LOCAL ECONOMIC DEVELOPMENT IN SERBIA AND MONTENEGRO

PROCEEDINGS OF A UNDP WORKSHOP
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The views expressed in the papers and during the discussions published in this report are those of their authors, and they do not necessarily represent those of UNDP.
Acknowledgments

This publication is based on a Workshop organized by UNDP and held in Belgrade, Serbia and Montenegro, on December 2nd and 3rd 2002. The Workshop focused on the role of local institutions in promoting sustainable local economic development in Serbia and Montenegro, with a special emphasis on the role of local governments. The workshop benefited from the financial support of the Dutch government, for which we convey our thanks.

More than one hundred participants gathered during the two days workshop. Participants included Mayors from twelve municipalities in Southern Serbia and northern Montenegro, local economic development specialists. Ministers and other senior personnel from the Serbian and Montenegrin governments, international development agencies staff, NGO personnel, and representatives from local governments across the region.

UNDP commissioned thematic papers to provide the substantive framework around which key local economic development issues could be addressed. These papers are published in this volume. They represent the views of their authors only. I wish to thank the following experts who contributed to the workshop: Milford Bateman, Jonathan Brooks, Will Bartlett, Holger Hasle Nielsen, Anthony Pope, Robert McIntyre and Milica Uvalić. These papers were presented and discussed at the workshop. Many other experts and development practitioners contributed presentations to the workshop. I would like to express my gratitude to all these various contributions, which are reproduced here, along with the substantive discussion points subsequently raised. The proceedings of the workshop were prepared and edited by Dr. Milford Bateman, who also assisted with the organisation of the event together with UNDP staff.

UNDP would like to thank once again all those who participated in this very stimulating and informative event. Not only was it the case that the contributions and discussion reached a very high level and touched upon all the key thematic issues, but we also felt that a number of critical practical issues were clarified through the course of the two days. We hope that the new ideas and perspectives generated from the event will fruitfully find their way into the field very soon.

Finally, I would like to thank UNDP staff who have worked hard on making this event successful. Specifically, I would like to mention Paola Pagliani, Renata Ikić and Milica Kokotović.

Juliette Hage
Deputy Resident Representative
UNDP Belgrade
Municipalities of Serbia and Montenegro

[Map of Serbia and Montenegro with city names marked on it]
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The workshop produced a stimulating discussion and exchange of views regarding past “best practises”, current policies and programmes and planned interventions relating to local economic development. Summarising the themes around which the event was structured, it is possible to outline a number of key areas relevant to achieving sustainable local economic development:

- The workshop highlighted the important role local governments can play in helping to promote the successful reconstruction and development of Serbia and Montenegro. Past experiences of reconstruction and development under similar chaotic conditions as in South-East Europe today were presented and appraised as highly relevant to today’s problematic situation. These past experiences included post-war western Europe and Japan, Taiwan, South Korea, Finland and China since 1980, where in all these cases very pro-active local municipality and village governments were important in promoting successful local economic development. Importantly, the workshop found no reason to suggest that there is a fundamental barrier as to why similarly modified and suitably upgraded local governments in Serbia and Montenegro could not also very usefully support local economic development. However, it was pointed out that international donor policies in Serbia and Montenegro have to date actually largely down played the role of local governments, mainly by re-directing funds and technical support to un-elected and un-accountable civil society institutions. While perhaps important as institutions addressing specific sub-issues, it was noted that the institutions of civil society cannot substitute for pro-active, transparent and accountable local governments.

- Decentralisation was considered an important factor by many participants in terms of helping to ensure local governments have the necessary autonomy and scope to promote local economic development according to prevailing local knowledge, skills, structure, potentials, demands and so on. Passively waiting for central government, donor institutions or market forces to solve local problems was not considered a realistic option. Instead, competent, pro-
active and transparent local government institutions have a lot to do to promote local economic and community development. These tasks were spelled out in many contributions. At the same time, co-operation with central government institutions was also considered a vital aspect of effective local economic development. Effective central government legislation is required to structure local economic development along sustainable lines wherever possible. Co-financing of projects is also important, particularly where there are important “spill-over” benefits that range across several municipalities (for example, financial institutions, agricultural co-operatives and extension services, educational or applied R&D institutions). Effective local economic development (as well as local democracy) therefore involves an efficient triangulation between central and local government and the institutions of civil society, but where development goals, objectives and funding are determined within the orbit of the democratically elected authorities in the first instance.

- **Co-operative development** was highlighted by a number of participants as a vital aspect with regard to the promotion of sustainable local economic development. Several co-operative structures were seen as important:

  agricultural co-operatives can greatly help to underpin efficient farming strategies, equality and rural development. Given the move back to family farms precipitated by the collapse of many large-scale enterprises and lack of alternative employment opportunities, agricultural co-operatives were considered vital in helping these family farms make the move away from simple subsistence farming by promoting increased professionalisation and specialisation and in accessing secure markets. The Danish and Finnish experiences provide obviously important examples of where to start and how to proceed.

  workers co-operatives and related forms of employee-ownership were seen as an important way of creating and maintaining employment. Ailing state and private companies could be converted into worker co-operatives, while support for new co-operative ventures should also be provided. Worker co-operatives were seen as commercially viable since they can tap into the greater motivation, flexibility and commitment generally attached to this enterprise format. It is important, of course, to distinguish this form of enterprise from the old Yugoslav form of self-management, though such a background does provide an obvious entry point to an understanding of basic co-operative principles and practices (and it was pointed out that for several periods in the 1950s and 1960s the former Yugoslavia was the world’s fastest growing economy). It was pointed out that the best possible worker co-operative examples today are in northern Italy, northern Spain and France, where the worker co-operative movement has grown to a considerable strength in spite of strong competition from traditional enterprises. Both central and local governments in these regions were in agreement that such are the many benefits for employees and the community alike higher wages, more training, wider social benefits, increased worker motivation and dignity, higher financial contribution to the community and so on that they were willing to provide the worker co-operative sector many forms of special state support and taxation and legislative advantage. This was considered as something to be followed in Serbia and Montenegro as part of a local employment generation policy.
Marketing co-operatives help knit together small independent business units into a larger and more efficient whole which can provide more secure access to markets, financial economies from joint book-keeping arrangements, technical support, bulk buying discounts and other benefits associated with large size. The hugely successful experience of the Italian “consorzia” is an obvious one to attempt to adapt to local conditions.

Financial co-operatives help start local savings and investment cycles that past experience shows can greatly contribute to the ultimate reconstruction of communities. By focusing upon the needs of the members, principally in terms of access to affordable capital for new business projects, and in creating solidarity across the community through democratic management practices and allegiance to genuine community goals, this financial structure can play an important part in effective local economic development.

The role of foreign direct investment (FDI) was briefly examined. The workshop noted that FDI is very much needed, however, it is probably unrealistic to expect that in the short to medium term FDI will play anything more than a very marginal role in the reconstruction and development of the region. There was a broad agreement that FDI is only a part of the solution to the region’s problems. In addition to this, it is unlikely that FDI will arrive in large amounts for some considerable time. FDI secured through privatisation is particularly problematic, often resulting in much lower local employment levels and social problems which impact directly upon the locality, while the financial proceeds of the sale tend to go to the central government. Local authorities would perhaps do better to consider focusing more of their time and limited resources on more realistic interventions related to local capacity-building, building local savings and investment cycles, promoting agricultural development and local food security, establishing incubator facilities and technology transfer mechanisms, public employment programmes, and so on.

