Summary

Integration of our country into the European Union is the primary goal of the Serbian economic development. The government, businesses and civil society organizations need support in preparing for accession to the EU. Socially acceptable economic development in Serbia is crucially important for sustainable political stability in the region. The majority of the countries of South-Eastern Europe have successfully completed the process of political transformation. On the other side, the Serbian path from a planned to a market economy appears to be far more difficult to achieve than was originally anticipated. This paper is driven by the will to learn lessons from experience with previous programmes and financial instruments that helped Serbia, and to explain the importance of foreign help during the process of the Serbian integration into a unified Europe, as well.

Key words: Regional Policy, European Funds, Potential Candidate Countries, Absorption Problems

THE NEW EU REGIONAL POLICY

From 2007 the EU started implementation of the new regional policy for the next seven years. Procedures for funds transfer to less de-
developed countries have significantly simplified. There are three main objectives of the new EU regional policy: convergence, regional competitiveness and employment, and European territorial cooperation.

Convergence aims the least-developed Member States and regions, with GDP at less than 75% of the EU average. It means 84 region and population of 154 million. The amount available under the Convergence objective is EUR 282.8 billion, representing 81.5% of the total. The goal of the Regional Competitiveness and Employment objective is to improve competitiveness and employment, through the promotion of the knowledge society, entrepreneurship, the environment protection, and on the other side, through investing in human resources. It covers 314 million inhabitants. The third goal, the European Territorial Co-operation, should strengthen cross-border co-operation, trans-national and interregional co-operation and exchange of experience. The population living in cross-border areas amounts to 181.7 million (37.5% of the total EU population), whereas all EU regions and citizens are covered by one of the existing 13 transnational co-operation areas (http://ec.europa.eu/regional_policy/policy/object/index_en.htm). The main contributions to these objectives give the next funds: The European Fund for Regional Development (EFRD), the European Social Fund (ESF) and the Cohesion Fund (see the picture 1).

**Objectives, Structural Funds and instruments**

2007-2013

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Structural Funds and instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convergence</td>
<td>ERDF</td>
</tr>
<tr>
<td>Regional Competitiveness and Employment</td>
<td>ERDF</td>
</tr>
<tr>
<td>European Territorial Cooperation</td>
<td>ERDF</td>
</tr>
</tbody>
</table>

*Picture 1. Objectives, Structural Funds and Instruments*


Significance of this policy shows the amount of money earmarked for reducing structural disparities, which makes more than 35% of the EU budget. During the budget period 2000-2006, regional policy took € 43
billion per year. For the period 2007-2013, the European Union’s regional policy is the EU’s second largest budget item, with an allocation of €348 billion (Laissy 2008, 2). The funds aimed the regional policy have increased the most in comparison with the other purposes, during the last two decades (see the table 1). The “Europe of regions” has to balance the level of Europe as a whole and that of the various countries. Regional funds have a large influence on potential candidate countries, and Serbia also. Before they get opportunity to use the EU’s funds, these countries have to meet many standards of the EU.

Table 1. Structure of EU expenditure

<table>
<thead>
<tr>
<th>Purpose of expenses</th>
<th>1985</th>
<th>1995</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>72.9</td>
<td>53.6</td>
<td>43.1</td>
</tr>
<tr>
<td>Regional policy</td>
<td>13.9</td>
<td>25.5</td>
<td>35.5</td>
</tr>
<tr>
<td>Internal policies</td>
<td>2.6</td>
<td>5.6</td>
<td>7.4</td>
</tr>
<tr>
<td>Administration</td>
<td>4.6</td>
<td>5.1</td>
<td>5.4</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>5.4</td>
<td>10.7</td>
<td>8.7</td>
</tr>
</tbody>
</table>

Source: http://ec.europa.eu/regional_policy

At the time (when) the regional policy was established, the disparity (disproportion, gap) between the most developed and the most underdeveloped regions was 1:7. The capitals are at the same time the most developed regions inside twenty from twenty five Member States. The regional differences less than twice we can find only in the old Member States, Sweden (1.5) and Ireland (1.4). Disparities between Europe’s regions have significantly deepened with recent enlargements – the wealthiest member state, Luxembourg, is now seven times richer than the poorest one, Romania. At the regional level, the difference is even more important. Today, 43% of the economic output and 75% of investments in research and innovation are concentrated on just 14% of the European territory, the so-called pentagon between London, Hamburg, Munich, Milan and Paris (Laissy 2008, 1).

