortening administrative procedures;
- Modernization of production processes that would contribute to growth of productivity and reduction of unit labour costs thereby enhancing the competitiveness of products and enterprises;
- Connecting business entities with scientific institutions;
- Increasing flexibility of the labour market;
- Equal re(distribution) of income;
- Development of the financial market;
- Introduction of international standards.

An unavoidable measure that needs to be undertaken in the Republic of Serbia is accepting EU Competition Rights which is a separate field of the EU business law regulating free flow of goods, capital, persons and services.

Its adoption is a necessary condition for the European integration, introduction into the economic flows of the developed world and for improvement of the domestic economy. Therefore, the adoption and application of such competition rights which exist in EU regulations are a basic external and internal legal-political goal whose achievement will facilitate domestic and foreign investment, enable the creation of the competitive market and improve the overall development of the domestic economy. The goal of the market economy and competition rights is welfare of consumers, while the goal of competition rights is to determine adequate balance which enables the existence of strong and large business entities, with the existence and further establishment of SMEs and strong competition, as well as the framework within which controlled market agreements are allowed, for the purpose of the best satisfaction of consumers and competitiveness of the overall economy on the internal and international market.
2.9. Industrial policy

SITUATION ANALYSIS

The domination of sector over structural and spatial criteria in the decades-long period contributed to non-harmonized development, irrational regional distribution of economic activities, demographic exhaustion of rural areas, and deep polarization of wider areas. Alongside traditionally undeveloped borderline municipalities and municipalities with unfavourable migration trends, new devastated areas in Central and Eastern regions of the Republic of Serbia emerged. These processes had negative impact on regional centres of traditional industry, where dominant sectors in these regions (manufacture of transportation equipment, metal complex, mining, textile industry) were devastated to the greatest extent which at the same time employed the largest number of working-age population. Furthermore, the depopulation tendency of undeveloped and rural areas continued, so that former centres, mainstays of development (Kragujevac and Bor) became devastated areas. The transition process deepened the existing differences and problems, and its negative effects are mostly seen in former industrial centres, the mainstays of development – Kragujevac, Bor, Priboj, Loznica, Majdanpek, Nis and Vranje. Also, social costs rose due to high concentration of population in large cities, and especially in the City of Belgrade.

The industrial sector in the period 2001-2005 was in the process of restructuring and privatization. Positive results were realized, especially in the sector of manufacturing that plays the most important role in the overall industrial trends.

General problems that have been present over the period of the industrial transition are weak utilization of capacities and low competitiveness of industrial products. Manufacturing industry of the Republic of Serbia in the period 2001-2005 is characterized by: technological-economic lagging of most capacities, accumulated loss, illiquidity and lack of working capital, inefficiency of operation and high production costs, unsatisfactory level of the quality of products and services compared to world standards, surplus of labour etc. However, considering that the period 2001-2005 is the transition period of the overall economy, we can say that it is characterized, alongside structural changes, by certain recovery of the overall industry.

The share of Manufacturing in GDP fell by 5.1%, i.e. from 23.8% in 2000 to 18.7% in 2005. Physical volume of Manufacturing grew by 7.3% with regards to 2000 (the annual growth rate is 1.4%). The following areas had the largest influence on production growth: Manufacture of basic metals, Production of Electricity, Manufacture of food products, Manufacture of motor vehicles and trailers, manufacture of chemicals and chemical products and Manufacture of rubber and plastic products.
Regional differences in GDP trends of Manufacturing are very significant. In the total structure of gross value added of Manufacturing (2005) the highest share was recorded in: the City of Belgrade (31.4%), the South-Backa District (12.0%), South-Banat District (5.6%), Nisava District (4.8%) and Zlatibor District (4.0%), while the lowest share was recorded in: the Toplica District (0.3%), Zajecar District (0.8%), Bor District (1.0%), Jablanica District (1.3%) and Raska District (1.5%).

In 2005, Manufacturing recorded GVA per capita above the average of the Republic of Serbia in the following eight districts: South-Backa (8.7%), North-Banat (23%), South Banat (33.1%), West-Banat (26.4%), Podunavlje (3.8%), Moravica (20.8%) and Pirot (29%) and the City of Belgrade (49.4%), while other sixteen districts realized GVA per capita below the average of the Republic of Serbia. Manufacturing in the following districts recorded the lowest GVA per capita: Toplica (80.3%), Braničevo (64%) and Jablanica (60.7%), below the average of the Republic of Serbia.

Viewed by districts, industrial sub-sectors that realized the highest share in GVA in Manufacturing are the following:

**The North-Backa District:** Manufacture of food products, beverages and tobacco (55.2%), Manufacture of electrical and optical equipment (9.4%) and Manufacture of textile and textile products (7.2%);

**The Middle-Banat District:** Manufacture of food products, beverages and tobacco (53.3%), Manufacture of other non-metal mineral products (11.4%), and Manufacture of transportation equipment (7.9%);

**The North-Banat District:** Manufacture of food products, beverages and tobacco (38.1%), Manufacture of other non-metal mineral products (27.5%), Manufacture of basic metals and fabricated metal products (20.7%);

**The South-Banat District:** Manufacture of Coke and oil derivatives (62.5%) and Manufacture of food products, beverages and tobacco (19.5%);
The West-Backa District: Manufacture of food products, beverages and tobacco (63.7%) and Manufacture of chemicals, chemical products and artificial synthetic fibres (6.5%);

The South-Backa District: Manufacture of food products, beverages and tobacco (44.8%), Manufacture of other non-metal mineral products (10.9%) and Manufacture of rubber and plastic products (10.3%);

The Srem District: Manufacture of food products, beverages and tobacco (30.6%), Manufacture of rubber and plastic products (20.3%) and Manufacture of basic metals and fabricated metal products (13.0%);

The Macva District: Manufacture of chemicals, chemical products and artificial synthetic fibres (25.0%), Manufacture of food products, beverages and tobacco (22.5%), Manufacture of other non-metal mineral products (10.3%);

The Kolubara District: Manufacture of food products, beverages and tobacco (19.0%), Manufacture of rubber and plastic products (16.0%) and Manufacture of basic metals and fabricated metal products (15.4%);

The Podunavlje District: Manufacture of basic metals and fabricated metal products (57.0%), Manufacture of machinery and equipment (19.3%) and Manufacture of transportation equipment (6.4%);

The Braničevo District: Manufacture of food products, beverages and tobacco (74.6%), Manufacture of basic metals and fabricated metal products (11.5%);

The Sumadija District: Manufacture of food products, beverages and tobacco (27.7%), Manufacture of other non-metal mineral products (16.8%), and Manufacture of rubber and plastic products (12.3%);

The Pomoravlje District: Manufacture of other non-metal mineral products (33.4%), Manufacture of food products, beverages and tobacco (24.5%), Manufacture of electrical and optical equipment (13.5%);

The Bor District: Manufacture of basic metals and fabricated metal products (75%), and Manufacturing not mentioned elsewhere (10.6%);

The Zaječar District: Manufacture of basic metals and fabricated metal products (36.6%), Manufacture of electrical and optical equipment (21.2%) and Manufacture of leather and leather products (17.6%);

The Zlatibor District: Manufacture of basic metals and fabricated metal products (28.1%), Manufacture of other non-metal mineral products (18.8%), and Manufacture of textile and textile products (11.9%);

The Moravica District: Manufacture of basic metals and fabricated metal products (20.2%), Manufacture of chemicals, chemical products and artificial synthetic fibres (19.4%) and Manufacture of food products, beverages and tobacco (16.6%);

The Raska District: Manufacture of textile and textile products (20.5%), Manufacture of food products, beverages and tobacco (17.6%), Manufacture of other non-metal mineral products (14.6%);
The Rasina District: Manufacture of transportation equipment (19.3%), Manufacture of food products, beverages and tobacco (19.1%), and Manufacture of chemicals, chemical products and artificial synthetic fibres (16.7%);

The Nisava District: Manufacture of food products, beverages and tobacco (43.9%), Manufacture of basic metals and fabricated metal products (15.3%) and Manufacture of chemicals, chemical products and artificial synthetic fibres (12.1%);

The Toplica District: Manufacture of food products, beverages and tobacco (49.1%), Manufacture of basic metals and fabricated metal products (16.7%), Manufacture of other non-metal mineral products (11.7%);

The Pirot District: Manufacture of rubber and plastic products (65.9%) and Manufacture of textile and textile products (14.5%);

The Jablanica District: Manufacture of chemicals and chemical products and artificial synthetic fibres (60.7%), Manufacture of food products, beverages and tobacco (10.2%), and Manufacture of wood and wood products processing (7.3%);

The Pcinj District: Manufacture of machinery and equipment (30.0%), Manufacturing (recycling) not mentioned elsewhere (27.3%), Manufacture of basic metals and fabricated metal products (10.3%).

Table 25: Structure by tech groups, GVA of Manufacturing in 2005

<table>
<thead>
<tr>
<th>District</th>
<th>Structure GVA per capita</th>
<th>Low-tech</th>
<th>Medium-tech</th>
<th>High-tech</th>
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</table>

Source: RDB on the basis of the RSO data

Low-tech: Man. of food products and beverages; Man. of textiles and textile products; Man. of leather and leather products;
Medium: Man. of wood and cork products; Man. of pulp, paper and paper products; Man. of coke and oil derivatives; Man. of chemicals and chemical products; Man. of rubber and plastic products; Man. of non-metallic mineral products; Man. of basic metals; High-tech: Man. of machinery and equipment; Man. of electrical and optical instruments; Man. of transport equipment; Man. not mentioned in other place (recycling)
Goals

The main goal of the industrial development in the Republic of Serbia is to create a modern, developed, competitive industrial structure that will gradually fit into the economic flows of the European Union.

The Republic of Serbia is strategically oriented towards creating an efficient and competitive industrial structure included into European development trends, with a high share of high-technology industries, through the development of high technologies, primarily in the area of chemical and pharmaceutical industry, information-communication sector and in electronic and food industry etc. The export orientation of the Republic of Serbia should be based on a specialized range of products and service on the regional level. Such a development orientation is necessary as the current export of the Republic of Serbia is based on the production of primary products and low-tech products and these bases cannot provide long-term export growth and the total economic development. It is necessary to gradually reduce export dependency, and to increase export capacity of the domestic industry with high-tech products and services.

Development goals of the industry are oriented towards:

1. Increasing competitiveness;
2. Change in industrial structure – growth of share of high-tech sub-sectors;
3. Stimulating development of industrial clusters, industrial parks and zones;
4. International cooperation in all large industrial systems;
5. Stimulating export;
6. Increasing energy efficiency;
7. Harmonization of national regulations in the area of industry with EU regulations.

Policy, Measures and Activities

Industrial incentive mechanisms are regulated by special policies such as: fiscal policy, credit-monetary policy, policy of foreign economic relations, foreign investment policy and entrepreneurship policy.

Additional industrial incentives are the following:

1. Introduction of international standards in all large systems;
2. Promotion of regional export potentials;
3. Enhancing competitiveness of the economy of the Republic of Serbia;
4. Termination of the privatization process.
2.10. Entrepreneurship Development Policy

MAIN FINDINGS: The regional analysis of the development level of the SMEE sector indicates its concentration and efficient operation in more developed regions and large cities. On the other side, although undeveloped, this sector is important in most regions, while in some municipalities it is the only segment of the economy in pursuing structural reforms, especially aimed at creating new jobs and the development of the overall economy. Although it is dominant in the economic structure of every district, this sector did not contribute to alleviation of regional disproportions to a significant extent. According to the SMEE development index, fast progress was recorded in: the City of Belgrade, South-Backa, North-Backa and South-Banat, while in other districts the development of the economy is based on market principles and is still slow. Districts with the lowest values of the SMEE development index (Toplica, Pcinj and Jablanica) are 5 times less developed than the City of Belgrade, which has the most developed SMEE sector in the country. The GVA index per capita of 1:8.5 indicates the same relations in the districts’ development levels, which means that the least developed Toplica District generates 8.5 times less GVA connections through clusters, business-technology incubators and technology parks which are the basis for pursuing regional policy in highly developed countries. The dynamics of development of this sector and its turning into the mainstay of economic and the overall development of the region and the Republic of Serbia, source of new jobs and an important instrument of poverty alleviation will depend on efficient realization of structural reforms. Creation of a strong private sector through the foundation of new and development of the existing SMEs demands further improvement of a stimulatory business environment, building the market of financial and non-financial services adjusted to the development needs of this sector, along with more active participation and responsibility of the local self-government.

SITUATION ANALYSIS

In the period 2001-2005 growth of the entrepreneurial sector was recorded mainly in the private ownership, observed according to growth of the number of active SMEs and shops, With the share of SMEE of 99.7% in the total number of enterprises, 60% of the totally employed, 65.5% in creating the overall turnover and with almost 55% in creating the gross value added of the economy in 2005, the Republic of Serbia approached the usual structure of the market economy (99.8%, 70%, 60% and 70% respectively in the EU-15 in 203).

The above-average business activity and achieved operating results of the SME sector influenced significantly on the improvement of the business efficiency of the overall economy of the Republic of Serbia (in 2005, loss grew by 18.1% compared to profit, while in 2001 it was 3.4 times higher).

46 Due to the absence of unique and comprehensive monitoring, entrepreneurs were not included, although observed according to the number of registered shops and the number of employees (201,959 and 256,064 respectively in 2005), they play an important role in pursuing structural reforms.
Balanced Regional Development Policy

**Dynamic development and growing influence of the SMEE sector on the overall economic trends**

Dynamic development of the SMEE sector since 2001 did not play an important role in the rational usage of development factors of all areas, curbing the tendency of high urban concentration of economic activities and population, and reducing regional disproportions of the Republic of Serbia at the same time. Developed areas of the Republic of Serbia have the most developed SMEE sector. However, it is necessary to emphasise the importance and growing influence of the SMEE sector (especially private entrepreneurship, observed through the number of shops) on the overall development of undeveloped municipalities and finding solutions for surplus of labour in pursuing structural reforms in the economy. Regional disproportions are expressed in the level of competitiveness of this sector (the most competitive in all developed areas). Private enterprises are the most competitive part of the economy, while social and state small and medium-sized enterprises are the least competitive in all regions. One of the reasons of low competitiveness of this sector is insufficient horizontal and vertical connection of enterprises (clusters, business-technological incubators and technological parks). The Republic of Serbia has neither registered scientific-technological parks nor cluster connection of enterprises, while building of business-technological incubators is in the initial development stage and is carried out with substantial donors’ aid. In 2005 and 2006 the Government participated in financing part of costs for cluster building in the sector of the motor vehicle industry, plastic and rubber industry, manufacture of small agricultural machinery, wood and software industry, while clusters in the areas of manufacture of furniture, fruit and juices, and textile industry were built with donors’ funds. The activities for building clusters in the area of electronics, mechanical engineering and wine industry as well as tourist clusters along the Danube are underway. Building of business-technological incubators in the Republic of Serbia is performed with material and technical assistance of foreign organizations and institutions (the National Plan for the Development of Business Incubators). So far, incubators have been built in Nis, Knjazevac and Vranje, while pilot projects for building of incubators in Kikinda, Novi Sad and Zrenjanin are being prepared and the activities for their building (feasibility studies) in Bujanovac, Medvedja, Smederevo, Ivanjica and Valjevo are underway.

The comparative analysis of the development level of the SMEE sector by districts indicates significant regional disproportions. Based on the **results of the SME operation in 2005**, the City of Belgrade is the most developed, while the Toplica District is the least developed. The City of Belgrade has 83 times more SMEs with 40 times more employees, generates 125 times higher income, 109 times higher profit and 58 times higher loss than SMEs of the Toplica District.
According to the **SMEE Development Index**, the above-average values of indices and fast progress were recorded in: the City of Belgrade, South-Backa District, North-Backa District and South-Banat District, while the economic development in other districts, based on market principles, is still slow. The ratio between the most progressive (the City of Belgrade) and the least progressive districts is 1:5.6, i.e. 1:49, meaning that districts with the lowest value of the SMEE Development Index (Toplica, Pcinj and Jablanica) are 5 times less developed compared to the City of Belgrade that has the most developed SMEE sector in the country. The same relations between the development levels of districts are indicated by the GVA Index per capita of 1:8.5, meaning that the least developed Toplica District generates 8.5 times less GVA per capita with regards to the City of Belgrade.

Alongside the dominant share in the number of business entities of every district (over 90%), the regional analysis of the development level of the SME sector indicates their concentration and efficient operation in more developed areas of the Republic of Serbia. Over 50% of the total number of SMEs of the Republic of Serbia in 2005 operates on the territory of the City of Belgrade (39.5%) and the South-Backa District (11.4%), while the smallest number of them operates on the territory of the following districts: Toplica (0.5%), Pirot (0.7%), Bor (0.8%) and Zajecar (0.9%). In 2005, the SME sector of the Republic of Serbia turned into net gainers (generated profit is 10.1% higher than loss) owing to profitable operation of small and medium-sized enterprises of the following districts: South-Backa (2 times higher profit than loss), the City of Belgrade (72.3% higher profit than loss), Raska (38.7% higher), Srem (37.0% higher) and Rasina (13.3% higher). The most serious development problems (loss is 60% higher than profit) were recorded in the following districts: Jablanica, Bor, Zajecar, Podunavlje and Branicevo. The most competitive SMEs of the Republic of Serbia (private enterprises) are located in more developed districts. The least competitive SMEs in all districts are in social and state ownership.

Observed by municipalities, the SME sector is the most developed in large cities which are mainstays of districts’ development at the same time. In other municipalities, due to insufficient number and weak economic force, the SME sector did not play an important role in increasing production and more dynamic economic growth of municipalities. This is extremely notable in more than 50 municipalities whose development is based on the SME sector. These are mostly underdeveloped, borderline municipalities and municipalities with serious structural problems (agricultural and devastated with high unemployment). 14 municipalities make the exception...
in which the SME sector, i.e. the private sector, started fast development and increased employment (Coka, Opovo, Sremski Karlovi, Koceljeva, Ljig, Vladimirci, Osecina, Kucevo, Knic, Rekovac, Cajetina, Merosina, Zitoradja and Bela Palanka). The most undeveloped municipalities are the following: Crna Trava, Medvedja, Trgoviste, Presevo, Bosilegrad, Vlasotince, Nova Varos, Topola, Malo Crnice, Zabari, Golubac and Mionica (over 40% decline in employment with regards to 2001). Observed by regions, the highest concentration of municipalities whose economic development depends primarily on the development level of the SME sector is in the following districts: Kolubara, Macva, Braničevo, Nisava, Toplica, Pcinj and Jablanica (almost all the municipalities of the district).

Main problems and restrictions: Main restrictions to faster growth and development of the SME sector (incomplete legal and administrative regulation, unfinished institutional infrastructure and restricted possibilities for financial support) are even more significant in undeveloped areas with poor infrastructural, social and human resource conditions (depopulation and inadequate qualification structure). Previous institutional solutions and mechanisms did not play an important role in reducing the negative effect of the market laws which led to further polarization of the development of the Republic of Serbia and increasing differences in the level of economic development of developed and undeveloped areas of the Republic of Serbia and the emergence of new devastated areas (Kragujevac, Bor, Majdanpek, Pirot, Nis and Vranje). The following important activities of connecting enterprises through technological and organizational innovations, such as building clusters, business-technological incubators and technological parks which are the basis for pursuing the regional policy of all highly developed countries did not take place. The SMEE sector of undeveloped areas (small number, concentration in work intensive sectors and weak economic force) did not turn into a key mainstay of structural changes and the overall economic development with positive effects on growth of employment, productivity and competitiveness of regions and the overall economy.

**Goals**

The main goals of dispersive development and building a strong export-oriented and competitive SMEE sector aimed at alleviating regional disproportions are the following:

- Dynamic regional economic growth and development with the emphasis on creating new jobs in the private sector (better utilization of natural and human potentials, inflow of capital and a more intensive investment activity);
- Better regional economic connection (building clusters and connecting enterprises, building business-technological incubators in local self-governments and scientific-technological parks in university centres);
- Alleviation of social tensions (increasing employment and improving the qualification structure).

**Policy, Measures and Activities**

The policy on stimulating SMEE development is based on the principles of the *European Charter on Small Enterprises*, and is a part of the system environment with a key role in pursuing structural reforms in the country. Main goals and orientations of the SMEE sector are defined under the *Strategy for the Development of Small and Medium-Sized Enterprises and..."
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Entrepreneurship 2003-2008, while measures and activities of the Strategy implementation are defined in the Action Plan for the SMEE Development. Growth and development of entrepreneurship as one of the main levers of the economic development of the Republic of Serbia are emphasized in all sector policies and other strategic documents. Basic measures and activities for more balanced regional development of the SMEE sector are the following:

- Further improvement and shortening of administrative procedures for registration of enterprises aimed at opening a “one stop shop”;
- Facilitation of procedures and removing administrative barriers to obtaining all necessary permits, licences, certificates etc.;
- More intensive introduction of local self-governments to creating an adequate environment for SMEE development and their mutual cooperation, as well as the overall economic growth and development of local funds;
- Transfer of powers and responsibilities to the local level – decentralization in the area of ownership rights and managing public property, accompanied with fiscal decentralization (implementation of the Law on Financing Local Self-Government) – one of preconditions for the local self-government to offer fiscal and other incentives (public infrastructure, first of all) for potential investors thus increasing their competitiveness;
- Establishment of organizational and infrastructural organizations in the area of scientific-research and innovation activity aimed at economic, regional and local development;
- Pursuing policy measures for the development of clusters, industrial and technological parks;
- Strengthening and spreading the network of regional institutions for financial and non-financial assistance to the SMEE sector;
- Development of the SMEE sector in accordance with regional and sector development programmes;
- Development of entrepreneurship and the SME sector by introducing the diaspora in all its segments – investment of capital, knowledge and all expert and other potentials;
- Establishment of the system of incentive measures for all business entities and entrepreneurs that would enable the staff to stay in the country and attract other competent staff, especially in undeveloped areas and in the fields of innovativeness and inventions;
- Connecting all local self-governments and business entities with a single information-communication network and with the e-business system;
- Improving employment policy and creating flexible and competitive labour market through the establishment of regional and local councils (coalitions) for employment, aimed at formulation of efficient local strategies for development and employment based on the risk and potential analysis, especially in the least developed areas;
- More selective approach and higher engagement of undeveloped areas in using foreign development loans and donors’ funds.
2.11. Agrarian Policy

**SITUATION ANALYSIS**

The Republic of Serbia has very favourable natural and climatic conditions for the development of agricultural production. The lowland of Vojvodina, Pomoravlje, Posavina, Tamnava, Krusevac and Leskovac fields, has favourable conditions for farming and vegetable growing. Higher areas are favourable for the development of cattle breeding, winegrowing and fruit-growing. The Republic of Serbia disposes of 5.1 million ha of agricultural land. Of the total agricultural area, 83% is arable land (plough land and gardens 65.3%, orchards 4.8%, vineyards 1.3%, meadows 11.6%).