The role of civil society institutions was raised by a number of participants. To some the institutions of civil society are an important additional institutional channel that can promote wider participation in shaping local economic development. It was pointed out that non-governmental organisations (NGOs) are particularly useful in facilitating communication and dialogue across borders. Other participants pointed to the undemocratic and self-appointed nature of most NGOs, and considered it important they operate within the democratic process determined by electoral politics, rather than above it. Importantly, it was pointed out by several participants that using NGOs as instruments to promote local economic development has proven to be particularly disappointing, as the experience of neighbouring countries indicates.

Regional trade is another factor widely seen by international donors to be a partial solution to severe local economic problems. Evidence was presented to show that a regional trading bloc could indeed be one possible way of achieving economies of scale as a first step towards entry into larger markets, though the weakness of the Serbian and Montenegrin economies at present probably represent an opportunity for other regional producers to penetrate these markets, rather than vice versa. Nonetheless, there are many important things that local authorities can and should do to stimulate regional trading.
and enterprise networking, especially in the light of recent Free Trade Agreements that will eventually create a single economic space in the region. Tourism was put forward as a possible area to explore further. However, others questioned this in the light of both southern Serbia and northern Montenegro's history of conflict, lack of infrastructure, poor quality accommodation, and intense competition from other countries. But there is at least some scope for development based upon regional demands initially, building up to a wider customer base as quality and image improve. The trend to country and rural holidays is one obvious potential market that should be explored.

- An important role was sketched out in several contributions for public employment programmes. These are typically a partial solution to large-scale redundancies and concentrations of unemployment, but if designed properly they can have a major impact upon the wider local economic development process. In the short-term skills, motivation, dignity, and a basic income can be maintained by participating employees until more permanent employment opportunities begin to emerge. Equally important is the fact that the range of tasks undertaken can include key public, business and social infrastructures that will combine to provide a firm foundation for accelerated local economic development and higher community liveability. For example, the physical infrastructure can be rebuilt including key infrastructures relating to local economic development, such as “Business Incubators”, roads, educational centres, transport links, and so on. The social infrastructure can also be rebuilt (schools, recreation facilities, community centres, etc) contributing to community liveability, and thus underpinning the community's motivation to improve other aspects of life. The participation of sub-municipality units of local self-government (mesna zajednica) in the planning and implementation of public employment programmes was seen as important in validating their valuable role as an additional democratic channel through which to support the local economy and community democratisation.

- The need to upgrade local infrastructures as a condition for effective local economic development was stressed by a number of participants as being very urgent. To operate effectively enterprises must be located within modern physical, economic and social infrastructures. Several participants stressed the crucial importance of good quality roads and other transport links, the need for quality educational institutions and a solid business infrastructure (business incubators, enterprise development institutions, applied R&D and technology transfer institutions, financial support programmes, etc). All agreed that municipalities should thus be very active in repairing and building local infrastructures, particularly at a time when local labour costs are very low and donor funding can thus be used very productively indeed. Where infrastructures are of cross-municipality importance, the role of the central authorities - for example, in the shape of the new Municipal Infrastructure Agency - is likely to be important in identifying, co-ordinating and co-financing priority infrastructure projects.

- A vitally important requirement of sustainable local economic development was the degree of social inclusion achieved via democratic local institutions. It was considered important to enable all citizens, and not just the most aggressive or entrepreneurial or those working in or managing an NGO, to have a say in the direction of the reconstruction and development plans through their elected institutions. As emphasised in several papers and contributions, the degree of democratic and popular legitimacy conferred upon interventions is an ultimate
determinant of successful local economic development. As very much in western Europe after 1945, where comprehensive social programmes ensured that most people were included in the benefits of the reconstruction and development process and the obvious pains were likewise equally distributed, following such important guidelines in Serbia and Montenegro today will make it more likely that local trust, reciprocity, co-operation, commitment and flexibility will also be upheld. There is a wealth of evidence to show that where a small elite corners most of the benefits forthcoming from a reconstruction and development process, either through legal forms of highly lucrative entrepreneurship or outright illegality and corruption, there will inevitably be a degeneration of local community solidarity and mutual support (sometimes termed “social capital”). This was famously the unfortunate experience in southern Italy after 1945 and more recently in Russia after 1991.

In summing up, it was clear that most participants of the workshop were in agreement that local governments have a vital role to play in promoting a successful local economic development experience. Much evidence was presented to show that market forces, in the absence of a proper management, risk undermining the development path in transition economies, and that local institutions are very weak indeed, and unprepared to face the challenges of economic globalisation processes. It was nevertheless agreed that judicious and timely intervention by competent and democratically mandated local governments offers the best chance of ameliorating the worst human development setbacks, and promoting the most favourable conditions for resumed and sustainable local and national economic growth.
Part I

Introduction
Introduction

This basic theme of this workshop reflected UNDP Belgrade’s specific interest to help develop new local economic development policy approaches that can productively address the extremely problematic economic and social situation in Southern Serbia and northern Montenegro. In Serbia and Montenegro, an already poor country, these particular areas stand out as being even more under-developed and vulnerable than the average. Worse, severe levels of economic and social privation are straining the already fragile political situation in a region where the possibility of renewed social upheaval and conflict still remains to be fully contained. Local economic development is one of the main channels through which localities in both regions will very concretely be able to “help themselves” to uphold the broader reconstruction and development goals set for the region. At the same time, the Workshop’s theme is also testimony to UNDP’s wider concern to build local, accountable and pro-active institutions able to promote “sustainable human development” defined as promoting human capabilities that enlarge human choices (UNDP, 1990). Economic growth that does not factor in the human, social and equity consequences is simply not sustainable, as much of the recent history of South-East Europe tragically illustrates.

Unfortunately, in both regions under consideration here a lot of work must be done across many fronts. After nearly a decade of conflict, sanctions and corruption, then overlaid by the destruction wrought by the NATO intervention of 1999, both the Serbian and Montenegrin economies have sunk to historic lows in just about all major categories of social and economic development. Unemployment and poverty have already reached historically high levels. In southern Serbia, many single company towns have lost their main employer and most of the local population are now unemployed. In many parts of the region the traditionally vibrant agricultural sector has also all but collapsed, partly because of declining local demand and the arrival of cheaper (often subsidised) products from abroad, but also because of the collapse of the institutional infrastructure of support, notably the agricultural co-operative structures and extension services. These factors combined high unemployment and declining support for the agricultural sector have forced many families back into simple subsistence farming. There is also the problem that after many years of under-funding and low morale, the previously high quality and widely accessible public
infrastructure also appears to be all but exhausted. Educational and applied R&D institutions, health centres, and other necessary and once routine bodies have deteriorated very fast. Moreover, notwithstanding some international donor support since 1999, the pace and extent of the progress in reconstruction and development since then appears to have been marginal at best; in fact, there is a very real danger that further decline is just around the corner.

Understandably, most elected officials desperately want to know what they should now do to help the situation. Lessons can be learned from other countries’ experiences.

For a start, most experience of successful reconstruction and development suggests a very important - if not pivotal - role for government at all levels, and particularly for local governments. The reconstruction of Western Europe and Japan after 1945, for example, saw a central role for pro-active local governments. Other countries, such as Finland, Sweden and Denmark, have all demonstrated the importance of strong local governments willing to promote local economic development. In both Taiwan and South Korea, economically devastated countries at the end of the 1950s, their respective governments were able to support local and village administrations undertake a wide range of successful economic and community development measures. Even in extremely poor and backward China enormous rewards were forthcoming after 1980 as a result of empowering local and village governments to promote economic and community development. Of course, these experiences have not been lost on the UNDP, which has always understood the importance of government as being vital to underpin human development on behalf of the wider community: that is, to facilitate “adjustment with a human face” (see UNDP, 1999).

