

# **PRIVATE SECTOR WITHIN THE INSTITUTIONAL FRAMEWORK OF THE REGIONAL SOCIO-ECONOMIC DEVELOPMENT (EXPERIENCES IN SERBIA)**

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***Abstract. Does Regional Development Agencies (RDA) established as limited liability  
companies of all stakeholders-representatives of public and private capital (the  
present situation in Serbia), show the model reflecting it's expected/natural position  
and role in the process of regional socio-economic development management  
(governance)? What is the role of the public and private finances in the process of  
regional socio-economic development management (government)? Is RDA have to  
exist only to fulfil EU accession process requests (structural and cohesion Funds)? In  
this article is shown the model of institutional framework for regional socio-economic  
development: RDA as Public agencies and Management body in charge of manage  
(governance) of regional socio economic development process. Private sector has  
delivered the role only of fulfilling of the strategic regional socio-economic  
development priorities, by the realisation of the precise specific projects. Key words:  
public-private partnership, regional socio-economic development management  
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management***

## **1 Introduction**

Basic criteria which are to be met in order to access the European Union (based on the Copenhagen criteria) are: political criteria (stability of institutions guaranteeing democracy, the rule of law, human rights, respect for and protection of minorities), economic criteria (functioning market economy and the market with the capacity to cope with competitive pressure), the ability to take on the obligations of membership including adherence to the aims of the Union, as well as the ability of the state administration to adopt and execute EU regulations, directives and standards - *acquis communautaire*.

Chapter 22 of the „*acquis communautaire*“ group of adopted rules, refers to the Regional policy and coordination of activities in regards to Structural Funds. Recommendations given under this chapter pertain to institutional framework of the regional socio-economic development (Development) and implementing regulations. The key section of the chapter 22 pertains to strengthening of the management capacity to administer the EU Structural Funds. The EU does not have any regional policy which is required to be transpositioned into national legislation. However, the EU Member States must have developed institutional framework in place and adequate administrative capacity to ensure programming, implementation, monitoring and evaluation in a sound and cost-effective manner from the point of view of management and financial control.

## 2 Importance of Institutional Development for the Western Balkan Countries <sup>1</sup>

The [2] emphasises the importance of *selective approach* to provision of legal requirements for institutional framework necessary for development of each country, potential candidate for EU membership (thus including Serbia as well). Still there is a general agreement that systematic changes imply vital reforms in many regions of the transition countries:

- Creation of a domestic market (macroeconomic stability, protection of ownership – private, public, and mixed)
- Liberalisation of international trade, due to limited domestic market in many West Balkan countries. The main objective is to increase level of competitiveness of domestic economy
- Liberalisation and support of the small and medium enterprises sector,
- Privatisation of big public companies
- Change of taxation system
- Liberalisation of capital flows

Institutions are the “rule of the game” of a society, or, more formally, are the humanly devised constraints that structure human interaction. Institutions are composed of: *(i)* formal rules (statute law, common law and regulations, *(ii)* informal constraints (conventions, norms of

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<sup>1</sup> M.Filipović, (2006). Importance of Institutional Development For Western Balkan Countries in 46th European Congress of the Regional Science Association, „Enlargement, southern Europe & Mediterranean“, Volos, (2006)

behaviour and self-imposed codes of conduct) and (iii) the enforcement characteristics of both.

“While the formal rules can be changed overnight, the informal norms change only gradually. Since it is norms that provide the essential ‘legitimacy’ to any set of formal rules, revolutionary change is never as revolutionary as its supporters desire, and performance will be different than anticipated. More than that, societies that adopt formal rules of another society... will have very different performance characteristics than the original country because both the informal norms and the enforcement characteristics will be different. The implication is that *transferring the formal political and economic rules of successful Western market economies to Third World and Eastern European economies is not a sufficient condition for good economic performance* (Underline M.F.). Privatisation is not panacea for solving poor economic performance” [Harris, Hunter, Lewis, 2000].<sup>2</sup>

### **3 The Regional Socio-Economic Development (example RSEDP 2003-2006)<sup>3</sup>**

#### ***3.1 Partnership Principle***

Within the various donor programmes mentioned above (such as for instance, the Regional Socio-Economic Development Programme (RSEDP)) process of regional strategic planning, that is, preparation of two main development documents (Integration plan and Operational programme) was performed with an active participation of representatives of all actors of Development (partnership), and in the case

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<sup>2</sup> Ibid

<sup>3</sup> Refer to: [www.rsedp.org](http://www.rsedp.org)

of Banat, it included 19 municipalities, three Regional Chambers of Commerce, 3 National employment services offices, representatives of non government sector, which makes a total of 200 people.

