

CHAPTER 19.

REGIONAL POLICY FUNDS: HOW PREPARED IS SERBIA TO ACCESS EUROPEAN UNION REGIONAL POLICY FUNDS?

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Abstract

Bearing in mind that Serbia is dealing with serious and challenging development issues, especially scarce of financial resources, it is extremely important to establish institutional and legal framework for drawing financial means from European Union regional policy funds. The importance and potential support of these funds for Serbia is visible through the fact that European Union financial capacity for the purposes of the equal regional development is more ten times bigger than Serbian yearly GDP. One of basic prerequisites for stable and continuous social and economic development is equal regional growth of all parts of country and as one of basic European values should contribute to planning and application of development policy. As of 2010 Serbia has 5 statistical regions with strong multilevel disparities. One of the key challenges in the future will be to find the way to mitigate differences and European Union regional funds will play inevitable roll. The authors are trying to identify, to analyze and to emphasize decisive obstacles in drawing and exploiting recourses from regional funds. These obstacles are particularly present in facilitating development of under- and undeveloped areas, old and mainly devastated infrastructure, ecological policy matters and extremely low employment rates.

Key words: regional policy funds, Serbia, European Union, legal framework, equal regional development, institutional capacity

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INTRODUCTION

Ever since its foundation in 1992, European Union has been facing the fact that all member countries have not been equally developed. Although member countries are unequally developed, a problem occurs an uneven development of different regions within countries themselves. Thus Spain and Ireland were considered as weaker economic countries. Therefore, the predecessor of the EU, the European Economic Community in 1988 started determining aims that should be achieved in future. Among the objectives there is the support for the development of industrially weak and underdeveloped regions, for example through funding small and medium businesses⁴. For those causes, appropriate funds have been assigned in the form of structural funds. After establishing the European Union in 1992, new objectives have been determined. The first two positions were taken by the objectives of supporting less developed regions, with lower gross domestic product and those under the influence of industrial productivity decrease, actually where the rate of unemployment was above the average in the EU⁵. According to data published in EU, those funds substantially influenced decreasing the disparities among regions, especially among member states. Today Ireland is the second EU country according to the GDP per capita, prior to United Kingdom and Germany, while the support of these funds certainly was one of the elements that contributed to its high ranking. However, the funds are definitely not the only element nor it can be seen separately from others. Republic of Serbia in 2010 officially filed for EU membership. Stabilization and Association Agreement has already been applied in Serbia. As a potential candidate, Serbia is already using the resources of certain funds, while performing necessary reforms and filing for candidacy for EU membership Serbia is preparing to use other resources from other funds, too.

THE CONCEPTION OF FUNDS – WHAT ARE THE FUNDS AND WHICH FUNDS CAN AND WILL SERBIA HAVE THE ACCESS TO

The agreement on which EU is based is determining the rules on which the integration of new countries would bring certain negative consequences, especially in social and agricultural plans. Creation of specific regional economical and political instruments appeared as a necessity that European Union would be engaged in resolving development disparities of certain regions⁶.

⁴ Boldrin and Canova (2001); Međak and Majstorović (2004)

⁵ Međak and Majstorović (2004)

⁶ Seidel (2002)

The remark should be made that not all funds are intended for regional development, or to all countries. Some funds are exclusively intended for member states, some for candidate countries, while the others even for potential candidate countries.

In different periods of its development, EU founded several structural funds. Thus in 1960, the EU Social Fund (ESF) was founded with the goal to support the implementation of employment and social policy. Then, in 1962, the European Agricultural Fund for Rural Development (EAFRD) was established in order to improve and transform agricultural production. Among the above mentioned, the European Regional Development Fund (ERDF) was founded in 1975 with the aim to support the development of underprivileged regions, among other things it was founded for the needs of Great Britain⁷. As it can be realized, the goals of structural funds in the EU are aiming to strengthen a region and to decrease the differences among regions, to restructure the industry and to prevent and to decrease some unfavourable trends, for example to retrench an unemployment rate.⁸