The agricultural sector is characterized by two-sided structure: large corporate farms (industrial farms and agricultural cooperatives) and family farms (with 85% of the totally arable land). Industrial farms are state-owned enterprises that use around 15% of the totally arable land. In 2000, around 411 industrial farms were registered. They operate with lack of investment funds and surplus of labour. Agricultural cooperatives have long tradition of development in the Republic of Serbia. Since 1954, cooperatives in AP Vojvodina have owned 10,438 ha of land (state ownership), and since 1968 they have acquired through their operation another 192,245 ha of land (cooperative ownership) that was transferred to previous municipal estate (now socially-owned enterprises). A serious problem in “state cooperatives” is the inability of the producer to manage and control the operation of cooperatives. This is the reason why new cooperatives have been recently established with the possibility of decision-making and taking over the risk when selling products at new markets. Cooperatives have the same problem as industrial farms: surplus of labour, lack of investments and profitability-related problems. Around 700,000 of family farms own less than 10 ha. Family commercial farms are a developing group, directing a larger part of production to the market. A part of these estates is engaged in farming, and the other part is engaged in fruit-growing and vegetable-growing.

817,052 inhabitants, i.e. 10.9% of the total population of the RS are engaged in agriculture. 43% agriculturists are engaged in cattle breeding, 42% of them in farming, 12% in fruit and grape vine production and 3% in other crops. The aging tendency of the agricultural population has been obvious over the past years. A small number of young and educated people are interested in this activity, while the interest for agriculture as an additional source of income is growing. The average share of agriculture in gross domestic product in our country is 15-18%, while in more developed countries the share of agriculture in gross domestic products is 1.5-4%.

The level of agricultural development depends on the area and region. In Vojvodina lowland, agriculture is more developed than in hilly-mountainous areas. Considering that most producers own less than 10 ha of land, rational usage of mechanization is difficult. Large agricultural machines are used in state and social estates and by most agricultural producers. A small number of agriculturists are ready to apply modern techniques and technologies of production. The average yields are below European yields.

One of preconditions for the development of agriculture in our country is to regulate the rights of land lease and to enable good functioning of the land marker, thereby providing the possibility to distribute the land from less productive to more productive agriculturists. Most of agricultural land
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is in private ownership; however there is a significant part of land whose status is either disputable or unclear. The land used by industrial farms and agricultural cooperatives is in state ownership and it will be returned to real owners in the following period, while a part of it will remain in state ownership. One of the problems of market inefficiency is inadequate system of land registration.

By adoption of the new law that will regulate agricultural land, consolidates with EU regulations, restrictions related to inability to plan, protection, cultivation and utilization of agricultural land will be removed. The Law will provide for management of land in state ownership and inspection surveillance, with the establishment of the directorate for agricultural land that will be capacitated for maintaining the central register of agricultural and forest land, consolidation of holdings, alienation and exchange of land, giving consent to change of land appropriation and the introduction of the system of payment of market rental fees for all users.

Also, this Law will define numerous new institutional powers.

The absence of credit financing over the previous period had negative effects on agricultural development. The agrarian sector needs short-term (for financing production to payment collection and sales of products), mid-term (for purchase of fixed assets) and long-term loans (for purchase of land). Mostly short-term loans are granted for agriculture, fewer mid-term loans mainly for processing and less for primary production. Through the Development Fund of the Republic of Serbia and the Development Fund of AP Vojvodina, the state approved favourable loans to agricultural producers with reduced interest rates. Also, the country approves a whole range of grants and loan funds for stimulating the development of the village. Commercial loans lack due to the following: lack of loans in agriculture, the existence of risks and low productivity, small amounts of loans necessary for the private agricultural sector whose costs of establishment and monitoring are high.

For the purpose of harmonization with EU standards and improving conditions for export, it is necessary to pay more attention to good quality of products and food. This primarily refers to undeveloped regions in the Republic of Serbia. The Republic of Serbia has 75 laboratories that will be established in 32 regional laboratories and 4 national laboratories and will be used to check animal health condition, for phytosanitary control and food safety, in accordance with the Strategy for Agricultural Development and through new organization.

Counseling services for assistance to agriculturists, whose role is to transfer knowledge and information, were established, but considering the inadequate functionality, their reconstruction is underway.

**Goals**

- To improve the structure of estates;
- To regulate land market functionality and leasing possibilities;
- To improve the quality and safety of food for consumers;
- To improve the loan policy in this area;
- To provide support to sustainable development of the village;
- To apply modern technology and production technique;
- To enhance the institutional and legal framework.
Policy, Measures and Activities

In order to improve the agricultural structure and reach competitiveness, it is necessary to privatize industrial farms. In this way, reorganization of staff, creation of market competitive enterprises and the improvement of the organizational structure will be possible. Most industrial farms turned into joint-stock mixed enterprises in the transformation stage where the state remained the majority owner of shares. Also, it is necessary to restitute the seized property.

Agricultural cooperatives in Western countries represent an opportunity for agricultural development in the field of marketing, processing and supply with inputs. For that purpose it is necessary to carry out transformation of the cooperative sector in accordance with ICA and EU principles, on the basis of the new Law that will regulate cooperatives and the strategy in the area of cooperative movement. Priority activities will relate to solving problems of land ownership and to establishment of centres for support to the cooperative movement.

The EU’s attention is oriented towards support to family farms as they proved to be more efficient than large conglomerates. The Republic of Serbia is already in the process of liberalization of agricultural trade and the process of de-fragmentation of estates. It is necessary that a large number of commercial estates satisfy the needs of the modern marker economy. This can be achieved through de-fragmentation of family estate and support to young producers. Special measures of the agrarian policy with emphasized social character will be defined for non-commercial estates.

It is necessary to pay adequate attention to land ownership and provide its efficient usage. Private land should be returned to former owners or to be sold by means of tender and the sum paid to owners. The state land, in parcels, should be given on lease pursuant to programmes and the Law on Local Self-Government. In order to improve the efficient usage of agricultural land along with the establishment of the agricultural land market, it is necessary to improve and accelerate the land registration system.

For the purpose of ensuring the food safety it is necessary to accelerate passing of the Strategy for veterinary and phytosanitary control and food control as an organizational, expert and institutional assumption of the chain of laboratories. Former practice in the Republic of Serbia was to control products, plants, animals and food, in the final stage. According to the EU practice, products are controlled in all production stages and it has to become the practice in our country as well.

As according to WTO rules subsidizing of agricultural production is allowed to the level that existed in the initial period 1986-1988, it is necessary to determine the allowed level of subsidies. If domestic producers are not subsidized, unlike their competitors from other countries, they will be in a very unfavourable competitive position. The priority areas of subsidizing should primarily be the assistance in the implementation of international standards as well as subsidized loans. The access of agricultural producers to loans at the market is very restricted, and interest rates are very high. It is necessary to define, through the national agricultural programme, conditions and the purpose of short-term and long-term loans granted to agriculturists. Short-term loans would be used for purchase of seed,
fertilizers, fodder and for production purposes. Long-term loans would be used for purchase of agricultural equipment and mechanization that cannot be repaid through one production cycle. The agrarian budget should provide funds that will be granted to agricultural producers for the period of 5 years, with a grace period of 1 to 3 years. The support measures will refer to investments for improving cattle breeding and building warehouse capacities.

The policy of rural development is defined for the development of rural areas, and support measures should be institutionalized afterwards, and the long-term strategy and programme, that will replace the support programmes, are to be formulated. Also, rural areas should be determined in accordance with the EU model, and less favourable areas for production should be defined. The application of measures of rural development should result in the reduction of production costs, improvement of the quality of products, protection and improvement of the environment, satisfying hygiene conditions and welfare of animals, and stimulation of differences in agricultural activities. Within this programme, adequate attention should be paid to the assistance to young agriculturists in building their estates and modernization of facilities and machinery; furthermore training should be organized in the area of new agricultural techniques and crafts, and the assistance in building new facilities for food processing should be provided, etc.

Due to the enhancement of competitiveness and creation of more efficient agricultural sector, it is necessary to be engaged in improvement and building of institutions in agriculture. Research institutions, education system and counseling services should be reorganized.

For the purpose of defining the agricultural policy as well as reaching its transparency, it is necessary to pass the law that would define the area of agriculture. In order to define state incentive rights, their realization and control, the administration for agrarian payment should be established. It is necessary to consider the foundation of the chamber of agriculture and agricultural council, by means of which agriculturists will be involved in solving all important matters. Furthermore, a possibility of organizing and building large irrigation systems within NIP, in order to reduce the dependency of agricultural production on climate, should also be considered.
2.12. Stimulating the Development of Economic Infrastructure

SITUATION ANALYSIS

Infrastructure is one of the most important factors for maintaining sustainable economic and social development of the Republic of Serbia, and is a primary mover of regional development and utilization of comparative advantages of local areas.

The development of agriculture is specified as one of priority goals in development strategies. Also, the development of infrastructure is a priority of the National Investment Plan by means of: intensive investments into roads of national and regional importance, connecting small places with regional centres, modernization of border-crossings, railways, ports and airports in places where alternative forms of transport are cost-effective.

Main goals in the traffic policy are the following: modernization, revitalization and building of traffic infrastructure; restructuring of public traffic and transportation enterprises; increasing traffic safety; improvement of the environment protection and creation of adequate legal and institutional framework.

From the aspect of traffic infrastructure, adequate attention should be paid to the rehabilitation and reconstruction of main traffic networks, building of road and rail infrastructure through the Republic of Serbia, as well as increasing navigable routes of the Danube and the Sava River. Reconstruction of local infrastructure will be the priority on the local level. Incentives for the development of the village will enable improvement of the local infrastructure.

Considering the road traffic, it is necessary to build and modernize sections of the Corridor of the Belgrade-South Adriatic highway and the section along West-Morava- Pijat-Cacak-Pozega. In this way, the economic development of the wider area will be intensified. In order to improve the road infrastructure, it is necessary to build: Belgrade ring-road, road-railway Zezelj Bridge in Novi Sad and Batrovci and Presevo border-crossings.

Special attention should be given to the improvement of maintenance of the existing road infrastructure, especially on the local level, that would result in preventing fast deterioration of roads, improving the road infrastructure and maintenance of the invested capital. In order to improve management and planning of road maintenance works it is necessary to improve the following: organizational structure, ways of financing, information system, technical standards, and the application of new rational and efficient technologies in road maintenance. Considering that the road infrastructure will play an important role in the future, especially in undeveloped and less developed areas, more attention should be given to modernization, rehabilitation and maintenance of the regional and local infrastructure.

It is necessary to continue technical-technological modernization of railway infrastructure and the railway rolling-stock in the coming period. The revitalization and modernization of railways on Corridor 10 and its side-lines are of great importance for the synchronization with the European railway network and for inland traffic as well. Building of traffic nodes
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would result in increasing the traffic capacity, improving the quality of services on Corridor 10 and intensification of the development of the city-suburban traffic.

In accordance with the above mentioned, combined traffic terminals should be built and modernized so that they could provide transportation, reloading and logistic services. Revitalization, modernization and purchase of rolling stock should be carried out following international technical-exploitation standards and the needs of the future scope of freight and passenger traffic. In this way, railway traffic would become competitive in terms of both passenger and heavy load carriage.

Compared to other forms of traffic, river traffic is the cheapest means of transport and its capacities are completely unutilized. Its improvement and modernization would lead to the development of the economy in regions with navigable rivers. Therefore, it is necessary to pay more attention to the rehabilitation of inland navigable waterways, their cleaning, extension and signalization and regular maintenance. This also refers to building infrastructure, capacities and equipment in ports, and their connecting with the road and railway network. In order to increase competitiveness, it is necessary to renew the river fleet in accordance with European norms.

Considering air traffic, more attention should be paid to building and modernization of infrastructure of the following airports: Public Enterprise “Nikola Tesla” Airport, Belgrade, Public Enterprise for airway service “Aerodrom Nis” and Ponikve, as well as restructuring and renewal of the national airway company fleet – Public Enterprise for airway traffic “JAT AIRWAYS”.

By building the regional cargo terminal at the airport of the public enterprise “Nikola Tesla” Airport, this airport will become a collection point, transit, distribution and transfer centre. As a part of realization of this goal, it is necessary to build another landing/takeoff runway, a business centre, a hotel, business premises, etc. In order to improve the quality of transportation of passengers and goods in this part of the Republic of Serbia, more attention should be given to the modernization, reconstruction and building of infrastructure at the public enterprise for airway services “Aerodrom Nis” and “Ponikve” Airport. This would stimulate the development of tourism, economy and whole regions.

In order to reach competitiveness, it is necessary to intensify the process of restructuring of public enterprises (public enterprise “Serbian Railways”, public enterprise for airway traffic “JAT AIRWAYS”, public enterprise “Nikola Tesla” Airport, public enterprise PTT traffic “Serbia”). In this way, surplus of labour will be reduced and infrastructure management positions would be separated from transportation and related services management.

Considering the environment protection, it is necessary to realize numerous projects in all forms of traffic. The activities will be related to organization and traffic performance, as well as planning, designing and realization of new and the existing projects.

In order to improve conditions for traffic performance and for the purpose of harmonization with EU regulations in this area, it is necessary to pass laws that would regulate the freight carriage in road traffic, passenger carriage

Building combined traffic terminals should be built and modernized so that they could provide transportation, reloading and logistic services

Improvement of traffic on inland navigable waterways and its modernization would lead to the development of the economy in regions with navigable rivers

Modernization of “Nikola Tesla”, “Konstantin Veliki” and Ponikve airports will stimulate the development of tourism and whole regions

Restructuring of public infrastructural enterprises

Implementation of the environment protection regulation will improve traffic performance and enable harmonization with EU regulations
in road traffic, transportation of hazardous materials, road traffic safety, inland waterway navigation, air traffic, obligation relations and the basis of legal-property relations in air traffic.

One of the factors of increasing competitiveness and the EU integration of the Republic of Serbia is passing the Strategy that would define the issues of traffic development, and that should be based on the concept of sustainable development (in terms of ecology, technique, financing and operation) and on the multi-modal approach which implies integrated planning of river traffic development and rational usage of comparative advantages of every form of traffic.

The main strategic goals of the postal traffic include restructuring of the public enterprise PTT traffic “Serbia”; improvement of the quality of services and reduction of prices for end users, as well as defining mechanisms for the maintenance of the universal service. The postal traffic reform includes the establishment of the postal services agency, adjustment of business activities of the postal operator to conditions of growing competition, establishment of European standards in terms of quality of providing services, introduction of new services, and intensive investment development of the public enterprise PTT traffic “Serbia”.

The main goals of the regional development in the area of telecommunications include providing conditions for increasing the scope and quality of telecommunication services, adequate and efficient functioning of the telecommunication system, and the development of competition and introduction of market principles on the telecommunication market.

The development of the efficient telecommunication network should be oriented towards providing digitalization and development of the access network of adequate quality as well as increasing the penetration rate. On the regional level, it is necessary to build modern architecture of fixed telephone network by replacing the existing networks with new generation networks, which would enable, alongside the existing services, providing new convergence and multimedia services based on the Internet protocol. Special attention should be given to the introduction of the new universal service that would enable access to basic telecommunication services, especially in underdeveloped areas. Regarding the mobile telephony, special attention should be paid to increasing penetration as well as providing the infrastructure that would enable more adequate using of this service in all regions.

The development of the information society will be enabled through wider application of information-communication technologies (ICT) on the regional level. In this way, the Internet will be cheap, fast and safe and available to everyone.

Cable distribution systems are increasingly used as multi-service networks with the possibility of the “on-line” Internet. Therefore, it is necessary to carry out the reconstruction of the existing and building of new, modern CDS and provide conditions for participation on the telecommunications market to all interested service providers.

Adequate attention should be given to the development of satellite communications, as well as to the liberalization and organization of the satellite communication market and providing consolidation with the existing European and world standards and recommendations.
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In order to overcome unbalanced regional development in the Republic of Serbia, it is necessary to create a favourable regulatory environment for attracting domestic and foreign investments in terms of building the telecommunication infrastructure, in terms of possibilities for providing modern telecommunication services, and investing into production capacities of the telecommunication industry (or some of its elements) with wider social importance.

In the area of broadcasting, the regional electronic media will operate in accordance with the Plan for distribution of radiofrequencies for regional coverage, while the distribution of channels of digital broadcasting will be realized on the regional level in accordance with Plan adopted at the Regional Radio-Conference for planning of digital terrestrial broadcasting service (RRC-06). At the Plenipotentiary Conference (PP-06, Antalya, November 2006) as the supervising body of the International Telecommunications Union (ITU), the Resolution on assistance and support to the Republic of Serbia for rebuilding its destroyed public broadcasting system was adopted. The realization of this programme will enable the programmes of public broadcasting services to be more present in all regions of the Republic of Serbia.

2.13. Tourism

**MAIN FINDINGS:** Regional dispersion of tourist flows has had the same performances for a long period of time: (a) relatively small volume and structure of guests; (b) insignificant utilization of capacities; (c) undeveloped tourism brand; and (d) lack of professional staff.

The tourism development priority should be oriented to increasing the volume of tourist turnover through better offer of quantitative (better utilization of the existing and building of new, modern and various accommodation capacities) and qualitative tourism factors (further development of different forms of tourism through selective affirmation of natural, anthropogenic and cultural contents) that would lead to higher competitiveness of the region on the domestic, and wider, European market.

**SITUATION ANALYSIS**

**Key trends of the tourist turnover**

- The existence of tourist predispositions that are unutilized due to the closed market, unfinished privatization and restructuring of capacities;
- A small share of tourism as a sector in the economic activity;
- Decline in the number of visits of domestic tourists and positive tendencies in the number of foreign tourists;
- High dependency of tourist flows on visits of domestic tourist;
- Very unfavourable characteristics of accommodation capacities;
- Insignificant investment activity;
- Insignificant average tourist stay and the related extra spending;
- Lack of international chains;
- Incomplete and insignificant information;
• Small dispersion of tourist activities on the regional level – mainstays of tourist activity for the City of Belgrade, Zlatibor and Raska District;

• The Raska (75) and Zlatibor District have the largest concentration of the number of tourists per 100 inhabitants;

• The coefficient of tourist localization on the territory of ten municipalities is positive, there are 100 tourists per 100 inhabitants (Kladovo, Irig, Majdanpek, Bajina Basta, Niska Banja, Brus, Raska, Sokobanja, Vrnjacka Banja, and Cajetina);

• The share of over 3% of the sector of Hotels and Restaurants in the overall national income (2004) was recorded in three districts – Central-Banat (the municipality of Zrenjanin contributes to the national income of this sector), Zlatibor (the municipality of Uzice) and Raska (the municipality of Kraljevo).

Multiplicative effects of the tourism sector are reasons that this sector is considered to be the sector of the future of many countries. Its characteristic is that it can provide the highest growth of employment and creation of new jobs. Not only that tourism has important influence on creating GDP, but it has positive effects on the country's balance of payments, it generates income for the state budget, it influences local budget revenues and supports investment activities. It should be emphasized that tourism, in almost all transition countries, was one of the most attractive areas for foreign direct investments. Tourism can generate the development of undeveloped areas to a significant extent, through state aid mechanisms in arousing awareness of the local government on potentials of tourism for reaching economic growth (especially in fight for poverty alleviation), development of human resources (courses of foreign languages, catering, locality management, maintenance and courses for guides), and small-scale investments into infrastructure in the areas of tourism potential, etc.

Regions (districts) of the Republic of Serbia have natural, cultural and historic potentials that can define certain types of the tourist offer. These potentials and types of tourist products are not completely utilized, as they are partly defined with differences in the existing conditions (nature, cultural and historic heritage) and partly with created conditions (availability, infrastructural equipment, the service sector, variety of sport-recreation contents, tourist organization, etc.).

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It is estimated that the tourism sector and its related activities account for 2.5% of the gross domestic products and 5-6% of the total employment.

Generated foreign currency income from tourism for 2005 reached USD 304.1 million (12 times higher compared to 2001). The potential of attractive destinations of the Republic of Serbia as a Transdanubian, Central-European and Balkan country for attracting foreign tourists is important. Belgrade is the main tourist centre that accounts for 59.8% in the total visits of foreign tourists. Positive tendencies with regards to 2001 indicate that the dispersion of visits of foreign tourists from Belgrade, as the mainstay of foreign visits, to other destinations and types of tourism in Republic of Serbia took place. Domestic tourists base their stays on short business trips or visits to fairs of administrative centres.

Out of the total number of tourists, the category of domestic tourists account for 77.2%, being 13% less with regards to 2001. The total number of visits of foreign tourists in 2005 reached 1.535.790 which is 18.6%
Balanced Regional Development Policy

less with regards to the registered number of visits in 2001. These tourist indicators have a growing tendency for the category of foreign tourists. Further development of accommodation capacities can influence the duration of average stay and a growing trend of overnight stays of foreign tourists (in 2005, the share of overnight stays of foreign tourists in the total number of stays reached 15.3%). A total decline in the number of tourists registered on the territory of the Republic of Serbia (2005 compared to 2001) was 6.6% which resulted from higher outflow of domestic tourists towards destinations of other countries with more developed tourism, and non-proportionate inflow of foreign tourists, i.e. their small share in the total tourist activity.

Determination of factors of tourism development of individual regions is based on the analysis of main tourist destinations.

The regional structure of tourist activity shows that the highest concentration of the tourist inflow was recorded on the territory of Belgrade (32.5% of the total number of stays, i.e. 24.4% of domestic visits and 59.9% of foreign visits), while other most visited regions are the following: the Zlatibor District with the mountain potential of Tara, Zlatibor and Zlatar; the Raska District with developed spa tourism and two large spas – Vrnjacka Spa and Mataruska Spa; the Rasina District with the most visited mountain of Serbia – Kopaonik, and two large cities with their festival and fair offers – Novi Sad and Nis.

If we compare tourism trends in districts in 2004, the City of Belgrade, the Zlatibor District (the ratio between Cajetina, a municipality of this district with the largest number of registered tourists, and Arilje, a municipality with the smallest number of tourists, is 1:0.01) and the Raska District account for over 50% in the total number of visits and overnight stays of tourists of the Republic of Serbia and have the highest concentration of tourists per 100 inhabitants (70), so that it can be concluded that they are mainstays of tourism of the Republic of Serbia. However, if the average stay of tourists in the three mentioned districts is observed, a short five-day stay on average is recorded (the City of Belgrade – two days). The Toplica District has an average stay of over 10 days which is a consequence of the specific offer of Prolom Spa. More than half of districts do not record an average stay of more than four days, therefore significant utilization of tourism potentials do not exist.

Observing main indicators with regards to 2001, eight districts (the Middle-Banat District, South-Banat, Western-Backa, Srem, Macva, Rasina, Toplica and Pirot Districts) have positive trends of the tourism activity, while a great deal of districts record a decline in the number of visits and overnight stays. Alongside natural advantages and created material capacities, results of tourism trends in most districts are on a very low level. The Tourism Development Strategy of the Republic of Serbia defined four clusters that should contribute to defining a target, internationally competitive tourism product of each region. The practice showed that geographic proximity of areas (countries) with high GDP per capita is a decisive advantage.

