

# Regional development: no good title or no clear vision?

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## Introduction

On Sunday, April 26, Serbia got a Government with a stable majority. Prior to that, Serbian Parliament adopted the Law on Ministries, foreseeing 16 ministries. However, even though Serbia has the biggest regional differences in Europe, for the first time since 2007, the Government of the Republic of Serbia does not have a ministry of regional development.<sup>2</sup>

The fact that there is no ministry of regional development is not surprising because the leading party (still) has no clearly defined regional development policy.<sup>3</sup> PAlso, even

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<sup>2</sup> Ministry of (Economy and) Regional Development was first established within the second Government of Vojislav Koštunica in the period 2007-2008, when there were no established regions in Serbia (regions were first introduced in 2009 with the Law on Regional Development, and then with amendments to the Law in 2010). This Ministry also existed in all subsequent Governments: with the Prime Minister Mirko Cvetković (2008-2012) and Ivica Dačić (2012-2014), surviving a reconstruction in each of the two Governments' structure.

<sup>3</sup> Even though the Statute of the Serbian Progressive Party underlines that balanced regional development and decentralization are conditions for the progress of Serbia, the focus is placed on "measures for village development, prevention of depopulation and migration of population from smaller environments to Belgrade and other large cities" (Article 2 paragraph 8 of the Statute). According to SNS' Programme: "decentralization does not imply granting any territorial autonomy, but broad rights and authorities to local self-governments" (Point 10 of the Programme). The first point of the Programme states that Serbia will use all political and economic measures to prevent further degradation of its legal and political system, especially in the territory of Autonomous Province of Vojvodina, which was, is, and will be an integral part of Serbia in accordance with its constitutional system.

though Serbian Progressive Party (Srpska napredna stranka - SNS) was in charge of the previous Ministry of Regional Development, a general impression is that they did not do very well in that position.<sup>4</sup>

The fact that regional development and reduction of regional differences in Serbia are not among the key priorities of the new Government can also be concluded from the exposé of the Prime Minister Aleksandar Vučić.<sup>5</sup> In his presentation, the Prime Minister mentioned regional development only in one sentence, and in the context of the upcoming negotiations for EU accession, defining regional development as one of the five key areas with great importance for Serbia.<sup>6</sup> The Prime Minister emphasized the necessity to adopt EU standards in these areas, taking into account

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InTER is currently conducting a research about the views of political parties on issues of relevance for centralization, local and regional development, which also includes the analysis of the Statutes of all political parties and movements that participated in the recent parliamentary elections. Results of the research will be published in June 2014.

<sup>4</sup> In the course of his mandate, Minister Igor Mirović mostly insisted on adopting measures for development of business infrastructure, mostly focusing on industrial zones where he saw an opportunity to promote local and regional development in Serbia. However, no public policy was adopted in the course of his mandate that would improve the development of industrial zones in Serbia. Even though the development of business infrastructure was this Ministry's priority, actions in this field were not included among the responsibilities of the new ministry in charge of issues relevant for regional development.

<sup>5</sup> The exposé can be found on the website of the Government of the Republic of Serbia: <http://www.srbija.gov.rs/>

<sup>6</sup> Other areas are agriculture, environmental protection, transportation-infrastructure and energy sector.

the protection of industrial interests. However, it is not completely clear what is a concrete idea behind these words, since EU does not have a unique policy for regional development, and each country deals with these issues in accordance with their needs.<sup>7</sup> Serbia is the most centralized country in Europe, characterized by unequal distribution of gains, mostly concentrated in Belgrade and several larger cities (Novi Sad, Niš and to a certain extent Kragujevac). All other cities and municipalities, as well as regions, are in a precarious position, which is best indicated in negative population demographic trends, as well as negative indexes of economic indicators (GDP, export, unemployment, business demography).

