

A decade of local economic development in Serbia: lessons for the future

Dragiša Mijačić¹

December 2012



Introduction

Market globalisation and liberal economy concept both contributed to local economic systems suffering from the burden imposed by competition from around the world. National economic planning departments and competitiveness development policies have not succeeded to establish mechanisms to adequately respond to these challenges. This created a niche for a more significant role of local (and regional) authorities in developing conditions and solving problems caused by opening of domestic markets. Thus, local self-governments, more than ever, became involved in planning of economic development and improvement of business environment in their respective territories. With that goal, local self-governments put efforts in attracting investments, building industrial zones and parks, establishing business incubators, developing strategic and planning documents that prioritise public investments, public-private partnerships and many other instruments aimed at improving economic growth and employment on the local level.

Local economic development is a process in which local authorities and other actors in a respective territory join powers to improve the quality of life and conditions for economic growth. Therefore, when talking about local economic development, it mostly involves a participatory model of cooperation between socio-economic actors in respective localities. Vertical coordination between different levels of authority and harmonisation of public policies are also important factors for successful planning and implementation of local economic development.

This definition should be clearly separated from considering local economic development as an outcome of an intervention, measured by economic indicators (e.g. GDP growth, unemployment rate, number of new enterprises, etc.), primarily because the concept of local economic development is not

strictly based on economic growth but primarily related to activities aimed at improving the quality of life and improvement of business environment.

Overview of donor projects in the field of local economic development

Local economic development in Serbia was initiated by international development agencies which presented the concept through a range of projects and initiatives that contributed to raising awareness among actors on both local and national level. First projects were initiated right after democratic changes and they were focused on revitalisation of local communities, thus, as such, they did not have a strong development character. However, in the middle of the first decade of the new millennium, the development projects were initiated as well, funded from EU funds and bilateral donors such as USAID, SDC, Sida, ADA, Government of the Kingdom of Norway, the Kingdom of Denmark and others. According to the geography, the projects that have had a direct or indirect impact on local economic development can be divided into:

- national,
- geographically dispersed, or implemented in municipalities that are not territorially connected, and
- geographically concentrated, or implemented in municipalities that are territorially connected.

The first category comprises EU projects: Exchange (all three phases), MSP IPA 2007, MISIP (all phases) and RSEDP2.² These projects have directly or indirectly

² RSEDP2 can be analysed as a special case because it supports local economic development through support to regional development agencies where they exist, and on the other hand it directly supports municipalities and cities where there are no regional development agencies. Since this includes support to all local self-government units in Serbia, this programme is placed in the category of national projects.

¹ Dragiša Mijačić is a director of the Institute for Territorial Economic Development (InTER). Please send your comments to dmijacic@lokalnirazvoj.org.

dealt with issues of importance for local economic development in the whole territory of the Republic of Serbia.

Geographically dispersed projects include USAID MEGA, that was implemented in 32 local self-governments throughout Serbia, as well as the first stage of the Municipal Support Programme, financed by the Swiss Government, implemented in 7 municipalities and cities of Central Serbia.³

Nevertheless, most projects dealing with local economic development had a clear territorial focus, mostly covering poor municipalities in Southwest, South and East Serbia. Unlike the first two categories, this one includes multi-donor initiatives, such as MIR, PRO, EU Progres and PBILD, which represent the most significant projects in local self-governments in Southwest and South Serbia.

Some of the EU projects in this category also include the first phase of the Regional Socio-Economic Development Programme⁴ and the Municipal Support Programme North-East Serbia (MSP NE).⁵ As special cases, Cross-Border Cooperation Programmes can also be considered as programmes supporting local economic development with a clear territorial focus on border territories of the Republic of Serbia.