Since 1997, the Republic of Serbia created first Euroregions that make up the system of borderline cooperation in different areas. “Danube-Kires-Moris-Tisa” is the first Euroregion that includes municipalities of the Republic of Serbia; “Euro Balkan”, the Balkan Euroregion, as a form of cooperation among three cities (Nis, Sofia and Skopje). Several cooperation programmes have been initiated lately such as: Euroregions: “Danube...
21”, “Djerdap-Middle Danube” and “Drina-Sava-Majevica”, as well as the
initiation of the programme “Stara planinina”, “Ponisavlje”, “Strume”,
“Pcinje” and “Morave”. This type of cooperation enables wider development
of tourist activities beyond the possibilities of a region, which is of special
importance for regions with similar cultural-historic heritage within
different countries.

Table 26: Regional tourist analyses

<table>
<thead>
<tr>
<th>District</th>
<th>Number of arrivals 2004</th>
<th>Index of arrivals 2004/2001</th>
<th>Number of overnight stays 2004</th>
<th>Index of overnight stays 2004/2001</th>
<th>Average duration of stays 2004</th>
<th>Index of average duration of stays 2004/2001</th>
<th>Number of tourists per capita 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Belgrade</td>
<td>692,933</td>
<td>89.9</td>
<td>1,384,389</td>
<td>98.7</td>
<td>2.0</td>
<td>109.8</td>
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<tr>
<td>North Backa District</td>
<td>35,110</td>
<td>73.7</td>
<td>79,362</td>
<td>92.4</td>
<td>2.3</td>
<td>125.4</td>
<td>0.2</td>
</tr>
<tr>
<td>Central Banat District</td>
<td>24,795</td>
<td>104.0</td>
<td>59,145</td>
<td>102.7</td>
<td>2.4</td>
<td>98.8</td>
<td>0.1</td>
</tr>
<tr>
<td>North Banat District</td>
<td>23,778</td>
<td>86.4</td>
<td>150,121</td>
<td>92.4</td>
<td>6.3</td>
<td>106.9</td>
<td>0.1</td>
</tr>
<tr>
<td>South Banat District</td>
<td>23,775</td>
<td>107.1</td>
<td>72,129</td>
<td>108.0</td>
<td>3.0</td>
<td>100.9</td>
<td>0.1</td>
</tr>
<tr>
<td>West Backa District</td>
<td>21,318</td>
<td>110.6</td>
<td>80,163</td>
<td>113.1</td>
<td>3.8</td>
<td>102.3</td>
<td>0.1</td>
</tr>
<tr>
<td>South Backa District</td>
<td>79,061</td>
<td>65.8</td>
<td>152,169</td>
<td>69.8</td>
<td>1.9</td>
<td>106.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Srem District</td>
<td>31,230</td>
<td>131.9</td>
<td>92,867</td>
<td>107.9</td>
<td>3.0</td>
<td>81.8</td>
<td>0.1</td>
</tr>
<tr>
<td>Macva District</td>
<td>40,730</td>
<td>109.2</td>
<td>218,812</td>
<td>107.7</td>
<td>5.4</td>
<td>98.6</td>
<td>0.1</td>
</tr>
<tr>
<td>Kolubara District</td>
<td>51,161</td>
<td>73.2</td>
<td>235,583</td>
<td>59.8</td>
<td>4.6</td>
<td>81.7</td>
<td>0.3</td>
</tr>
<tr>
<td>Podunavlje District</td>
<td>23,405</td>
<td>64.8</td>
<td>30,340</td>
<td>54.8</td>
<td>1.3</td>
<td>84.6</td>
<td>0.1</td>
</tr>
<tr>
<td>Braničevo District</td>
<td>22,554</td>
<td>93.5</td>
<td>75,036</td>
<td>84.4</td>
<td>3.3</td>
<td>90.2</td>
<td>0.1</td>
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<tr>
<td>Sumadija District</td>
<td>23,385</td>
<td>45.0</td>
<td>71,482</td>
<td>44.0</td>
<td>3.1</td>
<td>97.8</td>
<td>0.1</td>
</tr>
<tr>
<td>Pomoravje District</td>
<td>19,318</td>
<td>176.5</td>
<td>31,792</td>
<td>86.2</td>
<td>1.6</td>
<td>48.8</td>
<td>0.1</td>
</tr>
<tr>
<td>Bor District</td>
<td>68,630</td>
<td>96.8</td>
<td>157,955</td>
<td>79.2</td>
<td>2.3</td>
<td>81.8</td>
<td>0.5</td>
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<td>Zajecar District</td>
<td>73,698</td>
<td>99.4</td>
<td>465,801</td>
<td>99.2</td>
<td>6.3</td>
<td>99.8</td>
<td>0.5</td>
</tr>
<tr>
<td>Zlatibor District</td>
<td>221,247</td>
<td>108.3</td>
<td>883,425</td>
<td>87.4</td>
<td>4.0</td>
<td>80.7</td>
<td>0.7</td>
</tr>
<tr>
<td>Moravica District</td>
<td>64,415</td>
<td>99.7</td>
<td>279,703</td>
<td>100.3</td>
<td>4.3</td>
<td>100.6</td>
<td>0.3</td>
</tr>
<tr>
<td>Raska District</td>
<td>217,891</td>
<td>99.2</td>
<td>1,080,985</td>
<td>97.4</td>
<td>5.0</td>
<td>98.2</td>
<td>0.7</td>
</tr>
<tr>
<td>Rasina District</td>
<td>62,964</td>
<td>107.2</td>
<td>322,706</td>
<td>105.9</td>
<td>5.1</td>
<td>98.7</td>
<td>0.2</td>
</tr>
<tr>
<td>Nis District</td>
<td>72,050</td>
<td>96.1</td>
<td>246,316</td>
<td>65.3</td>
<td>3.4</td>
<td>67.9</td>
<td>0.2</td>
</tr>
<tr>
<td>Toplica District</td>
<td>21,613</td>
<td>124.5</td>
<td>217,441</td>
<td>200.7</td>
<td>10.1</td>
<td>161.3</td>
<td>0.2</td>
</tr>
<tr>
<td>Pirot District</td>
<td>13,617</td>
<td>100.4</td>
<td>45,500</td>
<td>101.2</td>
<td>3.3</td>
<td>100.7</td>
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</tr>
<tr>
<td>Jablanica District</td>
<td>18,284</td>
<td>93.0</td>
<td>90,004</td>
<td>118.7</td>
<td>4.9</td>
<td>127.5</td>
<td>0.1</td>
</tr>
<tr>
<td>Pcinja District</td>
<td>24,721</td>
<td>94.1</td>
<td>119,397</td>
<td>95.3</td>
<td>4.8</td>
<td>101.2</td>
<td>0.1</td>
</tr>
</tbody>
</table>
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Goals

Main goals and policies of the regional development of tourism are formulated on the basis of the **Tourism Development Strategy of the Republic of Serbia**.

Four main strategic orientations of the tourism development are the following:

1. Development of international tourism must stimulate economic growth, employment and the standard of living;
2. Creating a positive international image via tourism;
3. To provide long-term protection of natural and cultural resources through sustainable development of tourism, and
4. New tourist products of the Republic of Serbia must satisfy international quality standards, first of all the protection of tourism consumers in accordance with the European practice.

In order to achieve these goals and tasks it is necessary

1. To establish an efficient destination management system by means of foundation of “destination management organizations”;
2. To create necessary instruments of influence on development, growth and building competitiveness in tourism;
3. To formulate tourism development programmes on the regional and local level, especially in protected areas for the purpose of improvement of organization, management and stimulation of tourism development;
4. To establish comprehensive tourism statistics and the monitoring system of the influence of tourism on the national economy;
5. To establish an adequate authority or organization for tourism development, as part of institutional organization for the purpose of providing the system of stimulation of investments in tourism for domestic and foreign investors; to improve building of the tourism infrastructure and establish a single quality control system in tourism.

**Policy, Measures and Activities**

Multidimensional influence of tourism demands formulation of main policies and tasks in the areas with direct influence on the development of tourism. Development goals for individual areas are already defined under mentioned strategic documents, and are related to:

1. Infrastructure and traffic;
2. Tourist product of the Republic of Serbia;
3. Human resources and the labour market;
4. Networking with other sectors;
5. The national tourism marketing system;
6. Organization, management and stimulation of the tourism development.47

According to the **Tourism Development Strategy of the Republic of Serbia until 2015**, nine basic tourist products are identified to have the possibility of development and market commercialization: city holiday, circular traveling, business tourism + MICE, health tourism, mountains and lakes, nautics, events, rural tourism and special interests. Investments into

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chose tourist products and regions will initiate the tourism development of the whole country. The following elements are defined within the competitiveness programme:

1. Tourist companies and rivalry, which refers to the size and structure of the market and the state in the area of accommodation capacities, the development of mutual cooperation of companies and the public sector and the development of legal regulation etc.;

2. Conditions of demand that refer to the characteristics of demand, motivation, socio-economic level, clients’ behaviour and satisfaction, consumer protection level, tourist characteristics of the destination etc.;

3. The support/offer sector which refers to complementary activities, such as contents in the area of trade in tourism, traveling agencies, accommodation facilities, food and beverages, attractions, the development of the network of local suppliers and producers, etc.;

4. Production factors which refer to infrastructure, technological, financial, human resources, attractions, research, innovations, etc.

Investments into infrastructure can revitalize the existing tourist offer, stimulate the private sector, introduce the application of ecological standards in tourist destinations, activate connections between the public and private sector and enable local self-government to improve the system of commercialization of the building land.

On the basis of the defined priorities under the Tourism Development Strategy of the Republic of Serbia, 50 million euros were envisaged to be invested in the development of tourism by the end of 2006 and in 2007 aimed at the realization of 52 projects of the Ministry of Trade, Tourism and Services (MTTS). The largest portion of the proposed projects refer to building the infrastructure in tourism centres and to investments in the utilization of potentials of the River Danube, increasing competitiveness and marketing positioning of the tourism economy.

The investment policy in the tourism sector will be oriented towards:

1. Restructuring, rehabilitation and upgrading the quality of the existing facilities of the tourist offer (market re-positioning, application of the world criteria in categorization). It refers not only to hotel facilities in larger urban areas, but to numerous complementary accommodation capacities in social and/or state ownership in spas and other traditional destinations that are not adequately used today due to their desolate and ruined state and the inability to satisfy the modern demand. It should be specially emphasized that the rehabilitation of the existing accommodation offer, usually related to the still unfinished privatization process, should, as a rule, have priority with regards to investments into new projects (“Greenfield”);

2. The development of the new accommodation offer according to the concept of sustainable development, referring to projects of development and creation of new or innovative tourist products, innovative tourist products, or large “penetration” projects which, in cooperation with the state, serve for opening of previously completely unknown and/or insignificantly valorized areas (national parks, nature parks, archeological parks, complexes of rural and industrial heritage, mountains etc.);
3. Large projects, the so called urban rehabilitation for the purpose of efficient tourist valorization of certain potentially extremely attractive, and in the process of industrialization to a large extent ruined, city zones (e.g. Belgrade on rivers).

Credit and Monetary Policy

Like in the case of stimulating the housing construction, the state can, in cooperation with commercial banks, stimulate investments into tourism by means of policy on legal reserves, interest rates, issue of securities etc.

State Aid

The Ministry of Trade, Tourism and Services stimulated the development of tourism by means of economic measures, budgetary funds, especially in the area of building the tourist infrastructure and improving the tourist products aimed at attracting investors. Over 3 million euros of funds for subsidies and loans for tourism projects and 5.7 million euros of funds for infrastructure development programmes that are allocated for the development of seven chosen areas on the basis of a special programme were provided for 2006. The funds will be used for financing the improvement of the quality of the catering offer, tourist infrastructure, reconstruction of the capacities of health institutions that perform the activities of specialized rehabilitation, production of souvenirs, building and reconstruction of ships for tourism purposes, and restoration of rural facilities and their turning into tourist capacities. The credit funds are realized through the Development Fund of the Republic of Serbia.

The Ministry of Agriculture, Forestry and Water Management stimulates the development of tourism in rural areas through incentive funds for the development of the village.

New Institutional Solutions

The long-term competitiveness of four basic tourism clusters (AP Vojvodina, the Belgrade region, Western Serbia and Eastern Serbia) can be influenced through the cooperation between participants of the public and private sector by means of creating transparent and stimulating conditions in the area of tourism clusters. The Tourism Law envisages the foundation of the Agency for Tourism Development in the capacity of a legal entity for performing development-related and professional business in the area of planning and development of tourism that will have a decisive role in enhancing the competitiveness of tourist clusters.
2.14. Social Policy

SITUATION ANALYSIS

The overall changes in the political and economic system and the system of values, as well as unfavourable population trends resulted in the disturbed social balance of our society. The consequences are the following: high growth of unemployment, poverty and social stratification and a growing number of endangered children, disabled and old people, due to reduced possibilities of the family and the society to play their protective role. The real challenge of transition is growth of different forms of asocial behaviour and forms of crime. The system of social protection, as well as other systems of social security, contains numerous problems that demand new adjustment to changes and system upgrading.

Main reasons for the reform of the social protection system are the following:

• The position of citizens and beneficiaries in the social protection system is extremely passive;
• The network of social services is underdeveloped;
• Services provided by the non-governmental sector (services provided by physical persons and legal entities whose founder is not the state, non-governmental, socio-humanitarian organizations, associations) in the social protection are not adequately developed and used;
• The system of public socio-protective institutions and services is centralized, bureaucratized, non-elastic, paternalistic, and not sufficiently cost-effective and efficient.

The centralized form of government is one of the essential characteristics of the political system of the previous period. Most competencies for the establishment of rights, decision making on the manner of their realization and the necessary funds, are concentrated at the Republic’s level. Local self-government is neither independent enough, nor is interested in the satisfaction of citizens’ needs through the development of various services in this area. Lack of choices of services leads towards irrational utilization of funds, due to designation to use the protection forms of accommodation in institutions financed by the Republic of Serbia, and insufficient development of other programmes and services of support to individuals and families that are faced with life difficulties. Municipalities and cities should be returned their role of social protection of citizens, as human needs can be satisfied efficiently, economically, timely and rationally in the direct environment, family and the local community.

If the whole territory of the Republic of Serbia is taken into consideration, in this moment, levels of development of services are very different with regards to citizens’ needs, which demands new investments into the development of services in the local community. There is a discrepancy between professional capacities and working conditions. There is lack of equal willingness and knowledge in all available human resources. In order to overcome the mentioned problem, it is possible to establish a socio-economic council made up of the representatives of the executive body of the autonomous province or local self-government, as well as representatives of unions and associations of employers established on the mentioned level. The Council is authorized to decide on matters related to the influence of the economic policy on the social development and stability, policy on
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salaries and prices, employment policy, privatization etc. However, the foundation of socio-economic councils on the mentioned levels is voluntary and often there is either lack of will in practice, or social partners are not organized on these levels, so that problems occur in their foundation and operation.

Considering the importance of the social dialogue in this moment, especially on the local level, it is necessary to undertake measures for the purpose of stimulating the foundation and operation of the socio-economic council.

Goals

The main goal of the new social policy is an efficient system of social transfers and satisfaction of basic needs of citizens, for the purpose of protection of human rights. The goals of the social protection are efficient material services and a developed network of institutions and social services that can remove or attenuate main risks that citizens are exposed to.

Policy, Measures and Activities

The reform of the social protection in the Republic of Serbia started with recognizing the present citizens’ needs for new approaches, measures and services in this area. The transition processes in the social protection system were initiated in 2001 through acting of the Government and the competent ministry, which proposed reform initiatives in the area of social protection, upon the establishment and operation of strategic teams, formulation of the reform projects and establishment of the programme of the Social Inovations Fund (SIF). The reform projects included the most important areas in the social protection, along with the identification of requirements of the modern theoretical model of social work, European standard of the service development model and the social protection service.

It is necessary to provide conditions and mechanisms in the decentralization process, so that local self-governments could have sources of funds for satisfying social needs of their beneficiaries, with the obligation of purposeful utilization of these funds for the development of social protection services. This means that types of satisfactions of these needs and their providing should exist on the local level, along with allocating additional funds from the Republic level to those municipalities and cities, which are not able, according to the defined criteria, to ensure the necessary amount of funds. Only rights to regular payments should be completely under the competence of the Republic of Serbia, as well as mechanisms of control and introduction of the quality system, until adequate economic and political conditions are met. In this way, adequate interest and responsibility of the municipality for the needs and problems of the local population would be ensured. The processes of the decentralization of powers and funds will significantly change the position of a potential beneficiary of social protection. A dominant role of the state in the realization of social protection services is diminished over time through the development of the non-profit and private sector by means of which conditions for the development of more efficient and cost-effective system of social protection are provided.

The reform of the social protection system should contribute to the improvement of the protection of the poorest citizens, by means of adequate definition and provision of the existential minimum, as well as to the improvement of the quality of lives of those citizens that need assistance in satisfying the basic needs of life for various reasons, by means of creating

The country should, by means of a flexible system that enables invention and application of optimum services, define minimum rights of beneficiaries in social protection, ensure availability to everyone under equal condition and, minimum standards of services, accreditation procedures and licencing
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the network of various, available services in the community, in accordace
with needs and the best interest of users. Services should be developed
methodically, on different levels. The introduction of the system of quality
of services in social protection provides standardization in the operation
of services, an adequate level of services and protection, and enables
permanent monitoring of the effects of the social protection system. Social
protection services should be territorially and functionally available; they
should support the life of beneficiaries in the community, improve the offer
and quality of accommodation and provide services of urgent interventions.

By increasing the number and types of social services on the local level,
the possibilities of users to stay in their immediate surrounding, family or
community are increased as well, including the opportunities for preserving
family relationships, personal and cultural identity. This is the way to
attenuate or even overcome the problems of social isolation of vulnerable
individuals or groups. Similarities in citizens’ needs in specific local and
regional environments will also influence the connection of actors and
mutual development of services in those municipalities in order to achieve
the most efficient and rational response to needs.

The processes of reaching adequate social cohesion imply strong orientation
of all material and human resources in local communities towards
connecting social services in the community. The main orientation of the
development of efficient social protection lies in the creation of the network
of services and in the mutual connection of actors of social protection. The
network of services implies spatial and purposeful connection of social
actors in the local community or region, and their mutual and synchronized
action.
3. Spatial Planning and Regional Development

SITUATION ANALYSIS


Spatial plans and powers on different levels of government. Although the system of planning is directed towards spatial and urban planning considered as defining the purpose of areas, the hierarchy of strategic documents was introduced. Their purpose is “harmonization with European standards in the area of planning and development of space for the purpose of creating conditions for trans-border and international cooperation and introducing the Republic of Serbia into the European integration process” (Article 3, the Law on Planning and Construction).

Spatial plans: the Strategy that refers to the issue of spatial planning of the Republic of Serbia, spatial development schemes, the regional spatial plan and the municipal spatial plan are documents that relate to at least 10-year period and all have a strategic part which includes the elaboration of development goals. The implementation of goals is emphasized in particular. “The Agreement on the implementation of the regional spatial plan and the municipal spatial plan are entered into between the authority responsible for passing the plan and participants in the realization of planning solutions, for the four-year period” (Article 31, the Law on Planning and Construction).

Planning in the Republic of Serbia is hierarchical and it is realized on different levels of government, whereby the higher level is obligatory for the lower level. The idea is that the system of planning should enable turning general policies and strategies into detailed conditions for building. The legislator supports the need for decentralization and the necessity of transferring local planning (municipal and regional) to lower levels of government (The Law on Local Self-Government, 2002 enables connecting municipalities for mutual interests). Solutions envisaged by the Law and a strict hierarchical order of the system are not real responses to the set goals.

Regional spatial planning – achieving goals of spatial development, organization, utilization and purpose of space is in the Government’s jurisdiction, whereby the framework for local planning is narrowed. The Government passes the initiative for the formulation of the regional plan in the Republic of Serbia (the Province’s Assembly in AP Vojvodina) consulting the Republic Agency for Spatial Planning whereby it is implied that the Government and the Agency for Spatial Planning should take all the responsibility related to the formulation and realization of the plan. The regional plan is passed by the same authorities. The programme for the formulation of the regional spatial plan is prepared by the competent authority in cooperation with the Agency for Spatial Planning. Local self-government only provides opinion on the regional plan, thereby defining the position of the regional plan as an instrument of the central government.

The importance of the existence of regional plans is specially emphasized today as they are a condition for access to structural funds of the European Union. The Republic of Serbia has a tradition of regional planning (the
Regional Transdanubian Plan, Plan for the Belgrade Region etc.). However, lack of adequate financing, as well as inadequate support from the central level disabled the realization of goals of these plans.

The Spatial Plan of the Republic of Serbia (passed in 1996). According to the Law on Spatial Plan (passed in 1996): “The Spatial Plan of the Republic of Serbia defines the long-term basis of organization, arrangement and utilization of space of the Republic of Serbia” (Article 1). The Spatial Plan of the Republic of Serbia, as a strategic development document for the period until 2010 governs the following:

- Long-term basis of organization and arrangement of space of the Republic of Serbia;
- Orientations of urbanization and basic criteria of arrangement of settlements;
- Methodical principles and criteria of utilization of natural resources and the environment protection;
- Conditions for protection and utilization of areas of special importance and
- Corridors of basic infrastructural systems.

The Spatial Plan of the Republic of Serbia that was passed 10 years ago is the only valid strategic document in the area of spatial planning on the Republic’s level. This plan is excluded from the draft Law on Planning and Construction (passed in 2003) and it was included in the Law afterwards with temporary validity until passing of the Strategy related to spatial development of the Republic of Serbia. It should be emphasized that the Spatial Plan is designed within the old non-market system; therefore in order to apply it adequately it should be revised to a large extent.

The Spatial Plan of the Republic of Serbia envisages that the Republic of Serbia will pass regional spatial plans for 16 functional areas, i.e. districts in the period until 2010, in accordance with methodical solutions and guidelines of the Spatial Plan of the Republic of Serbia.

The Law on Planning and Construction (passed in 2003) precisely defined the types of spatial documents:

1. The Strategy which refers to spatial development of the Republic of Serbia;
2. Spatial development schemes;
3. The Spatial Plan of special-purpose areas;
4. The Regional Spatial Plan;
5. The Municipal Spatial Plan.

Methodical documents specified in points 2, 3, 4 and 5 of the previous paragraph must be harmonized with each other and in accordance with the Strategy related to the spatial development of the Republic of Serbia.

The Law defines, in a very superficial manner, the level of regional spatial plan (Article 20):

The Regional Spatial Plan refers to the territory of AP.

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48 The administrative area of the City of Belgrade; Southern Banat; Central and Northern Banat; Southern Backa and Srem; Northern Backa; Kolubara, Macva, Podrinje; Podunavlje and Branicevo; Pomoravlje and Sumadija; Ponišavlje and Toplica; Timocka Krajina; the Southern Morava; the Western Morava and Pester; Zlatibor-Zlatar Region; Kosovo; Metohija and Kosovska Pomoravlje.
The Regional Spatial Plan defined under paragraph 1 of this Article is passed by the Assembly of AP.