At the same time, we know from earlier experiences in western Europe and more recent experiences elsewhere, that when unrestrained by an appropriate institutional structure established by government, market forces often risk to quickly destroy far more of lasting value than will eventually be created.

We now understand from these and other experiences that in the absence of competent, pro-active and democratically mandated state institutions, including robust local governments, brute market forces vectored upon an ill-prepared country or region will most likely create and perpetuate chaos. Crucially, therefore, we need to look much more closely at examples where governments were able to defend the common interest particularly effectively, and explore what local governments have done in practise to constructively defend and improve the local economy and community. In most successful examples of this, we find competent and accountable local governments operating through a range of dedicated and pro-active economic and social development institutions. Local governments have been able to promote accelerated local economic development via local industrial, technology, agricultural, social, education and financial policies that combine in a positive way. Crucially, such policies can be designed to underpin sustainable longer run trajectories of local growth and community development, rather than just short run “here today and gone tomorrow” impacts. Nor is the “cost” of such policies prohibitive, since we will see that even in very poor countries like Taiwan and China local governments were able to construct high quality interventions and programmes to support local economic development. Finally, we must also come back to emphasise the social and human development aspects of economic development, which have always been of major concern to UNDP, and specifically the need to embed local economic development within a framework of democratic consent and approval. As many previous historical
examples conclusively demonstrate, the need to build popular support for the reconstruction and development trajectory necessitates genuine popular participation, meaningful local public-private interaction and extensive social policies to support those less aggressive and entrepreneurial and for whom change would otherwise spell personal disaster.

So is a similar positive role for local governments a realistic possibility in the context of Southern Serbia and Northern Montenegro under reconstruction today? This crucial issue served as the starting point for further exploration in this UNDP Workshop. Starting with framework policy issues and then moving on to sectoral and more specific issues, the key papers and presentations raised many issues that were then fruitfully dealt with in the subsequent discussions. A noted feature was the presence at the workshop of so many representatives of local government, including a large contingent of Mayors from southern Serbia and northern Montenegro, who all expressed their interest in finding out how better to promote local economic development on behalf of their constituents. Their presence was also, of course, a very firm reminder to keep the discussion within the bounds of the possible and practical, rather than theoretical and ideological.

Overall, as will be seen from the contributions that follow, this UNDP Workshop managed to raise these important issues of local economic development and the role of government. Evaluating historical experiences against current realities and needs proved important to expanding the range of policy options towards a realisation that there is a wide assortment of interventions suitable for use at the local level. Of course, questions still remain concerning the optimum degree of decentralisation, centre-local relationships, the personnel skills and institutional bodies required to successfully undertake local economic development, public-private partner-shipping arrangements and where, and which is the enabling environment that allows market forces and imperatives to support sustainable economic development and community solidarity. Hopefully, the UNDP workshop event, and this proceedings volume too, will go some way toward resolving these important issues.
Part II

The Workshop
Session One:

Chairperson: H.E. Mr. Francis O'Donnell, UN Resident Co-ordinator & UNDP Resident Representative
Rapporteur: Ms. Paola Pagliani, UNDP Belgrade

Mr. O'Donnell kicked off the Workshop by first welcoming all the Mayors present from Montenegro and Serbia, plus other invited guests and speakers. He acknowledged the contribution of the Dutch Government to the workshop and the project on “Local Economic Development in Serbia and Montenegro” of which the Workshop is a part. Finally, Mr. O'Donnell specifically thanked the municipalities from southern Serbia for their contribution to the ongoing success of the SSMIRP and REP.

Local economic development was highlighted as an important tool not just to promote economic recovery in southern Serbia and northern Montenegro, but also to stabilise the wider political situation in the region. Extending from its active involvement in a number of southern Serbia recovery programmes and technical assessments undertaken in western Serbia and northern Montenegro, he noted that the UNDP is well-placed to help establish a greater understanding of sustainable economic development planning, to legitimise those institutions that accept a responsibility to facilitate it and provide community-based institutions with the tools to implement it effectively.

Mr. O'Donnell then went on to note that the socio-economic situation both in western Serbia and northern Montenegro, as very much in southern Serbia, is going to be further complicated by the forthcoming privatisation process. Privatisation is progressing slowly in the region, not least because 70% of registered employment lies within socially owned industry and there are few alternative employment opportunities available if the rapid downsizing typically associated with the privatisation process were to take place. Yet industry is operating at a severely reduced level of capacity, and still hampered by inefficiency and outdated equipment, issues which might possibly be immediately addressed through privatisation, especially if this meant foreign owners.
It was pointed out that the wider private sector is very much dominated by the grey and black economy that emerged during the period of sanctions. These sectors are mainly associated with the large informal trade that became a feature of the conflict and post-conflict environment, and which today continue to dominate the business sector. However, local and regional governments must now play a central role in stimulating the growth of various types of sustainable non-trade related business activity, which are the key to successful economic development and poverty reduction into the longer run. The small enterprise sector will not by itself create successful economic growth, not least because much of the visible small enterprise growth to date is little more than a "survival" activity.

The questions are then, what else is needed to provide the basis for sustainable enterprise and local economic development? How can active support services at the local level work within the framework of effective support policies developed at the national level to help overcome training, finance and market-access barriers to sustainable local economic development? Can local government help to create and support savings and credit co-operatives, in order to overcome the SME affordable credit "famine" and stimulate local saving-investment cycles? How can we further develop the natural synergy between savings and credit co-operatives and production units with co-operative or partial employee ownership? Many of these critical issues are covered by the so-called "local developmental state" model that emerges from some of the European countries and elsewhere, which will be discussed here by a number of speakers. At the same time, we must remember too that national-level decisions about large enterprise policy have crucial small enterprise effects. How can national-level policy create a coherent framework for local economic development measures, allowing room for constructive local initiative and various forms of ownership, but prevent the typically self-defeating "competition downward" to secure foreign direct investment? Clearly, the success of a "productive" SME sector also requires the survival, revival and development of a healthy large enterprise sector, and this must be reflected in national policy priorities. But how can surrounding large enterprises be successfully commercialised to provide the SME sector with the inputs and markets needed to promote the demand conditions necessary to facilitate sustained SME growth? Also, in what way can we encourage the formation of purpose-built alliances and sub-contracting relationships between larger and smaller entities?

Mr. O'Donnell concluded with the wish that at this workshop we will come up with some conclusions about these crucial issues and others, and illustrate some of possible steps that need to be taken if local and national governments are effectively promote sustainable local economic development in future.
H.E. Mr. Božidar Delić  
Minister of Finance and Economy (MOFE), Serbia

Mr. Delić started by noting that Local Economic Development (LED) is an important contribution to democracy building in the post-Milosevic Serbia. Given the difficult economic situation inherited from the past, MOFE has implemented fiscal measures in the past two years and intend to promote a Local Economic Development Association (LEDA) aimed at improving the role and the capacity of Local Self Governments, especially the most underdeveloped ones. Many people at the local level understand LED and so Local Strategic Economic Councils were established in order to implement demand driven reforms.