The managing of the funds is based on the following principles: longterms programming, focusing on defined goals, co-financing of the state user of funds and partnership between the state user and the European Commission. Besides, the EU founded the structural-political and financial instruments. The first was the Cohesion Fund, established in 1993, with the goal of strengthening social cohesion in the frame of the EU and particularly intended to economically underdeveloped member states⁹. There is also the Financial Instrument for Development of Fishery, Aquaculture, Food Processing and Marketing. The European Investment Bank is also very important, a financial service within the EU, that improves further integration, a balanced economic development of different parts of the Union and social cohesion of member states.¹⁰ In the end, there is also the European Investment Fund, founded in 1994, with the goal to take long term grants for major projects of infrastructure and to support the development of small and medium businesses. However, under the initiative of the EU Committee, it is possible to take further actions from so called Union initiative, and from the scope of interregional and transnational cooperation (Interreg), Association for Rural Development (LEADER), sustainable development in the troubled urban districts and boosting depresses urban areas (URBAN) and promoting a better model for working life by fighting

⁷ Ibid.

⁸ Međak and Majstorović (2004)

⁹ Bache (2010)

¹⁰ Stefanović (2008)

discrimination and exclusion (EQUAL). The important part of the cohesion policy consists of three initiatives: Joint Assistance in Supporting Projects in European Regions (JASPERS), Joint European Resources for Micro to Medium Enterprises (JEREMIE) i Joint European Support for Sustainable Investment in City Areas (JESSICA). The aim of the Initiative JASPER is to provide assistance to the regions targeted for convergence through non-refundable financial support¹¹. The structural funds mentioned above, structural-political instruments and the actions are intended to member states of the EU only.

As the Regional Policy Funds of the EU are considered political and economical instruments and programmes founded from the EU in order to provide financial assistance, promote solidarity, support economic and social development and to reduce differences in development between the regions¹² within its borders. For the EU Member States, following instruments are available for the purpose of the regional policy: European Regional Development Fund, European Social Fund and Cohesion Fund. The main goals of three above-mentioned instruments in the period 2007-2013 are: convergence (providing conditions for development of the least developed countries and regions), regional competitiveness and recruitment (through development programmes, adjustment of manpower and investments in human resources) and European territorial cooperation. On 19 April 2010 the Commission presented a synthesis report which wraps up the main findings of the ERDF evaluation. The report shows that 123 billion EUR invested through the ERDF between 2000 and 2006, has had a significant impact on the regions across the EU. Key achievements include: 1,4 million jobs created, 2 000 km of motorway constructed, 4 000 km of rail, 14 million people gained access to cleaner water, 38 000 research projects supported and over 800 000 SMEs supported¹³.

When it comes to candidate countries for EU membership and potential candidates, there are other funds intended for their use. Until 2007, through several instruments the EU offered financial support to candidate states and states that are in pre-accession phase (potential candidates). Those are: The PHARE programme, The Pre-accession Structural Instrument (ISPA) and The Special Accession Programme for Agriculture and Rural Development (SAPARD), for countries of western Balkans, except Croatia, extremely important programme called CARDS (Community Assistance for Reconstruction, Development and Stabilisation), as well as special programme for Turkey. Since then, the mentioned instruments have been substituted by one Instrument for Pre-Accession

¹¹ Mirić (2009)

¹² Sedlaček and Gaube (2009)

¹³ EU Commission; Pachura (2010)

Assistance (IPA). The objective is to help these countries achieve the objectives of the EU in the area of interest, and in the framework of stabilization and accession process. The full amount of the IPA fund for period 2006-2013 has reached 11,468 billion EUR. The following programme priorities are mentioned: institution instalment, justice administration, internal affairs, cross-border cooperation, private sector development, infrastructure development, etc. Although the funds vary based on users, the similarity between structural funds and Cohesion fund with IPA instrument is in the overlapping of goals, principles and modalities of managing the funds.¹⁴

Since Republic of Serbia applied for the membership on 22nd December 2009, only certain resources in these phase of integration can be used as a supporting source for financing development projects. Republic of Serbia and potential candidate countries, first of all, all countries of Western Balkans, are entitled to use fund resources, e.g. IPA, in order to achieve certain number of goals, as well as resources of other funds but in cooperation with one of the EU member states. Thereby Serbia has three neighbouring countries that are the EU member states (Hungary, Romania, and Bulgaria) and two EU candidate countries (Croatia and FYR Macedonia). Thus, Serbia has the opportunity to use the resources intended to transition assistance and institution building, cross-border cooperation (with EU Member States and EU candidate- and potential candidate countries). In order to achieve other three goals, Serbia has to attain the status of a candidate country for the EU membership. It could be expected by the beginning of 2011,¹⁵ according to the EU announcements. However, financing the implementation of the first two objectives has function to prepare the potential candidate country for successful participation in the Community's Cohesion Policy and its instruments upon accession. This should lead to a better and more effective absorption of these funds once they become available.¹⁶