Also, in the exposé, Prime Minister Vučić emphasized the priority of several infrastructural projects mostly related to the City of Belgrade, such as: bridge Zemun-Borča, Prokop (railway station in Belgrade) and the project "Belgrade on Water". Even though these projects are capital investments for Serbia and the City of Belgrade, they will have a limited impact on balanced regional development.<sup>8</sup> Apart from these, the exposé contains several capital infrastructural projects initiated by the previous Governments which can be a needed, but certainly not a sufficient condition to achieve a more balanced development in Serbia.<sup>9</sup>

### Responsibilities and tasks in the field of regional development

According to the Law on Ministries, adopted on April 26, 2014, tasks from the field of regional development will be implemented within the Ministry of Economy. From the former Ministry of Regional De-

7 In his exposé, Prime Minister Vučić did not address issues of territorial (re)organization of the Republic of Serbia, status of the Autonomous Province of Vojvodina or possible devolution to the regions of Central Serbia. The exposé also does not include the need to adopt a National Plan for Regional Development, which is the key document for regional policy in Serbia.

8 These and other infrastructural projects in Belgrade (Belgrade bypass, construction of an intermodal railway terminal in Batajnica and construction of the second railway track Belgrade - Pančevo), Novi Sad (construction of Žeželj Bridge) and Niš (Niš bypass) will rather have a negative impact on regional development since they will boost further movement of workforce to these urban centres.

9 These infrastructural projects are mostly related to the realization of the existing Russian and possible Chinese loan for railway development (railway infrastructure projects: Novi Sad - Subotica - Hungarian border; Stara Pazova - Novi Sad and Belgrade - Pančevo, Niš - Dimitrovgrad and Belgrad - Vrnjica), or for road corridors 10 and 11. Of the road corridors, the biggest impact on balanced regional development can be made by the Corridor 11 to Montenegro and Morava Corridor from Pojate to Preljine.

velopment and Local Self-Government, this Ministry will take over the employees and appointed officials, as well as rights, obligations, files, equipment, work instruments and archives for implementation of responsibilities in the field of regional development.

Comparative overview of the responsibilities of the former Ministry of Regional Development and Local Self-Government and the new Ministry of Economy<sup>10</sup> shows that an important part of responsibilities has remained the same, one part is rightly transferred to the responsibility of the Ministry of Public Administration and Local Self-Government, one part of responsibilities is reformulated<sup>11</sup>, and one part is removed.

Na osnovu novog Zakona o ministarstvima poslove Ministarstva privrede možemo podeliti na tri grupe.

According to the Law on Ministries, tasks of the Ministry of Economy can be divided in three groups. The first group consists of tasks focused only on regional development, related to:

- Regional development;<sup>12</sup>
- Analysis of available resources and potentials for regional and national development;
- Methodology for measurement of the level of development of local self-governments and regions;
- Directing activities that promote regional development;
- Promotion of a more balanced regional development and reduction of regional differences;
- Improving business environment on the regional level;

Second group contains the following tasks primarily related to local economic development:

- Providing support to local self-government units in the implementation of local economic development projects;
- Promoting cooperation between local self-government units, non-governmental sector, business entities and state institutions;

Having in mind that local economic development tasks are under the responsibility of local self-governments (or at least they should be), the question is what is the purpose of these responsibilities on the national level. Also, it is not clear how these tasks will be implemented, which support mechanisms will be built and how will local self-government units that will receive

10 Table with comparative overview is in Annex 1.

11 Which was rightly done since the definition of these responsibilities was not set correctly in the previous legislation

12 The Law does not specify precisely which tasks are included under this term.

the Ministry's assistance (support) be selected.

Third group can be described as tasks related to project cycle management, including programming, implementation and evaluation. This group includes the following tasks:

- Planning, programming and proposing development projects in the field of regional development and the projects of interest for the Republic of Serbia;<sup>13</sup>
- Coordination among projects;
- Measuring of impact and assessment of projects' success;
- Establishing a database necessary for monitoring of projects, as well as other tasks defined by the law.

This groups of tasks does not make a difference between infrastructural and other projects, which was not the case in the previous Ministry which paid a significant attention to the implementation of infrastructural projects of regional and local importance, as well as cooperation and coordination with the institutions of autonomous provinces and municipalities, cities and city municipalities in the implementation of infrastructural projects.