It was stressed that the key issues in LED were:

- The lack of infrastructures: e.g. drinkable water supply and waste disposal. This problem does not have short-term solution, since it is the result of lack of investments over the last 20 years. Infrastructures are a basic precondition for LED, and so an inter-municipal framework is needed to cope with this issue.

- LED policies must involve a deliberately more balanced allocation of resources, because otherwise the market will favour those that are in a better position. For example, GDP and industrial indicators are very bad in those areas that were more affected than others by the recent conflict (e.g. Kragujevac). The level of LED activity is also unevenly distributed between the different regions, also largely because of political reasons. For example, the in the aftermath of the armed conflict in Southern Serbia, the first priority was obviously re-establishing the peace, with LED some way behind.

- There is a need for greater solidarity between the local and the central governments. The Serbian parliament will soon discuss a law providing for a better allocation of state generated revenues between the different levels of government.

Mr. Delić then went on to discuss what his own Ministry - MOFE - has done in the past two years in terms of promoting LED. The main advances are:

- The empowerment of Local Self Government
- An open discussion about income taxes, brought about by the fact that some Local Self Governments are still complaining about the excessive centralization of the fiscal system.
- The budget for Local Self-Governments has never been stronger than now, but they intend to improve it further.

The future aims and needs of LED include:

- To improve democracy at the local level
- To improve local management capabilities

However, also stressed was how important it was to keep control over the build up of debt by Local Self-Governments. Debts should be incurred mainly at the central level, and only to a very small extent at the local level. This would ensure control over debt accumulation and help to avoid an “Argentina-type” situation of over-indebted local governments.
Notwithstanding these fears, already three banks, including the EBRD, have approved loans taken out by local self-government units (e.g., Belgrade and Novi Sad) and the central government has asked to extend the possibility to Nis and Kragujevac.

Finally, Mr. Delić pointed out that the LED concept needs strong support from the central government, otherwise investment projects associated with LED goals might not be sustainable and international donors would not consider investing in them.

H.E. Mr. Rodoljub Šabić
Minister of Local Self-government, Serbia

Mr. Šabić started by noting that after ten years Serbia is finally in a position to have a Law on Local Self-Government resembling the European one, based on the principle of subsidiarity, and enabling the community to solve its problem at all levels.

Some important results have already been achieved in the ongoing decentralisation process. This is shown by the significant amount of taxes now collected at the local level. Fiscal decentralisation is an important step, but it should not be forgotten that given the low level of GDP, fiscal discipline should be improved as well.

Finally, Mr. Šabić pointed out that Local Self-Governments have big responsibilities concerning both LED and democratisation. The capability to obtain a loan is an opportunity for them to increase their resources; but obstacles still remain, such as the definition of the property, which requires a solution. In Serbia, traditional cultural and economic potentials are particularly vital at the local level, and the establishment of defined regions could help in exploiting them.
Session Two:  
The framework for Local Economic Development

Chairperson: Mr. Šemsudin Kučević, Mayor of Tutin  
Rapporteur: Ms. Renata Ikić, UNDP Belgrade

Paper No 1.  
"Local economic development as an aspect of the reconstruction of South-East Europe: Bringing local government back in"

Milford Bateman  
IMC Consulting Ltd  
United Kingdom

1. Introduction  

Since 1991 most of the countries of South-East Europe have been engaged in a series of "stop-go" episodes of post-system-change and post-conflict reconstruction and development. Throughout this period new policies have been introduced to facilitate the transition toward a market economy framework. One policy framework has dominated as the policy model used to promote the reconstruction and development process. This is the neo-liberal free market model derived from the radical free market experiments pioneered by the UK government from 1979 and by the US government from 1980 onwards. There are four inter-related pillars of the neo-liberal model - stabilisation, liberalisation, privatisation and minimisation (of the
state). However, though the neo-liberal policy model appears to have been quite unable to facilitate successful reconstruction and development anywhere in the world to date and, moreover, it has also comprehensively failed to ensure a sustainable and faster growth trajectory for most other countries that have adopted it, it nevertheless became the conventional policy wisdom for South-East Europe from as far back as 1988.

Key to the neo-liberal model’s imposition in South-East Europe would appear to be the self-interest and power of its main world-wide proponents - principally the US government, the World Bank and the IMF. The Washington “troika” argued that it was the only realistic policy option that would ensure a successful reconstruction and development trajectory in the region. Many other international development agencies and financial institutions followed suit. It was sometimes admitted that progress with the neo-liberal model might not be quick, and it might possibly be painful too; but so long as the neo-liberal “fundamentals” were put into place a successful recovery was most definitely assured (for example, see World Bank et al 1996; World Bank, 1997, 1999, 2000). Others, however, notably former World Bank Chief Economist and Nobel Economics Laureate Joseph Stiglitz (Stiglitz, 2002), point to the fact that neo-liberal policies are being imposed upon the region primarily because they serve the foreign and economic policy interests of western governments (in fact, mainly the US government) and the international financial institutions themselves, as well as their key supporters such as the major financial institutions - Wall Street - and multinational corporations that desire a cheap labour platform and/or new profitable market opportunities. Such policies are, therefore, not actually intended to be optimal from the point of view of the region itself, but from other interested viewpoints. Crucially, it was agreed by all international bodies and western governments that a successful economic recovery was absolutely central to the peace-building process in the region.

It is therefore extremely unfortunate that, with the possible exception of Slovenia, very little substantive progress has been made in South-East Europe since 1995 in establishing a sustainable economic development trajectory. The on-going physical reconstruction of the region - roads, bridges, buildings, shops, etc - has given a superficial gloss of progress and normalcy in many parts, and for a very small urban elite in each country there has been a unique opportunity to appropriate unimaginable wealth and power. However, the underlying prospects for the vast majority of the people in the region remain quite bleak. Poverty and social exclusion have risen to historically unprecedented levels, the industrial sector has largely collapsed, the negative trade balance in nearly all countries is an insurmountable burden, the agricultural and rural sectors have been decimated, the young and best educated have left the region in large numbers, unemployment levels are now officially among the highest in the world, a large and sizeable percentage of the jobs that still exist increasingly involve subsistence wages, the previously equal access and comparatively high quality public infrastructure (health, education, recreation) has all but imploded and what remains is now restricted to those lucky few with an ability to pay in hard cash, and finally - and not surprisingly - inequality has risen to unprecedented heights. Moreover, and very worryingly, the high level of international financial assistance that has so far effectively underpinned what little genuine economic

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1 This contribution represents the personal viewpoint of the author. A slightly amended version of this contribution is Bateman (2003b).
2 Slovenia has recovered better than the others from the collapse of the former Yugoslavia. In addition, and perhaps not unconnected to this as we shall see, Slovenia successfully resisted implementing many of the key imperatives of the neo-liberal model, even at the risk of losing out on donor funding.
3 For example, see UNDP, 1999, 2002; Young, 1999; Stojanov, 2000; Daianu, 2001; Horvat, 2002.
development has taken place in the region, particularly in the case of Bosnia (Kekić, 2001), is now coming to an end.