The most important instrument for Republic of Serbia at the moment is the Instrument for IPA that comprises five different goals and differs two categories of funds for potential beneficiaries. Thus, on one side, transition assistance and institution building, cross-border cooperation (with EU Member States and EU candidate- and potential candidate countries), regional development (transport, environment infrastructure, enhancing competitiveness and reducing regional disparities), human resources (strengthening human capital and fighting discrimination and exclusion) and rural development have been determined as objectives. On the other side, IPA acknowledges two categories of the countries:

¹⁴ Mirić (2009)

¹⁵ EU Commission

¹⁶ Ibid.

EU candidate countries and EU potential candidates, among which Republic of Serbia and its province of Kosovo and Metohija, under UN Security Council Resolution 1244/99, are considered. However, only EU candidate countries are eligible for all five components. Potential candidate countries are eligible only for assistance for transition and institution building and for cross-border cooperation.¹⁷ Therefore, Serbia remains without access to funds intended for regional development, human resources and rural development until it reaches the status of a candidate country. The amounts of financial recourses that Serbia has withdrawn (with the projections for 2011. and 2012.) from IPA Funds accounts approximately to 1.113,2 Billion €. ¹⁸ As can be noticed it have been using a growing amounts of money, which is in first line a direct consequence of institutional upgrading and broader participation of different stakeholder in Serbian society.

IPA financial allocation in Serbia 2007.- 2013.¹⁹		
Year	Transition assistance and institution building (in milion €)	Regional and cross-border cooperation (in milion €)
2007.	181.4	8.2
2008.	179.4	11.5
2009.	182.5	12.2
2010.	186.2	12.5
2011.	189.9	12.7
2012.	193.8	12.9

Legal ground of the IPA is Council Regulation (EC) 1085/2006, decided on 17th July 2006, as well as implementation provisions in Commission Regulation (EC) 718/2007. Putting into practice the programme of support is in the jurisdiction of special institutions. Thus, European Commission Directorate General for Enlargement is in charge of attaining the first component, transition assistance and institution building, that Serbia is eligible to. For second component, cross-border cooperation the jurisdiction is entrusted to the European Commission Directorate General for Regional Policy, but only in the part concerning Member States.

The Instrument for IPA in Serbia will be present in longer financial period, from 2007 till 2013, and in the area of cross-border cooperation. The objective of this programme is that a border becomes a point of merging and not separation.²⁰ In

¹⁷ Ibid.

¹⁸ Valentina Ivanić (2010)

¹⁹ Ivanic, Valentina (2010)

²⁰ Delević (2010)

previous period, achieving this objective was funded by the resources from CARDS programme (Community Assistance for Reconstruction, Development and Stabilisation), while cooperation was achieved with Hungary, Romania, Bulgaria, and thanks to IPA programme cooperation was achieved with Croatia, Bosnia and Herzegovina, and Montenegro. Currently, mutual managing with Hungary, Romania and Bulgaria three cross-border cooperation programmes are being operated. Additionally, in the framework of the Adriatic programme, cooperation with Italy is being achieved as well.²¹

Apart from mentioned cooperation, it is expected to achieve even new programmes in “western borders” of Serbia but in somewhat different manner. That is the reason why the funds would be allocated and spent only on the territory of a certain country, and the specific managing structure would be assembled.²²

Within the framework of the PHARE and CARDS Programmes, since 2007 replaced by IPA, Republic of Serbia is a beneficiary of two more instruments. After European Thessalonica Summit in 2003 all CARDS beneficiary countries have been enabled to participate also in Twinning Programme. This support is continued in Serbia even after the programme was replaced in 2007 by IPA. As the targeted administrative co-operation, the main objective of this programme is to assist Candidate Countries (CC) to strengthen their administrative and judicial capacity to implement Community legislation as future Member States (MS) of the European Union.²³

Moreover, as a special sector in the scope of Directorate General for EU Enlargement (DG Enlargement) called *Technical Assistance and Information Exchange Instrument* (TAIEX) has been present in Republic of Serbia since 2004 with the purpose to provide short-term technical assistance to Candidate Countries and to the Western Balkans countries on specific subjects related to the adoption of the *acquis* and assistance in building necessary administrative infrastructure.²⁴

For attaining other objectives, cross-border cooperation, the development of the model Euro-region is of the essential importance. The matter of subject is the judicial and organizational form of cross-border cooperation of areas by the borders of two or more countries. This model does not possess any political

²¹ Ibid.