The Regional Spatial Plan defined in paragraph 3 of this Article is passed by the Government at the proposal of the Agency for Spatial Planning, and for the territory of AP Vojvodina the Assembly of AP at the proposal of the organizational unit in the seat of the authority of AP with the consent of the Agency for Spatial Planning unless otherwise stipulated by the Law.

“The Regional Spatial Plan for the territory of the City of Belgrade is passed by the Assembly of the City of Belgrade, with previously obtained opinion of the Agency for Spatial Planning , unless otherwise stipulated by the Law”

Decentralization. The administration system in the Republic of Serbia is organized on two levels: the central and local level (167 municipalities). Municipalities are responsible for certain jobs defined under the Law. The Constitution provides possibilities for the creation of substantial property of the local self-government, especially concerning the land, thereby providing conditions for different distribution of power. The Law on Local Self-Government (2002) increased municipal competencies in the field of administration, finance and decision-making. In order to support these competencies, the central level increased the transfer of funds to municipalities (2006). It is expected that new legal documents (the new Law on Local Self-Government and its competencies, the Law that will govern the property of local self-government etc.) will accelerate the process of decentralization and precisely define the competencies of the local government in providing services, planning and promotion of participation. The distribution of competencies between the public and private sector in the Republic of Serbia is underway.

Municipal Spatial Plan. The Municipal Spatial Plan is a basic formal, strategic, methodical document on the local level in the Republic of Serbia. Municipalities are bound to pass the spatial plan within 18 months from the date of effectiveness of the Law on Planning and Construction (May 5, 2005). A certain number of municipalities, primarily in AP Vojvodina, adopted municipal spatial plans, while a large number of municipal spatial plans are still underway. The Spatial Plan is a basic document that influences municipal development. Its regulatory function, through determining the rules of use, arrangement and protection of areas, is of special importance.

Local strategic planning in the Republic of Serbia. In the 2000-2006 many municipalities of the RS adopted Municipal Strategic Plans. The aim was not only the formulation of the municipal strategy but the improvement of the development of democratic decision-making that can contribute to solving numerous other problems.

Strategic plans (non-formal) are means of efficient and effective management of the municipal development that will provide the possibility for fast changes and adjustment to new economic and social processes. The greatest efforts were oriented towards the process of creation of plans, obtaining consent over real short-term and long-term development goals, defining possibilities and restrictions, priorities and needs as well as ways to overcome obstacles in development.
1. Relevant Documents for Spatial Planning

Documents on the National Level

**Strategies:**
- Strategy governing the economic development of the Republic of Serbia;
- Strategy related to the issue of spatial development of the Republic of Serbia;
- Strategy for Agricultural Development (2005);
- Tourism Development Strategy (2006);
- Energy Development Strategy (2005);
- Strategy related to the issue of sustainable development.

**Laws:**
- The Law on Planning and Construction (2003, amended in 2006);
- The new Law governing the area of planning;
- The Environment Protection Law (2004);
- The Law of Local Self-Government (2002);
- The Law on Financing Local Self-Government (2006);
- The Law that will envisage stimulation of balanced regional development of the Republic of Serbia for the period 2007-2012;
- The Law that will regulate waste management.

**Spatial Plan:**

Documents on the Regional Level

**Spatial Plans:**
- The Regional Spatial Plan of the Kolubara District hit by earthquake (2002);
- The Regional Spatial Plan for the administrative area of the City of Belgrade (2004);
- The Regional Spatial Plan of Southern Pomoravlje municipalities (the Decision on the formulation of the Plan was passed in 2006);
- The Spatial Plan of the Danube-Sava line (the programme was passed).

Documents of the Local Level

**Spatial Plans:**
- Spatial plans of the special-purpose areas, infrastructural corridors – 7 plans were adopted;
- Spatial plans of special purpose areas, accumulation – 2 plans were adopted, the decision on 1 plan was passed, working versions of 3 plans were prepared, programmes for 4 plans were passed and the formulation of 1 plan was initiated;
- Spatial plans for special-purpose areas, lignite basins – the working version for 1 plan was prepared, the decision on 1 plan was passed;
- Spatial plans for special-purpose areas, protected and tourist areas – five plans were adopted, the decision on three plans was adopted, the programme was prepared for 3 plans, the decision on four plans was prepared, the programme for one plan was adopted.
2. Institutions in the Area of Spatial Planning

State Level

The Ministry for Capital Investments is competent for the area of town planning and spatial planning, for the preparation of draft bills and by-laws, technical control of the planning documentation, issuing planning permits, inspection surveillance, and providing opinion on the application of law.

The Republic Agency for Spatial Planning is an independent organization which is competent, on the state level, in the area of efficient pursuing and improvement of the policy on planning and arrangement of space in the Republic of Serbia. The Agency for Spatial Planning reports to the Government, while the Ministry for Capital Investments supervises its operation. The competencies of the Agency for Spatial Planning are preparation, coordination and monitoring of the strategy related to the issue of spatial planning of the Republic of Serbia, as well as spatial plans for special-purpose areas, participation in designing the schemes of spatial development, technical assistance in the design and control of spatial plans, etc.

The Republic Development Bureau is a competent authority which performs professional activities related to the strategy and policy of socio-economic development, as well as in the area of regional development of the Republic of Serbia, through giving proposals on all regulations in these areas to the Government (strategies and policies, analyses, coordination and direction, formulation of special regional programmes etc.).

Provincial Level

The Provincial Secretariat for Architecture, Town Planning and Civil Engineering is competent for the implementation of the regional spatial plan, special-purpose spatial plans and spatial plans of the network infrastructure and the network of the special-function areas for the territory of the autonomous province; issuing planning permits and planning consents.

Public Enterprise for Spatial and Town Planning and Design of AP Vojvodina (Town Planning Bureau of AP Vojvodina) was founded by the Assembly of AP Vojvodina for the purpose of permanent performance of professional activities of spatial and town planning and arrangement of space and settlements of strategic importance for the Republic of Serbia, which refer to the territory of AP Vojvodina.

The Republic Agency for Spatial Planning has its branch office on the territory of AP Vojvodina in Novi Sad.

The Local Level

Town Planning Departments within the Municipal Administration are competent for town planning activities in municipalities. In cities those are Town Planning Secretariats, City Administration for Town Planning and Residential Activities or the City Administration for Planning and Construction.
Conclusion

The Republic of Serbia inherited a very rigid system of development control based on the hierarchy of long-term spatial and general plans which set out purposes for every space with a complicated adoption procedure. The actual changes direct planning towards the regulatory rules, neglecting strategic aspects. This system causes problems in transition towards the market economy, privatization and investments.

The previous period was focused on the regulatory rules and physical planning and efficient procedures of issuing planning permits. One of the main tasks within planning is support to investment reducing the number of obstructions in construction as much as possible.

The Law on Planning and Construction identifies two categories of planning: spatial and town planning. The system is hierarchically arranged with the Strategy for Spatial Development of the Republic of Serbia on the top of the pyramid. The adopted plans are obligatory for lower levels of planning. The National Strategy and regional planning are in the competence of the National Assembly and the Government. Municipal spatial plans, town planning and regulatory plans fall under the competence of local authorities.

The problem of methodology is especially emphasized in the complex transition environment characterized by: absence of institutions, undefined competence, information problem etc. It is necessary to put a lot of effort in adjusting the methodology of EU countries (and other Western European countries) to the local conditions and possibilities.

Harmonization of institutions and methods of the European Union will not be completed by passing one or more laws (e.g. the Law that will govern the area of planning and construction) but by specifying competencies and procedures and concentrating on new working methods that will provide more clarity in the area of development policies and respond to new challenges.

Starting points for the transformation of the spatial planning system and goals

Organization of spatial planning, types of plans, their content and elements of control are connected with new constitutional solutions, real sources of finance, institutional organization, precisely defined competencies and forms of work. It is necessary to emphasise institutional characteristics of competent agencies, their functional areas of responsibilities, connection with different management levels:

- The existence of different types of spatial plans by means of which regional development is directed and which are adjusted to proclaimed goals (e.g. balanced regional development or at least ambitious goals that imply waterway management and water supply or the arrangement of national parks). Some goals, e.g. infrastructural development, environment protection, habitation, can be imposed as an obligation of harmonization on the level higher than the municipal (harmonized plans of municipal communities), while others can be
left to the local strategic planning and interest-related connection of municipalities. The third group of plans is connected with sector goals (e.g. the economy);

- The “regionalization” concept which implies regions with mutual ethnic, cultural and historic characteristics, did not receive constitutional verification. Unlike homogenous regions, administratively defined, higher support is provided to concepts of planned regions, independent from the administrative structure, cross-border regions that are developing as a result of cross-border cooperation, transport regions, etc\(^49\). It is necessary to identify real possibilities with influence on balanced regional development through different types of plans and regulations (connected with adequate funds, i.e. the influence on re-distribution of funds;

- Recognizing a set of goals of regional development upon determining different types of regions:
  1. Administrative efficiency based on the inter-municipal cooperation\(^50\);
  2. Regional economic competitiveness\(^51\);
  3. Environmental protection (water, soil, air)\(^52\);
  4. Social equality and justice (education, labour market, social services, habitation);
  5. These different goals are connected with different sets of actors and manners of their organization and they require different approach and forms of actions that will lead to their realization. The areas with special development problems may be the subject of orientation from the state level via special agencies that take care of regional development and monitoring of the development in certain sectors or in general.

- Careful defining of planned regions on accordance with the NUTS methodology, the regional typology based on the development level, identification of specific mainstays of development, interests and institutions as well as ways of financing the regional development from the aspect of realization of goals of administrative efficiency, possibility to influence the economic development, environment protection and harmonization of condition of life. Adjustment of methods and planning techniques to the more complex, hybrid model with carefully chosen areas of orientation according to the type of the region, local conditions and possibilities.

- Adjustment of institutional organization based on the possibility of financing, redistribution of funds, power and legality;

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\(^{49}\) Creation of unique regional units which will enable redistribution beyond municipal competencies does not seem to be real, except in special situations of natural, ecological regions. It is necessary to test the concept of the hybrid form of regional planning that will rely on differently defined regions, carefully determined competent institutional structures connected with the political power and special resources.

\(^{50}\) Administrative efficiency may imply different ways of voluntary or compulsory associations of different forms of power. Administrative efficiency is not connected with the geographic coverage.

\(^{51}\) Creation of unique regional units which will enable redistribution beyond municipal competencies does not seem to be real, except in special situations of natural, ecological regions. It is necessary to test the concept of the hybrid form of regional planning that will rely on differently defined regions, carefully determined competent institutional structures connected with the political power and special resources.

\(^{52}\) Economic development implies association of private economic entities that are interested for improvement in the public sphere such as adequate traffic networks, tax arrangements or the education system. Business associations require planning directed towards improvement of the region as a planned product which enables better conditions for economic activities. Business associations are initiators of the realization of these goals. They are only interested in the territory, a set of municipalities which are important for support to investments.
• Using good examples from the practice for the demonstration of possibilities for improving the working methods. Abolishment of non-productive and unadjusted traditional working methods, institutions and practice parallel to the realization of changes. Formulation of the strategy for change of professional, institutional and administrative procedures and processes;
• Creating the planning process which is flexible, adjustable to different conditions and tasks, gradual and adaptable, enabling experimenting in the process of regional transformation.

The spatial planning could play its role if conditions for the process of realization of plans in policy, programmes and projects were met. The implementation of spatial development plans (integral) depends on providing adequate information on the implications of alternative orientations of action in specific circumstances.

Goals

Regional development goals in the area of spatial planning are the following:

1. Establishment of planned regions in accordance with the NUTS methodology of EU;
2. Building a system of modern spatial planning;
3. Building the knowledge infrastructure in the area of strategic local and regional spatial planning.

Policy, Measures and Activities

1. Establishment of planned regions in accordance with the NUTS methodology of EU.

Country’s general regionalization towards different development goals, types of problems, levels of development and organizational competence for the purpose of establishing different forms of planned orientations and institutional connection between the Republic (Provincial) and the local level of government, as well as support to cross-border and in inter-regional cooperation.

By establishing planned regions, the EU supports regionalization of the future member states. This is a factual request form the state to transfer part of regional competencies to the lower level. The concept of a “Europe of regions” supports the introduction of the third level of government – the regional level. Therefore, the priority should be given to building two types of planned regions:

• The economic regionalization of areas in accordance with the NUTS methodology of the European Union (for alternative proposals for the creation of NUTS 2 refer to part V);
• Defining undeveloped regions that cannot be developed without country’s assistance.

All EU countries, as well as candidates for entering the European integration are building systems of regional planning through the relation between the central and local government along with the establishment of local authorities that would have powers to pursue certain regional policy and assist smaller local communities for the purpose of more efficient planning. Considering the profundity of regional problems in the Republic of Serbia,
Balanced Regional Development Policy

regional planning would, first of all, imply reorganization of cooperation between the central and local level and their regulatory arrangement. In this way, horizontal, interest connection would replace the vertical system of decision making. In case of complex problems and inadequate development conditions, the central level takes over competencies of planning and management of development through its planning and management departments located in planned (e.g. statistical) regions.

Measures and Activities

Regulatory Instruments:

- Relevant Laws in the area of spatial planning. After the enactment of the Constitution, it is necessary to examine the existing and to pass a set of new laws which govern the stimulation of balanced regional development, and municipal property.
- The policy of spatial development. The Government is competent for defining the policy of spatial development. The policy of spatial development is a basic means for long-term orientation of spatial and regional development. The consent on main development problems and the manner of directing the development to the state, regional and local level is provided under the policy. The policy creates the framework for economic efficiency, social justice and ecological sustainability and provides basic inputs for the creation of regional plans and monitoring their realizations;
- By-laws, statutes. Defining the content of regional spatial plans, determining the manner of amending and supplementing strategic spatial documents;
- Regulatory rules. The development of relevant regulatory rules on the state level: spatial and ecological rules

Strategies:

The Strategy for Spatial Development of the Republic of Serbia – a strategic, inter-sector document that establishes long-term goals of spatial planning and the development of the Republic of Serbia, development priorities, territorial units with the same development characteristics which need spatial plans, specifies general function of the space, special areas, corridors etc.

The Strategy which defines the area of regional development – a strategic, inter-sector document which defines the new institutional framework of the regional development of the Republic of Serbia, including goals and principles, institutional mechanisms, the ways of pursuing balanced regional development, areas with special development problems, by-laws etc.

Institutional instruments

- Establishment of an adequate authority, i.e. organization on the national and regional level;
- Defining institutions of inter-municipal cooperation: groups for harmonization of development and spatial plans on the level of many municipalities;

Economic and Financial Instruments

- Funds for regional and spatial planning and orientation of the development on the state, provincial and local level.
1. **Creating the system of modern spatial and town planning**

The change in the social system, essential transformation of the country’s position, capital and social relationships require changes in the system of planning and management of spatial development. The country is no longer the only one that owns funds, plans and builds. There are many actors that demand their position in decision-making. In the conditions of introducing the private ownership and market rules that demand adequate system framework, the existing planning system is proved to be an obstruction to accelerated development. The main requirements of the change of the system are the following: it should be efficient and enable fast reaction on the market; it should be effective – clarity of land ownership and building rights (the tax system and compensations); it should provide secure investments and enable fulfillment of citizens’ rights to participate in the process of planning, and to produce documents that will be applicable.

**Measures and Activities**

**Regulatory Instruments**

- Defining modern legislative framework for regional planning (passing and approximation of laws, by-laws, inter-sector policies and measures, programmes, regulation and standards);
- Precisely defining the role and content of the Integral strategic plan on the local level as the basis for connecting the planned orientation of many municipalities. The formulation of the Strategy implies the concept of management of long-term municipal development programmes.

Municipal competence would include the preparation of the integral development plan which consists of the two basic components: (a) a long-term strategic component which includes an already developed system of goals, guidelines for sector planning and legally binding (or not) general arrangement of territorial activities, and (b) a short-term operational component with an integrated action programme for a few years (4 years in most cases). The Municipal Development Strategy and sector policies (in the residential, industrial, educational sector) are the concretization of strategies passed on the higher government level, on one side, and the expression of needs and interest on the local level on the other side. It means that the municipal strategic planning is not restricted only to passive application of sector policies from the top, but creative participation and changes through the process of local strategic planning are enabled, realizing the feed-back effect on the policies passed on higher levels of administrative organization:

- **Improvement of spatial orientation of policies in different sectors:** economic development, ecology, social activities, infrastructure;
- **Building information basis and monitoring the realization of plans** (the spatial planning register in the competent Ministry);
- **Elaboration of content of spatial (integral) plans:** municipal and regional and special spatial plans (environment plans, economic, investment plans). A selective division of competencies between the state, provincial and municipal level. Providing flexibility of the content of plans (orientation towards certain aspects and undertakings and a means of financing). Directive, rules on the obligatory content and manner of preparation of spatial integral plans, economic, social,
spatial and ecological priorities and programmes for the purpose of establishing a unique procedure of preparation, monitoring and assessment and control;

- **Development of the planning process** (collaborative, participative planning in the conditions of the plural society). Development of the process of coordination and communication between different actors/mainstays of regional development. Building skills and knowledge related to process of negotiation and reaching consent.

- **Formulation of the planned methodology**, preparation, assessment, monitoring and change of spatial plans of different scopes and programmes (The Law on Planning, by-laws). Determining institutional competence, procedures, and types of work.

### Institutional Instruments

- **Considering the possibility of establishment of the national institution for improving regional development, spatial and town planning.** As regional development is the priority in the following period of the development of the Republic of Serbia and it would be necessary to clearly define the main authority of the executive power, the institution under whose competence this area would fall;

- Strengthening of the Council for balanced regional development and regional capital investments, in organizational, material, and human resource terms. It is necessary to introduce the highest representatives of competent ministries in the Council’s operation;

- **Establishment of an adequate advisory authority for spatial planning** (aimed at monitoring, assessment and development of spatial planning, assistance in the preparation of national and regional spatial plans);

- **Providing an adequate human resource structure** in institutions competent for spatial planning.

### Economic and Financial Instruments

- **To define types of long-term sources of finance of planned activities:** formulation, monitoring and assessment of plans, on different government levels.

### Regulatory Instruments

- **To pass a separate legal act** which defines the necessary knowledge and experience for managing regional, spatial and town planning;

- **To define the area of local, regional, spatial and town planning** in tertiary education;

- **Support to research in the area of town and spatial planning**;

- **To define the obligatory research studies** that will form the necessary starting point for the development of planned development documents.

### Institutional Instruments:

- **Improvement of the international cooperation in the area of spatial planning** (competent Ministry, agencies, universities, institutes and bureaus);

- Access to European research funds;
- **Cooperation of research institutions on the regional and European level** (universities, ministries, development agencies);

- **Foundation of innovation centres for the improvement of knowledge and practice of regional, town and spatial planning.** Education for integral planning, interdisciplinary education, information and communication technology. (Foundation of the centre for strategic town and spatial planning at the Faculty of Architecture of Belgrade University aimed at connecting science and practice, knowledge upgrading, promotion of innovation, and professional improvement. Working out studies and projects in cooperation with institutions engaged in regional and spatial planning, courses of knowledge innovation, specialist and doctor studies).

**Economic and Financial Instruments:**

- **Financial support to international scientific cooperation** in priority areas for the improvement of spatial and town planning;

- **Providing funds for financing research studies** that are relevant for the improvement of the process and methods of work;

- **Financial support to the foundation of innovation centres.**
4. Environment Protection Policy

SITUATION ANALYSIS

The Constitution establishes the right of citizens to healthy environment as well as the duty of citizens to protect and improve the environment in accordance with the Law. Pursuant to Article 74 of the Constitution every person has the right to a healthy environment and the right to timely notice on its state. According to Article 97, paragraph 1, point 9 of the Constitution, the Republic of Serbia governs and provides sustainable development and the system of protection and improvement of the environment. In 2003, the Government adopted the National Strategy on Waste Management. The new legal framework for the environment protection which is in accordance with EU directives was established in 2004: The Law on Environment Protection, the Law on the Strategic Environmental Impact Assessment, the Law on Environmental Impact Assessment, and the Law on Integrated Pollution Prevention and Control as well as a set of by-laws in the area of environment protection. The new laws are performing the administrative surveillance in the autonomous province, i.e. in the local self-government unit, which demands further capacitating of competent authorities for performing surveillance. In 2006, the Government adopted the proposal of the National Environment Protection Programme which is in the adoption procedure of the National Assembly. The realization will be carried out through action and sanction plans rendered by the Government for a five-year period (The Law on Environment Protection, the Official Gazette of RS, no. 135/04). National Strategies that will govern the area of sustainable development and sustainable utilization of natural resources and goods are also underway. These documents will significantly contribute to the realization of regional development goals. Several regional development plans and local environment action plans were prepared. According to the existing laws, certain competencies in the area of environment protection are decentralized on the level of the autonomous province (The Law on establishing certain competencies of AP Vojvodina, the Official Gazette of RS, no. 6/02), i.e. local self-government (The Law on Local Self-Government – the Official Gazette of RS, no. 9/02).

Municipalities, i.e. cities are competent in the area of town planning, protection and improvement of the environment and utility services pursuant to the Law on Local Self-Government (The Official Gazette of RS, no. 9/02) and the Law on Public Utility Services (The Official Gazette of RS, nos. 16/97 and 42/98). On the local level, Secretariats for Environment Protection have restricted responsibility for environment issues which include air protection, protection from noise, communal waste management, town planning, construction permits for small objects, as well as strategic assessment of plans and programmes, assessment of the environmental impact of projects and issuing integrated permits within their competencies, monitoring, inspection surveillance, financing the local infrastructure of the environmental. Around 200 inspectors in the area of environment protection, most of them with insufficient training and inadequate equipment for performing their duties and providing any kind of security of efficient implementation, are engaged on the municipal level. Administrative capacities for the implementation of the Law on Environment Protection are generally insufficient and inadequate.
Financing the environment protection on the local level is a problem, mostly due to lack of funds.

The above occurs due to low public utility fees, the absence of long-term local financial plan etc. Local self-government invests into environment protection based on annual financial plans and depending on the existence of financial funds in the municipal budget. The loans are rarely taken due to lack of earmarked available funds, high interest rates of commercial loans and administrative restrictions. There are only a few eco-funds for the environment protection on the local level (Cacak, Uzice, Valjevo, Nis, Obrenovac etc.). In 2005, the Environment Protection Fund of the Republic of Serbia was established pursuant to the Law on Environmental Protection. The Development Fund of the Republic of Serbia became operative by the application of the “polluter pays” principle, while financial funds are allocated based on the Annual Work Programme by means of tender that the Development Fund publishes in the Official Gazette of the Republic of Serbia, usually once a year. The Development Fund of the Republic of Serbia co-fines building of regional dumps sites and rehabilitation of the existing garbage yards by means of grants (credit financing is expected to begin in 2007).