According to the new Law on Ministries, a part of the former Ministry's tasks is removed with no adequate replacement.<sup>14</sup> Those are the following tasks:

- promoting intermunicipal, interregional, cross-border and international cooperation;
- providing material and other conditions for development and promotion of local self-governments and regions;
- development of business and communal infrastructure;

All three tasks are extremely important, and it is not clear why the Government gave up on their implementation. It is especially unusual that they gave up the tasks covering the development of business infrastructure, which was one of the priorities of the Ministry of Regional Development in the last two years.

### Regionalization and regional development in Serbia

Political, administrative and fiscal architecture of governance in Serbia has been one of the most contro-

<sup>13</sup> This is a synthesis of several tasks that were included in the former Ministry of Regional Development and Local Self-Government.

<sup>14</sup> The fact that these tasks are not contained in the Law does not mean that the Ministry will not deal with these issues, but it can certainly be interpreted that they are not a priority in the future period.

versial topics for years, since there is no social consensus about the way to organize the political system, especially on the middle level. That is why Serbia is characterized by a hybrid territorial and institutional system which was created as a combination of historical heritage and actions of different political parties, international actors and interest groups.

As a result of the compromise, the Law on Regional Development was adopted in 2010, foreseeing the division of the country to five regions on NUTS 2 level.<sup>15</sup> This division corresponds to a certain extent to the territorial organization of Serbia, since both autonomous provinces and the City of Belgrade are separate statistical regions, whereas the remaining part of Central Serbia is divided to two regions: the Region of Šumadija and Western Serbia and the Region of Southern and Eastern Serbia. However, the division to statistical regions was not adopted by Eurostat and the European Commission due to the fact that the EU recognizes Kosovo and Metohija as a territorial unit outside of the constitutional system of Serbia.

The Law on Regional Development also foresees the preparation of development documents of importance for regional development, primarily the National Plan for Regional Development; regional development strategies; programmes for financing of the development of regions; and other development documents in the field of regional development.<sup>16</sup> Former Ministry of Regional Development and Local Self-Government, with technical assistance provided by EU IPA programme through REGPOL project, developed the National Plan for Regional Development, but the document has not yet been submitted to the Parliament of Serbia for adoption.<sup>17</sup> Of regional strategies, only the Strategy of Regional Development of Vojvodina 2014-2020 was developed and adopted.<sup>18</sup>

<sup>15</sup> NUTS 2 is the basic territorial level where regional development strategies and programmes are adopted.

<sup>16</sup> Article 14 of the Law on Regional Development ("RS Official Gazette", no. 51/2009 and 30/2010).

<sup>17</sup> Article 15 of the Law on Regional Development foresees that the National Plan for Regional Development is adopted by the Parliament, as proposed by the Government.

<sup>18</sup> The City of Belgrade has the Strategy of Development and in the past they did not show interest to improve that document or to develop a new strategy for regional development. Within the EU projects RSEDP 2 and REGPOL, technical assistance was provided for strategy development of the Region of Šumadija and Western Serbia and the Region of Eastern and Southern Serbia, but the process has not been finished yet. The Government of the Republic of Serbia has not initiated the development of the regional strategy of Kosovo and Metohija.

As a part of institutional framework for regional development, the Law foresees that the Government will establish a National Council for Regional Development and regional development councils for each of the five regions, which has been realized. However, due to numerous reasons, the work of these councils proved not to be functional, in all regions except Vojvodina.<sup>19</sup>

For the purpose of performing development, professional and regulatory activities of regional development, the Government established the National Agency for Regional Development, in accordance with the Law on Public Agencies. The Government has also defined the conditions for accreditation of regional development agencies that participate in the preparation and implementation of development documents, programmes, measures and projects of importance for the region, area, or local self-government units in their territory. So far 14 regional development agencies have been accredited, of which four from Vojvodina, one from Belgrade, six from the Region of Šumadija and Western Serbia and three from the Region of Eastern and Southern Serbia. There are no accredited regional development agencies in the territory of Kosovo and Metohija.