²² Ibid.

²³ Government of the Republic of Serbia, The EU Integration Office

²⁴ Ibid.

features, nor it has the character of legal entity nor is it constitutional or legal category. It can be used for cooperation of lower levels of authority, e.g. regional and local authorities from different countries that share the same border. Thereby, regional and local authorities can attain common interest objectives, while being supported by EU funds. Therefore, the Euro-region DKMT (Danube-Kris-Mures-Tisa) as a model of cross-border cooperation of Autonomous Province of Vojvodina in Serbia and five cross-border regions in Hungary and Romania. The fact is that two neighbouring countries are now EU member states enables easier access to EU funds and it makes this region more appealing for investing.²⁵

Recently there has been an initiative in European Committee for modelling the strategy for „the Danube region” whose approval is expected in 2011. It is expected that this strategy will be established on three pillars: transportation and connection, environmental preservation and social-economical development.

CONDITIONS TO WITHDRAW FROM FUNDS

Only member states, 27 of them, have the access to the widest range of EU funds. Therefore, in special focus of EU regional policy there are poorly developed regions from EU member states, like Greece, Portugal, greater part of Spain, southern Italy and Sardinia, parts of Ireland, Northern Ireland, Corsica, French overseas departments (DOM – Departments outre mer), and new German federal states (former German Democratic Republic).²⁶

The European Union prescribes that one region is eligible for the financial support of the Structural funds, if it has one of three objectives. These objectives are: development, adapting to major economic changes, for example rural decline, and help those with special educational or employment needs.²⁷ One region is considered as undeveloped if its GDP per capita is less than 75% of the EU average.²⁸

The average GDP per capita in Serbia is 8,5 times lower than the EU average, but there's a big difference between the regions. For example, in the future the regions of Belgrade and Vojvodina will exceed the line of 75% of the average of the Union, while other regions will still need the assistance from the funds. Serbia is, together with other potential EU candidates countries in the West Balkans in

²⁵ Vujčić (2010)

²⁶ Seidel (2002)

²⁷ European Commission

²⁸ Bouvet and Dall'Erba (2010)

the group of 54 countries with lower-medium income per capita (522-2084 euros).²⁹ Unemployment, which is in Serbia cc. 19%³⁰ represents important factor.

Thanks to the expansion of the EU, new challenges emerged. Among new candidate countries there were some extremely poor, while the number of inhabitants with the right to support from structural funds increased. The increase of the expenses that normally follow the accession of new member states led to reforms in the EU regional policy so in the “Agenda 2000” the European Committee set up an economic and social cohesion as a priority when expanding. With the above mentioned Agenda, the fund of 213 billion euro was defined as total asset of structural and regional funds, while the budget frame for period from 2000 to 2006 was 1,27% GDP of EU.³¹

Agenda 2000 takes into account the funds intended for supporting the countries that are comprised by the process of the EU expansion. Thus, the pre-accession support disposes the fund of 3,12 billion euro. Additionally, a special package of support is predicted and exclusively intended to new member states, in annually increasing amount of over 10 billion euro. However, Agenda decreased the number of objectives to three. Those are: underdeveloped regions development, economic and social transformation of areas with structural problems as well as adjustment and modernization of the policy and education system, schooling, and employment, independent from regional connectivity. Means available from structural funds have been decreased in the meantime to 5%. Having set up a threshold, according to which the EU help could not exceed 4% GDP of a member state. Accordingly, until the end of 2006, new member states were entitled to 14,2 billion euro from structural funds.³² In the current financial period 2007-2013, structural funds make 35,6% of the EU budget, with the total of 347 billions euros. Distribution of the financial assistance is based on three objectives: convergence, regional competition and employment and territorial cooperation.³³

In the scope of pre-accession programmes, like IPA, all non-profit institutions could apply as users. Local and regional authorities could apply even natural parks, business support organisations, Euro-regions, institutions, universities, schools, libraries, cultural centres, cultural institutions, NGOs, and their communities, etc.³⁴ A candidate country applies with a project, and users are selected in tenders. Independent experts do the evaluation of project's mark.