In Serbia, the regional disparities are the highest among the all European countries, and additionally they have risen greatly during the last years. The gap between the most developed and the most underdeveloped region is 1:7, and between the most developed and the most underdeveloped local community 1:15. But, before we compare Serbia with the EU, it needs to be established the same structure of statistical units and also, the system of indicators. To provide comparable regional breakdowns of the each county, Eurostat established the NUTS classification, a hierarchical classification with three regional levels. Eurostat (Regions: NUTS, 1995) also calls NUTS 2 regions “Basic Regions”, and describes these as the appropriate level for analyzing regional problems and the
level at which regional policy is implemented. The periodic report on the social and economic situation and development of the regions has so far mainly been prepared at the NUTS 2 level.

An “administrative unit” marks out a geographical area for which an administrative authority has power to take administrative or policy decisions. The NUTS level to which an administrative unit belongs is determined on the basis of population thresholds as follows:

- **NUTS 1** – from 3 million to 7 million population,
- **NUTS 2** – from 800 000 to 3 million population,
- **NUTS 3** – from 150 000 to 800 000 population.

Where the population as a whole is below the minimum threshold for a given NUTS level, a state itself constitutes a NUTS territorial unit of that level. If there are no administrative units of an adequate size in a state, that level is to be established by aggregating an adequate number of smaller neighboring administrative units. Changes to the NUTS classification are to be made in the second half of each calendar year. There is to be a minimum of three years between changes.

The Regulation EC No 1059/2003 classifies the various administrative units of the Member States before the enlargement of 1 May 2004 (EU-15) according to their level in the classification:

1. **NUTS 1**: "Gewesten/Regions" in Belgium; "Länder " in Germany; "Continente", "Região dos Açores" and "Região da Madeira" in Portugal; "Scotland, Wales, Northern Ireland" and "Government Office Regions of England" in the United Kingdom.

2. **NUTS 2**: "Provincies/Provinces" in Belgium; "Regierungsbezirke" in Germany; "Periferies" in Greece; "Comunidades y ciudades autónomas" in Spain; "Régions" in France; "Regions" in Ireland; "Regioni" in Italy; "Provincies" in the Netherlands; "Länder" in Austria.

3. **NUTS 3**: "arrondissements" in Belgium; "Amtskommunen" in Denmark; "Kreise/kreisfreie Städte" in Germany; "nomoi" in Greece; "provincias" in Spain; "départements" in France; "regional authority regions" in Ireland; "provincie" in Italy; "län" in Sweden; "maakunnat/landskapen" in Finland.

The main purpose of this classification is to enable statistical follow ups and comparison of social economic flows in different countries, with different statistical offices organization. Equalizing of territories is not enough for different region comparison, so it was a necessity to establish the same group of criterion for comparison, named structural indicators. Structural indicators allow quantitative evaluation and comparison of performances in economic and regional development.

