

Key factors in a balanced regional development for Serbia

Introductory considerations

Balanced regional development in recent times represents an issue for the integrity of a country or region. Changes that are present in global economic flows and political relationships have had the effect that development processes have become more mutually dependent and conditional. Therefore, regional policy as a whole is also adjusted in line with these trends, as is the approach to regional aspects of development. This policy is accepted by the European Union, whose approach to this issue in practice is based on new, economically structured and socially cohesive models, along with appropriately scientific modes of explanation and systematic analysis and attention. The integrationist, holistic policy of regional development has recently changed frequently, adjusting itself to the appointed aims and to changes connected with growth in the numbers and with express issues of regional disparity. The measures that are used today will still be in use in 2013 and are defined in a series of self-supporting documents (the *Declaration of cohesive policy within the European Union*, developed in Lisbon in 2000; the *Mutual policy of social development*, also developed in Nice in 2000; the *Mutual policy of preservation and protection of the environment and permanent sustainable development*, designed in Gothenburg in 2001; etc).

The strategic framework for regional development in the European Union establishes the general consensus between all stakeholders that economic growth and cohesion between the member countries reflects the basic postulate that all member countries of the EU and their citizens may enjoy the benefits of integrated economic development.

The significance of a balanced regional development for the European Union is determined by the envisaged resources for the realisation of the cohesion policy in the 2007-2013 period, which amounts to €336.1bn. However, we have to bear in mind the real possibilities of strategy realisation for balanced regional development and, in that context, the promotion of partnership between all relevant factors at the state and the regional levels.

The European Union directs and logistically and financially helps the balanced regional development of all European countries, regardless of their status in connection with the Union. Its activities are directed by different programmes such as:

- *PHARE* – the preliminary programme for later operations of the European fund for regional development
- *SAPARD* – the instrument for prior-accession help for agriculture
- *ISPA* – the instrument for prior-accession help for structural adjustment and its series of already-existing initiatives
- *INTERREG* – support for cross-border, transnational and inter-regional co-operation
- *LEADER* – which promotes rural development through initiatives of local groups

- EQUAL – for the development of new ways to struggle against all types of discrimination and unevenness regarding the market approach and areas in crisis, without mediation or just with general state support.

The significance of all these types of help and encouragement lies in that countries in transition, amongst which Serbia belongs, are entering into a process of international integration with a large number of limitations and issues that are the consequences of their historical inheritance, one of the most important of which is imbalanced regional development.

Among these numerous issues and limitations, we should identify the following in particular:

- lack of capital
- technological backwardness
- backwardness in education
- the lack of formal and informal sources of financing in the micro, small and medium companies sector
- the lack of institutions necessary for the efficient functioning of multi-party parliamentary democracy and commercial markets
- internal obstacles (such as, for example, legal insecurity, corruption, etc.)
- cultural factors and traditional way of life
- a lower capacity for the commercial market.

Nevertheless, these problems and limitations are bringing countries in transition into an unfavourable position on the whole and given the unfavourable influence of the course and effects of globalisation. The problem is, however, in not knowing where to draw a clear line of separation between the unfavourable starting position of countries in transition and the unfavourable effects that directly or indirect defines the process of globalisation, i.e. the systematic limitations that can be seen in this process. They are not the result of economic necessity but of the outrageous intrusion of international models of economic and political relationships that are in the dominant or exclusive interest of countries that are economically developed and politically powerful.

Balanced regional development has an effect, via the principle of connected squares, on other sub-systems, governmental and non-governmental institutions, social groups, social partners and processes that are present in the domestic economic plan and which, at the same time, can be defined as one of the mirrors in which the reality pictured is of the situation in the economy.

If we are talking about Serbia, the most important thing is for the country to provide for the effective work of all the institutions that are able to resolve the problem of imbalanced regional development. Serbia is in a particularly delicate situation because the neglect of this problem in the previous times, and also the economic fiasco that happened to us in the 90s of the last century, has brought an expansion of poverty in a great number of regions.

Therefore, Serbia has to invest a great amount of energy into the parallel processes of reducing poverty and developing the economy, entrepreneurial activity and new employment.

The aspect of poverty is manifest only in the field of the economy. People that are living in undeveloped areas are unable to come to several institutions and establishments (education, sanitary, courts, etc.) which results in those people being unable to

access the rights connected with those institutions. In the least favourable position are those in imperilled groups, and they are living in such areas.¹

The high percentage of poverty represents an obstacle to the realisation of a single social community and the creation of the possibilities for all citizens to participate in one honest market game where knowledge and capacity is of the highest importance. The imbalanced level of regional development is the main obstacle to the creation of the market and the market game along the lines of those in developed countries.