This paper argues that the neo-liberal approach to reconstruction and development imposed upon South-East Europe has largely failed. It should not therefore be used as a template for the very latest transition economies in South-East Europe - Serbia and Montenegro. I specifically contend that it is the enforced inactivity of one of the potentially key institutions - local government - that accounts for a significant part of the poor overall economic development progress to date, in the sense of largely absent “bottom-up” local economic development successes. The argument is informed by a number of factors. First, the negative experiences so far in South-East Europe with the neo-liberal local policy model, which comprises a set of local economic development institutions based around the institutions of civil society. These local institutions were launched amid a fanfare of promises that there would henceforth be greater “empowerment”, “participation” and “community involvement”, as well as rapid local economic development. Essentially, however, this new local institutional structure has proved not only to be profoundly undemocratic, but also manifestly weak and unsuitable as an instrument to facilitate sustainable local economic development in practise. Second, unequivocally, the lessons that emanate from other major reconstruction and development experiences point to a central role for the state, and particularly for the local state. In post-war Western Europe, Japan, Taiwan, South Korea and China, for example, economic success was registered in a very similar reconstruction and transition context to that pertaining to South-East Europe today, and local state institutions were quite instrumental in this success. Ironically, as pointed out by Casaburi (1999), in some countries where the neo-liberal model quite negatively impacted at the macro-level, such as in Argentina, local state activity was able to promote a number of significant economic development successes (e.g., the dairy industry) that went some way toward counteracting the destruction emanating from the top down. This variety of evidence leads to the conclusion that South-East Europe urgently needs to “bring local government back in”, in the sense of establishing pro-active local state institutions and programmes nested within a democratic governance framework and prioritising sustainable local economic and social development. The emerging concept of the “local developmental state” sums up the core aspects of the required approach that should be established in South-East Europe.

2. Background to the reconstruction and development of South-East Europe

The neo-liberal policy framework established in South-East Europe from 1988 onwards was established as the dominant policy orientation through the auspices of the World Bank, IMF, EBRD and other multilateral and bilateral bodies. As is well known, the neo-liberal policy model is premised upon the supposedly smooth efficiency of the textbook free market mechanism - the “invisible hand” - and its presumed ability to facilitate a successful growth and development trajectory under any conditions. Recovery will be a spontaneous process based upon the rapid response of domestic and international actors (local companies, entrepreneurs, foreign investors, private banks, etc) to a newly embedded system of market incentives and freedoms. Crucially, the assigned role for the state within the neo-liberal model is quite clear and unambiguous: it is to “get out of the way”. In the current vernacular, government is construed by many international financial institutions as “part of the problem, rather than part of the solution”. Quite unlike in many other historical episodes of post-conflict reconstruction and development for example, in Western Europe in the aftermath of the Second World War - the international community pointedly ensured that suitably modified state institutions
would have almost no role to play in the reconstruction and development of South-East Europe. The mantra of a “Balkan Marshall Plan” may have been repeatedly raised by the international community right from the start, but its pivotal operational aspects - investment planning, temporary trade restraints, infant industry support, policy-based lending - were conspicuously not what the international community had in mind or would tolerate: it was simply a rhetorical device to confer “concern” for the problems to hand. Indeed, those genuinely arguing in favour of a pro-active economic development role for state institutions were generally ridiculed as being in favour of providing a lifeline for communism.

What this meant in practice, however, was that the richer western countries ended up denying to the countries of South-East Europe the use of the very same state-co-ordinated industrial, trade and technology policies that they themselves had earlier used to develop and grow rich. All of today’s major economies - the UK, USA, Germany, France, Italy, the Scandinavian economies - reached their position through the free reign of market forces, but through multiple state-led interventions that supported the development of the national economy (Chang, 2002). Such policies were also important once more to those rich countries attempting to recover from a major catastrophe (usually war), such as Japan and Germany (Johnson, 1982; Weiss, 1998). And, in spite of the famous claims of some neo-liberal ideologues to the contrary, state-guided development was the crucial factor in the success of the very newest members of the club of rich countries, such as Taiwan and South Korea (Amsden, 1989; Wade, 1990). In his excellent review of the historical antecedents of western industrial success, Chang (2002) describes the “do what we say, and not do what we did" approach now being adopted by the rich countries and their representatives towards the developing and transition countries alike as one of "kicking away the ladder". Although the neo-liberal minimal state approach in South-East Europe encountered some resistance and calls for a pro-active role for state structures and for local industrial policy (for example Bateman, 1995; Petrin, 1995), the promise of financial assistance, or the threat of withdrawing it, was usually enough to persuade any doubters in government that there was no practical alternative to the fairly standard neo-liberal model.

Interestingly, too, it was a noted feature of the rapid reconstruction and development of the former Yugoslavia after 1945 that state institutions at the community, municipality, city and county level, played a decisive role (Horvat, 1976, 2002). Inter alia these sub-national institutions managed to produce positive local economic and social development responses to the (often sub-optimal) macro-economic framework set jointly by the Federal and Republican governments (Bateman, 1993). Combined, the pioneering system of decentralised government, indicative planning and worker self-management were responsible for the East Asian “Tiger” economy-style growth rates experienced in the 1950s and 1960s (for several years Yugoslavia was the highest growing economy in the world) which, as Horvat (1976) points out, extremely rapidly and fairly equitably reconstructed the country after the devastation of World War Two. As Horvat (2002) concludes, there were surely very

4 As Chang (1994) points out, for a good many years Nobel Economics Laureate Milton Friedman wrongly ascribed East Asian success to the free market (for example, Friedman and Friedman, 1980). Even in countries like the former West Germany, as Weiss (1998, Chapter 5) explains, there was a marked reluctance to publicise the very significant role of the state in achieving the “Wirtschaftswunder” (economic miracle) because of the fear that it would give succour to the planned economies of the East (including the former GDR) during the long years of the Cold War, and to their ideological opponents in the western economies. Many neo-liberals were privately very uncomfortable with the significant degree of state intervention and industrial policy applied in the former West Germany, but in public they openly espoused the view that the free market was responsible for the stunning post-war success the country experienced.
many important lessons to be learned here, from the experiences of the region itself, and thenceforth taken on board by the international agencies when they arrived in the region to assist with the reconstruction task. But neither could these experiences divert the international community from imposing the favoured neo-liberal model on the countries of the region. After 1991, but particularly after 1995, local governments were effectively stopped in their tracks from attempting to re-build and modify their earlier local economic development capacity (Bateman, 2000a). The international community specified, instead, the dismantling and disengagement of most local state capacities and institutional vehicles. As very much in Africa from the 1970s onwards, local civil society institutions were now vigorously marketed as the replacement for all levels of state agency with regard to promoting local economic and community development. This goal was pursued in practise by ensuring that the bulk of international financial support for local economic development was channelled directly to civil society institutions and initiatives, and that any remaining central and local government funding for local economic development went this way as well. Thus, as the power, resource-base and scope of local governments began to decrease sharply in the 1990s, this was paralleled by an explosive growth in the number of local civil society institutions moving into the vacuum deliberately created. Unequivocally, this meant the dis-empowerment of local people who might otherwise have been able to directly influence and shape the process of reconstruction and development through the democratic process, and thereby both identify with its outcomes and accept the likely sacrifices.

In effect, elected local state institutions had now to articulate and implement local economic development policy priorities through the lens of the new raft of unelected and largely unaccountable institutions. This was a difficult feat to accomplish since the institutions of civil society tended to have their own goals and agendas, and many proved to be adept at side-stepping issues of their accountability to the community. A key feature of previous successful reconstruction and development episodes genuine popular participation and public-private interfacing was therefore largely absent in South-East Europe from day one. Two institutions within the new civil society approach were accorded particular responsibility for local economic development: local enterprise development agencies and strongly commercial micro-finance institutions. It is therefore useful to consider in a little more depth their performance in South-East Europe to date.