The Republic of Serbia disposes of natural resources of metallic mineral raw materials (copper, lead and zinc, nickel and cobalt, iron, tin, bauxite, antimony, molybdenum, gold etc.), energy raw materials (coal, oil, natural gas etc.) and non-metallic mineral raw materials (magnesite, dunites, dolomite, limestone, barite, quartz, phosphates, refractory and ceramic clays, gypsum, asbestos, fluorites, feldspar, volastonite, diatomit, zeolites, etc.) The areas of Kopaonik, Sumadija, Podrinje and Estaren Serbia are the most important metalogenic areas which include important balance and potential deposits of non-ferrous and black metals. The coal basins are the following: Kolubara, Kovic and Kostolac (lignite); Sokobanja, Sjenica, Lubnica, Rembas and Krepoljin (brown coal) and Ibar (stone-coal). The exploitation of non-metallic mineral raw materials, especially occurrences of natural building materials is intensive. Cement raw materials are extracted in the wider surrounding area of Beocin, Kosjeric and Novi Popovac. Numerous deposits of brick clay are opened on the territory of AP Vojvodina. The deposits of mineral raw materials are utilized by the surface and underground mining system. Large open-pit mines (Kolubara and Kostolac coal basins and the Bor metallogenic zone) are located on wide areas that have been changed due to intensive exploitation and processing of ores. Large unarranged excavation sites and dumps which are a great risk to soil, water and air pollution were formed. The most fertile agricultural land is situated in AP Vojvodina (83.5% of its area is used for agriculture). Forests and forest land cover 28% of the Republic of Serbia, 40% is arable land, and 21% of land is used as permanent pastures. The territory of the Republic of Serbia is characterized by numerous springs of low-mineral, mineral, thermal and thermal-mineral waters.

The quality of surface waters in the territory of the Republic of Serbia is generally low and has a declining tendency. The most polluted waterways are Stari Begej and navigable Begej, the Vrbas-Begej canal, the Toplica, the Veliki Lug, the Lugomir, the Crni Timok and the Borska River. The quality of waters is especially endangered by the discharge of non-treated waste waters. Many factories discharged wastewaters directly into river flows, without the previous or insufficient level of water purification. The Sava basin is particularly endangered with 80% of industrial waste waters of...
the Republic of Serbia flowing into it. Organic pollution was recorded in the Dunav basin, especially on the territory of AP Vojvodina. Toxic material pollution was recorded in the sedimentation on the downstream from large industrial centres, such as Pancevo and Bor. The Danube-Tisa-Danube canal is much polluted, and the dam near Djerdap is potentially “a black spot” as well. The connection level of the suburban and city population to the public sewer system is 55% (45% of urban areas in AP Vojvodina, 55% in Central Serbia and 68% in Belgrade). The existing infrastructure is in a very bad condition in some municipalities, especially in the regions of Southern Serbia. Out of the total quantity of communal wastewaters, around 87% are discharged into recipients without purification. Only 28 cities in the Republic of Serbia have plants for purification of communal wastewaters, which are usually out of operation. The largest cities in the country, Belgrade, Novi Sad and Nis, do not have plants for purification of wastewaters. The regional coordination and cooperation can be of great use and give results in a relatively short period of time. Due to low prices, and insufficient municipal budgets and a low level of collection of payments, there is lack of funds for investments into improvement and maintenance of these systems. In order to improve the state of infrastructure and establish an adequate maintenance system, municipalities can conduct research on the state of infrastructure and define priorities for the five-year period. There is absence of legislation harmonized with EU directives in the area of water management. Municipalities are competent for the implementation of Rules on technical and sanitary conditions for discharge of wastewaters into the sewer system, while the adoption of other laws which define water protection is in the competence of republic authorities.

The situation in the water supply is different from one municipality to another. Around 60% of population in the Republic of Serbia has access to drinking water supply through the water pipes system, while 15% of population has some kind of water supply. There are 153 systems of public water supply. The treatment of drinking water in many locations is not adequate. The distributive water pipe network is old, with a very high percentage of loss. **Network losses in some municipalities reach 40%.** This fact, along with lack of incentives for rational water consumption results in excessively high water demand and excessive exploitation of resources. Based on the data of the Water Management Master Plan of the Republic of Serbia (2002) regional discrepancies were recorded, especially in rural areas (50%), in water supply in apartments or yards. Around 30% of urban population has occasional interruptions of water supply, while 5-7% of them have everyday interruptions. In rural municipalities, there is a problem of maintenance of rural water pipe system, which is closely related to the ownership issue. These water pipe systems built from the funds that were allocated by village local communities do not formally belong to public enterprises, so that they are not engaged in the maintenance of water pipe system, while local communities do not dispose of substantial funds necessary for independent operation. **The prices of drinking water are different, but they never reached the economic level. Furthermore, only 40-60% of bills are really chargeable. Revenues account for 1/2 or 2/3 of costs, without funds for repairs and investments.**
Unsatisfactory quality of supplied water in many cases is a serious problem that should be tackled. In AP Vojvodina, the quality of ground water varies depending on the depth of water bearing environment and the characteristics of the soil. The situation is especially bad in all districts of Banat and Backa. Regarding the chemical structure, increased percentage of iron, manganese, ammoniac and arsenic in sporadic cases, with regards to the prescribed quality of drinking water occur. Of the overall collected underground water on the territory of Vojvodina, around one third undergoes the treatment at drinking water preparation plants, of which there are only 14. The main problem lies in the old distribution network and their maintenance is neglected. As a consequence large losses are recorded (around 40% in certain municipalities).

The systematic monitoring of the air quality is carried out in the network of measuring spots on the territory of the whole Republic of Serbia and the results of measuring in 2005 show that the average annual value of SO2 was above the marginal value of the emission in the City of Belgrade (51 days), Bor (119 days) and Uzice (24 days). However, in many municipalities the air control programme is not carried out due to inadequate equipment of authorized institutions and lack of funds. High air pollution comes from traffic due to the usage of leaded fuel. In 2004, the Republic of Serbia had more than 1,900,000 registered passenger vehicles and that number was rapidly increasing. There is a large number of vehicles without catalysts. The air pollution problems occur in the winter period and they are related to sources of pollution, especially boiler rooms and individual boiler furnaces, except in municipalities with large industrial polluters. The consumption of solid fuels in households is not explicitly monitored in the Republic of Serbia. The Energy Development Strategy of the Republic of Serbia by 2015 envisages significant increase in the number of individual consumers of the natural gas, as well as an increase in the number of users of central heating by 400,000, i.e. 180,000 households, which will certainly result in certain reduction of consumption of solid fuels. According to the results of the Republic Development Bureau (2002 data), out of 2,750,000 apartments, around 32% of households were connected to the central heating system (around 26%) or to the gas line (around 6%), while the total number of apartments which use solid or liquid fuels or electrical energy reduced to 68%. However, the main reason of air pollution is the combustion of low quality oil, lignite, in thermal power plants with bad technology of waste gases refinement. Thermal power plants emit 80-88% of SO2 and NO2, industry 3-14% and the general consumption is 9%. The concentration of suspended particles, soot and SO2 in industrial settlements and several cities of the Republic of Serbia is within the critical limit value which is connected to negative impact on health. This situation is noticed in several industrial zones, especially near mines and electric power plants that use lignite, such as Kolubara-Obrenovac corridor, but cities such as Bor, Vranje, Kikinda and Sabac as well. These areas record above-average frequency of respiratory diseases. The highest air pollution rate is registered in concentrated urban zones and around industrial objects. Lack of control of emission makes the situation even worse. A higher concentration of SO2 and NO2, particles, CO, ozone and other photochemical oxidants, and heavy metals impair human health, causing many diseases. The Republic of Serbia, with its level of industrial activity over the previous ten years, is not a big emitter of CO2. On the territory of the Republic of Serbia, this gas is mainly produced by the combustion of fossil fuels in thermal power plants and heating stations and in a certain number of apartments that
are heated in this way. Valid data will be collected for the needs of initial national communication, within the membership obligations of the Republic of Serbia in the United Nations Framework Convention on Climate Change (UNFCCC). The draft Law on the ratification of the Kyoto protocol is in the adoption procedure.

For decades, a serious problem in the Republic of Serbia is unsustainable waste management which is usually deposited in unarranged dump sites and is harmful to health, surrounding and the environment. Main challenges of waste management in the Republic of Serbia still relate to providing good coverage and capacities for rendering basic services such as collection, transportation and sanitary deposit of waste. All municipalities in the Republic of Serbia deposit communal waste to municipal dumps that are in charge of local public enterprises. There is lack of trash cans and vehicles for collection and transport of waste. Only a few municipalities do not have conditions for organized collection and deposit of communal waste (Irig, Malo Crnice, Opovo and Karlovci). 48% of municipal area is included on average in organized collection and depositing of communal waste; however this indicator varies from 1% in Babusnica to 100% in the Municipalities of Backa, Indijija, Rakovica, Sabac, Secanj etc. The fact that there are initiatives towards regional connection of municipalities is encouraging. Although they are still to be realized, these initiatives will contribute to solving problems of communal waste in many municipalities.

Depositing waste at dump sites is the only way of organized waste treatment. Every municipality in the Republic of Serbia still has its own dump site. The waste management system in every municipality is still based on the collection (mostly from urban areas), transportation and depositing of waste by public utility companies on the municipal level. Classification of waste is very badly organized or it does not exist at all. The capacity of the existing dump sites is full in most municipalities, and locations themselves do not fulfill the minimum of technical conditions of sanitary dump sites, which can endanger ground and surface waters and soil due to high concentration of organic materials and heavy metals. The National Strategy for Waste Management envisages building and re-cultivation of the existing dump sites and building 29 regional (for many municipalities) sanitary dump sites with recycling centres and transfer stations. The existing recycling level, i.e. waste utilization is insignificant; pilot projects for building regional sanitary dump sites for many municipalities in Kikinda, Nova Varos and Leskovac
There are no reliable data on the quantity of hazardous waste produced by the industry. Although there is a legal obligation of submitting the data on waste, responses from all polluters are missing. Due to reduced industrial activity, it is assumed that the generation of industrial and hazardous waste is in stagnation. It is estimated that the Republic of Serbia generates 460,000 t/year of hazardous industrial waste, including around 9,600 t/year of hazardous medical waste. The Republic of Serbia does not have plants for treatment and disposal of hazardous industrial waste. Hazardous waste is temporarily stored in inappropriate warehouses, some of which are decades old. Waste management at farms is also inadequate (there are neither plants for waste water refinement, nor facilities for the storage of stable dung). There is lack of the system for animal origin waste management consolidated with EU. Waste from the slaughter industry is also a serious problem.

The results of the research on the soil structure confirm great natural wealth of humus and very important biogenic macro-elements on more than 80% of the territory of AP Vojvodina. On the other hand, it is estimated that annual losses of the agricultural land on the territory of AP Vojvodina amount to around 1,200 ha. Owing to insubstantially developed drainage system in AP Vojvodina, as well as its inefficiency, the problem of surplus water has not been solved. Only 28% of the area is included in the well drained land. Also, it is necessary to emphasise that only 6% of the arable land in AP Vojvodina is irrigated. The factors which cause a continuous decline in the production potential of land are the following: the erosion processes, a decrease in humus stock through intensive utilization, disturbing the structure of the water-air and heat regime, reduction of the biological activity, contamination with pesticides, heavy metals, nitrates and nitrites etc. Erosion is the main reason leading to the annual loss of 25,000 ha of arable land only at the territory of the Republic of Serbia, while in the world erosion washes away more than 50 million ha per year, and even more. The fight against erosion should be taken seriously, as it causes huge damages. The Republic of Serbia is among the countries which are very much endangered by erosion. The fact that many areas of our country lost their loose soil confirms the above. In 1999, the Republic of Serbia recorded (Statistical Yearbook 2005) 3,486 km2 of eroded land, while in 2002 284 km2 of eroded land were recorded. In AP Vojvodina around 85% of agricultural land is endangered by aeolian erosion with an average loss higher than 0.9 t of land/ha per year.

Due to its specific geographic position, the Republic of Serbia is a rich source of autochthons (plants and animals). There are 4,300 plant species in the Republic of Serbia and in the Balkans, being one of the most important centres of floristic diversity of Europe. Institutional, financial, economic and other disadvantages (illegal and unplanned building, traffic and forest activities in protected natural property) affect forest and sensitive ecosystems and cause a decline i.e. loss of biodiversity. The total natural protected area is around 6.5% of the territory of the Republic of Serbia. Except national parks (6), nature reserves (98), regions of exquisite features (16), monuments of nature (296) and nature parks (24), there are 215 plant species and 426 animal species protected as nature’s rarities in the Republic of Serbia. According to the criteria of the Ramsar Convention the following regions of international importance are protected: Ludasko Lake, Obedska Pond, Stari Begej-Carska Bara (Czar’s Pond) and Slano Kopovo, and according to the Convention on natural and cultural heritage: Golija-Studenica as a biosphere reserve. There are several projects of cooperation...
with the surrounding countries in the area of nature protection, such as: Western Stara Planina Mountain (Bulgaria and Serbia), the Drina and the Tara River (Bosnia and Herzegovina and the Republic of Serbia).

Due to low energy efficiency, irrational utilization of raw materials, bad technological discipline, a high percentage of the generation of waste, numerous industrial plants in the Republic of Serbia have a serious problem of lack of plants and equipment for pollution reduction. Almost 90% of industrial waste waters are discharged without previous treatment. Most industrial capacities do not have provided space for temporary storage of hazardous waste. Although industrial activities in the Republic of Serbia almost all slackened over the 1990s of the last century, the inherited situation and insufficient investments into maintenance and modernization of technologies indicate the existence of numerous "black spots" with excessive industrial pollution which demand special treatment and substantial material funds for rehabilitation and further operation. Local authorities in these cities (Bor, Pancevo, Obrenovac, Sabac, Kragujevac) and industrial enterprises are not able to solve the accumulated problems of the environment alone. Industrial capacities which cause the most significant air pollution according to the Proposal of the National Programme for the Environment Protection are the following: Petrochemistry (Pancevo), Fertilizer Factory (Pancevo), US Steel (Smederevo), Agrohem (Novi Sad), FSK (Elemir), RTB (Bor), IHP (Prahovo), Zorka (Sabac), Magnohrom (Kraljevo), Samot (Arandjelovac), Lime Factory (Jelen Do) and Toza Markovic (Kikinda), Paper Factory Matroz (Sremska Mitrovica) and Bozo Tomic (Cacak) etc.

The mines in the Republic of Serbia were characterized by years-long mass exploitation. The intensive exploitation, alongside exhaustion of non-renewable resources and water, air and land pollution resulted in heavy devastation and degradation of land. The largest part of the land was devastated by surface mining of copper ore and coal. Large areas are covered with spoil which is in most cases disposed of at inappropriate locations. It is estimated that between 1.4 – 1.7 billion tons of mine spoil and overburden and around 700 million tons of spoil from flotation and separation are disposed of at spoil dumps in the Republic of Serbia. Around 12,000 ha of land have been occupied by surface mines, their spoil dumps and the spoil dumps of underground mining.

Thermal power plants in Kolubara and Kostolac lignite basins are the main polluters. The Kolubara Basin (Nikola Tesla A and B and Kolubara A) emit 160,000-190,000 tons of SO2, around 38,000 tons of NOx and around 50,000 particles per year. The Kostolac power plan releases 150,000-160,000 tons of SO2, 9,000 tons of NOx and around 12,000 tons of particles a year. Thermal power plants generate more than 5.5 million tons of fly ash a year which is disposed of inadequately (occupies the area of around 1,800 ha) which causes uncontrolled secondary emissions. It is estimated that around 170 million tons of ash from power plants are located at spoil dump in the Republic of Serbia.

In the agricultural sector, increase in production and growth of yields result in more intensive use of fertilizers and pesticides and water for irrigation. These processes contribute to significant increase of agricultural production and alleviation of poverty in villages. However, intensive agriculture with regards to consumption of resources created numerous problems in the environment which had negative effects on the agricultural productivity. For
example, excessive exploitation of resources of drinking water leads toward drying up of aquifers; intensive use of fertilizers and pesticides cause water pollution and the excessive use of surface waters for irrigation results in its depletion. Pig and cattle farms do not have the system of waste water refinement which pollutes rivers where waste waters are discharged.

After the NATO bombing in 1999 four locations on the territory of the Republic of Serbia (without the data for AP Kosovo and Metohia) were defined as contaminated with depleted uranium. On the territory of the Municipality of Bujanovac these are: Bratoselce and Borovac, on the territory of Presevo Municipality: Reljan, and on the territory of Vranje Municipality: Pljackovica. The soil contaminated with depleted uranium was remediated on the locations of Pljackovica, Bratoselce and Borovac. It is expected that the remediation of Reljan will be finished by mid-2007. The formulation of the programme of radioactive waste management was envisaged, as well as full decontamination of soil contaminated with depleted uranium by 2008 and the establishment of monitoring and assessment of the environmental impact of depleted uranium in the municipalities of Bujanovac, Presevo and Vranje.

The territory of the Republic of Serbia endangered by floods is 1.57 million ha, of which 1.45 million ha is in AP Vojvodina including mostly the territory of Banat. Around 80% of the territory endangered by floods is agricultural land, including 512 larger settlements, 515 industries, 4,000 km of roads, and 680 km of railways. It is estimated that 225,000 ha was flooded, which is 5% of the total arable land in the Republic of Serbia. The damage was estimated to 35.7 million euros. Floods which occurred in 2005 in Banat aroused the need for higher investment and maintenance of the existing system for the protection from floods, dams and retentions. Flood embankments in the total length of 3,550 km were built around all big rivers in their main tributaries.

Generally, the key problems are the following:

- Absence of strategic and planned documents on the local and regional level in the area of environment protection;
- Insufficient institutional and administrative capacities on the local level for the implementation of the law in the area of environment protection;
- Insufficiency of safe drinking water in all regions;
- Frequent floods which cause serious damages;
- Inadequate waste management and insufficient regional connecting of municipalities aimed at joint communal waste management (lack of sanitary dump sites and a large number of rubbish heaps);
- Air water and soil pollution caused by the emission from the energy sector, industry and transport in industrially developed areas;
- Insufficient and inadequate monitoring of the environmental pollution;
- Extremely small rate of refinement of communal and industrial waste waters;
- Inefficient system of financing the environment on the local level and lack of economic incentives;
- Unsustainable utilization of natural resources;
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• Inadequate management of the protected natural good and loss of biodiversity;
• Insufficient knowledge and motivation of citizens and a low level of share of citizens in decision-making on the environment;

Goals

Goals of the policy on the environment protection for the purpose of balanced regional development relate to the development of infrastructural systems for support to economic development and protection and improvement of the environment:

• Adoption and implementation of strategic documents and regulations in the area of environment protection on the local level;
• Expanding and strengthening of capacities in municipal services and public enterprises in the area of environment protection for the purpose of application of national and local regulations and the development of international cooperation;
• Providing drinking water of adequate quality in all regions;
• Protection from floods;
• Solving waste management problems on the regional level;
• Reducing pollution on the locations which are the greatest risk to environment and human health;
• To provide refinement of communal waste waters in settlements where organized water supply exists and refinement of industrial waste waters which significantly affect the direct recipient and the quality of waters in sensitive zones;
• Development and implementation of the system for financing the environment protection on the local level;
• To support sustainable utilization of natural resources, the reduction of energy consumption and the consumption of raw materials and stimulate waste recycling;
• Improvement of the system of management of the protected natural good;
• Arousing citizens’ consciousness on the importance of environment protection.

Policy, Measure and Activities

The policy of balanced regional development should contribute to harmonized economic and social development of the Republic of Serbia along with providing the protection and preservation of the environment. Environment protection is not limited and it is an important segment of sustainable regional development and minimization of regional differences. In Europe, cities are recognized as key mainstays of development and new jobs, with numerous economic, ecological, and social problems that regional perspectives are faced with. Development projects on the local level can be complementary if they contain mutual development goals. Regional cooperation of local communities is necessary for the realization of long-term environment protection goals. Deep disparities in the development of certain areas, especially in terms of relations between urban and rural areas exist in many districts of the Republic of Serbia. If these disparities were alleviated, the competitive ability of the region to attract foreign investments would be improved. It is necessary to apply priorities of the National
Programme for the Environment Protection, Poverty Alleviation Strategy and other development strategies. The first report on the implementation of the Poverty Alleviation Strategy in the Republic of Serbia defines that the forthcoming challenge is more intensive participation of local self-governments in the creation of environment favourable for economic growth (on the local and regional level) which includes the need for passing local strategies for sustainable development based on Agenda 21.

In order to improve the environment, it is necessary to adopt and implement EU provisions and standards. The initial period should include the regulatory reform, i.e. the development of strategic documents and investment plans on the local level, as well as missing regulations. It is necessary to adopt local strategies and plans in accordance with the national strategic documents, especially the National Environmental Protection Programme.

On the local level, it is necessary to strengthen the capacities for pursuing delegated competencies in the area of environment protection. In this period it is necessary to be engaged in building and strengthening of capacities of municipal services, public enterprises and inspections in the area of environment protection for the purpose of application of national and local regulations. **It is necessary to establish Secretariats for environment protection in the municipalities where they do not exist.** Also, it is necessary to establish Environment Protection Funds on the local level. The capacities of services competent for monitoring in cities and municipalities should be strengthen. This particularly refers to the implementation of the Law on integrated prevention and control of the environment. For the purpose of environmental protection, **all industrial enterprises will have to use the best available technology.**

The measures are primarily oriented towards providing utility infrastructure adjusted to better standard of living of all citizens and environmental protection, but towards attracting investments as well, as the developed utility infrastructure contributes to the economic and social attraction of the region and forms an important basis for the operation of many companies. On the other hand, strengthening of the potential synergy between environmental protection and economic growth is essential. Investment projects are expected over this period, including providing water supply, building infrastructure for waste management, and rehabilitation of the existing dump sites, reduction of industrial pollution, building plants for refinement of waste waters, traffic improvement etc. which will demand large investment costs. It should be mentioned as well that sustainable regional development and environmental protection is possible only with building the National plant for treatment and disposal of hazardous waste, as such plant does not exist in the Republic of Serbia.

Certain municipalities made large investment plans for the improvement of water supply, but it is necessary to set priorities due to restricted financial funds. The future of water supply lies in building large water pipe systems (regional water factories) that would supply at least 500,000 citizens, as this is the most rational way to provide safe drinking water. It is necessary to solve the water supply system on the state level, with participation of local self-government. One of priorities is also the improvement and building of facilities for protection from floods in accordance with priorities.
In order to improve waste management it is necessary to continue the implementation of the National Strategy for Waste Management as well as the National programme for environmental protection that will be adopted by the National Assembly. In accordance with the Law that will govern waste management, all municipalities will be bound to prepare municipal and regional waste management plans. In this period, building of regional sanitary dump sites and transfer of stations are expected, including the rehabilitation of the existing dump sites which are the greatest risk to the environment, building recycling plants and expanding the scope of waste collection. The reform of utility services requires a completely new framework, control regime and institutions that will implement this regime. The reform in this area should be pursued in the following period. The utility activities in the Republic of Serbia are mostly in the competence of public utility companies. Therefore, there is motivation neither to increase the efficiency nor to improve the quality of services. Beneficiaries of services want better quality and adjustment to international or national standards, as one of the ways of environmental protection. The adoption of international standards in the area of environment protection provides necessary conditions for regional economic policy. It is necessary to stimulate competition and to introduce the private sector in the area of providing services, especially in the waste management sector. Rehabilitation and improvement of utility services requires the establishment of the new approach in management that is systemically based on the saving of resources and the integration with the surrounding local self-governments.