With regard to structural indicators, the European Commission has drawn up a shortlist of 14 indicators, has put a complete online database at the public's disposal, and wants to improve existing indicators and finalize new ones. The number of structural indicators has risen greatly in
the last three years, to as many as 42 in 2003. The Commission would like to reduce this number to 14 in order to facilitate communication of its policy messages at the Spring European Council. The list of the 14 indicators, as amended by the Council, is as follows: per capita gross domestic product (GDP), labor productivity, employment rate, employment rate of older workers, education level of young people (aged 20-24), research and technological development (R&TD), comparative price levels, business investment, at-risk-of-poverty rate after social transfers, dispersion of regional employment rates, long term unemployment, greenhouse gases emissions, energy intensity of the economy and freight transport volume (Communication from the Commission, 8 October 2003). These structural indicators have many advantages, they present a clear picture of the states and they also, allow compatibility among countries. The list of indicators is updated every three years in order to guarantee certain stability over time. To reduce structural disparities between regions and foster balanced development, are the jobs of the EU Regional policy. It is to be expected that the EU founds will be the biggest foreign investor in the Serbian economy, after attained a position of a candidate country.

THE NEW SERBIAN REGIONAL CLASSIFICATION

In South-Eastern Europe even the term or concept of a region is new. During the period of planned economies there were only two major political decision-making and administrative levels: the Central State and the Municipalities. Real regions in the EU sense exist only in exceptional cases, such as Vojvodina, which has its own regional Parliament. In order to use the EU funds, Serbia has to make a few steps, started from establishing a new regional policy accompanied with a new classification of regions. Also, we should adopt a new Regional Law, which is currently waiting for adoption in the Government and the Parliament. The Strategy of Regional Development of Serbia is already adopted in January 2007. Serbia should divide the whole territory and categorize it according to the NUTS standards, e.g. according to the Eurostat classification.

Since the NUTS 2 regions are “Basic Regions” and all the reports are preparing mainly for this level, it will be enough to categorize the NUTS 2 regions (the state itself constitutes the NUTS 1 territorial unit). There are a few options of regional classification of Serbia, according to the new Regional Law. In the Article 1, the next regions are defined as “Euro Regions”: Vojvodina, Belgrade, West Region, East Region, Central Region, South Region and Kosovo and Metohia.

At this moment, the only regions matching the NUTS 2 standards are Vojvodina and Belgrade. Since Belgrade is the city and not the region, we will explain more detailed the example of the Province of Vojvodina, especially as a successful model for the other regions of Serbia.
The aim was to show clear priorities for regional development, benefits from collaboration between the region and neighboring regions, and necessity of consensus between the public and civil-society sectors on the most urgent tasks of regional development. Since, assumption of the EU acquis communautaire in the area of regional policy is very difficult, this example also represents preparation for a possible accession process. However, the main purpose was to introduce modern methods of regional planning and regional development.

The first step was an analysis of problems and a SWOT Analysis. The priorities of the development program were drawn from the analyses and were approved by the provincial government. The adjusted programs were summarized in a paper with supplementary explanations and again presented to the provincial government for approval. Parallel to this process, work began on the creation of regional institutions. Offices for acceptance of orders, payments, supervision, and evaluation were strictly separated in order to increase transparency and discourage corruption to the lowest degree possible. At the same time, decentralized structures and regional self-reliance were strengthened. For the first time, the secretariats of the province developed their own program proposals in line with Western European standards.

Also, in order to assure the sustainability, in all these processes should be included many institutions, such as universities, research institutes, civil-society institutions, agencies etc. The example of Vojvodina shows that cooperation with the universities varies depending on the department. In the technical and scientific areas this is approaching western standards, but there are problems in economics, where models and conceptual structures from the socialist time often prevail. The message is that the region, which has a realistic concept and at the same time ensures results monitoring through strict supervision, is in a good position to obtain international funds. Special care was taken that the steps of the process could easily be adopted by the other regions in Serbia.