²⁹ Džafić, Rovčanin, Klopčić (2008)

³⁰ Statistical office of the Republic of Serbia

³¹ EU Commission

³² Ibid.

³³ Institute for the Study of Civil Society

³⁴ Delević (2010)

Assigned resources are by its character non-refundable, but the amount provided by the EU is 75% of the value of the project, while the user is obliged to provide for the rest. The advantage of this kind of distribution of funds is that more qualitative projects receive the resources, and it is not related to the country from which the project originates. Thus, Republic of Serbia, through its cooperation with a neighbouring country, forms one managing structure of the programme. However, the greater piece of the expenses has to bear the user of the funds that after having costs admitted, they are being refunded by the appropriate EU programme.³⁵

Legal ground for performing the actual project is the project contract. Whereas, on behalf of the EU different agreed sides could appear. On one hand, when it comes to realization of project in cooperation with the EU member states, the contract with the fund beneficiary is signed by authorized programme directorate in a member state. On the other hand, when it comes to projects with candidate countries and potential candidates, the contract with the beneficiary is signed by European Commission Delegation in Belgrade.³⁶ State authority, e.g. Ministry of finances of Republic of Serbia, in this case only have the role of a national coordinator in conducting the programmes, provides support, monitors the work of programme secretary and programme offices at local level. For that purpose, local branches have been opened in Subotica, Vrsac, Bor, Nis, Sremska Mitrovica, Uzice and Prijepolje.³⁷

Regional policy funds support less well off regions, economic growth across the EU and focus directly on areas. But, one of the problems is that they don't focus on the poverty within developed areas. Also, national government may not intervene, because of the direct relationship EU Commission-region. Finally, once EU enhances new poor regions, especially those in the Eastern Europe, many regions in the old member states will stay without this assistance.

EVALUATION MARK FOR SERBIA IN THE TERMS OF FULFILLING OBLIGATIONS NECESSARY FOR USING THE FUNDS

European Union Regional policy and its carrying out don't understand national regional policy and its carry out. It may understand regionalization, but doesn't have to. The legislative framework for the regional development in Serbia consists of the Constitution of the Republic of Serbia, the Strategy of Regional Development 2007 -2012, as well as the Stabilization and Association Agreement

³⁵ Ibid.

³⁶ Ibid.

³⁷ Ibid.

and the legislation that ratifies it.³⁸ Having regards to preparations for applying for the status of the candidate country for EU membership, Republic of Serbia adopted a legal act on regional development. In that regard the region is considered any statistical functional territorial unit, comprising one or more areas, established for the purpose of planning and performing regional development policy, which is not the administrative unit nor it is a legal subject. In addition to existing regions of Belgrade, Vojvodina and Kosovo and Metohija, two additional regions were formed in a way that the regions on the territory of central Serbia, region of Sumadija and western and southern and eastern Serbia. It should noted that it is not at all legal or political category, but a statistical regionalisation, harmonisation with Eurostat. Namely, every country that would like to join the EU needs to determine certain statistical territorial units.³⁹ It is done in accordance with NUTS methodology (Nomenclature d'unités territoriales statistiques). However the identification of statistical regions is not a condition for using pre-accession assistance, that Serbia already uses. The legal act on regional development⁴⁰ and the Regulation on nomenclature of territorial units for statistics⁴¹ determined the NUTS I regions (Serbia – north and Serbia - south) and NUTS II regions (five above mentioned), but NUTS III regions consist of local authorities as a part of an administrative district. According to NUTS classification, criteria for determining statistical regions are existing administrative units, number of inhabitants, geographical, socio-economical, historical, geopolitical, cultural and natural characteristics. Thereby, a vital condition is achieved for granting and benefiting from the structural EU funds in future.⁴² Beside this, Law on regional development regulates the existance of statistical division and agencies is important for obtaining and using of instruments of regional policy funds in the future. For the period from 2007 to 2013, Republic of Serbia will from IPA programme receive the support of 1,4 billion euro,⁴³ which will help in preparation for using structural and Cohesion funds when certain conditions are satisfied. In order to prepare itself in the best possible way, it is highly recommended that every future regional organization to do according to economic criteria and not based on political or historical. This is supported by the examples of the states which have already been the EU member states. For example, Poland, Czech, Slovakia, and Bulgaria completely changed their regional organization with the aim to attract more resources from the EU structural funds.