Regional development agencies are established as limited liability companies by local self-governments and different actors in private sector, including civil society organizations, and cities and municipalities have the majority ownership.<sup>20</sup>

### What should be done in regional development in Serbia?

The Government of the Republic of Serbia must pay

<sup>19</sup> One of the problems in the councils' work is the interpretation by the Anti-Corruption Agency that work in the council is a public function which makes it impossible for the key people in the regions (mayors) to participate due to a legal prohibition to duplicate public functions.

<sup>20</sup> According to the Rulebook on the methods of determining and recording the users of public funds and the conditions and ways to open and close the sub-account at the Treasury, which was adopted by the Ministry of Finance and Economy ("RS Official Gazette" no. 113/2013), regional development agencies are included as users of public funds and since then the rules of operations for the public sector are applied in their case. This caught InTER's attention, which initiated the research on operations of regional development agencies in the new situation. Preliminary results show that inclusion of regional development agencies in the users of public funds, which at the same time means inclusion in the public sector, makes the work of regional development agencies in Serbia significantly more difficult.

a more significant attention to the solution of issues related to balanced regional development and thus show that it takes equal care of all the citizens regardless of the part of Serbia where they live.

The first measure is to **change the Law on Ministries in a way that will change the Ministry of Economy into the Ministry of Economy and Regional Development**. By doing this, the Government would send a clear message that they want to keep the continuity in the development of regional policies in Serbia. The description of this Ministry's responsibilities should **again include tasks for promotion of intermunicipal, interregional, cross-border and international cooperation, promotion of regions and development of business infrastructure**.

Then, it is necessary to **improve the draft National Plan for Regional Development and make it available for public discussion, and in a relatively short period submit it to the Parliament of Serbia for adoption (at latest by September 2014)**. Simultaneously with this process, it is necessary to **finish the development of regional strategies of the two regions of central Serbia**. It is also necessary to **start elaborating the Development Strategy of the City of Belgrade in accordance with the new development priorities with consideration of the strategic framework given in the National Plan for Regional Development**.

After the adoption of the National Plan for Regional Development, it is necessary to **adopt the new Law on Regional Development** that would recognize specific characteristics of Vojvodina, Belgrade and Kosovo and Metohija, as well as two regions in central Serbia.

- The new Law should **recognize the executive power of the Government of Vojvodina and the City of Belgrade to independently implement development policies in their territory**, having in mind the strategic framework defined by the National Plan for Regional Development. In accordance with the legal framework and their statutes, Vojvodina and the City of Belgrade are in charge of development policies in their territories and there is no need for the Law on Regional Development to undermine the integrity of these legislative solutions.

- **The new Law should not address the Region of Kosovo and Metohija** because in that terri-

tory it is not possible to implement development policies defined within this Law. This would create conditions for recognition of NUTS classification of Serbia by the European Commission and Eurostat.

- The new Law on Regional Development should also include **the establishment of regional development agencies on NUTS 2 level**, that would be a part of the public sector. Vojvodina and Belgrade would be independent in the definition of tasks and institutional frameworks of these agencies, and regional development agencies in the remaining two regions would be established by the Government of the Republic of Serbia in cooperation with Regional Development Councils and the National Agency for Regional Development. These agencies would have a coordinating role in the implementation of the regional development strategy and other programmes in their territories, and they would also serve as secretariats of the Regional Development Council. As an alternative to this solution, two branches of the National Agency for Regional Development can be established, one in each of the two mentioned regions, that would perform the tasks described in the previous proposal.

- **It is necessary to improve the work of regional development councils, especially in the Region of Šumadija and Western Serbia and the Region of Eastern and Southern Serbia.** For that matter, it is necessary to stop with previous interpretation that participation in the Council's work is a public function, because this interpretation excludes the possibility for participation of the most important actors of regional development.

- **The existing regional development agencies should change their names to regional development associations and keep their role in the implementation of regional development policies and programmes on NUTS3 level.** Accreditation and coordination of work of regional development associations in Vojvodina should be transferred to the Government of Vojvodina. On the other hand, the City of Belgrade would independently decide if there is a need to establish regional development associations (one or more) on their territory, or these tasks could be done by a regional development agency. Accreditation and coordination of the work of associations in the two central regions would be performed by the newly established regional development agencies (on NUTS2 level), in cooperation with the National

Agency for Regional Development, and with approval from regional development councils. In this case, regional development associations would not be a part of the public sector, and apart from performing activities of interest for regional development, they could also provide a range of other market-based specialized services.