Local Enterprise Development Agencies

It is important to remember that the role of local enterprise development institutions was understood in South-East Europe well before the 1990s. In most parts of the former Yugoslavia, but particularly in the more advanced Republics of Slovenia and Croatia, there were already very many municipality-led local enterprise development institutions working successfully within the community as early as the 1960s, including involvement in small-scale private enterprise development (Waterston, 1962: World Bank, 1981). Moreover, by the mid-1970s a whole new wave of ideas to reform the worker self-management system in the direction of greater dynamism and entrepreneurship began to be put into practise, starting in Slovenia and then spreading south across the whole of the former Yugoslavia. This included the concept of pro-active local enterprise development bodies that could offer concrete support to new business projects and industrial clusters, as well as help to create spin-offs from declining large enterprises. Thus, when communism collapsed in the former Yugoslavia in the late 1990s, the local enterprise development agency concept was already a familiar concept (Bateman, 1993).
After 1991, but particularly after the end of the civil war in Bosnia in 1995, substantial financial support was made available to support the establishment of networks of local enterprise development agencies. Very much in line with other neo-liberal institution-building interventions taking place across Central Europe at the time, it was clearly intended that these agencies should be established in line with key neo-liberal parameters - that is, to be non-governmental, commercially oriented, private sector-led, and should “earn their keep on the market” by eventually charging for the services they provided (Bateman, 2000b). In order to qualify for donor funding, proposals for new agencies submitted by local governments tended to accord with these demands. In some cases, the original municipality-led local enterprise development agency was closed down and re-opened in the international community approved non-governmental format. Reality forced most local governments to recognise “the way the wind was blowing” and so put aside their misgivings with the new model in the hope that additional donor funding might come their way for other projects. In addition, many well-connected individuals confident of securing employment in the new donor-funded agencies, and others expecting to benefit from related donor funding streams, self-interestedly lobbied hard for the new non-governmental model to be accepted.

However, within a short space of time it became clear that many of the initial misgivings regarding the new model were quite valid. For a start, the initial results in other parts of Central and Eastern Europe after 1990 were very discouraging indeed - most of the new agencies simply could not “earn their keep on the market” and so quickly began to collapse after the donor funding came to an end (Bateman, 2000b). The first network of twenty agencies in Hungary, for example, went into a “sustainability crisis” within only three years of its establishment. Local businesses and entrepreneurs were simply unwilling to pay for the services provided by these agencies, especially in the face of growing competition from other private business services providers. Closure of the entire network was only averted by an additional tranche of donor funding and urgent attention to developing new funding sources that would allow it to continue. Crucially, by tying the agency to the provision of very simple revenue-raising business support services, in order to help it avoid becoming a permanent financial “burden” on the state or donor community, it became quite apparent that the substantive tasks involved in promoting sustainable local economic development were effectively abandoned (see Bateman, 2000b; European Commission, 2000).

In spite of these emerging and well-documented problems in the early transition economies, after the reconstruction process effectively began again in 1995 in the aftermath of the Dayton Peace Agreement, the countries of South-East Europe were still instructed to accept the same neo-liberal institutional model if they wished to receive donor funding. But the problems that had emerged earlier in Central Europe quickly began to emerge here too, and to a greater degree. First, it quickly became abundantly clear that the market for simple business services in South-East Europe was also woefully inadequate; in fact much more so, in terms of being able to underpin the funding requirements of the agencies.

5 The name of such agencies varied across countries - Business Support Centre, Regional Enterprise Support Agency, Local Enterprise Agency, and so on - but the function has generally stayed the same.
6 Slovenia was one of the rare transition countries where government officials were bold enough to openly disagree with the proposed model for local enterprise development agencies. As a result, the EU’s PHARE programme of support for new local enterprise development institutions was effectively cancelled (European Commission, 2000).
Moreover, in many parts of the region the capacity of private business support services providers was quickly increasing and providing strong competition for the few clients around. Most agencies thus quickly went into head-to-head competition with private sector suppliers. Major “displacement” effects arose as the new well-funded (subsidised) agencies took the few clients willing to pay, leaving the emerging private sector suppliers in jeopardy. In other regions, though, the absolute lack of clients meant all business services suppliers were in real difficulty right from the start. Essentially, if an agency could not develop an income stream from commercial sources this spelled real trouble, which seems to include most of those established since 1995. However, even if the local agencies could actually survive on commercial fee earning, then they still contributed very little real “additionality” in terms of local economic development because the very simple services they generally provided business plans, simple training, marketing advice, accessing finance, contact-making, etc - could mostly have been supplied by the private sector.

Second, the commercial imperatives built into the operation of the local agencies inevitably drove them to focus on developing business opportunities unrelated to their original mandate, especially if these opportunities were particularly lucrative. This “mission drift” included working with large local companies on privatisation issues, with central and local government on a range of R&D and other programme activities, and with incoming foreign companies seeking information, partners or “connections”. Quite a number also gravitated back towards the international donors themselves, who were generally sanguine about hiring such donor-funded local institutions to work on projects quite unrelated to their original funding or mandate. Most local enterprise development agencies also began to engage in a whole variety of private business deals - trading, consulting abroad and financial wheeler-dealing - in order to raise the necessary funds to keep the institution going. Of course, a good many of the personnel took advantage of their freedoms and deliberate lack of local government oversight to indulge in their own private business “on company time”. Exactly as in Central Europe, therefore, once donor funding ended the need to “earn their keep on the market” meant that the agencies in South-East Europe all very quickly lost sight of the most important tasks and interventions that would benefit the local economy over the longer run.

Given these disturbing trends, it was not surprising that most, if not all, local enterprise development institutions in South-East Europe have effectively failed: that is, either closed down completely, converted into a fully private consulting firm and thus formally abandoned any local enterprise development role, or else opportunistically integrated into the institutional structure and financial flows involved in a new wave of Regional Development Agencies (RDAs) being established largely by the EU (Bateman, 2000a). All these outcomes are indicative of there being almost no return on the huge donor funding committed to the establishment and initial operation of local enterprise development agencies.

Yet, irrespective of these manifest failures on the ground since 1995, establishing the civil society model for a local enterprise development agency still remains the top priority in South-East Europe today. For example, support for enterprise development re-started for Serbia and Montenegro in the aftermath of the NATO intervention of 1999 was conditional upon there being very little modification of the basic model to account for these previous difficulties. It was only after some argument and delay, for example, that the Serbian government was able to secure some participation in the establishment and operation of the network of Regional Enterprise Support Agencies that it was expected to financially support after EU
funding ends. Moreover, the huge pressure to persevere with the correct ideological model is apparent even at the national level, in relation to national enterprise development agencies. For example, the World Bank and the EU remain adamant that even the national agencies being established in the region can be self-funding through developing their own commercial revenue opportunities (see World Bank and EU, 2001, p 102). With - yet again - no clear evidence whatsoever to justify such a claim, it is as if the last ten years of failed attempts at institutional sustainability across the region with this model have never happened. Such an omission can logically only mean one thing: the over-arching importance of such interventions is very clearly less to do with their actual performance as local enterprise development instruments, and much more to do with ensuring that the ideologically correct non-state structures become embedded within the emerging post-communist society.