Sustainable development, as a process, requires an agreement to be reached (consensus) on the balance between three inherently different processes of development: economic, community and environmental development<sup>4</sup>. As a result of these changes, local communities decide on *partnership* approach to service provision. Services are provided more and more through coordinated efforts of: users of services, local authorities and private investors.

Aside from the organisational form, practical examples denote that inclusion of stakeholders in the process of sustainable development planning encompasses six most important goals: creation of joint community vision for the future, identification and determination of priorities, as well as the response to measures that are necessary to be taken in order to resolve urgent issues, support to the analysis of local issues in which the whole community takes part, including the overview of long- term systemic problems which cause confrontation of certain service systems, and the need for integration of various service systems and development of strategy for establishment of their mutual support, preparation of action *plans* which may help resolving the above stated problems, using experiences and innovativeness of various local groups, *mobilisation of resources* within the community in order to meet the needs for certain services, through the involvement of ***joint implementation of the sustainable development project***, establishment or

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<sup>4</sup> Milutinović Slobodan, (2006), Local agenda 21 Introduction to sustainable development planning within: the Programme of Environmental Protection and Sustainable Development in the Cities and Municipalities of Serbia 2004-2006. Beograd: Standing conference of Towns and Municipalities

increase of the local government activities' public support and understanding of municipal development needs and restrictions that could emerge in the process of development.<sup>5</sup>

### ***3.2 Private-Public Partnership***

The term public/private partnership has been used in the professional literature<sup>6</sup> within the meaning of *implementation strategy*. Two main approaches have been defined: 1) Corporate approach. This approach apostrophises establishment of corporate centres through creation of conditions for regional industrial development primarily by securing ownership over land and real estates, 2) Alternative approach, which is focused on reduction of differences in the development of regional sectors.

Certain countries, such as Italy<sup>7</sup> for instance, even developed a dialogue with the topic assessment of the public finances' effects within the scope of capital stock, in terms of their contribution to the productivity. For these purposes, the Ministry of Economy and Finances developed a system of indicators 'Regional Public Accounts (Conti Pubblici Territoriali, CPT)'. The system contains regional data on the use/consumption of public finances, in order to assess level of intervention of the government and policies.

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<sup>5</sup> For more information on partnership implementation through RSEDP programme in Banat between 2003-2006 please refer to: Ćurić N, Odadžić B, Sajfert Z, (2007), The Importance of the Project for socio-economic development (situation in Banat), Symposium YUPMA 2007, (2007),

<sup>6</sup> R.J. Stimson, University of Queensland, St. Lucia, QLD, Australia; R.R. Stough, George Mason University, Fairfax, VA, USA; B.H. Roberts, University of Canberra, ACT, Australia, *Regional Economic Development Analysis and Planning Strategy*, 2006, Springer

<sup>7</sup> Marrocu, E., and Paci R., (2007). The effects of public capital on the productivity of the Italian regions, in Joint Congress of the European Regional Science Association in (47th Congress) and ASRDLF (Association de Science Régionale de Langue Française, 44th Congress), PARIS, (2007)

### ***3.3 Institutional Framework for the Regional Socio-Economic Development (current situation)***

The Regional Development Agencies – the Agencies (there are three for RSEDP: in South Serbia – Leskovac, Central Serbia – Kragujevac and in Banat - Zrenjanin) were established, as an extension of the donors' many above stated programmes, in order to ensure good management of the Development in terms of the institutional framework. RDA was established as non profit (statement in the Statute and the Agreement of the founder stating that the legal entity does not exist for the profit and the potential profit would be invested in the further development of the institution) limited liability company (d.o.o. according to the Company Law) thereby ensuring participation, that is involvement of all actors in the development

In order to insure involvement of all actors, primarily municipalities, it was recommended that municipalities should establish RDA within the scope of € 200 € 800 whilst the other actors (Regional Chambers of Commerce, NGO, companies, the Executive Council of the AP of Vojvodina and the Government of the Republic of Serbia) should pay a fixed amount of €200. Thus the municipalities (institutions which could be defined here as the local institutions of the state public finance system) became the founding owners of the majority of shares (with approximately  $\frac{3}{4}$  of the total basic founding capital investment)

### ***3.4 Private participation assurance (current situation)***

The question was raised - how interested the municipal *administration* of the municipalities-founders, whose annual budget amounts several million euros, shall be in the work of newly established entity (thus in the

regional development governance as well), that is, in the work of the Agency founded as a d.o.o. in which the founding investment amounts less than € 1000?