The other requirement Serbia has to make is to establish the same structural indicators for comparison. The European Commission was invited to present an annual report on progress achieved in the areas of employment, innovation, economic reform, social cohesion and the environment. These structural indicators are extremely useful because they give an essential statistical foundation to political messages. The major amount of many came to the Serbian energy sector (€ 395 million), after that for the Public administration Reform (€ 138 million) and Local Government and Regional Development, € 110 million (Multi-Annual Indicative Planning Document for Serbia 2007-2009, 10). In fact, as a potential Candidate Country, Serbia already received a substantial amount of money from the EU funds. So, it is clearly that the EU is one of the major investors in Serbia. The EU has provided support to Serbia under a variety of financial instruments (as we can see on the table 2).
Table 2. EC Assistance to Serbia (1998-2006)*

<table>
<thead>
<tr>
<th>Reconstruction and development assistance (CARDS/OBNOVA)</th>
<th>€1389 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macro financial assistance</td>
<td>€ 450 million</td>
</tr>
<tr>
<td>Humanitarian assistance (ECHO)</td>
<td>€ 210 million</td>
</tr>
<tr>
<td>Danube Clearance</td>
<td>€ 22 million</td>
</tr>
<tr>
<td>EC food security programme</td>
<td>€ 10 million</td>
</tr>
<tr>
<td>EIDHR</td>
<td>€ 9 million</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>€ 2090 mill</strong></td>
</tr>
</tbody>
</table>

* It does not include participation in regional CARDS


The IPA therefore provides a unique and rationalized framework. From January 2007 onwards (Council Regulation No 1085/2006), the Instrument for Pre-Accession Assistance (IPA) replaces a series of European Union programmes and financial instruments for the period 2000-2006, namely:  
– the programmes for candidate countries, namely Phare, SAPARD and ISPA, Phare Cross-Border Cooperation (CBC) and Coordination, pre-accession financial assistance for Turkey; and  
– the programmes for potential candidate countries, namely CARDS.

The aim of the IPA is therefore to enhance the efficiency and coherence of aid by means of a single framework. The difference is in the way these measures are implemented, the beneficiary country is required to manage the funds in a decentralized manner.

Since 2007, Serbia has received EU financial aid under the Instrument for Pre-Accession Assistance (IPA). The main objective of the Instrument for Pre-Accession Assistance (IPA) is to help Serbia to implement the reforms needed to fulfill EU requirements.

The IPA instrument consists of five components: IPA I - Assistance for transition and institution building; IPA II – Cross-border cooperation (with EU Member States and other countries eligible for IPA); IPA III – Regional development (transport, environment and economic development); IPA IV – Human Resources (strengthening human capital and combating exclusion), and IPA V – Rural Development.

Potential Candidate Countries in the Western Balkans (Albania, Bosnia-Herzegovina, Montenegro, and Serbia including Kosovo) are eligible only for the first two components (IPA I and IPA II), while IPA III, IV and V are planned only for candidate countries. It is important to emphasize that IPA financial assistance can be suspended if a country does not fulfill the commitments made in its partnership agreement with EU. One part of the assistance (Component I) focuses on implementing the...
main priorities of the European partnership while the other (Component II) supports cross-border cooperation activities between Serbia and EU Member States as well as with adjacent Candidate and potential Candidate Countries. The allocation for 2008 totals €190.9 million (see the table 3). Annual or multi-annual programmes (depending on the component) are designed in accordance with the strategic MIPDs. The indicative allocations to Serbia under the Multi annual Indicative Financial Framework (MIFF) 2007-2009 amount to € 572.4 million, as specified in Table 3.

**Table 3. Serbia: Multi-Annual Indicative Financial Framework in mill €***

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I Transition assistance and Institution Building</strong></td>
<td>178.5</td>
<td>179.4</td>
<td>182.6</td>
<td>540.5</td>
</tr>
<tr>
<td><strong>II Cross-Border Cooperation</strong></td>
<td>8.2</td>
<td>11.5</td>
<td>12.2</td>
<td>31.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>186.7</td>
<td>190.9</td>
<td>194.8</td>
<td>572.4</td>
</tr>
</tbody>
</table>

*These figures are indicative and subject to modification


**PROBLEMS IN MANAGING THE EU FUNDS IN SERBIA**

Annual or multi-annual programmes (depending on the component) are designed in accordance with the strategic MIPDs. They are adopted by the Commission following consultation with the beneficiary countries and other stakeholders. We do not have a tradition to follow the rules strictly, as the EU countries do. This is the cause of many problems, appearing in managing the EU funds at the local level. The most significant are:

1. Absorption problems,
2. Problems of macroeconomic management,

The first fear is from lacking good projects, prepared according to the strict EU standards; so the money can stay unused. Actually, it is a reasonable worry because of the Serbian economy well-known feature – to be “flexible” as more as possible in law implementation. The problems of macroeconomic management are identified in many countries with fragile macroeconomic stability. Big money inflow can cause high inflation, exchange rate fluctuation etc. To prevent that possibility, the EU established the rule about the maximum amount a country can receive. The limit that a country can absorb cannot exceed 4% of GDP per year. The other problem can occur if a country gets the funds for bad projects, in which case money return can cause a pressure on national budget. Co-financing problem can cause a budget deficit, also. A country can get a
project with the money planned from the future sources, which are not completely sure.

Is that possible to prevent these problems and how? First of all, Serbia has to develop efficient institutions for managing the EU funds, from local to national level. We should start from education about the EU’s institutions, regulations, procedures, planning, programming, project management, and project application. It will effect increasing the administrative capacities of the EU funds management. Only these three together can make productive effects (as the picture 2 shows).

![Diagram: Evaluation mechanism for institutional capacity]

**Picture 2. Evaluation mechanism for institutional capacity**


At the same time, this is very important to learn as a preparation for the next levels and the next funds, Structural and Cohesion, after obtaining the Candidate Country status. How considerable that help will be can be simply seen if we compare the Member State, Bulgaria and the potential Candidate Country, Serbia. For the six year period, Bulgaria will receive €14.5 billion and Serbia only €1.45 billion. But, it is important to remind that the specific projects should be prepared according to the clear EU priorities. Furthermore, there are sanctions for misuse of money, and the owner of investments until the end of projects is the EU.

Experience with previous programmes and financial instruments helped Serbia to learn the next most important lessons for the future (Vujcic 2007, 71–73):
1. Preparation for the Decentralized Implementation System (DIS) should begin as soon as possible,

2. An administrative capacity needs to be further developed, especially in area of inter ministerial relations, coordination and communication which undermines implementation of both government and EU policy,

3. There is a need to consolidate the general strategy for Serbia’s development to ensure clearer and stronger links between policy, long term strategic planning and resource allocation and establish mechanisms for the verification of EU compatibility of Government policies and draft laws,

4. It needs to be emphasized the importance of ministries committing necessary budget resources to better exploit EU co-funding support,

5. EU assistance must not only reflect European Partnership priorities, but also be connected with Serbia's institutions development and action plans (e.g. the Serbia Public Administration Reform Action Plan, Action Plan for strengthening institutional capacities in the EU integration process etc.),

6. There is a need to reinforce central and local government linkages to better exploit EU co-funding and help address territorial inequalities. Introduction of statistical nomenclature of territories (NUTS classification) should contribute to better identification and policy targeting of economic problems at local and district levels, and

7. The administration's absorption capacity must be taken into account when designing technical assistance programmes in order to allow maximum benefit of the assistance provided. In this context, targeted support for the improvement of human resources management and development in the Serbia's administration should be considered. It is important to develop internal evaluation mechanisms for institutional capacity assessment in the Serbian administration.

Economic development is also a task of municipal and regional administrations, which shape the optimal framework conditions for investment. Regional and municipal competitiveness results primarily through the mobilization of local monetary and human resources and through the sustainable strengthening of strategic capacities and competencies. In the last few years, regional economic development has evolved far beyond the earlier conception of simply providing economic infrastructure and setting up industrial zones.