Balanced regional development in Serbia (issues and possible solutions)

Basic regional trends in the economic development of Serbia in the period from 1991 are as follows:

- high economic regressions of certain territorial totals
- very high participation and with a trend of the expansion of the old population as a percentage of the whole in certain regions, especially in rural areas
- negative growth or, better said, almost complete de-population in some rural areas
- differences in the education level of the population.

Today, Serbia is the country with the highest observed regional differences in comparison with countries in the surrounding area in the whole of Europe. These differences were always large but, in the last fifteen years, they have dramatically increased. Extreme differences between conditionally the most developed and the most undeveloped municipalities in Serbia (except Kosovo and Metohija) may be measured by the level of social product for each inhabitant. The biggest gap was a ratio of 24:1 in 2003 (Stari Grad, Belgrade-Bosilegrad). However, it is certain that, even with the mentioned differences in regions in Serbia, there are major possibilities and opportunities for a disproportionate reaction if we take an over-complex approach to solving this problem.

Main aspects of imbalanced regional development in Serbia

Lack of infrastructure

Infrastructure comprehended in the bigger sense is the key factor and the precondition for successful regional development, since infrastructure investments are specific regarding investment in general. Their particularity can be seen in the following:

- they have, as a rule, huge investment requirements
- they represent, mostly, a long time in construction
- they have long periods of return and therefore economic effects can be accomplished in the long-term in which, in total, these can be direct for the investor and for the society as intermediary.

From this, we can conclude that infrastructure construction comes before other economic investments as a means of accomplishing the postulates for the propagation of economic activities.

Insufficient accomplishment of travel possibilities is one of the basic issues for undeveloped areas. Concerning the structure of roads in 37 undeveloped municipalities, the highest share is held by local roads with 66.6%, followed by regional ones

1 Government of the Republic of Serbia (2003) *Strategy for poverty reduction in Serbia* Belgrade: p. 147.

(24.7%) and motorways (8.7%). That is the most unfavourable position from the average for the Republic as a whole. Modern roads take up 42.5% of the road network in insufficiently developed areas and just 33.9% in the most undeveloped municipalities. That is significantly worse than the Republic average (62.6%).²

Significance of micro, small and medium companies for the opening of new jobs and employment possibilities

Micro, small and medium companies represent a framework for economic development in all modern countries. However, creating the necessary preconditions for the development of this sector in regions where such economy activity is totally devalued is a long process.

Global experience clearly shows that education and a lifelong learning system is the essence of innovation technologies and the development of knowledge-based micro, small and medium companies (the so-called MSP sector) stemming from major investment in research and development. Concerning the development of the MSP sector, domestic experts increasingly emphasise knowledge and education as providing the framework for economic development:

What is spent on education is not an expense – expense is what is not spent,

taking as an example the leaders of small businesses, the most successful entrepreneurs in Serbia.³ Besides that, it is very important that the development of the MSP sector becomes a part of each strategic document defining local economic and balanced regional development.

The success of company activities and entrepreneurs is strongly connected with the organisational level of the social community and of the state since it very much requires, in all types of business, their services and different types of support: legal regulations; resources and institutions based upon stability; and the further development of social communities and the state itself. However, there are too many preconditions and obstacles that are in the way of the development of the MSP sector in Serbia but, in addition, it even seems that the sources and possibilities for the financing of projects and business ideas (especially start-up businesses) are at a very low level. This is the issue that prohibits a widening of this sector and its potential for offering employment.

We have already mentioned that one of the biggest problems facing existing small and medium-sized companies, especially people that have ideas and have decided to begin a business start-up, definitely represents a very deficient and expensive formal source of financing. The economy of a country in transition such as Serbia will never be able to rely on more serious growth if its financing sources are dependent on contracts based on offers from commercial banks. Referring to the Republic of Serbia, commercial banks can not represent the possibility of sources of financing that will offer major encouragement to the development of small businesses (especially start-up businesses) for one simple reason – the conditions that they embody are simply not

2 *ibid.* p. 148.

3 Kastratović, E (2006) *Introduction to management* Faculty for management in sport, Belgrade.

compatible with the conditions in which domestic micro, small and medium companies operate.

A special emphasis needs to be put on potential entrepreneurs who have ideas, the desire and sufficient entrepreneurial spirit to start their own businesses. Given that commercial banks are oriented towards the companies that already exist and are in business because only those kinds of companies can compete for credit (under conditions which are already worse than in other European countries), how can we solve the problem and provide for potential entrepreneurs who are just starting their businesses and looking for possibilities to join the market game?

In this area, a certain amount of displacement can be anticipated and seen since, from this year, the state has, through the Fund for the Development of the Republic of Serbia, provided marketing for start-up credit in the amount of €15 000-20 000, with a one-year grace period and an annual interest rate of 1% and without having to mortgage assets. The highest quality projects will be financed on the basis of documented business plans and it is in the highest percentage of production activity. Is it enough? Is it possible for the systematic development of micro, small and medium companies to be solved if, during this year, we assign around 600 credits to newly-established business start-ups? Is it possible seriously to influence a policy for balanced regional development?