It is necessary to provide refinement of communal waste waters in the settlements with organized water supply and refinement of industrial waste waters which greatly affect the direct recipient and the quality of waters in sensitive zones, as well as revitalization and free operation of the existing equipment for the refinement of waste waters from settlements.

In order to enhance the system of management of the protected natural good, it is necessary to formulate the programme of protection and development of the protected natural good, forestation plans etc.

It is necessary to introduce economic instruments on the municipality level in order to stimulate rational resource management and the promotion of rational utilization of resources managed by the municipal administration. Higher utilization of renewable energy sources and the creation of technologically modern, energy efficient distribution systems are very important in creating more a competitive economy.

Regional disparities of the development levels in the Republic of Serbia are the deepest in Europe and re increasing from year to year. Apart from the traditionally undeveloped South of Serbia and Stara Raska, new impoverished areas are Eastern Serbia, parts of Central Serbia, regional mining centres and centres of traditional industry where further depopulation of rural and undeveloped areas occurred. From the aspect of the environment protection, funds and investments should be oriented towards to rehabilitation and remediation of endangered locations and priority areas. Remediation and re-cultivation of contaminated land in industrial complexes will be solved by means of financial assistance and credit financing. The regional economic development of the Republic of Serbia over the previous period was not accompanied with adequate investment into the infrastructure for the protection and improvement of the natural good.
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environment, i.e. plants and equipment for reducing pollution. The current situation indicates that the environment is endangered (e.g. Obrenovac, Lazarevac, Pancevo, Bor, Vrbas, Sabac, Beograd, Novi Sad etc.). Some of these areas are impoverished today and their environment is endangered. Pursuant to Article 43 of the Law on Environmental Protection (The Official Gazette of RS, no. 135/04), the status of endangered environment and the rehabilitation and remediation regime for a specific area of local importance is determined by the local government unit, while the status of particularly endangered environment is determined by the Government. In accordance with the Law, it is necessary to pass a regulation which establishes the criteria for determining the status of a particularly endangered environment, i.e. the status of endangered environment which would give these regions a special status and priority for rehabilitation and remediation.

A general characteristic of the system of financing environmental protection is that the earmarked funds are still missing as well as decentralized sources of finance, especially from the private sector, and that the application of financial instruments such as long-term loans or partnership between the public and private sector is still insufficient. It is necessary to build an efficient system of financing environmental protection which is based on the earmarked funds and wide application of economic instruments.

Pursuant to Article 85 of the Law on Environmental Protection the fee for environment pollution amounts to 40% of the budgetary revenue of the Republic of Serbia, and to 60% of the budgetary revenue of the local self-government. “The funds are earmarked for the protection and improvement of the environment according to programmes, i.e. action and rehabilitation plans pursuant to this Law and special laws”. There funds are earmarked for the protection and improvement of the environment according to programmes, i.e. action and rehabilitation plans pursuant to the Law. Furthermore, the Decree on types of pollution, and the criteria for the calculation of penalties for environmental pollution and payers, the amount and the manner of calculation and payment of penalties was passed. Pursuant to Article 84 of the Law on Environmental Protection, a user of natural values pays the fee for using natural values and bears the expenses of rehabilitation and re-cultivation of the degraded area, in accordance with the special law. Funds generated from the fee in the amount of 40% are budgetary revenues of local self-government. Provisions of Article 101 of the Law on Environmental Protection stipulate tax, customs and other incentives for the technologies and products whose hazardous impact on the environment is smaller compared to other technologies and products, the equipment for the production of renewable energy and the equipment that is directly used for environmental protection. Only duty relieves for products which directly serve for environmental protection, which are not produced inside the country, are applicable at the moment.

Building of regional sanitary dump sites is estimated to be the main investment expense in the waste management sector according to the proposal of the National Environment Protection Programme (14.5 million euros per year on average). It is estimated that 10 million euros will be invested annually into the improvement of the quality of drinking water, and that 2 million euros will be invested into the improvement of the distribution network for water supply for the purpose of reducing losses in the network. It is estimated that at least 2.5 million euros per year will be necessary for the rehabilitation of the existing dump
sites in the period after 2010. Average investments into recycling and waste composting are estimated to be 13.5 million euros. Enlargement and improvement of the refinement of urban waste waters will demand an increase in capacities for refinement by around 1.6 million people. The total investment is estimated to 400 million euros (35 million euros averagely per year after 2009). It is estimated that around 1 million inhabitants will be additionally connected to the sewer system by 2015.

Significant investments into environment will have to be initiated by municipalities themselves, aimed at building and management of (new) sewer network systems, plants for purification of waste waters and services of waste collection and processing. As municipal budgets are not able to provide all the necessary financial funds by themselves, it would be convenient if significant part of infrastructural investments in the area of environmental protection could be provided from fees for services to users (as the “user pays” principle defines that users of these services should pay for services they use). Other sources of finance include: revenues from fees and taxes (the “polluter pays” principle), earmarked funds from the budget, loans, international sources – donors’ assistance programmes and loans with international financial institutions.
5. Coordination of Development Policies

Development policies aimed at stimulating regional development, alongside its key function which implies providing sustainable and stable economic development, enhancing economic competitiveness, continuation of structural reform, growth of employment and alleviation of poverty, are oriented towards removing regional disparities between the levels of economic development of regions, which is one of the most complex restrictions to the overall development of the Republic of Serbia.

The implementation of the policy on balanced regional development must result from the legislation framework which defines goals, principles and organization of stimulating balanced regional development and allocation of development incentives as well as criteria for the establishment of underdeveloped areas (economically undeveloped areas and areas with special development problems).

The legislation framework for the implementation of the policy of balanced regional development will be passing of the Law that will define stimulation of balanced regional development and the principles for stimulating balanced regional development, define the procedure for pursuing of the regional policy and its mainstays. At the same time, the Law will define state incentives for balanced regional development – goals, types of incentives and their distribution, as well as the areas with special development problems and the criteria for their determining.

Regarding the importance and the complexity of problems for the purpose of gradual reduction of regional disparities, it is necessary to establish the intuitive network with clearly defined relations and defined coordination.

Coordination in the development and pursuing of the regional development policy assumes integration and harmonization of actions of a large number of institutions in pursuing this policy. The basic structure of institutions is composed of:

- The Council for balanced regional development and regional capital investments, as a special working body of the Government;
- The Ministry of Economy responsible for stimulating regional development;
- The Ministry of Finance responsible for state assistance and fiscal incentives and competent ministries allocating funds to certain sectors on the regional level;
- The Ministry for Foreign Economic Relation responsible for coordination of trans-border cooperation, donations and foreign aid;
- The Ministry of Agriculture, Forestry and Water Management responsible for stimulating rural development;
- The Republic Development Bureau responsible for performing professional activities related to the strategy and policy of regional development;
- The Development Fund of the Republic of Serbia which allocates loan funds for stimulating regional development;
- Corresponding authority or organization for regional development on the national level – a new Government institution for coordination of the implementation of the strategy and regional development programmes;
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- Regional development institutions – a network of regional institutions for pursuing the regional development policy and stimulating development of the regional level.

The policy of balanced regional development and its implementation requires coordinated cooperation of competent ministries and institutions which are engaged in different aspects of regional development. The Council for balanced regional development and regional capital investments should act as a mechanism of inter-department and inter-regional harmonization of balanced regional development, while an adequate authority or organization for regional development should have a coordinating role in pursuing the regional policy.

The regional development programme will be an executive document of the region, i.e. a programme document for pursuing the policy on balanced regional development, or an instrument of coordination of tasks of the Republic of Serbia and the local self-government in the area of economic, social, spatial and cultural development of the region, based on the analysis of the regional level of development.
IV ECONOMIC REGIONALIZATION AIMED AT ACCESSION TO EU FUNDS

1. Previous attempts of regionalization of the territory of the Republic of Serbia

The last attempt of regionalization on the territory of the Socialist Republic of Serbia (SRS) was made at the time of building the system of agreed economy. As Constitutional changes were adopted in mid-1970 “which serve for further development of the self-governing system in the municipality, so that it becomes a self-governing community apart from being socio-political”, the possibility of creating regional as inter-municipal regional communities was provided. Their role was to participate in the preparation and projections of social plans for the period 1976-1980. Nine inter-municipal regional communities were created on the territory of Central Serbia (the territory of SRS outside the territories of socialist autonomous provinces) pursuant to the Decision on signing the social agreement of SRS with SRS municipalities on the association of municipalities into inter-municipal regional communities, which was adopted by the Assembly of SRS in mid-1975. At that time, apart from Belgrade as a city community of municipalities and independent self-governing socio-political community, the following “regions” were formed: inter-municipal regional communities (IRC): Zajecar, Podrinje-Kolubara, South Morava, Podinavlje, Kraljevo, Titovo Uzice, Nis, Sumadija and Pomoravlje.

Considering the overall systemic solutions in which regionalization was applied through IRC and special mechanisms of “non-coercive economic system”, a unanimous estimate was that it gave the expected results neither in the overall social development of “regions” created in this way, nor in the area of economic development. First of all, the tendencies of multiplication of the same or similar capacities in the economy emerged. The tendency of their “rounding off” was noticed, as well as attempts to form as much integral and rounded off economy as possible, instead of tendencies towards inter-regional specialization and division of labour based on the available, natural, or by previous development created, comparative advantages.

Even if mutual informing among regions on economic development plans existed, it was very often misused in terms of taking over good ideas or programmes, which could not stimulate the mutual complementarity of economic capacities, but their multiplication instead, and by all means, economic and irrational investment of restricted funds and a much smaller development effect than the expected.
Pursuant to the Law on territorial organization and local self-government adopted on June 24, 1991, the territory of the Republic of Serbia was divided into thirty districts. Precisely, another twenty districts were formed on the whole territory of the Republic of Serbia, beside the City of Belgrade. The main purpose of this division was stipulated by the Decree on the manner of performing the activities of Ministries and special organizations outside their seat, passed at the beginning of 1992, which envisaged dislocation of state functions outside the seats of ministries, i.e. outside the seat of the Government.

The main principle of the division into districts was that the seat should be the biggest and the most developed municipal center with a smaller or bigger number of surrounding, but certainly closely connected municipalities (three to sixteen). Therefore, although regional differentiation was not the main objective of the division into districts, they represent economic wholes, mostly created around development centres, or most of them can be considered as such on the corresponding level of aggregation, i.e. disaggregation of the territory of the Republic of Serbia.

Since the beginning of the 1990s of the last contrary, when the Federal Republic of Yugoslavia was formed, the country has faced numerous and various difficulties, starting from sanctions imposed by the international community, to the war in the surrounding and bombing in 1999. All the above produced very bad consequences which required full attention of the current economic policy in order to only alleviate the existing difficulties, as economic decline and numerous negative social, political and other consequences could not be prevented. Furthermore, this was a very small country which recorded a decline in the scope of production and services in all fields from the day of its formation, and showed the tendency of alleviating territorial disparities, with low economic activity. Therefore the economic science paid less attention to long-term aspects of development in general, and to the regional development as well.

Considering the whole territory of the Republic of Serbia as a region within the FRY/Serbia or observing it in only three territorial units – two provinces and the central part – was entirely inappropriate for any serious introduction of the regional aspect into the idea and strategy of the country’s development. In a nutshell, such regionalization could look like the related state during the existence of the SFR of Yugoslavia. This sounds reasonable as the union/community was made up of only two republics and their confrontation could eventually result in the interruption of the existence of a single state, which used to happen many times during the 1970s and the 1980s of the XX century, not only regarding the regional development.
2. Economic Regionalization in EU Countries

2.1. Mutual Classification of Territorial Units for Statistical Needs in EU Countries (NUTS)

The territory of the European Union was divided into territorial units called “regions”. The following basic principles are taken into consideration when establishing NUTS:

- NUTS favours the institutional division (it accepts the existing administrative regions);
- NUTS represents general geographic units;
- NUTS is a hierarchical classification.

Each member state made the NUTS 1 division of regions which are further divided into NUTS 2 regions, and these are eventually divided into NUTS 3 regions. Administrative units in every member state are the first criterion of the division into regions. Within the NUTS classification, the administrative unit is considered to be the geographic area in which a certain government level, within the institutional and legal framework of the member state, passes administrative or political decisions. In order to determine the NUTS category in which a certain class of administrative units should be placed, a medium size of the class of administrative units according to the number of inhabitants is taken into consideration and the following standards are applied:

<table>
<thead>
<tr>
<th>Category</th>
<th>Smallest number of inhabitants</th>
<th>Largest number of inhabitants</th>
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<tbody>
<tr>
<td>NUTS 1</td>
<td>3,000,000</td>
<td>7,000,000</td>
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<tr>
<td>NUTS 2</td>
<td>800,000</td>
<td>3,000,000</td>
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<tr>
<td>NUTS 3</td>
<td>150,000</td>
<td>800,000</td>
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</table>

The following criteria are taken into consideration:

- Desirable size of the territory;
- Homogenous statistical regions;
- Natural-geographic diversity;
- History, tradition and geopolitical circumstances – the economic structure and development of certain regional areas.

If the member state does not contain administrative units of the corresponding size for the specific NUTS level, according to the above named criteria of size, the NUTS level is created by merging a corresponding number of smaller administrative units, upon which it is necessary to consider geographic, socio-economic, historic, cultural and other important characteristics of the administrative unit.

The introduction of the Nomenclature in the statistical system of the Republic of Serbia implies the introduction of the European statistical standards of collection, processing and review of data on the spatial unit level for the statistical monitoring as applied in the EU statistical system. The regional statistical data are of special importance in the above process, i.e. indicators that will form the basis for the assessment of acceptability when applying for the assistance from EU structural Funds that ensure the distribution of EU funds earmarked for the development of certain
spatial units (the so called “statistical regions”). Therefore, for the purpose of collecting regional statistical data, the existence of the appropriate nomenclature harmonized with European standards, as a basic instrument without which statistical data cannot be collected, is necessary.

2.2. Application of NUTS in EU Member States

In certain member states NUTS levels are determined in a few steps. Firstly, the country’s administrative system is analysed and then it is checked whether regional data are collected and published based on such regional division, which is mostly the case. The next step is to analyse the average size (mostly with regards to population) of units on different existing administrative levels, in order to determine where these levels belong in the NUTS hierarchy. Two possible solutions exist:

- The average size of examined levels corresponds to NUTS levels to a smaller or larger extent, and if this is the case the administrative system which is considered is completely accepted, without changes, as NUTS division on that level, which means that the size of certain units in this country can be significantly different from the average size of the unit in the European Union registered on that NUTS level (like Italy);
- There is not an administrative system with the average size of the EU average; in that case ad hoc division is carried out in cooperation with the country in question, by means of merging smaller administrative units into “non-administrative units” (Portugal).

NUTS Enlargement to New EU Members

In the formal sense, NUTS regions do not exist in countries which are not EU members. However, some kind of accepted regional division is clearly necessary as the basis for negotiations on accession.

In 1996/1997 EUROSTAT proposed a division for each of the 10 countries included in the PHARE programme which were accepted in 1998. These regional divisions were specified in the EUROSTAT edition entitled: “Statistical Regions in the EFTA countries and the Central European Countries (ISBN 92-828-7319-6). As all these countries acquired or regained their state or political independence
over the previous few years, there were numerous cases where the administrative system should have been changed in order to carry out a difficult task of economic restructuring as sooner and faster as possible.

The consequences are numerous changes of regional divisions which were previously agreed between EUROSTAT and countries in question. Romania maintained NUTS 3 level (județ), but it made another division on the second level, so that many regions of the third level have been transferred from one region (the second level) to another.

Poland has completely reshaped its regional system, having changed its status from 49 dukedoms of the third level to 16 dukedoms of the second level, and then negotiated with EUROSTAT on the third level system which merges many small regions (the fourth level). The Czech Republic, Bulgaria and Slovakia have also reshaped their regional divisions radically, while Slovenia reshaped its two regions of the third level in 2000.
3. **Economic Regionalization in the Republic of Serbia aimed at accession to EU funds – possible solutions**

The importance of economic regionalization and its political and economic aspects determined the following optional approach:

**Option 1.**

Regionalization in terms of NUTS 2 statistical regions creates 4 regions, rather heterogeneous according to the number of citizens: (1) the City of Belgrade, (2) Central Serbia (without Belgrade), (3) AP Vojvodina, (4) AP Kosovo and Metohija.

The second level (NUTS 3) comprised regions within the proposed regions, as they had already been established in statistical terms. NUTS 3 established like this assumes statistical monitoring of basic data on the basis of which economic and social development, comparison with the development level of the region they belong to, and monitoring of inner territorial balance could be determined. Statistical instruments should be precisely defined, completed and enlarged afterwards. The reasons for detailed monitoring should also be sought due to the application of complex indicators such as: HDI, the Entrepreneurship Index, structural indicators etc.

**Option 2.**

The next possible economic regionalization is based on a more balanced size of regions in terms of the number of citizens, i.e. the number of population ranges from 1.6 to 2 million in all defined regions. Practically speaking, former reviews of the regions of the City of Belgrade, AP Vojvodina and AP Kosovo and Metohija could be repeated as they are completely identical. The rest of Central Serbia (without the City of Belgrade), in this proposal of regionalization, was divided into two rather harmonized parts – Western and Eastern Serbia.

Western Serbia, as a region, is composed of seven districts, without a dominant regional centre, which implies a polycentric area. However, Kragujevac is set apart as a regional centre, considering its historic importance, but the existing concentration of population, and
Economic Regionalization Aimed at Accession to EU Funds

economic activities, especially industry. Over the 1960s and 1970s the population of Kragujevac grew rapidly, and it can be said that Kragujevac recorded demographic explosion seen nowhere else the Republic of Serbia, except in the City of Belgrade. Furthermore, arguments for identifying Kragujevac as a regional centre should be sought in its cultural, educational and scientific-research potentials and its influence outside the region it belongs to. According to the spatial plan of the Republic of Serbia (adopted in 1996), Kragujevac was determined as one of six macro-regional centre of the Republic of Serbia (the City of Belgrade, Novi Sad, Kragujevac, Uzice, Nis and Pristina). At the beginning of 1990s, around 2 million citizens or 25% of the total population of the Republic of Serbia lived on the territory of Western Serbia, and almost identical relation was recorded at the beginning of the current decade, although the absolute number decreased. Therefore, this region is the largest regarding the number of citizens, and it accounts for 27.3% in the total area of the Republic of Serbia. The population density is 83 people per km².

The region of Eastern Serbia consists of nine districts/sub-regions (NUTS 3 level). Nis is its dominant development centre, with notable economic and infrastructural potential (a transit centre, a railway crossroad and a road intersection). 2 million citizens live on the territory of Eastern Serbia (20% of population of the Republic of Serbia) and it lies on the territory of 27.3 thousand km². According to this feature, this is the largest NUTS 2 region (30.9%). The population density was 72 people per km².

**Option 3.**

Considering economic regionalization aimed at access to EU funds, precise determination of the development level, building regional institutions (regional development agencies) and statistical-analytical monitoring, this option is the most functional.

This solution has a strong and practical basis. NUTS 3 regions (sub-regions) were defined as the smallest territorial segments on the level of the whole country, as they represent territorial units composed of more municipalities oriented towards the dominant centre. Economic argumentation indicates that regionalization of the Republic of Serbia should not be carried out in smaller territorial segments as they do not dispose of adequate natural, human resource and production potential that could enable the creation of growth centres and adequate diversification of economic activities. In other words, the existing municipalities, as a rule, do not have conditions for adequate and complex development based on available economic potentials. Furthermore, it is not possible to create units as hearts of economic growth which would undergo territorial division of work, so that they make a solid material basis for the whole complex of social activities – health care, education, science and cultural institutions whose activities could be independently financed and co-participate to a certain extent on a higher level of territorial organization.

Certainly, the overall analysis of the territorial aspect of development also includes smaller segments than the NUTS 3 level, as important differences in the level of economic development, and all other related aspects could be noticed within regions and individually taken sub-regions. However, decentralized approach and capacitating local authorities for taking

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56 This review does not include the data of AP Kosovo and Metohija, as census was not carried out in this province since 2002, so that 1991 data were used.
adequate incentive measures whose application would yield necessary results in an easier way and with direct control are more convenient to be applied to alleviating the above mentioned differences.

Map 17: **Option 3: NUTS 2 and NUTS 3 regions in Serbia**

The whole territory of the Republic of Serbia, including AP Kosovo and Metohija was divided into nine economic regions on the next level of disaggregation in this option of regional division – Belgrade (the same as NUTS 2), Eastern Vojvodina (Banat), Western Vojvodina (Backa and Srem), Eastern Region, Southern Region, Western and Central Region, Western Kosovo and Eastern Kosovo. Historic regionalization of AP Vojvodina was considered when determining economic regions, but Srem (the Srem District) was attached and is considered as an economic region joined with Backa, as according to the number of citizens, and the size of the territory, it lags far behind other districts. The names were taken colloquially and can be additionally defined.

The number of citizens of NUTS 2 ranges from 688,000 (Eastern Vojvodina – Banat) to 1,576,000 with the variation coefficient of 0.284. If Belgrade, as the capital with very dense population which is so much unlike other regions, was excluded from the analysis, differences would be alleviated and extremes would range from 1.95:1 (Western Vojvodina: Eastern Vojvodina) as well as the related variation coefficient (0.266).
Table 27: Option 3: REGIONS (NUTS 2)

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<tr>
<td>City of Belgrade</td>
<td>1 248.6 18,047 38.2 0.047 2,976.8 0.121 30.3 0.968 90.0 0.927 72.8 42.8 0.82</td>
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<tr>
<td>East Vojvodina</td>
<td>2 78.1 14,671 22.9 0.026 411.6 0.044 -9.5 1.011 76.5 0.813 62.1 28.0 0.123</td>
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<tr>
<td>West Vojvodina</td>
<td>3 110.0 14,437 26.8 0.028 821.3 0.047 8.5 1.049 82.6 0.804 59.3 30.5 0.168</td>
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<tr>
<td>East region</td>
<td>4 61.3 12,496 23.5 0.035 194.5 0.057 -13.5 0.826 73.4 0.672 62.0 30.3 0.035</td>
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<tr>
<td>South region</td>
<td>5 49.7 10,053 27.7 0.024 167.8 0.036 -9.5 1.006 77.5 0.655 46.2 27.0 0.043</td>
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<tr>
<td>West region</td>
<td>6 59.4 11,755 22.0 0.028 245.0 0.040 -2.3 1.028 78.2 0.688 43.8 28.2 0.035</td>
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<tr>
<td>Central region</td>
<td>7 73.4 11,561 24.7 0.029 331.0 0.038 7.5 1.048 80.8 0.688 50.2 29.1 0.047</td>
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<tr>
<td>REPUBLIC OF SERBIA</td>
<td>8 115.0 14,350 27.5 0.031 724.2 0.054 4.1 0.993 81.4 0.787 50.7 32.0 0.058</td>
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Dispersion of Indicators

| Minimum NUTS2 | 49.7 10,053 22.0 0.024 167.8 0.036 -13.5 0.826 73.4 0.655 43.8 27.0 0.035 |
| Maximum NUTS2 | 24.6 18,047 38.2 0.047 2,976.8 0.121 30.3 1.049 90.0 0.927 72.8 42.8 0.182 |
| Standard deviation NUTS2 | 69.5 2,655.4 5.5 0.006 1,012.8 0.030 15.3 0.078 5.4 0.101 10.3 5.4 0.1 |
| Average NUTS2 | 97.2 13,288 26.5 0.031 735.4 0.055 1.6 0.991 79.9 0.750 56.6 30.9 0.1 |
| Variation coefficient NUTS2 | 0.7149 0.200 0.209 0.249 1.377 0.549 9.257 0.078 0.067 0.135 0.182 0.175 0.723 |

As expected, differences are still growing if relations between sub-regions (NUTS 3) in the Republic of Serbia are observed. The highest population density is recorded in the City of Belgrade (1,576,124) – as this territory is considered as a sub-region at the same time, while the lowest is recorded in the Toplica District (102,075). The dispersion analysis of the number of citizens implies the corresponding variation coefficient of 1.105 which is estimated as a high value. If the City of Belgrade would be excluded as a specific highly populated area, the differences between sub-regions would be more significant than between economic regions (the variation coefficient of 0.422).