In market economies competitiveness is the key to economic development. Serbia has the advantage of a favorable location, with many competitive advantages. The region is incorporated into the trans-European transportation routes, trade and border agreements are increasingly facilitating the transportation of goods and people, markets for selling goods within the region are becoming more accessible. Tourism (the Da-
nube, ski areas, historical and cultural sites) offers a new source of income and create markets for domestic products. The traditional wine industry has potential for development, and modern sectors such as information technology and software development, build on earlier scientific capacity and transcend borders while old co-operation networks, such as the automotive industry in Kragujevac, can be revived. Our lower salaries and corporation taxes (only 10%) than in our EU neighbors are attracting manufacturers. Competitiveness, in turn, mutually beneficial collaboration between efficient firms, competent private sector and government services, and supportive economic, legal, and political framework conditions. The EU association, as a driving force for strengthening competitiveness, will open up new opportunities. The challenge is great – the large gap between average income in the EU and that in potential Candidate Countries should be closed as quickly as possible. The establishing and development of regions in potential Candidate Countries will play a large role in developing closer ties with the EU.

CONCLUSION

The European Union's regional policy aims to reduce disparities between EU regions, foster balanced development throughout the EU and “promote real equal opportunities for all”. The regional policy has established in seventies, but it’s become more important in nineties. This part of economic policy is very significant for both, the EU and the Member States. Based on the concepts of solidarity and economic and social cohesion, it achieves this in practical terms by means of a variety of financing operations. Regional funds have a large influence on potential candidate countries. Before they get opportunity to use the EU’s funds, these countries have to meet many standards of the EU. One of them is to adopt a list of structural indicators. The European Commission has drawn up a shortlist of 14 indicators, has put a complete online database at the public's disposal, and wants to improve existing indicators and finalize new ones.

In order to use the EU funds, Serbia has to make a few steps, started from establishing a new regional policy accompanied with a new classification of regions. Parallel to this process, work began on the creation of regional institutions. That is a long-run process, and many problems will appear during it. The most significant at the local level are: absorption problems, problems of macroeconomic management, and co-financing problem. Because of that, it is very important to develop internal evaluation mechanisms for institutional capacity assessment in the Serbian administration. The only regions in Serbia, matching the NUTS 2 standards are Vojvodina and Belgrade. The message is that the region, which has a realistic concept, is in a good position to obtain international
funds. The Strategy of Regional Development of Serbia is adopted, and
the next steps should be adoption of a new Regional Law, and categori-
zation of the whole territory according to the NUTS standards.

The aim of the Instrument for Pre-Accession Assistance is there-
fore to enhance the efficiency and coherence of aid by means of a single
framework. Since 2007 Serbia has received EU financial aid under the
IPA assistance. In order to prepare for better absorption of the EU funds,
Serbia should start from education about the EU, its institutions, regula-
tions, procedures, planning, programming, project management, and pro-
ject application. It will effect on increasing the administrative capacities
of the EU funds management. On the other side, this is very important to
keep us trained as a preparation for the next levels and funds, after
obtaining the Candidate Country status. Europe has to find common solu-
tions to the global challenges in partnership with national, regional and
local levels. They impact directly on regional and local communities and
they require that public and private partners work together.

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ПРОБЛЕМИ АПСОРЦИЈЕ РАЗВОЈНИХ ФОНДОВА ЕВРОПСКЕ УНИЈЕ У СРБИЈИ

Региме

Интеграција у Европску унију је примарни развојни циљ Србије. Влади, пословном сектору и грађанском društву је потребна подршка у припреми за приступање ЕУ. Социјално прихваћени привредни развој у Србији је од кључне важности за одрживу политичку стабилност у региону. Њена земаља јужноисточне Европе су успешно завршиле процес политичке трансформације, док је са друге стране српски прелазак од планске ка тржишној привреди много теже постићи него што је првобитно предвиђано. Циљ овог рада је извлacenje поука из искуства са претходним програмима и финансијским инструментима помоћи Србији, као и истичење значаја спољне помоћи на путу интеграције Србије у Европску унију.

Кључне речи: регионална политика, европски фондови, земље потенцијални кандидати, проблеми апсорције.