A very important source of financing for MSPs in undeveloped areas (especially micro companies), that should represent a nucleus of future family factories and companies, are micro funds and micro financial institutions. Experiences of developed countries and countries in development are defining the efficient work of these institutions that are capable of financing a large number of small projects and to create with them the possibility of absorbing the large number of unemployed people who may start up their own businesses. It should not be a mystery that micro financing can resolve the issue of unemployment and total economy growth, but can a become strong lever for a strategic and systematic solution.

A precondition for these institutions to function at full capacity is to bring the necessary legal regulations that would define this area. In the first place, these are the Law on micro-financing and the Law on start-up funds. The average amounts that these types of funds invest in start-up entrepreneurs are from €750 – €7 500, with an average interest rate of 3%, without collateral. Ostensibly, these amounts are not large, but they can represent sufficient capital for starting up a small business, especially in cases when the start-up business is established by people who became unemployed in the process of the privatisation of the social utilities.

Therefore, two models now exist in which individuals can get hold of financial resources. The first is the long (debt) model in which the entrepreneur, within a credit arrangement, gets into debt with public sector financial institutions (fund 'start-up', developmental bank or specialised micro-credit institutions) or specialised banks in the private sector. Table 1 which follows gives a detailed overview of the types, possibilities and available sources of financing in Serbia:⁴

4 Brkanović, I. www.b92.com interview.

Table 1 – Sources of business funding in Serbia

Level of development	Type of financing	Source of financing	Available sources in Serbia
Early phase of business development (seed phase)	Loans	Founders, family, friends	Founders, friends, family
Start-up phase	Venture capital Credits, leasing arrangements	Business angels Venture funds Start-up funds Banks Suppliers, buyers Leasing companies	NSZ Fund for development Opportunity International savings bank NVO sector Suppliers, buyers Leasing companies

Often, the entrepreneur decides to combine both available sources so that the total expense of providing the necessary capital is lower than the market one, while the total amount of means provided is higher than the limit that exists in state development institutions.

The other model is ‘equity’, where the entrepreneur is provided with the necessary finance from specialist investors in return for conceding a part of ownership in their company. Investors can be located in ‘venture capital funds’, or ‘business angels’; specialised companies that provide investment in potentially highly profitable projects. On this basis, investors participate in the division of profits and its share can be sold on to some other interested partners.

Entrepreneurs are always lacking some financial means, but their businesses are never financed in total from external sources of financing. In providing the necessary financial means, an entrepreneur has first to calculate what of his or her own means can be disposed of and how much remains missing. In the initial phase of development, entrepreneurs look for add-on financial help to people in the nearby environment. In the developmental phase, they address themselves for help to institutionalised types of financial help or to business partners.

In the start-up phase, gaps in the offer are obvious. Within the private sector, we lack venture funds and business angels. Finding capital on the basis of transferring a part of ownership is not possible in the way that this is done in developed countries. Even were we to have an acknowledged law on investment funds, it is not clear that it will be possible to form venture funds. Business angels are not yet really underway in Serbia. There are many reasons, but the answer is quite revealing in that, where they do exist, they tend to have relations in criminal areas (they are hardly angels!). Banks are not interested in finance start-ups as a result of the high risk, even though some of them are thinking of becoming a part of that business. Leasing companies have the possibility of supporting start-up projects but it depends on their business policy.

In any case, it is necessary to ensure that all efforts at start-up financing become as easy as possible, as well as to create the conditions for financing start-up entrepreneurs and their projects by modelling the systems and processes which exist in countries with developed market economies and highly developed financial and banking sectors.⁵

Education and the development of human resources for a more competitive market game

Besides the insufficiently developed infrastructure and the shortage of institutions charged with regional development, the main problem of impoverished regions is the low degree of qualifications and the low level of education of all structural societies.

In this sense, it is necessary to deliver the conditions for the development of individuals as follows:

- provide for their improvement
 - internally regulate the obligation of making improvements within firms
- dismiss, downgrade or retire employees who do not accept re-training.⁶

The integral and systematic development of managers has to be a strategic question for each company so as to prevent the lapsing of knowledge; improve the operation of business systems; develop management efficiency; and increase motivation, identification and satisfaction amongst employees.

Factors that influence the position and further development trends of this system and the population are the following:

- high-quality relations between colleagues
- openness of management to knowledge innovation
- accessibility of relevant programmes
- openness of surroundings
- existence of high-quality education institutions
- financial resources
- an efficient system of delegating, team working, etc.

Besides these particular elements that influence the formation of educational structure amongst managers, it is important to bear in mind:

- size and company activities
- the existing critical mass of knowledge at all levels
- hierarchy system
- support of national and regional subjects
- availability of academic achievements
- political tension, etc.