According to the size of the territory included, differences between regions are smaller (NUTS 2), which is implied by a smaller variation coefficient (0.424) with regards to previous differences related to the number of citizens. Extremes are somewhat closer in the size of the territory of districts (NUTS 3) which is also confirmed by a smaller value of the variation coefficient (0.292). In 2004, the development level of NUTS 2 measured by the national per capita income was ranging in a closer proportion 2.47:1 so that the variation coefficient, as a relative dispersion measure, was somewhat smaller on this level of observation reaching 0.399.
If the criteria according to which regions inside the EU are qualified for the utilization of the European Fund for Regional Development and other structural funds when they satisfy other conditions envisaged by the Union’s policy were applied, 14 regions, out of 25 sub-regions included in the analysis, would have the national product per capita smaller than 75% of the average of the Republic of Serbia (Podunavlje, Srem, Bor, Zajecar, Pomoravlje, Jablanica, Pcinj, Pirot, Toplica, Zlatibor, Kolubara, Macva, Rasina, Raska and Sumadija). This means that if the Union’s criteria were considered and if they were applied to sub-regions of the Republic of Serbia, the above mentioned 14 districts would satisfy one of the conditions which would qualify them to use the mechanism envisaged to stimulate their development. The analysis indicates that the number of sub-regions whose value of the national product per capita is smaller than 75% of the country’s average was doubled according to the results at the beginning of the current decade (2001). It can be concluded that differences are growing on the sub-regional level (NUTS 3).

V INSTITUTIONAL DEVELOPMENT STRATEGY

1. The Existing Institutional Basis

1.1. Legal and Other Regulation

Significant differences in the levels of regional development of the Republic of Serbia result from the absence of the necessary institutional framework for balanced regional development that would enable flexibility in the formulation of goals, mechanisms and instruments of regional policy.

The Republic of Serbia still does not have the law, strategy or policy of regional development and the institutional network has not been built (regional development agencies and similar institutions) that would provide human resource, organizational and programme support to undeveloped areas. Due to this institutional vacuum, the country is not able to offer, in a methodical and integrated way, long-term solutions for an increasingly unfavourable position of certain municipalities, even the whole regions (areas) such as the South of Serbia, the Bor basin (Eastern Serbia), Stari Ras and the former industrial centres with growing economic, social and political tensions.

Institutional restrictions which are a serious impediment to defining and pursuing the regional policy that will be based on the modern concept of regional policies of EU countries can be classified as follows:

- The approach to regional development of the Republic of Serbia had some restrictions in the previous development which is based on emphasized sector, instead of integral, concept which can be noticed in numerous non-harmonized activities of competent ministries and other state institutions. The sector approach resulted in, among other things, overlapping, non-coordination and concentration to only certain development segments which caused the inability to reach synergy effects;

- The legal interregnum. A single legal act that would regulate the essence of the problem of regional development of the Republic of Serbia has still not been passed. The Law on Undeveloped Areas for the period of 2005 (adopted in December 1995) precisely defines the criteria for determining undeveloped and the most undeveloped areas in the Republic of Serbia. There has not been a law that would regulate the status of undeveloped municipalities and the possibility of prioritized stimulation of investments into their economic and non-economic activities since January 2005;

- The absence of a clear, integrated and legal institutional framework for pursuing regional policy is directly connected with the previous restriction. The Council for regional development and regional capital investments was established in October 2005. However, there is not a competent institution on the regional level for directing, pursuing and monitoring the policy of regional development, and the preparation of regional strategic programmes. These activities should be performed by adequate regional development institutions. A non-defined institutional framework resulted in the absence of coordinated development planning, insufficient connection between
municipalities and districts when defining development initiatives, flow of information and harmonization of national, regional and local development goals and priorities – for the purpose of optimum utilization of country’s overall development resources and potentials;

- Inadequate monitoring and assessment of investments and orienting the state incentives to undeveloped areas, insufficient transparency and non-coordination are additional restrictions to identifying the effects of the state assistance (through investments of the Development Fund of the Republic of Serbia and competent ministries). The absence of the system of monitoring of invested funds, lack of evaluation of effects of used funds, absence of clear procedures and criteria for the allocation of financial funds, and the main instrument – the law – that would determine undeveloped areas and conditions for their stimulation have restricting effects to alleviating regional disproportions in the Republic of Serbia.

At the beginning of 2000 the Republic of Serbia faced “bipolar” regional misbalance. Namely, by the end of the 1990s, the Republic of Serbia had a “traditionally” undeveloped area,58 while the period of the second half of the 1990s known for sanctions, bombing and “economic survival policy” resulted in the emergence, after 2000, of a new group of undeveloped municipalities – the so called municipalities of “transition poverty”. These were, in fact, industrial centres – giants of Serbian economy that used to be the mainstays of the overall development of municipalities and the wider surrounding area. As an instrument of regulating the status of a new group of undeveloped municipalities, in 2004 the Government passed the Decree on the criteria and indicators for identifying devastated areas which was only an interim solution which served to establish mechanisms and criteria for the allocation of incentive funds to municipalities in the period of institutional vacuum, that lost over 2/3 of the national income over the 1990s.

Generated income per capita was the main criteria for the allocation of funds of the Development Fund of the Republic of Serbia starting from 2005. Other municipalities that had other specific problems (demographically devastated areas, municipalities with a high unemployment rate, structural problems, municipalities whose borders are a limiting factor) remained in the institutional “shadow”.

Generally, from the beginning of the reform period, the Republic of Serbia was loosing its economic substance in three ways:

- Bankruptcy of large systems, without perspectives for recent and efficient “rehabilitation”;
- Insignificantly stimulatory measures slowed down the process of starting new SMEs;
- Political and economic conditions did not “make way” for foreign investments.

58 Mostly municipalities in the South of Serbia, the area of Stari Ras and municipalities in AP Kosovo and Metohija.
In this way, undeveloped areas became even more backward, while the problems of industrial centres were solved by means of occasional budgetary subsidies. The biggest problems (disadvantage) of support to undeveloped areas of that time were the following:

- The absence of competent institutions (within or outside the competent ministry) that could monitor and influence pursuing of regional policy and allocate funds to economic areas and regions;
- The absence of a functioning system of coordination between institutions that allocated funds for these areas;
- The programme basis relied on defining priorities without monitoring and evaluation in a certain period of time.

1.2. Mainstays of Regional Policy

Lack of well-conceived policy on regional development and adequate institutional grounds resulted in serious consequences on further development of all regions of the Republic of Serbia.

The Ministry of Economy, Ministry of Labour, Employment and Social Policy, Republic Development Bureau, Development Fund of the Republic of Serbia, National Employment Agency and republic agencies are the mainstays of regional policy in the Republic of Serbia. Also, many other ministries are responsible for certain aspects of stimulating regional development. Competencies in the area of regional development of certain institutions are the following:

1) The Ministry of Economy – stimulating economic development and underdeveloped areas;
2) The Ministry of Finance – financing local self-government;
3) The Ministry of Labour, Employment and Social Policy – employment policy;
4) The Ministry of State Administration and Local Self-Government – local self-government and territorial organization;
5) The Ministry of Agriculture, Forestry and Water Management – rural development;
6) The Ministry for Foreign Economic Relations – donations and assistance;
7) The Ministry of Capital Investments – spatial and town planning.
8) Special organizations:

1. The Republic Development Bureau – responsible for the performance of professional activities related to the strategy and policy of regional development, as well as strategies, policies and analysis of economic and social activities;

The most important new institutions are the following:

1. The Republic Agency for the Development of SMEs and Entrepreneurship;
2. The Agency for the Development of Local Infrastructure.

The role of the state in the previous designing and pursuing of the regional development policy was related to the re-distribution of financial funds through approved loans of the Development Fund under more favourable
conditions than market conditions. Therefore, new legislation solutions should stipulate that pursuing of efficient regional policy should fall under the competence of the Council for balanced regional development and regional capital investments and the adequate authority i.e. organization for regional development on the national and regional level.

The main drawback of the previous legal regulation in the area of regional development refers to non-defining the key mainstay of regional policy. Precisely, the Ministry of Economy is responsible for the implementation of the regional development policy, but the practice showed that in the midst of growing and specific regional problems, the Republic of Serbia lacks the operative authority that would coordinate the work, direct and channel the activities and measures according to established strategic goals.

The mainstays of regional development policy should recognize economic criteria so that all areas could yield the best economic results.

In the period after 2000, numerous international programmes on the national and local level were instruments for programme and institutional improvement and harmonization of the legislation and mechanisms of competent institutions in all areas, especially in the non-economic area. The issue of the state administration reform became particularly important.

In that context, one of important programme orientations related to regional problems refers to the Regional Socio-Economic Development Program initiated by EAR in 2003.

The main goal of the project was contribution to the economic and social cohesion of the overall population in the Republic of Serbia through the promotion of regional economic development. As a result of this project, three regional offices (Zrenjanin, Kragujevac and Leskovac) were opened in seven districts of the Republic of Serbia aimed at managing regional development activities. Due to legal vacuum, these offices represent trial regional executive authorities as forerunners of the future formation (growing into) of regional development institutions. The offices proved to be very efficient and their activities were focused on the identification of problems and possibilities for the development of the given area they are responsible for. This resulted in the formulation of three Integrated programmes of socio-economic development (the Banat area, the South of Serbia and Central Serbia) that covered development priorities of 45 municipalities in the Republic of Serbia. However, the status of these offices was determined neither pursuant to the Law on Public Agencies nor pursuant to legal solutions on the foundation of regional institutions with numerous specificities (staff, methodology of preparation and formulation of programmes, coordinating role, financial orientation, establishment of a separate body for programme support etc.).
1.3. **Financing Regional Development**

Financing of regional development and the system of stimulating underdeveloped municipalities over the previous period is carried out by means of direct and indirect incentives that are realized through ministries and national institution funds. Since 2000 the most important direct measures of incentive policy have been realized through funds provided by the following institutions:

1. Development Fund of the Republic of Serbia;
2. Specialized Budgetary Funds;
3. Development Fund of AP Vojvodina;
4. Guarantee Fund;
5. National Employment Agency;
6. Republic Agency for the Development of SMEs and Entrepreneurship;
7. Ministry of Agriculture, Forestry and Water Management;
8. National Investment Plan;
9. Local funds (Development Fund of Leskovac Municipality).

(1) Development Fund of the Republic of Serbia. The Law on the Development Fund of the Republic of Serbia (1992) was passed within changes in economic, systemic and functional solutions thereby carrying on the policy of providing material support for the purpose of reaching balanced regional development. The current sources of funds of the Development Fund of the Republic of Serbia are provided from the budget of the Republic of Serbia, annuity installments of investment loans and funds of joint assistance and other funds of international financial organizations that are granted for the stimulation of employment and the realization of regional programmes. These funds are used for financing programmes that are intended for: stimulating economic development, stimulating balanced regional development, enhancing competitiveness of the domestic economy, stimulating the development of crafts and service activities and stimulating employment including programmes for beginners.

In the period between 1994 and 2006, the Development Fund of the Republic of Serbia participated in financing of 6,198 programmes of economic and regional development (of which 124 programmes amounting to 17.8 million euros were earmarked for the territory of AP Kosovo and Metohija). 629.7 million euros of the total estimated amount (1.9 billion euros) were allocated from the Fund for the development of the Republic of Serbia. The largest amount of funds of the Development Fund of the Republic of Serbia (57.2% or 360.4 million euros) was approved for the realization of 3,719 new investment programmes. 36.8% (232.0 million euros for 2,239 programmes) of funds were approved for modernization and revitalization, while 37.2 million euros for 240 programmes were earmarked for fixed and current assets.

The Development Fund of the Republic of Serbia participated in financing 1,147 programmes of economic and regional development in the undeveloped area. 126.6 million euros of the total estimated amount (332.9 million euros) were allocated from the Development Fund of the Republic of Serbia. The largest amount of funds from the Development Fund (56.5% or 71.5 million euros) was approved for the realization of 668 new investment programmes. 37.5% of funds (47.5 million euros for 417 programmes)
were approved for modernization and revitalization, while 7.5 million euros that were earmarked for fixed and current assets were approved for 106 programmes.

Investments into new programmes in undeveloped areas doubled in 2006 with regards to 2001 (2.9 million euros were approved for 26 new programmes in 2001, while 5.2 million euros were approved for 106 new programmes in 2006). However, the Development Fund of the Republic of Serbia failed to completely realize one of its main functions through its activities meaning that the most undeveloped areas should have stronger material support with regards to other areas. Unbalanced utilization of funds of the Development Fund of the Republic of Serbia is recognized in a small share of this area in the total funds of the Development Fund of the Republic of Serbia reaching 13.6% in 2001, and 14.2% in 2006. The initial basis for the allocation of funds of the Development Fund of the Republic of Serbia depended on the number and quality of submitted investment programmes. Related to the above, certain differences were noticed in the structure of approved funds.

Territorial disproportion is more significant if separate municipalities that used the funds of the Development Fund of the Republic of Serbia are considered. The largest amount of funds, especially in the period 2001-2006 was approved to users from more developed municipalities. In comparison with the period until 1990 when the Development Fund of the Republic of Serbia allocated 66% of approved funds to undeveloped municipalities, in the period 2001-2006 this area accounted for as much as 20.1%. The reasons can be found in the fact that by the 1990s incentive funds were used as grant aid for special programmes for the undeveloped area (formulation of studies, programmes, projects, investment and technical documentation, providing human resources etc.) i.e. that starting from 2001 when one of the conditions for granting loans was prepared programmes for undeveloped municipalities due to insufficient human resource potential could not compete with high-quality programmes.

The largest amount of funds was approved to the City of Belgrade in the observed period (71.7 million euros for 638 programmes, or 11.4% of the aggregate funds). Of other municipalities (cities) the following accounted for the largest amount of funds: The City of Kragujevac (3.9%), Kraljevo (3.2%), Nis (2.4%), Loznica and Novi Pazar (2.0%), Uzice (1.8%), Novi Sad (1.7%), Krusevac and Valjevo (1.6% each), Bujanovac, Leskovac and Cacak (1.5% each). Altogether, these municipalities accounted for 36.1% of funds. On the other side, the municipalities of Malo Crnice, Secanj, Zabari, Trgoviste, Bosilegrad, Doljevac, Mali Zvornik and Crna Trava accounted for 1.3% for 79 programmes (8.3 million euros) in the period 1994 to 2006. Investments of the Development Fund of the Republic of Serbia by districts range from 1.0% to 11.7% in the totally approved funds. Investments into Pcinj, Toplica and Jablanica District which include the largest number of undeveloped municipalities amounted to 10.6% which is altogether less than investment into the City of Belgrade.
Table 28: **Approved funds by districts in the period 1994-2006**

<table>
<thead>
<tr>
<th>District</th>
<th>Approved funds in EUR</th>
<th>No of programmes</th>
<th>Overall funds = 100</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Belgrade</td>
<td>71,734,288</td>
<td>638</td>
<td>11.7</td>
</tr>
<tr>
<td>North Backa</td>
<td>10,843,844</td>
<td>76</td>
<td>1.8</td>
</tr>
<tr>
<td>Central Banat</td>
<td>6,405,535</td>
<td>61</td>
<td>1.0</td>
</tr>
<tr>
<td>North Banat</td>
<td>9,354,980</td>
<td>56</td>
<td>1.5</td>
</tr>
<tr>
<td>South Banat</td>
<td>18,995,213</td>
<td>171</td>
<td>3.1</td>
</tr>
<tr>
<td>West Backa</td>
<td>10,120,376</td>
<td>63</td>
<td>1.7</td>
</tr>
<tr>
<td>South Backa</td>
<td>33,679,447</td>
<td>227</td>
<td>5.5</td>
</tr>
<tr>
<td>Srem</td>
<td>16,968,548</td>
<td>208</td>
<td>2.8</td>
</tr>
<tr>
<td>Macva</td>
<td>36,696,125</td>
<td>386</td>
<td>6.0</td>
</tr>
<tr>
<td>Kolubara</td>
<td>20,944,782</td>
<td>202</td>
<td>3.4</td>
</tr>
<tr>
<td>Podunavlje</td>
<td>11,349,383</td>
<td>122</td>
<td>1.9</td>
</tr>
<tr>
<td>Branicevo</td>
<td>15,251,099</td>
<td>139</td>
<td>2.5</td>
</tr>
<tr>
<td>Sumadija</td>
<td>36,570,236</td>
<td>581</td>
<td>6.0</td>
</tr>
<tr>
<td>Pomoravlje</td>
<td>19,475,081</td>
<td>185</td>
<td>3.2</td>
</tr>
<tr>
<td>Bor</td>
<td>14,296,165</td>
<td>201</td>
<td>2.3</td>
</tr>
<tr>
<td>Zajecar</td>
<td>13,208,920</td>
<td>139</td>
<td>2.2</td>
</tr>
<tr>
<td>Zlatibor</td>
<td>43,851,752</td>
<td>547</td>
<td>7.2</td>
</tr>
<tr>
<td>Moravica</td>
<td>28,069,529</td>
<td>278</td>
<td>4.6</td>
</tr>
<tr>
<td>Rasina</td>
<td>52,035,833</td>
<td>511</td>
<td>8.5</td>
</tr>
<tr>
<td>Nisava</td>
<td>39,399,918</td>
<td>328</td>
<td>6.4</td>
</tr>
<tr>
<td>Toplica</td>
<td>20,696,781</td>
<td>174</td>
<td>3.4</td>
</tr>
<tr>
<td>Pirot</td>
<td>10,098,350</td>
<td>120</td>
<td>1.7</td>
</tr>
<tr>
<td>Jablanica</td>
<td>23,512,563</td>
<td>199</td>
<td>3.8</td>
</tr>
<tr>
<td>Pcinja</td>
<td>20,722,885</td>
<td>176</td>
<td>3.4</td>
</tr>
<tr>
<td>Kosovo and Metohija</td>
<td>17,824,383</td>
<td>124</td>
<td>100.0</td>
</tr>
<tr>
<td>Programme serealized in several municipalities</td>
<td>173,850</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>629,743,429</td>
<td>6,198</td>
<td></td>
</tr>
</tbody>
</table>

Observing the structure of approved funds by sector activities, the largest number of programmes (2,551) and funds on the level of the Republic was approved for the agro-complex (44.2%), metal industry (12.6%), wood industry (10.7%), chemical industry (8.2%) and textile industry (4.6%). In the underdeveloped area, the largest amount of investments was also made into the agro-complex (51.9%), wood industry (10.8%), metal industry (6.5%) and chemical industry (5.0%).

38,873 new jobs are planned to be created on the level of the Republic and 5,287 jobs in the undeveloped area through the realization of programmes in the period 2004-2006.

The previous regional development financing mechanisms did not attenuate differences in the levels of development.
(2) Material framework of the regional development policy referred to the utilization and allocation of funds of specialized budgetary funds\(^{59}\) and other budgetary positions, in accordance orientations of the regional development policy and solutions of the Law on underdeveloped areas of the Republic of Serbia in the period until 2005 (passed in 1995).

(3) **The Development Fund of AP Vojvodina.** The main sources of finance of the Development Fund of AP Vojvodina are the following: funds generated from sales of privatization subjects whose seat is on the territory of AP Vojvodina, funds approved provided in the budget of AP Vojvodina, funds raised from donations and assistance of foreign and domestic legal entities and physical persons, funds generated by issuing and turnover of securities, funds from annuity installments of investment loans and funds of international financial organizations and financial institutions. The funds are earmarked for: the development of agriculture and food processing industry, establishment and development of entrepreneurship of small and medium-sized enterprises, growth of employment, especially solving problems of working-age population that were made redundant in the process of transition, growth of exports, substitution of imports, increasing the level of innovation, saving energy through alternative solutions, introduction of the quality management system, environmental protection and balanced regional development.

(4) **The Guarantee Fund.** The Guarantee Fund was founded pursuant to the Law of Guarantee Fund for the purpose of providing conditions for stimulating the development of business operation of SMEs, entrepreneurs and agriculturists in the Republic of Serbia. The Guarantee Fund is a non-profit institution ready to take the risk of commercial banks (by issuing guarantees for providing collateral of a part of the loan) for loans made to business entities in case their projects are profitable but they do not satisfy some of the conditions for loan approval. The Guarantee Fund, as part of its activities, supports credit financing of business entities by providing collateral for a part of the loan that banks and other financial organization in the Republic of Serbia approve to business entities, with high-quality development programmes. The aim of their activities, i.e. providing loan guarantees, is stimulation of employment and higher standard of living, regional development, strengthening of international trade connections and growth of export to EU countries, in particular, and increasing the available funds for other social sectors (education, health care, pension funds etc).

(5) **The National Employment Agency.** Considering the role of the National Employment Agency in the implementation and realization of the Strategy for SMEEE Development adopted by the Government, the activities aimed at increasing employment were particularly developed. The funds were approved for programmes that provided employment in: production and export oriented areas, agriculture, especially in the hilly-mountainous areas, agriculturally underdeveloped areas, in tertiary activities etc.