USAID has also been implementing projects in this category: CRDA and CRDA-E that were implemented between 2001 and 2007⁶, as well as Sustainable Local Development Project (SLDP), that has been implemented since 2011 in 32 municipalities joined in eight inter-municipal cooperation clusters.⁷

Apart from support to multi-donor initiatives, the Swiss Government (through its development agency SDC) has been financing two separate projects that belong to this category. The first one is Municipal Support Programme - MSP (second and third stage) that was implemented in six municipalities of Central and West Serbia.⁸ The other two initiatives are the Private Sector Development in Southwest Serbia, that was focused on 6 municipalities of Zlatibor District⁹ and the Private Sector Development in South Serbia, implemented in 6 municipalities of Pcinja and Jablanica District.¹⁰

3 Čačak, Kraljevo, Kuršumlija, Niš, Novi Pazar, Požega and Užice

4 The first stage of RSEDP programme was implemented in the three Banat Districts, Šumadija and Pomoravlje District, as well as Jablanica and Pčinja District.

5 Three Banat Districts and Braničevo District

6 Even though CRDA and CRDA-E were implemented in the whole territory of Serbia, the modality of their implementation through partner organisations that covered clearly defined territories places these two programmes in the category of geographically concentrated projects.

7 Geographical areas where USAID SLDP is active can be found on the webpage <http://www.lokalnirazvoj.rs/gde-radimo.html>

8 Arilje, Čajetina, Čačak, Kraljevo, Požega and Užice

9 Arilje, Nova Varoš, Priboj, Prijepolje, Čajetina and Užice. This programme is implemented by RDA Zlatibor from Užice

10 Preševo, Bujanovac, Surdulica, Trgovište, Vranje

As in case of Switzerland, the Government of the Republic of Austria participated through its development agency ADA in multi-donor programmes, but also separately financed projects relevant for local development with a clear territorial focus. The first such project is the Integrated Regional Development Plan of the Autonomous Province of Vojvodina that was implemented at the provincial level, but affected the local development of municipalities in Vojvodina. The second project is the Programme of Support to Sustainable Regional Development of Jablanica and Pčinja Districts that was implemented in the south of Serbia.

GIZ also has a project significant for local economic development, named Municipal Economic Development in the Danube Region. This project is implemented in ten municipalities of East Serbia.¹¹

German humanitarian organisation HELP is also active in the implementation of projects supporting entrepreneurship development and poverty reduction by supporting vulnerable population groups, refugees and IDPs, and others. Between 2002 and 2012, HELP provided support for 4,491 beneficiaries who were provided equipment and business trainings and counselling. HELP's activities are geographically concentrated in relation to their four offices, in Belgrade, Niš, Kraljevo and Bujanovac.

Finally, there is also the Local Economic Development in the Balkans programme, funded by the Government of the Kingdom of Denmark, and implemented in municipalities of Nišavski District.

There are also several smaller projects financed by different foundations, such as the Fund for an Open Society, Balkan Trust for Democracy and many others. However, all these projects are small in size, and not necessary to be treated separately in this paper.

Types of interventions in the field of local economic development

Local economic development projects were mostly covering the following four intervention areas:

- preparation of strategic and action plans for local development,
- capacity building for project proposal writing and implementation,
- development of local social and communal infrastructure, and
- establishing local economic development offices.

Almost all projects focused on local economic development have supported the preparation of strategic and action planning documentation on the local level. As a result

and Leskovac. This programme is implemented by VEEDA from Vranje. The project started in 2011 and it will last until 2014.

11 Golubac, Zaječar, Sokobanja, Majdanpek, Veliko Gradište, Kladovo, Negotin, Knjaževac, Boljevac and Bor

of these interventions, in 2012, the Standing Conference of Towns and Municipalities registered 708 strategic and action plans prepared or being prepared by municipalities and cities. This can lead to a conclusion that the first cycle of strategic planning in Serbia has been finished in a large majority of municipalities and cities. Also, there are a number of local self-governments that have initiated a new cycle of designing strategic and action plans.

Main problems in strategic planning include the lack of properly elaborated action plans and financial mechanisms for their implementation. Therefore, a significant number of strategic plans remain to be wish lists, often unrealistic. Solution for these problems is expected in the introduction of the programmed budgeting system on the local level.¹²

Also, in many municipalities and cities there is an obstacle for implementation of strategic plans in the lack of political will and a general consensus on development priorities and goals. In a number of municipalities, there is also a big problem in systematic monitoring of strategy implementation based on clear indicators.