"New wave" Micro-finance institutions

The second civil society intervention associated with a local economic development role is in the financial sector. This is the so-called "new wave" micro-finance institution (MFI) model, which refers to the large-scale delivery of financial services to poor communities through commercially-oriented, competing, non-governmental, financially self-sustaining lending bodies (Robinson, 2001). The "new wave" MFI is effectively meant to supersede those MFIs associated with state or collective/co-operative ownership and/or control, linked in with government policy priorities, possibly requiring continuous financial support, and generally working to support sustainable enterprise projects rather than just those capable of repaying a loan over the short-term allowed. The "new wave" MFI model has to date received an enormous amount of support from the major multilaterals (especially the World Bank and EBRD), key western governments (particularly the US government through its USAID arm) and international NGOs. Conceptually and practically the model has been offered significant support from organisations not conventionally associated with a concern for the situation confronting the world's poor, such as multinational corporations. Accordingly, the "new wave" MFI model has attracted substantial political support and donor agency funding in the context of the reconstruction of South-East Europe (World Bank, 2000).

The presumed positive overall outcome of the "new wave" MFI model can be directly traced back to a standard neo-liberal contention that poverty and under-development are a result of a generalised lack of access to small-scale finance (for example, see DeSoto, 2000), rather than related, say, to structural constraints within society associated with class, power, inequality, ethnicity, gender and so on. It is posited that commercially-viable MFIs that can achieve both sustainability and greater outreach will ensure that the largest number of people have access to finance over time, and can therefore engage in small-scale entrepreneurial activities; ergo the largest number of clients that will be able to raise their individual and household income levels and thereby effect an escape from poverty. The crucial conjecture is that because individual clients generally tend to be seen to be better off than non-clients, an increased supply of small-scale finance, which leads to more clients, can thus be aggregated up to give a wider beneficial outcome for the community and national economy too. However, the actual performance of the "new wave" MFI model on the ground in South-East Europe largely seems to have dispelled this optimistic conjecture. Bateman (2003a) delineates four longer run negative factors as particularly problematic.

7 However, some very recent personnel changes in the Republic Agency for Development of Small and Medium Sized Enterprises and Entrepreneurship might indicate a reversal of this position is on the way.
First, there is an obvious de-industrialising effect that arises as the entrepreneurial incentive structure within the local economy is incrementally adjusted in favour of short-term, high profit, low technology, and quick payback ventures. This change acts to "crowd out" those projects requiring greater investment, using skilled labour, adapting relatively sophisticated technologies, and where there are long financial break even points, only "adequate" profits or costly "learning curves" to endure. Such an environment - it can be termed a "disabling" environment - is overwhelmingly suitable to facilitate mainly the growth of kiosks, shuttle trading, catering, petty retailing and small-scale food processing operations that add value very quickly. It has proved wholly unsupportive towards the many possible ventures that could, say, have emerged from the region's substantial defence, construction and engineering sectors. It should also be stressed that this "crowding out" effect is central to the operation of the "new wave" MFI model, rather than peripheral, because of the sheer size and coverage achieved in the region: there are often simply no other MFIs to approach if one wants to obtain small-scale sums of money for a new business project. Partly this is because "new wave" MFI advocates tend to be the most vociferous critics of any "soft loan" or policy-based lending alternatives and have a history of actively resisting such ideas whenever they emerge, whether from democratically mandated local bodies such as local governments or from knowledgeable local analysts (see next point). Moreover, even if "new wave" MFIs eventually reach sufficient scale and outreach to deal with riskier and more sophisticated businesses, as proponents such as Robinson (2001) claim will indeed be the case, irreparable damage will likely have been done to the local economy in the meantime and much fewer individuals may end up needing their services - a case of "the cure being found, but in the meantime the patient has died".

This de-industrialising role has been particularly marked in Bosnia, where a network of "new wave" MFIs was established in 1997 by the World Bank with over $40 mn of donor funds, followed shortly after by the country's first "new wave" micro-enterprise bank MEB Bank using just over $20mn of mixed donor funding. Overwhelmingly the main clients of these structures are as elsewhere - kiosks, retailers, caterers, shuttle traders, handicrafts, and the like. Most other ventures, including most sustainable ones, were effectively "crowded out" by the combination of high interest rate and short term repayment requirements, and sometimes also the need for significant collateral. The early results prompted some of Bosnia's best economists to suggest an alternative. Quickly recognising that the country's hard earned and not insignificant industrial legacy was effectively being abandoned thanks to this new local financial structure, they lobbied the international agencies to support an SME Development Bank that would attempt to identify and comprehensively "crowd in" the most dynamic ventures. But the response from the international agencies was clear: the new wave" market-driven MFI simply had to become the benchmark for all local financial institutions in Bosnia (as elsewhere). The alternative approach suggested by local specialists was pointedly blocked. This left the "new wave" MFIs as effectively the only source of capital in Bosnia for small enterprise development. Notwithstanding the welcome short term boost to employment and wealth-generation registered in those micro-businesses that were supported by Bosnia's "new wave" MFIs, the longer run result of the "disabling" financial environment thereby created has proved to be catastrophic for the Bosnian economy overall, a fact lamented by many local economists, such as Stojanov (2000). The UNDP bleakly concurs, reporting that the Bosnian people have effectively been "... condemned to reliance on a grey, trade-based, unsustainable economy rather than a production-based one" (UNDP, 2002, p 38).
Related to the de-industrialisation argument is a second adverse consequence
of the “new wave” MFI. This is the causative link between the type of clients
necessarily (if only initially) preferred by the “new wave” MFIs and the rise of import
dependency in South-East Europe. As noted, “new wave” MFIs were obliged to support
large numbers of shuttle traders, small-scale retailers and importing bodies into
operation, these being the only activities capable of repaying high interest rates on
loans only offered over very short time periods. The instant flood of imported
products thereby generated gave very little time for potentially viable local
production-based enterprises to re-learn, re-invest, re-tool and restructure in order to
compete on local markets. This led to the wholesale collapse of great swathes of
industry, a good deal of which could eventually have been put into profitable use
given more time and support. Moreover, it was well known beforehand that
deliberately and quickly established import channels would likely destroy even the
most viable local industrial units before they had had time to “get their act in order”
(see SAPRIN, 2001). The situation has now reached comic proportions in some parts of
the region, notably in Bosnia and Kosovo. Here the donor funded “new wave” MFI
banks have become very profitable - in fact, the most profitable in all of Central and
Eastern Europe - largely by helping a new trading/importing class to emerge.
Meanwhile, however, the local industrial and agricultural economy continues to
stagnate under the weight of the imported items that such traders facilitate, and while
genuine development (i.e., export-oriented and import-substituting) ventures continue
to be cast aside because of risk factors and their initial inability to cover the high price
of capital on offer. These negative trade effects are almost exactly the same as those
that arose in the case of Poland after 1990, which have also had an ultimately
deleterious longer-term impact on the economy. Overall, it would be hard to conceive
of a policy model better able to establish in the region an “African-style” colonial
scenario of a small, but very rich and powerful, trading/importing class ranged
uneasily against an impoverished and largely unemployed or under-employed
population.