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59 One of the most important sources of finance of undeveloped areas are funds for the realization of the Village Revitalization Programme. Other budgetary funds were as follows: the Republic Fund for the protection, utilization, improvement and arrangement of agricultural land, the Waters Fund, Forest Fund, Road Fund (the Roads Directorate), funds for geological research (the Ministry of Energy and Mining), funds for scientific-technical programmes (the Ministry of Science), funds for programmes and investments into social activities (the Ministry of Education and Sport), funds for environmental protection (via the mentioned Ministry) and one of the most important ways of providing material assistance on the Republic level are the funds of the former Republic Bureau of Labour.
(6) The Republic Agency for the Development of SMEE. Funds of the Republic Agency for the development of SMEE are provided from the budget of the Republic of Serbia, donations, contributions, and sponsorships of domestic and foreign legal entities and physical persons. The main objective of the Agency is to support the development and interests of small and medium-sized enterprises for the purpose of: accelerating regional and economic development and changes in the economic structure, efficient solving of unemployment problems, import substitution and enhancing competitiveness of SMEs, stimulating different forms of cooperation with large enterprises, introduction of modern technologies and increasing innovations (entrepreneurial incubators, innovation centres...), rational utilization of business premises and equipment, quality improvement; automatization and computerization etc.

(7) The Ministry of Agriculture, Forestry and Water Management. The development of agriculture and manufacture of agricultural produce are identified as priorities of the Strategy for Agricultural Development and in accordance with that, the process of registration of agricultural estates was initiated in 2004 in order to use budgetary funds earmarked for premiums, subsidies and credit financing. All registered agricultural estates can apply for short-term and long-term loans that are realized at this Ministry through the Development Fund of the Republic of Serbia and commercial banks.

(8) The National Investment Plan. For the purpose of as efficient utilization of investments from privatization revenues and loans of international financial institutions (the World Bank, European Investment Bank, EBRD) and EU pre-accession funds as possible, the Government adopted the National Investment Plan for the period 2006-2011. NIP gives advantage to the projects that are recognizable as priorities and recommendations of the National Strategy for EU Accession that will provide growth of employment, sustainable and dynamic economic development and balanced development of all regions in the Republic of Serbia in the long term. Important funds will be invested into regions for which regular budgetary funds are not sufficient for accelerated progress. Financing the development of undeveloped areas (whose corrected national income is up to 55% of the level of the Republic of Serbia) and the right to utilization of special funds are included in the following three programmes pursued by the Ministry of Finance, Ministry of Economy, the Development Fund of the Republic of Serbia and authorities of the local self-government:

- Credit financing programme for the purpose of stimulating investments and increasing employment in undeveloped municipalities;
- Credit support programmes for beginners;
- Credit financing programmes for unemployed physical persons, surplus of labour, including innovators through approving micro-loans for employment.

(9) Local Funds. The development Fund of Leskovac Municipality was established for the purpose of faster economic development of Leskovac Municipality. The founders of the Fund – the World Bank, UNDP, the Government and the Municipality of Leskovac – approve funds for programmes in agriculture, infrastructure and accelerated development of entrepreneurship.
1.4. Coordination Problems

A large number of institutions and entities participate in the implementation of the policy on regional development and faster development of undeveloped areas. The problems of coordination of their operation and activities originate from the formal-legal status of the mainstays of certain functions and functional inability of the economic-systemic instruments and institutional solutions related to the management and orientation of development processes. Owing to the above, the activities that are not related to financial problems are realized with difficulty.

The coordination problem in conceiving and implementation of the regional development policy cannot be successfully overcome by any partial solutions. The objective is to ensure integration and harmonization of activities of a large number of financial and other institutions in the policy’s implementation. Furthermore, it is necessary to integrate numerous activities for the development of the economy, economic infrastructure and social activities, as well as timely operation and responding to all changes in the economic system and providing equal treatment of all areas in using means of mechanisms and measures of the incentive policy. In relation to the above, it is necessary to consolidate numerous activities related to programme and development preparation, providing various forms of technical and other assistance and complete informing of all participants in pursuing regional policy.

Balanced regional development requires coordinate cooperation with all institutions (The Council for Regional Development, ministries, regional agencies, local communities) that participate in different aspects of regional development, such as economic development, rural development, infrastructural development, social development, local development and environmental protection. Partnership and established cooperation on all levels of government will clearly define development needs and projects in regions. Planning and utilization of financial funds also require good coordination of all participants, especially coordination in using EU pre-accession funds.

Regional development policy will be carried out on the basis of the strategy which implies coordination between the Government, competent national and regional institutions for regional development, as well as local communities for the purpose of integrating long-term regional policy into the country’s overall development policy. The regional development policy will be compatible with structural adjustment of the economy of the Republic of Serbia and its integration into close and global surrounding.
2. **New Institutional Solutions**

Balanced regional development is one of the main long-term strategic goals of the Republic of Serbia and the policy on regional development which ensures conditions for alleviation of regional disproportions, more rational utilization of economic resources, re-direction of unfavourable demographic flows and attenuation of differences in the standard of living of all citizens.

As emphasized in the *National Strategy of the Republic of Serbia for EU Accession* “it is not possible to achieve the desired long-term results in any field without strong, capacitated and stable institutions which is also proved by the experience of other transition countries” The practice of EU member states and countries in transition shows that the area of regional development is institutionalized through the foundation of different institutions on the federal (state), regional and local level such as ministries, institutes, offices, departments, associations, agencies, bureaus etc. Actualization of this problem is aimed at establishing a vertical and horizontal network of regional institutions that will have special importance in the process of integration of the Republic of Serbia into the European Union.

2.1. **Legislation Framework**

The Law that would govern regional development of the Republic of Serbia should be passed in order to alleviate huge regional disproportions in the levels of development of regions (areas) and reduce regional poverty.

The legislation framework will enable the efficient implementation of a modern regional policy. Namely, it is necessary to create legal conditions for the functioning of institutions as a basis for pursuing the policy and managing development. One of characteristics of a modern state is “transferring” of rights and responsibilities from the state to regional and local administrations and specialized institutions.

The mainstays of regional policy should set principles of the regional aspect of development in newly-established institutional conditions, and make other preparations for adequate introduction of regional problems, as an integral part of the country’s economic policy. In this way, better development effects will be achieved in the long term on the overall and individual basis, and the removal of regional disparities, i.e. full integration of all regions into Serbian economy as a whole.

Pursuant to the provision of Article 94 of the Constitution, the Republic of Serbia has the task to ensure balanced and sustainable regional development through creating the institutional framework. The state will make the first step in the implementation of capacities of the Republic of Serbia, in the area of development, including the development of underdeveloped areas, as envisaged by the provision of Article 97 point 12 of the Constitution through passing the law that will regulate the stimulation of regional development. The main motives for the country’s engagement in this area are intraregional and interregional disproportions that hamper the development and initiate migration flows. Large and strategically important areas remain depopulated and their resources unutilized. At the same time, excessive concentration of population and economy occur in more developed centres which produces negative results in the economic, social, spatial and ecological sphere. The role of the state in the new regional policy
is to remove and alleviate restrictions that endangered areas are faced with, i.e. their capacitating for auto propulsive development. This refers in particular to the assistance to areas with special development problems, through investments and stimulation of capital inflow so that these areas could compensate for their structural disadvantages. For the purpose of efficient state support, it is necessary to ensure its continuity and keep the intensity in the long term.

The legislation framework will include, apart from the law, the implementation of several by-laws that will precisely establish the necessary criteria, institutional network, activities of the mainstays of regional development, as well as the methodology for the implementation of the law and guidelines defined under this strategy.

In fact, this legal framework establishes the new regional policy of the Republic of Serbia which primarily refers to the reform and building of institutions on the national, regional and local level.

The reasons for the establishment of the new regional policy are as follows: (a) internal – insufficient effects and the failure to reach the goals of the previous regional policy. This is supported by the fact that regional differences are deepening and that local development potentials have not been utilized; (b) external – the necessity to consolidate regional policies with the principles of EU accession and utilization of EU structural funds. Serbian development regions (statistical regions) must develop own innovation potentials, reduce previous squandering and harmonize local efforts for the purpose of enhancing competitiveness between regions themselves, as well as international competitiveness.

In order to attract incentives for this purpose, the regional development programme should be the main instrument of regional development.

2.2. **Financial Institution**

The Development Fund of the Republic of Serbia is a financial institution whose key role is credit financing of the economy aimed at reaching long-term national goals of the regional policy. For that purpose, the Development Fund bases its loan policy on the adopted regional policy of the Ministry of Economy and competent ministries that will be pursued by an adequate authority, i.e. organization responsible for regional development. Loan funds are approved through the Development Fund of the Republic of Serbia.

It is necessary to specify annual budgetary funds for regional development that will, according to the established plan, direct the Ministry of Economy and competent ministries via adequate authorities, i.e. organizations.

2.3. **National Institution for Regional Development (NIRD)**

The scope of new institutions for support to and implementation of this strategy and regional development programmes will be defined by new legal solutions. Namely, building the institutional structure on the national and regional level is a necessary precondition for regional policy, as this integrated and clear structure of institutions is a necessary precondition for planning, implementation, monitoring and assessment of the regional policy in the Republic of Serbia. The state should provide grant aid to the national
strategy for institutional development

institution for regional development for financing regional development programmes. Direct instruments of support are applied via ministries and the Development Fund of the Republic of Serbia.

2.4. Regional Development Institutions (RDI)

Regional development institutions will represent a rational network of regional institutions for stimulating the development of statistical regions (two or more districts).

Regional development institutions will be responsible for the preparation of regional development programmes and for other established activities of regional policy, especially in relation to the improvement of economic, social, spatial, and ecological development.

Regional development institutions are founded by municipalities and other public and private institutions with the participation of the Republic of Serbia. Regional development institutions should provide public interest and to render assistance of a part of local self-governments of one or more regions at the preparation of regional projects.

2.5. Regional Development Programme (RDP)

The regional development programme (RDP) is the key instrument for pursuing regional policy.

The regional development programme should be the basic programme document prepared for the region that will coordinate development forecasts and tasks of the Republic of Serbia and the local self-government in the area of economic, social, spatial and cultural development of the region.

The regional development programme should contain a strategic and an executive part. The strategic part of RDP should contain analyses of the state and problems and consolidate the development of sector programmes and determine regional development goals, orientations and priorities for a part of local self-governments of one or more regions.

The executive part of RDP would include development projects of regional and local importance with the forecast of the realization term and sources of finance, organizational conditions as well as necessary activities from the aspect environmental protection. The executive part of RDP would also include other forms of republic and local regional development incentives.

Regional development programmes of borderline regions will include programmes of cross-border cooperation. They will be based on this Strategy and the Spatial Plan of the Republic of Serbia.

Incentive funds for regional development that will be envisaged by the law will include returnable and grant aid of ministries, state and other institutions.

DDI will be the criterion for the distribution of incentives for every district. The goal is to stimulate the development of all regions in the Republic of Serbia. The rank list of the district is established on the basis of DDI. Due to large intraregional disproportions, underdeveloped areas will have the priority in the distribution of incentives, in accordance with implemented RDPs.
Strategy for Institutional Development

The incentives refer to the implementation of projects adopted in RDPs. Competent ministries will give priority to financing projects of the adopted RDPs.

Competent ministries and the Development Fund of the Republic of Serbia will define the share of co-financing for projects depending on the goal and type of incentive.

The National Institution for regional development will formulate guidelines for the preparation of RDPs. Local self-governments will be responsible for the preparation of RDPs, and the Council of local self-governments that participated in the preparation of RDPs will pass the decision on the preparation of RDPs. Local self-governments will entrust the management of the preparation of RDPs to regional development institutions.

Local self-governments are responsible for the preparation and application of RDPs
3. The Role of the Local Self-Government and Regional Development

Local self-government in the Republic of Serbia is, like other institutions, in the process of reforms. Efficient local self-government is one of the main goals of the Council of Europe and the Organization for Security and Cooperation of Europe (OSCE). The Council of Europe defines the position, obligations and principles of the development of the local self-government by the European Charter on Local Self-Government (passed in 1985), which contains basic provisions on the role, position and organization of the local self-government and emphasises the need for strong, adequately financed and democratic system of the local self-government. However, the Republic of Serbia has still not ratified the Charter, although the measures for strengthening local self-government are envisaged in the process of European integration of the Republic of Serbia.

Until 2000, the Republic of Serbia was a very centralized country with restricted autonomy for the local self-government. The position of local self-government units has been greatly improved through transition reforms, by passing the Law on Local Self-Government60, changing the attitude of the central government towards municipalities and cities, as well as greater decentralization. The framework for the democratic action of the local self-government has been established in a systemic way, its financial position has been improved (by creating the system of financing by the state, and numerous programmes of support to municipalities by international organizations), cities and municipalities were given larger scope of original and delegated jobs which greatly affirmed the local self-government of the Republic of Serbia with regards to the previous period.

However, expectations of the full decentralization have not been completely met and the reform of the local self-government has not been carried out consequently and completely. One of the main reasons is that the reforms in this area were directly conditioned by the progress of reform in other areas (the reform of the institutions of central government and public administration, fight against corruption, regionalization of the Republic of Serbia, etc.). The Constitution provided the basis for satisfying the basic needs of the local self-government in terms of restitution of the municipal property (local self-government were vested with the right to their property, so that the next step is to formulate and pass the law that will regulate the property of the local self-government). However, the general problem of the regulation of this area is that the adoption of these legal acts is no accompanied with passing of the adequate by-law regulation and creating institutional instruments for their implementation. Non-defined institutional framework resulted in insufficient connection between municipalities and districts in the process of defining development initiatives, flow of information and harmonization of national, regional and local development objectives and priorities.

60 One of the most important sources of finance of undeveloped areas were funds for the realization of the Village Revitalization Programme. Other budgetary funds were as follows: the Republic Fund for the Protection, Utilization, Improvement and Arrangement of agricultural Land, the Waters Fund, Forest Fund, Roads Fund (the Roads Directorate), funds for geological research (the Ministry of Energy and Mining), funds for scientific-technical programmes (the Ministry of Science), funds for programmes and investment into social activities (the Ministry of Education and Sport), funds for environmental protection (via the above mentioned Ministry) and one of the most important forms of providing material assistance on the Republic level are funds of the former Republic Bureau of Labour.
The second reason of weak decentralization is related to internal disadvantages of the administration on the local level and its insufficient capacity to carry out reform measures. Administration on the local level mostly had a passive role in defining and the implementation of the local development goals. It gets the active role in these processes through decentralization and democratization, but the problem of the capacity of local self-government to perform new tasks emerges. Decentralization is an entirely new concept of planning – it is not just transferring new functions from the state level to the local government, but different management of old functions. Almost all resources are missing for the correct implementation of this concept: human, financial, and organizational. A small number of municipalities with own capacities to carry out this process individually, are already relying on the external assistance. It is in the process of development planning that all restrictions of local communities are visible; therefore, the necessity to strengthen their regional connections imposes itself in order to overcome these restrictions easily.

The basic condition for establishing greater autonomy of the local self-government is their financial independence and stability. At the same time, the system of financing local communities is one of the most important areas for the establishment of an efficient system of planning. The adoption and application of the Law on Financing Local Self-Government should result in the following: transparency, stability and predictability of the system of financing local self-government; improving horizontal harmonization in order to alleviate large differences in the levels of development of municipalities; strengthening the fiscal autonomy of the local self-government and institutionalized cooperation of the local self-government and the central government.

Alongside the Law on Financing Local Self-Government, the Law on Public Debt and the Law on the Securities market and other financial instruments, the conditions for further improvement of the financial position of the local self-government were created. In this way, local self-government will dispose of greater funds than before and will be able to successfully realize measures and activities that are envisaged under the Strategy for Sustainable Local Development. The Strategy includes the most important segments of operation of the local self-government and other participants in the process of sustainable local development by defining concrete measures, actions and mainstays of activities on the local level.

Local development implies a wide range of different concepts, activities and processes that local institutions, organizations and other actors on the certain territory apply for the purpose of creation, realization and development of activities that are used to utilize resources of a particular region in the best possible way. Local development is realized by a set of measures implemented by certain regions, cities or smaller administrative-territorial units, as well as numerous programmes of national governments oriented towards providing support to local actors. The global aim of the local development is often identified as endeavor to increase income, expand employment possibilities and provide better quality of life on the certain territory. Implicitly, the policy on local development is aimed at

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61 The Strategy for Sustainable Local Development was adopted at the General Assembly of the Regular Conference of Cities and Municipalities in December 2005.

62 The Strategy for Sustainable Local Development was adopted at the General Assembly of the Regular Conference of Cities and Municipalities in December 2005.

63 Best Practices in Local Development, OECD.
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eliminating certain drawbacks of the market mechanism or mistakes of the national economic policy. Therefore, the policy of local development includes numerous public (administrative) and social actors, such as: local authorities, regional authorities and central government authorities, i.e. enterprises, citizens, unions, development agencies, educational institutions and non-governmental organizations.

Local development is the basis for reaching balanced regional development. By providing the necessary resources, local self-governments contribute not only to the local economic development, but regional development as well and finally to the economic development of the whole country. Local self-governments responsible for the preparation of RDPs should be the mainstays of regional development. The strategic part of RDPs is established for the area of a part of local self-governments from one or more regions.

In order to solve individual problems of mutual importance for two or more municipalities, especially problems related to the development of rural areas, building of public infrastructure and environmental protection and cultural heritage, local self-government can organize the preparation of a joint development programme. The joint development programme should be in line with RDPs.

**Goals**

The main goal of the local self-government is the establishment of its role as the mainstay and coordinator of local development. Every local self-government tends to expand its scope of activities, and thereby the scope of its decision-making on funds, development projects, and all matters of concern for citizens in order to provide services to its citizens as efficiently as possible. The goals of the local self-government are the following: approaching the decision-making process to citizens, responsible local officials, providing good public services, higher efficiency in providing services, strengthening local tax potential and improvement of the general social welfare.

One of the priorities of the European Partnership related to state administration is to adopt and implement reforms for the purpose of decentralization, in order to strengthen the capacity of local authorities. The key issues for strengthening the capacity of local self-governments are realization of rights to municipal property (it is necessary to pass the law on the restitution of municipal property), financial stability of the local self-government and the possibility of planning investments into public utility infrastructure. Solving of these problems is the basis for balanced regional development in which the local self-government should have the key role.

Local self-government could perform the mentioned tasks if institutional strengthening of the local self-government was provided and the level of knowledge of chosen and appointed persons, employees of municipal administrations, was upgraded.

**Policy, Measures and Activities**

The process of decentralization implies human resource and material capacity of the local self-government authorities to take on new responsibilities independently. Material capacity should be provided primarily through the process of fiscal decentralization that will be harmonized with the decentralization of jobs, as well as with creating constitutional and legal
basis for the existence of own property of local self-government. Within human resource capacity of the local self-government authorities, the Ministry for state administration and local self-government should provide all the necessary assistance in the analysis of capacities of local self-governments and the formulation of plans for their capacitating.

The development of the local economy should be based on the sustainable utilization of available natural resources. The main task of the local self-government in the development of the local economy is building and adoption of local strategies for economic development and employment, as well as building and strengthening institutions that would be follow the formulation and implementation of the adopted strategy for local development. The local development strategy implies the introduction and promotion of stimulatory measures in the area of economic development and employment, as well as regional connection through the establishment of an open dialogue between local authorities. This is the part of local development where regional development funds have an important role; therefore it is necessary to implement the development programme for the development of the specific municipality. This is the way to support the cooperation between municipalities in the establishment of development programmes which integrate several projects and which fit into the regional state policy. This would contribute to better local cooperation and the development of less developed regions and areas.

In order to realize the local development strategy, local self-governments need to be engaged in the implementation of different activities. The activities for the realization of local development strategies are the following:

- Supporting the development of SMEs;
- Supporting the foundation of new enterprises;
- Promotion of foreign and domestic investments;
- Promotion of cluster development;
- Improvement of infrastructure – building and rehabilitation of main access roads, rehabilitation of industrial railways, building and reconstruction of business premises, building and reconstruction of public utility infrastructure;
- Other support measures: providing education and training of citizens, support to research and development, providing business counseling services, providing access to financial funds, support to foundation and development of business associations, enabling business connection, improving the quality of life, improving services of local authorities, assistance to the development of non-governmental sector;
- Building strategies for improving self security and reducing crime etc.

In order to capacitate local self-government for the implementation of these activities as much as possible it is necessary to pursue a set of regulatory, institutional and economic measures.

(a) Regulatory instruments:

- Ratification of the European Charter of Local Self-Government – creating the principle of subsidiarity in the delegation and realization of public works should be performed by those levels of government which are closest to citizens.
of powers;

• Adoption of the law that will regulate the property of local self-government;

• Regulation of allocation of ceded revenues to local self-government units (by the Republic of Serbia) that were not regulated by the Law on Financing Local Self-Government (primarily revenues from fees for utilization of the public interest good);

• Passing by-laws in order to provide the implementation of the Law on Local Self-Government, Law on Environmental Protection and other laws which regulate rights and responsibilities of local self-government;

• Monitoring the effects of the application of new laws and their change in accordance with results of analyses made on the basis of this monitoring; passing, implementation and control of the privatization programmes of public utility companies for the purpose of market operation;

• Creating legal and institutional framework which would encourage local self-government units to develop and adopt strategic development plans.

(b) Institutional instruments:

• Establishment of adequate bodies within municipal administration for strategic and action planning, as well as the preparation and realization of projects based on these plans;

• To define through by-laws mandatory modes of cooperation of local self-government with regional development agencies;

• Strengthening of the existing institutional forms of association of municipalities and further decentralization of institutions which have direct impact on the efficiency of operation of the local self-government (tax administration, inspection authorities).

(c) Economic-financial instruments:

• To regulate, through legal solutions and by-laws, the process of decision-making and introduction of the local self-government into concession arrangements for building and maintenance of public utility infrastructure;

• Efficient valorization of space (introduction of a new system of collection of urban rent, control of transferring agricultural into non-agricultural land, liberalization and efficiency of services for renting business premises, arrangement of new spaces for business engagement of capital);

• To expand the right of local self-governments enabling them to enter financial arrangements for building certain facilities on the municipal territory (building sport and recreation facilities, facilities for spa and village tourism).

Special attention should be paid to the local self-government in undeveloped areas of the Republic of Serbia. Undeveloped areas in the Republic of Serbia are mostly of agrarian-rural type and they are characterized by inadequate economic structure with the dominant share of agriculture, lack of skilled labour (most of these areas are faced with the problem of depopulation and lack of qualified staff with necessary specific knowledge), undeveloped infrastructural capacities, underdeveloped entrepreneurship and serious problems in environmental protection.
The state like this implies the necessity of planned action that would lead to the development of undeveloped areas, with emphasis on using comparative advantages of certain territories. This action implies directing part of budgetary and donors’ funds to increasing development capacities of undeveloped areas, providing different forms of technical assistance to local self-governments and approving micro loans, strengthening interregional and inter-municipal cooperation, especially in activating local development plans, creating new jobs and building public utility infrastructure important for the development of small and medium-sized enterprises.

The active role of local self-government in undeveloped areas with emphasized structural problems is especially important for the improvement of economic activities and competitiveness (development of entrepreneurship, development of village tourism, service activities, cultural manifestation etc.). In rural areas, local authorities should have the active role in developing and financing projects for the improvement of agricultural production (building the system of irrigation and drainage of agricultural land, organic production, agro-business centres/incubators etc). Also, the influence of local self-government on strengthening the cooperative movement and its share in privatization and agriculture is important.