Another area of intervention targeted by local economic development projects is capacity building for project development and implementation, especially projects financed within the EU Instrument for Pre-Accession Assistance. Results of these activities significantly vary between cities and municipalities. Namely, the key problem in capacities to write and implement projects is insufficient knowledge of English language at the local level, especially in small and undeveloped municipalities. Another problem is the lack of formal education programmes in the field of Project Cycle Management (PCM). Local professionals are trained in PCM through ad-hoc trainings that are often only explaining basic terms, without tackling the essence. The third key problem is frequent fluctuation of workforce within self-government units. Namely, with the change of political structure on the local level it often happens that trained staff is replaced or marginalised, which significantly reduces local capacities in this field. This is especially a case in smaller municipalities where most often one or two persons are in charge of project related work. It should also be mentioned that people working on projects often cover several other duties, which adds to their burden, and thus reduces their efficiency.

Poor local communal infrastructure is typical for all local self-government units in Serbia. Hoping to solve the accumulated problems, local governments are actively engaged in searching external funds. Therefore, for most local self-governments in Serbia, investments in social and communal infrastructure are the most attractive part of participation in projects.

12 *In accordance with the Law on Budgetary System, starting with 2015, local self-governments in Serbia have to initiate a new practice in the creation and execution of local budgets – programmed budgets.*

Developing communal infrastructure and reconstructing buildings of social importance (schools, hospitals, cultural centres, etc.) are important parts of all projects focused in local economic development. They can be split into projects dealing exclusively with the development of local infrastructure (e.g. MISP and its preceded projects) and projects supporting infrastructure development within a component or through calls for proposals for grants (e.g. MIR, PRO, EU Progres, Cross-Border Cooperation Programmes, etc.).

Establishing local economic development offices and developing their capacities are also a frequent focus of local development project interventions. The project that stands out by scope of support to this area is USAID MEGA that supported the establishment of 32 local economic development offices in self-governments throughout Serbia, but other projects as well, such as RSEDP, MIR, PRO, PBILD, LEDIB, MSP SDC and many others. Technical support for establishment of offices was also provided by regional development agencies Zlatibor, REDAŠP, RARIS, Centre for Development Banat and Bačka.

According to the results of the latest research carried out by InTER in 2012, out of 144 self-government units in Serbia (not including Belgrade), 121 have some form of local economic development office. Capacities of those offices vary in different self-government units, with a visible disparity between cities and municipalities. Also, in cities and municipalities with strong capacities within local economic development offices, political influence on their work is much weaker than in those with weak capacities. Another problem shared by local economic development offices is the lack of standardised set of services that should be provided by these units. Namely, local economic development offices mostly work on preparation and implementation of projects and local development planning, whereas other activities are carried out to a much smaller extent.

Conclusion: what next in local economic development?

Today, ten years after the first projects implemented in local development, the question is what future project interventions should focus on. The economic environment in Serbia is characterised by inadequate economic legislation, high unemployment, uncompetitive local economy and a high degree of corruption in public procurement on all levels. Even though they have been constrained with the legal framework, local self-governments should be proactive, maximising their potentials and moving the limits of their actions in areas relevant for local development. Also, it is necessary to advance cooperation with the business sector by introducing mechanisms for continuous consultations and cooperation. Capacity building for public and private partnerships will be one of the biggest challenges in the upcoming period. In addition, it should be kept in mind that democracy includes pluralism and consensus, and it is of great importance to include both private and civil sector in making important decisions for local development.

Promotion of entrepreneurship is also an important field of intervention. Entrepreneurship based on economy of knowledge and modern technologies, as well as on industries generating added value and job creation needs to be promoted and encouraged. In this sense, it is necessary to work on development of entrepreneurial skills, especially among qualified professionals who want to start their own business, as well youth, women and the unemployed.