- **The Government of the Republic of Serbia should establish a Fund for Balanced Regional Development that would finance programmes and projects only from the two central regions.** This Fund should support the implementation of strategic goals and priorities defined within regional strategies. The Fund could provide funds for pre-financing and co-financing of projects relevant for balanced regional development and funded by the EU IPA programme or programmes of other international and bilateral agencies. This programme would also include funds within the existing measures for regional development and competitiveness.<sup>21</sup> The Government should also **encourage the Government of Vojvodina and executive authorities of the City of Belgrade to establish similar funds in their territory within their budgets.**<sup>22</sup>

Ministry of Economy should **develop an action plan for the implementation of all activities related to the creation of regional development policies in Serbia in the next four years.** This action plan should be adopted by the Government of the Republic of Serbia and published on the Ministry's website in order to be available to all actors in regional development. **The Ministry of Economy should also come out with a clear plan and institutional framework for the implementation of the tasks in the field of regional development.**

#### Recommendations:

##### To the Government of the Republic of Serbia:

- To change the Law on Ministries in a way to change the name of the Ministry of Economy to the Ministry of Economy and Regional Development;
- The description of this Ministry's responsibility

<sup>21</sup> *Programme of support to the implementation of measures with regional and local importance, cluster and business incubator development support programme, etc*

<sup>22</sup> *Vojvodina has already established a fund for pre-financing and co-financing of projects approved by EU IPA programme.*

ties should again include tasks for promotion of intermunicipal, interregional, cross-border and international cooperation, promotion of regions and development of business infrastructure;

- To propose the new Law on Regional Development that would include the following:

- The new law would recognize the executive power of the Government of Vojvodina and the City of Belgrade to independently implement development policies in their territory;

- The new Law should not address the Region of Kosovo and Metohija;

- The new Law should also include the establishment of regional development agencies on NUTS 2 level;

- The new Law should change the name of the existing regional development agencies to regional development associations and keep their role in the implementation of regional development policies and programmes on NUTS3 level.

- The Government of the Republic of Serbia should establish a Fund for Balanced Regional Development that would finance programmes and projects only from the two central regions.

#### **To the Ministry of Economy:**

- To improve the draft National Plan for Regional Development and make it available for public discussion, and in a relatively short period submit it to the Parliament of Serbia for adoption (at latest by September 2014);

- To finish the development of regional strategies of the two regions of central Serbia;

- It is necessary to improve the work of regional development councils, especially in the Region of Šumadija and Western Serbia and the Region of Eastern and Southern Serbia;

- To develop an action plan for the implementation of all activities related to the creation of regional development policies in Serbia;

- To develop a plan and institutional framework for the implementation of the tasks in the field of regional development.

#### **To the Autonomous Province of Vojvodina:**

- To establish institutional and financial mechanisms for independent elaboration and implementation of the policies for balanced regional development in the territory of Vojvodina;

- Establishment of the Fund for Balanced Regional Development of Vojvodina;

#### **To the City of Belgrade:**

- Start elaborating the Development Strategy of the City of Belgrade in accordance with the new development priorities and taking in consideration the strategic framework given in the National Plan for Regional Development;

- To establish institutional and financial mechanisms for independent elaboration and implementation of the policies for balanced regional development in the territory of the City of Belgrade;

**Annex 1: Comparative overview of the responsibilities of the Ministry of Regional Development and Local Self-Government in the Government of the Prime Minister Ivica Dačić (2012-2014) and the Ministry of Economy in the Government of the Prime Minister Aleksandar Vučić (2014-)**