5 Vladimir Marinković (2007) 'Informal sources of financing: road to the faster development of micro, small and medium companies in Serbia' *Economic Views* magazine DEB: Belgrade.

6 Edita Kastratović (2008): *Even regional development and MSP Sector in Serbia* International Higher School for Entrepreneurs: Belgrade.

Building the institutions required for a more balanced regional development

A major part in the process of a more balanced regional development for Serbia must be played by the institutions that are directly and indirectly charged with its realisation. For this purpose, a new Ministry of Economy and Regional Development needs to be established that represents the framework for such a project and which will be operatively and financially responsible for its successful implementation.

But, besides a government ministry, what is also very important is the role of the other stakeholders in this process: only the good, co-ordinated co-operation of institutions and organisations, and partnership between them, can contribute to a better solution to this very important problem for Serbia.

Key institutions in implementing a balanced regional development in Serbia are:

- Fund for the Development of the Republic of Serbia
- Fund for the Development of AP Vojvodina (Autonomous Province)
- Guarantee Fund
- Republic Fund for the Development of MSPs and entrepreneurship
- Ministry of Agriculture, Forestry and Hydropower
- National Investment Plan
- Local development funds (for example, the Fund for the Development of Leskovac Municipality)
- Co-ordination Body for the South of Serbia
- National Employment Service
- the Chamber of Economy of Serbia and the regional chambers of economy
- business associations
- trade union organisations
- non-governmental organisations
- universities and scientific institutions.

A very important factor in the future local economic development of undeveloped areas should be local developmental agencies and corporations whose obligations would be to co-ordinate in the field, implement and fine-tune the activities of the above-mentioned institutions. They can all contribute to faster economic growth in undeveloped areas.

Local developmental agencies and corporations are the product of national policies in some countries, but that is not the universal case. In some countries, for example in Italy, development agencies are the product of the efforts of local stakeholders and they are not the subject of co-ordination at the national level. In the USA and Canada, most of the city and regional agencies are developed from the state or provincial governments via the participation of partners from the private sector, and not from the federal governments. In Mexico, in contrast, the federal government played the main role in forming regional and local development agencies.

Local agencies should be empowered to:

- encourage coalition initiatives that lead to growth
- co-ordinate with local participants
- co-ordinate regional, national and international investors and donors
- control the local economy and economic flows
- plan local and territorial development strategically
- co-ordinate investments in infrastructure
- re-engineer and manage land and immobility

- attract investments and the production of investment plans
- promote technology, creativity and innovation
- develop the workforce and the skills of the workforce
- create business and job opportunities
- encourage entrepreneurs and the micro, small and medium company sector
- define sector and cluster development programmes
- manage projects and grants
- manage marketing activities at the local and regional levels
- promote other forms of external investment (tourism, events, trade, sport, etc)
- manage projects and design main projects
- build capacities and technical help for other local and regional organisations
- identify examples of good practice and study models
- engage in cross-frontier, inter-regional and international co-operation.

Conclusion

Socio-economic cohesion in Serbia should be built on a reduction of the differences between the levels of development of various regions, especially in rural areas, and via the system of good practice within the EU. Most often, economic cohesion is explained by the equalisation of regional disparities in development in Serbia but, generally speaking, also by what is defined as the quality of the European model that should be followed. This comprehends taking care of a series of social indicators such as health, quality of the environment, the quality of education, the level of crime, issues of migration, etc. That is the European path of connections between social and economic development.

For a strategy of balanced regional development to be realised in Serbia, consensus and a sense of working together between all the relevant institutions and organisations is particularly important. In the EU, it is impossible to imagine that policy can be rationalised and implemented without the serious involvement of all stakeholders and state and non-government institutions and organisations.

Special emphasis in the strategy for economic development and the strategy for balanced regional development in Serbia, besides the already long-known problem of a poorly-developed infrastructure, needs to be put on the development of the capacity of human resources. In the last few decades, the development of human resources has grown into one of the most significant components of modern strategies at all levels. Almost every organisation considers the development of human resources as a strategic approach that provides an expansion of efficiency, productivity and profitability. In that sense, education and training becomes the most important segment of the management of human resources. Successful organisations and institutions are spending more and more time, resources and effort on education and development. The knowledge economy is a new reality which changes the concept of value and signifies the beginning of the end of the conventional economy. The influence of new technologies on society, philosophy, policy, religion, culture and all other human activities also refers to the system of knowledge management. Knowledge is the only category that grows by its use. It is a palpable good, non-material product that is manifest in the form of information and scientific, literal, entertainment and artistic achievements. Knowledge in Serbia is increasingly imposing itself as the impulse behind the new economy. The key question in this is the degree of capability and readiness to make

knowledge equally accessible to all levels of society and the driving force of knowledge accessible to all regions.

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