Integrated development of business support infrastructure at the local and regional level should also have a significant place in future local development interventions. Elements of business support infrastructure, clusters, business incubators and industrial zones and parks have mostly developed independently of each other, and often in disharmony with local economic systems and development policies. In order to achieve as efficient local development as possible, these elements need to be linked to serve for a unique vision and strategic orientation of local economic systems. It is also necessary to work more actively on the revitalisation of Brownfield locations in order to put them in operation to serve the economic development.

Attracting local and foreign direct investments is also an area where a more active role of local self-governments is needed. Many municipalities and towns prepared promotional materials and they actively participate in investment fairs in the country and abroad. However, it is necessary to work more actively with potential investors (both national and foreign) and the national government in order to solve problems that follow every investment: from obtaining different permits from national and local institutions to finding high quality workforce, building the necessary infrastructure, etc. Establishing a unique one-stop shop system that would work within LED offices could be the first step towards a more active approach to supporting foreign investors on the local level.

Capacity building of local self-governments and LED offices is also a significant field of intervention in the following years. It is especially necessary to strengthen human potentials to develop local development policies based on quality analyses. Collecting and analysing statistical data on the local level is also a necessity which can considerably contribute to better local development planning of in Serbia.

There is no city or municipality that can solve development problems on their own. Thus it is necessary for them to work more on implementation of regional development policies and strengthening inter-municipal cooperation. However, majority of local self-governments in Serbia develop their own development policies without analysing their immediate territorial environment. In many cases, there are animosities between

neighbouring municipalities, based on political, historical, cultural or ethnic grounds. However, there are evidences showing that the level of inter-municipal and regional cooperation is in a clear correlation with the number of geographically concentrated project interventions in a specific territory. This means that the level of inter-municipal cooperation is significantly higher in areas with stronger presence of donor projects. Inter-municipal cooperation is also stronger in areas with active regional development agencies. This shows the importance of initiating and implementing projects of joint interest for local self-governments on the district or regional level, as well as strengthening cooperation between local self-government units and regional development agencies.

At the national level it is necessary to work on improving legislation that affects the development and implementation of local economic development policies. A set of indicators that would follow the level of development of local self-governments in Serbia in a comparative way should also be developed.

Finally, it is important to mention that it is necessary to work on the promotion of lessons learned and good practice examples from previous work in the field of local economic development. With that regard, it is necessary to conduct a comprehensive impact assessment of implemented projects on sustainable local economic development in Serbia, which would adequately answer which types of interventions helped the most in building human and operational capacities, as well as economic empowerment on the local level. ■

Table 1: Overview of projects with impact on local economic development in the Republic of Serbia

Donors	Project	National	Geographically dispersed	Geographically concentrated	Time period													
					2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012		
Multidonor	EU, Sida, Norway, ADA and RS*	Municipal Improvement and Revival Programme (MIR)		√														
	EU, SDC and RS	Municipal Development Programme(PRO)		√														
	EU, SDC and RS	European Partnership with Municipalities (EU PROGRES)		√														
	Norway, Sida, SDC, MDG-F and RS	Peacebuilding and Inclusive Local Development (PBILD)		√														
Donor	EU	EU Exchange (I, II, III)	√															
		MSP IPA 2007	√															
		MISP (MIASP, MISP CARDS2006 and MISP IPA2008)	√															
		RSEDP		√														
		RSEDP2	√															
		MSP NE		√														
		IPA CBC		√														
	USAID	CRDA			√													
		CRDA-E			√													
		MEGA		√														
		SLDP			√													
	SDC	MSP I		√														
		MSP II, III			√													
		Private Sector Development in South-west Serbia			√													
		Private Sector Development in South Serbia			√													
	ADA	Strategic Partnership in Support of the Economic Development of Vojvodina			√													
		Support to Sustainable Regional Development of Jablanica and Pčinja Districts			√													
	GIZ	Municipal Economic Development in the Danube Region			√													
	HELP	Programme of Support to entrepreneurship Development and Socially Vulnerable Population Groups			√													
	Denmark	LEDIB			√													

*RS - Government of the Republic of Serbia



InTER – Institute for Territorial Economic Development – is an independent non-governmental think tank with the mission of promoting and advancing sustainable socio-economic territorial development in the Western Balkans.