It appears that there is a significant difference between the percentual share of the indicators of “credit standing of a municipality”<sup>8</sup> and its actual participation share in the founding capital, considered individually by municipalities – founders.

The role of the two entities from the private capital domain that appear as founders is undefined. It is overlooked that according to the Law on Chambers of Commerce all economic associations in the country, as well as the entrepreneurs, are part of the *chamber system*, which means that in case the Regional Chambers of Commerce are the founders, *all chamber system listed members, that is representatives of the private sector*, are also indirect founders.

#### 4 Governance of (regional) development<sup>9</sup>

Accepting that governance (over systems, in general) is consisted of three phases: planning, organising and control, *a planning phase* i.e. definition (adoption of the Plan and Programme) of the “regional” developmental function belongs to an entity that is independent from the RDA (public agency) that we can refer to as: *Management authority*. This authority is consisted of the representatives of institutions –

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<sup>8</sup> Indicator «Credit Standing of a Municipality» is determined by the Ministry of Finances, Department of treasury. Indicator for the current year is determined by deduction of the previous year’s total amount of outstanding long-term debt from 50% of the total realised budgetary income in the previous year. At the time of signing of the Agreement on the RDA Establishment (November 2006), the founders did not have the information on 2007 Credit Standing of Municipality, nor on the amount of the unused long-term debts for 2006.

<sup>9</sup> Ćurić N, Jakopin E, Odadžić B, Sajfert Z.,(2007). Governing regional socio-economic development within the framework: Scientific meeting EFFICIENCY IN ECONOMY (MANAGEMENT, INNOVATIONS AND DEVELOPMENT), 2007, Association for Management, Innovations and Development »Serbia Invent«, Zrenjanin. It is important here to bear in mind three basic phases of the governing process: planning, organising and control.



founders, i.e. stakeholders interested in their own socio-economic development that are legally entitled to the managerial functions in their home institutions (Municipal Mayor, City Mayor, President of the Regional Chamber of Commerce,...).

This way institutions that perform each of the administrative functions were defined, in this case it is the regional<sup>10</sup> socio-economic development.

## 5 Possible Alternative Solution

Since a profit is the focus of interest of the private capital owners, the development function (in terms of comprehensive, sustainable regional socio-economic development) is assigned to the public finances sector<sup>11</sup>. Thereby realisation of specific *projects which implement the measures of the Plan* is assigned to the private sector whereas the donor (financial institution that called the tender, domestic funds) defines the project *contractor's* selection procedure. In this case RDA perform function of monitoring and evaluation of the integrative socio-economic development Plan, and the *Project* on behalf and for the account of the financier (as agreed); thereupon the RDA make a report (annual) on implementation of the measures of the Plan, i.e. Programme for the

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<sup>10</sup> According to the Draft Law on Stimulating Sustainable Regional Development of Serbia for the period 2007-2012 in the Article 4 the term Region has the following meaning: a region is a territorial unit for regional policy implementation. The unit for regional policy implementation is a statistical region – county – according to statistical methodological definitions.

<sup>11</sup> At all hitherto National Investment Plan's competitions, the Agencies were not (for there are founded as limited liability companies, not as Public Agencies) recognised as institutions the project of which could compete for money. At the NIP's 2008 budgetary competition, approximately 5000 projects were approved, mainly the national and municipal ones (approximately five million euros were allocated) whereas the Agencies did not participate in any of the projects (i.e. they were just bystanders). Situation is the same with other public i.e. budgetary funds. If they were founded as Public Agencies, they would have been a part of the public finances system whereas they would be entitled to apply for all domestic funds (budgetary) by regional projects. Since we consider that these Agencies should contribute to the increase of self respect of the regional stakeholders, credibility of the sustainable regional development planning process, rational use of resources (Money), they should use both domestic and foreign financial resources. Therefore these agencies should be also founded for the purposes of "actual" i.e. "real" regional socio-economic development that would be supported by domestic funds that have hitherto been used for the public finances domain.