³⁸ Constitution of the Republic of Serbia, Regional development Strategy, Law on Ratification of the SAA.

³⁹ Bouvet and Dall'Erba (2010); Becker, Egger, von Ehrlich and Fenge (2008)

⁴⁰ Law on regional development

⁴¹ Regulation on Nomenclature of territorial units for statistics

⁴² Bache (2010)

⁴³ Medak (2010)

Newly defined statistical regions should serve for monitoring the development indicators of a certain area, so in the future the fund resources would be optimally distributed. Thanks to the statistical indicators, GDP at a region level could be determined, and of course all other facts, like the rate of unemployment, the rate of incomes, educated structure of the inhabitants, etc. Accordingly, undeveloped regions are qualified to the funds as potential beneficiaries for development support. In this sense, statistical regions of Vojvodina and Belgrade are undoubtedly developed, while the other three regions represent the dark side of economic development in Serbia. Opposing to that, more than a half of undeveloped municipalities are located in the region eastern and southern Serbia, few of them in the region of Sumadija and western Serbia, only three in Vojvodina, while none of them is in the Belgrade region.⁴⁴

Our neighbours, FRY Macedonia and Croatia, had even in 2004 i.e. 2005 reorganized their statistical regions after NUTS model. Thus, FRY Macedonia has 1 NUTS II and 8 NUTS III statistical regions, while Croatia has 3 NUTS II, and those regions comprise several counties (NUTS III).⁴⁵

When it comes to economic criteria of receiving support, Republic of Serbia, as whole, already fulfils criteria for regional development support, having the GDP at the level of 33% of average EU GDP. However, there are no crucial political and legislative criteria, and that is the status of a candidate country for the EU membership, that would fully enable use of resources from IPA programme, while for using resources from the funds for regional development country have to be the EU member state.

If we take a closer look at the candidate countries for the EU membership, our neighbours Croatia and FYR Macedonia, pre-accession instruments are applied in realisation of all predicted goals. Thus, in Croatia there are three functioning multiannual Operational Programmes: Environmental Operational Programme (EOP), Transportation Operational Programme (TOP) and Regional Competitiveness Operational Programme (RCOP). In FYR Macedonia support of Regional Development Operational Programme is focused on the transport and environment sectors with a total allocations in the same period of 40,5 million euro. In the scope of transport, it is about supporting further development of the South East Europe Core Regional Transport Network, i.e. corridors VIII and X (for the latter Serbia is especially interested in). On the environmental level, focus is on waste water treatment and solid waste management.⁴⁶

⁴⁴ Mirić (2009)

⁴⁵ Croatian Bureau of Statistic; State Statistical Office of the FYRM

⁴⁶ Ibid.

In legal context, Republic of Serbia has made a significant advance towards conducting reforms necessary for using EU funds intended for regional development in the future. As it could be seen, the access to certain funds, as well as realisation of certain goals, is related to political and legal status of the state. As a potential candidate, Serbia could in a greater scale use the resources from pre-accession funds, such as IPA, above all through stronger cross-border cooperation with member states and candidate countries. Therefore, the creation of the new Euro-regions could have a great effect. The new statistical division of Serbia could in future use as a base for qualitative administrative and regional organisation of the country. However, it is essential to take into account real economic and social interests of inhabitants of the region, bearing in mind that the critics of new division have already appeared stating the arguments that the areas that are not similar or naturally connected are joined into one region. All stated programmes that Serbia has been the beneficiary so far are not intended to regional development, but to prepare the states for the candidacy for the EU membership, and therefore for the use of available funds. Achieving the status of the candidate country, Serbia would have the possibility to benefit even the resources intended for the regional, human capital and rural development. Thus, it would be prepared for the EU membership when it would have access to all funds for regional development, as well as other member states. Until then, it would have to be satisfied with limited access to the funds and achieving the limited number of fund objectives. Republic of Serbia candidacy for the EU membership encourages in this context, but long postponement of getting the status of a candidate country, and hereby becoming a member state would lead to great disproportions in the development between Serbia and its neighbours, new EU Member States. In the meantime, the *Stabilization and Association agreement* with Serbia has been ratified by six EU member states so far.⁴⁷