<b>Responsibilities of the Ministry of Regional Development and Local Self-Government, according to the Law on Ministries</b> ("RS Official Gazette", no. 72/2012, 76/2013 and 34/2014 – decision of the Constitutional Court)	<b>Responsibilities of the Ministry of Economy according to the Law on Ministries</b> (adopted on April 26, 2014)	<b>Comment</b>
Regional development;	Regional development;	The Law does not specify what is considered under regional development.
Analysis of available resources and potentials for local, regional and national development	Analysis of available resources and potentials for regional and national development;	The new Law does not include analysis of resources and potentials related to local development, which is a good decision since local self-governments are in charge of this issue.
Methodology for measuring of the level of development of local self-governments and regions;	Methodology for measuring of the level of development of local self-governments and regions;	
Coordination and direction of activities that promote regional development;	Direction of activities that promote regional development;	The new Law does not include the tasks for coordination of activities that promote regional development, which can be a problem since it is not clear who will continue to perform this function.
Promotion of a more balanced regional development and reduction of regional differences;	Promotion of a more balanced regional development and reduction of regional differences;	
Improving the business environment on local and regional level;	Improving the business environment on regional level	The new Law does not include the improvement of business environment on the local level, which is a good decision since local self-governments are in charge of this issue.
Promoting intermunicipal, interregional, cross-border and international cooperation;		These tasks are not included in the responsibilities of the Ministry of Economy defined by the new Law on Ministries, and the question is who will perform these activities in the following period.
System of local self-government and territorial autonomy;		Within the new Law on Ministries, these tasks will be performed by the Ministry of Public Administration and Local Self-Government.
Providing assistance to local self-government units in the implementation of local economic development projects;	Providing assistance to local self-government units in the implementation of local economic development projects;	
Promotion and coordination of cooperation between the self-government units, non-governmental sector, business entities and state institutions, of interest for the development of local self-government;	Promoting cooperation between the self-government units, non-governmental sector, business entities and state institutions	While the previous Law defines these tasks as activities of interest for the development of local self-government, this definition is not included in the new Law, which is why this is an issue
Direction and support for the local self-government units in ensuring the legality of work;		Within the new Law on Ministries, these tasks will be performed by the Ministry of Public Administration and Local Self-Government.

Professional development for employees in local self-government units; Work relations in local self-governments and autonomous provinces; Territorial organization of the Republic of Serbia;		Within the new Law on Ministries, these tasks will be performed by the Ministry of Public Administration and Local Self-Government.
Providing material and other conditions for development and promotion of local self-governments and regions, as well as other tasks defined by the Law.		Promotion of regions and regional development policies is a very important component and it is not clear why these tasks are removed from the new Law on Ministries.
	Planning, programming and proposing development projects for regional development and projects of interest for the Republic of Serbia;	These tasks are a synthesis of several tasks from the former Law on Ministries
Realisation of infrastructural projects of regional or local importance financed or co-financed by funds of the Republic of Serbia, donations, EU pre-accession funds and international loans;		In the new Law, responsibilities in the field of implementation of infrastructural projects are not a part of the Ministry of Economy
Development of business and communal infrastructure;		Even though the tasks on development of communal infrastructure were rightly excluded from the responsibilities of the Ministry of Economy, it is not clear why the tasks on development of business infrastructure were removed, since it is a priority in the field of regional development.
System, development and improvement of projects;		These tasks were integrated within the task "Planning, programming and proposing development projects in the field of regional development and projects of interest for the republic of Serbia".  However, it is necessary to emphasize that the tasks from the former Law were not properly defined since some of them are repeated twice by using synonyms (realization and implementation; monitoring and supervision of implementation in stages)
Strategic planning, initiation and implementation of projects;		
Monitoring and evaluation of development projects;		
Implementation and monitoring of stages in project implementation;		
Cooperation and coordination with the institutions of autonomous provinces and institutions of municipalities, cities and city municipalities in the implementation of infrastructural projects;		As previously mentioned, responsibilities of the Ministry of Economy do not include implementation of infrastructural projects, and there is no need for this task.
Coordination among projects;	Coordination among projects;	
Measuring impact and evaluate the success of projects;	Measuring impact and evaluate the success of projects;	
Establishing a database necessary for monitoring of projects, as well as other tasks defined by the Law.	Establishing a database necessary for monitoring of projects, as well as other tasks defined by the Law.	