Management authority (that is independent from the RDA), which will, based on these information adopt *priorities* and *measures* for the following planning period [7].

### ***5.1 RDA Establishment According to the Law on Public Agencies<sup>12</sup>.***

In order to fulfil its role, RDA should be organised as a Public Agency i.e. according to the Law on Public Agencies. The aforementioned Law stipulates a possibility which allows the *public finances* institutions (Government of the Republic of Serbia, the Province, municipalities...) to establish Public Agencies and transfer some of the, so called, “Public competencies” to them. In case of the RDA, the public mandate encompasses: (regional)-socio economic development<sup>13</sup>.

Development function of the *region* is defined in the two strategic documents: Integrative plan of the socio-economic development (Plan) and operational programme (Programme) [7].

As management encompasses planning, organisation and control, RDA that is established as a public agency, performs the following *phases of the regional socio-economic development management process*:

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<sup>12</sup> B.U. Guiterez,(2005). Evaluating Regional Development Agencies (RDAs) Assistance on Spain Regional Economic Growth in 45th Congress of the European Regional Science Association. Land Use and Water Management in Sustainable Network Society 23/27 August 2005, Vrije Universiteit Amsterdam. (2005). pp 1-2. According to the author RDA play an important role as the public agencies which coordinate promotion of the economy of a region and development of strategies. RDA’s main tasks are to: create flexible and competing economic framework which would attract investments, support innovations and processes of the scientific-research, provide all necessary services such as information, economic analysis, management support, financing, infrastructural development, support to MSP sector development.

<sup>13</sup> Article 20 of the Local Self Government Law specifies activities that municipalities perform as their original competencies: adoption of development plans, particularly pertaining to the **local** economic development, urban planning,...

- Preparations for planning i.e. *gathering of information* on: environment, the system (region), inputs (resources) outputs (outputs in general, including developmental functions)
- *Supervision/Monitoring* function (supervision/monitoring of the overall Plan's measures, and the Programme's projects)
- Function of *Reporting* to the Management authority.

The Plan and the Programme (in case of the RSEDP programme) have been developed in compliance with the strategic management principle i.e. with the management based on tracking of the pre-defined products, results and influences, as well as the partnership principles (participation of all stakeholders which have as an objective regional socio – economic development). This function should be performed by RDAs as public agencies.

## **6 Conclusion**

The function of the region's socio-economic development has been defined by two documents: Integrative plan of the socio-economic development and the Operational programme. The members of the Management authority voted these documents by consensus.

The RDA (Regional Development Agency) performs the function which implements preparation of information necessary for management decision making (priorities and the Plan's measures) and control (supervision) according to the Plan's measures.

Representatives of the private capital are the *executives* of the specific projects that use resources (primarily money). This does not exclude public finances institutions from being the executives of the project.

Public and private finances are coordinated through specific projects that should have been harmonized by measures of the Plan and the Regional Socio-Economic Development Programme.

RDA gather information on implementation of the specific regional projects and their harmonisation with the Plan's priorities and measures; and hence inform the Management authority on this.

Directions for further research: Social and cultural corporative responsibilities, Corporate Citizenship in the West Balkans.

Professional Literature used:

[1] B.U. Guiterez,(2005). Evaluating Regional Development Agencies (RDAs) Assistance on Spain Regional Economic Growth in 45th Congress of the European Regional Science Association. Land Use and Water Management in Sustainable Network Society 23/27 August 2005, Vrije Universiteit Amsterdam. (2005). pp 1-2

[2] M.Filipović, (2006). Importance of Institutional Development For Western Balkan Countries in 46th European Congress of the Regional Science Association, „Enlargement, southern Europe & Mediterranean“, Volos, (2006)

[3] M. Slobodan, (2006), Local agenda 21 Introduction to sustainable development planning within: the Programme for environment protection and sustainable development in the towns and municipalities of Serbia 2004-2006, Belgrade: Standing Conference of towns and municipalities

[4] Marrocu, E., and Paci R., (2007). The effects of public capital on the productivity of the Italian regions, in Joint Congress of the European

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