The conclusion is that the Republic of Serbia did make a big step forward by adopting the relevant legal framework for the policy of the regional development. Especially because of the fact that Serbia traditionally does not recognize definition of the regional division. This is the reason why it is necessary that the regions are defined by economic-social criteria and not by political criteria. In a long-term statistical regional units are the good base for withdrawing financial resources from EU funds, while the administrative regions are political and constitutional question. Therefore, active engagement of all levels of the state administration is essential for obtaining the results in the field of the adopted legal framework. The Government should make an effort to assist local selfgovernment in developing stable and sustainable institutions, which, once obtained the status

⁴⁷ Government of the Republic of Serbia, The EU Integration Office

of a state candidate, and later the status of the EU member state, could successfully use the resources of the regional funds.

The experience of 10 new EU member states confirms that institutional settings are playing a the most important role for the efficiency to absorb the financial means from funds. In Irish case can be concluded that the Structural Funds have had an crucial role in facilitating economic development and fostering higher economic growth, which have led to higher public revenues in later period. Absorptive capacity had been problem only in initial phase of using this funds, but during the later years the Irish public finances were making the surplus. That was the base for much higher level of domestic public investment during Cohesion and Structural Funds (CSF) 2000-2006 when the EU funding declined.⁴⁸ But the crucial prerequisites for effective use of financial resources from EU funds are properly functioning market economy and well shaped market-based institutions. This can be seen especially in Irish case.

Accountability of the system of domestic public finances, which is used for receiving and recording EU aid together with co-financing and monitoring of spending resources from end users, are also the important *ex-ante* step for overall successful managing the different structural projects.

From purely macroeconomic perspective can be said that the EU Funds are having two very important implications on general economic development. In one hand, they are actively contributing to aggregate spending of the country, which has multiple impact on economic growth. On the other hand, the are contributing to the increase of productive capacity in the economy throughout investments in physical infrastructure, human capital and through subsidizing investments of private sector.

Some of the studies on the example of Ireland has shown that the CSFs have influenced that the growth of GDP was 2% higher as it would be the case without CSFs financial and economic support.⁴⁹ This county has received in the period 2000-2006 €3.2 billion from CSFs, which is equivalent, on an annual basis, to about 0,4% of 2001 GDP.⁵⁰ The Republic of Ireland is successful story in using and managing CSFs from which can be drawn for other countries very important lessons. But experience of Ireland is of value for Serbia only in next phase of integration, where mentioned funds will be available for use.

⁴⁸ John Bradly (2002)

⁴⁹ Barry F., Bradly J., Hannan A., (2001)

⁵⁰ David Hegarty (2003)

CONCLUSION

Financial support itself is not solution to the problem and disparities in regional development. It is merely one of the factors that can have influence on decreasing disparities and improving the development of economical undeveloped regions. The greatest burden of responsibility is on the Government beneficiary states to direct funds in proper way. Republic of Serbia as a potential candidate has made a great effort in conducting legal and technical preparations for using funds. In that sense, regionalization may be a good preparatory activity. However, this does not mean that Central Government should be less engaged in the process. By the time it attains the status of a candidate country, Serbia could do more on cooperation plan with neighbouring countries and by doing so it would receive more resources from the EU funds, such as IPA. However, Serbia could expect real progress by becoming an EU member state.

Only as a member of EU Serbia could expect the stable and long-term growth of GDP, that means new investments, growth of average income per capita, and relief of the state budget which would release numerous resources for other purposes. At the same time the use of recourses from CSFs will play the role of signalling – attracting important foreign direct investments, as it was the case in some other EU member states in initial phase of integration processes. But there are several very important barriers, even though the Serbia could have the possibilities to use the recourses from CSFs. For the most important is the absence of National Development Plan (NDP), and this document should be prepared and applied before the Serbia would have an opportunity to access CSFs. The other, as the case of Ireland has confirmed, the proper political and administrative structures have to be built for adequate use and maximizing effects of use of financial recourses from CSFs.

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