Third, the lobbying power of the “new wave” MFIs has been sufficient to
increasingly de-legitimise the role of state agency in local economic and community
development. As noted above, there are a great many examples where pro-active
state-led development funds and financial institutions have been proposed in the
region, but these ideas have been firmly blocked by the international development
agencies. The “new wave” MFI approach could exist side-by-side with other more pro-
active structures of financial support, not least because their client base is likely to be
very much different. But such a multi-faceted approach has simply not been tolerated.
Unlike in many other countries under reconstruction where pro-active state SME
development banks and local financial funds provided absolutely critical support for
local economic development (see below), this option of course suitably modified to

8 Reported in The Economist, September 14th, 2002.
9 The massive rise in micro-entrepreneurship in Poland after 1990 (1.5 mn million new entrepreneurs in two
years) was widely celebrated as being the decisive factor in its supposed “economic miracle” (for example,
see Johnson and Loveman, 1995). However, it is now becoming painfully clear that this initial factor
contributed to the economic malaise now confronting the country, reflected in a huge trade deficit,
unemployment at over 18% and likely to rise with a new Labour Code, and a continuing deterioration in the
rural areas (see The Economist, April 21, 2001, p 32). A major component of the burgeoning trade deficit
arose when the agricultural sector collapsed under the weight of rapidly available and cheap EU items, the
mainstay of shuttle-trader activity in the first few years of the transition, turning a $557 mn surplus on
agricultural products in 1989 into a $333 mn deficit with the EU by 1993. Farm incomes fell by 50% as a
result and by 1995 60% of farms were technically bankrupt (Andor and Summers, 1998, p 109). More
recently, The Economist (July 27, 2002, p 38) was forced to lament that, against a background of a now quite
unsustainable trade deficit ($6 bn in the first five months of 2002) and seemingly unstoppable industrial
sector contraction, it now has no clue ‘what Poland will export to support its 40mn people’.

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take into account local conditions - has been denied to South-East Europe. Institutional diversity, a critically important aspect of any successful reconstruction and development policy (see Chang and Kozul-Wright, 1993), is thus precluded.

Finally, the "new wave" MFI approach paradoxically undermines one of the very newest cornerstones of the neo-liberal policy agenda itself - the concept of social capital as derived from the work of Putnam (1993) and which the World Bank, for example, now sees as the “missing link” in development (Grootaert, 1997). In truth, the de-contextualised concept of social capital associated with Putnam’s original contribution has been largely de-bunked since it came to prominence in spectacular fashion in the mid-1990s, devastatingly effectively by Fine (2001) and Harriss (2002). However, leaving aside the question of whatever objective value is inherent within the social capital concept as deployed by the main international development agencies today, if social capital is construed by them as being pivotal to development then they should surely be extremely concerned that the “new wave” MFI approach undoubtedly serves to undermine its accumulation. In general, by re-casting individual survival as a function of individual entrepreneurial success, the bonds of solidarity, mutual support, trust and co-operation that traditionally exist within, and serve to bind together, communities are inevitably undermined. More specifically, whenever community development and support activities are recast as commercial operations - a central operating principle of the "new wave" MFI model - the unavoidable consequence is the degeneration of the level of local solidarity, interpersonal communication, volunteerism, trust-based interaction and goodwill (see Leys, 2001). As commercial bodies increasingly operating to profit-maximising goals, the raft of “new wave” MFIs established in the region has so far been largely unable to build the longer term local commitment, identification and trust associated with those MFIs more firmly embedded within the community, such as a local development banks, artisan funds, financial co-operatives and credit unions. For example, “new wave” MFIs entering the poorest mountain and upland villages of Albania in 1991 soon moved away in search of better commercial opportunities in the urban areas, leaving their unfortunate clients once more to go without support. The new community-based MFIs that had to be established in the vacuum had major difficulties to overcome the cynicism, suspicion and collapse of inter-village co-operation generated by the first project. In Bosnia and Montenegro, a number of the most successful “new wave” MFIs have already converted into commercial banks, and they too have largely abandoned working with very poor clients in favour of comparatively well-off individuals able to afford high interest rates and provide substantial collateral. Note that, as above, even if scale economies do eventually allow “new wave” MFIs to expand their operations once more to the poorest communities, the damage inflicted on local social capital stocks in the meantime may be irreparable.

Given the above problematic experiences with the main local instruments of the neo-liberal policy model to date in South-East Europe, a number of issues naturally arise. First, an obvious question - if the key civil society institutions used are so inefficient, as I argue is the case, how is that they are not only tolerated but very actively promoted above all others? Here I would simply reiterate the argument made by Chang (2002), but also in keeping with possibilities raised by earlier conservative institutional theorists such as North (1990), that socially inefficient institutions can routinely persist because they reflect the demands of powerful, often external, interest groups. In post-communist Eastern Europe it is the unquestioned application of neo-liberal market imperatives that is of fundamental importance to the international financial institutions - privatisation, subsidies ended, taxes cut, deregulation achieved, extent of free trade, acceptance of foreign ownership, establishing stock exchanges, and so on - and not the actual results of these market
imperatives, which are largely ignored in any analysis. The second area of enquiry is to consider what other past experience there is of the neo-liberal policy model being used as the basis for reconstruction and development. Perhaps this will indicate the real potential of the neo-liberal model over a longer time period than in South-East Europe. The next section therefore considers in more detail some other examples where the neo-liberal policy model has been central to the articulation of a reconstruction and development trajectory.

3. Other experiences of reconstruction and development

Experiences of the neo-liberal approach in practise

There is a relative wealth of experience of the working out of the neo-liberal policy model in a number of testing circumstances. Perhaps the model’s first big test was in the USA, in the aftermath of the First World War. Here, Pieper and Taylor (1998) point out, the promotion of extensive financial liberalisation and industry self-regulation in the 1920s was perhaps not the answer, since it ended up precipitating the Great Depression. This catastrophic experience led to the important works by Polanyi (1944) and others, famously including Keynes, that effectively ended the myth of the self-regulating market (at least for the next couple of generations). It also led to a number of major interventions by the US government into industry, defence spending, training, education, technology, finance, R&D institutions, social welfare and agriculture that succeeded in building the US economy into the most powerful in the world (Galbraith, 1994).

There are, however, more recent experiences with neo-liberal policy in practise that are perhaps more relevant. South and Central America from the 1970s onwards, for example, has very much been guided by the neo-liberal model. However, the early neo-liberal interventions in the shape of World Bank and IMF Structural Adjustment Programmes (SAPs) virtually all ended in ignominious failure. Although growth was resumed for a time, and the initial successes seemed promising, the programmes eventually came unstuck because they ultimately led to a huge increase in poverty, inequality and, as Barraclough (1991) emphasised, the dramatic growth of landlessness in the agricultural community. One particularly crushing aspect was that the neo-liberal programmes stipulated that central and local governments could not interfere with the private sector’s wish for unrestricted access to foreign loans. Most governments were quite unable to stop most of this new loan capital going into

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10 See also Wade (1996) on the World Bank’s strenuous attempts in the early 1990s to deny the importance of state institutions in the rapid development of the East Asian “Miracle” economies. This attempt at “paradigm maintenance” was in order to justify the Bank’s continued promotion on largely political grounds of non-state institutions and non-intervention generally as “best practise”. It was not until the end of the 1990s that the World Bank finally came to accept that the state was important to development.

11 The EBRD’s Annual series of Transition Reports is a good example of this approach. The EBRD has developed sophisticated models and graphics to illustrate and grade the countries of Eastern Europe in terms of how far they have been able to establish the key neo-liberal changes required of them; but then the analysis largely stops there. No substantive discussion is generally forthcoming concerning the many negative consequences and anti-social end results of these imperatives, nor any reference to or explanation of the longer term deleterious impact of such policies elsewhere (for example, if energy and utility privatisation was such a disaster in Argentina and has contributed to that country’s collapse, then on what basis should the countries in Eastern Europe expect a different outcome?). Possible alternatives to the current policies are also, obviously, rarely highlighted.

12 The parallels here with the extreme liberalisation and industry self-regulation policies promoted by the US government in the 1990s, which have also severely undermined economic performance, are quite striking (see Hutton, 2002). Moreover, Hutton’s work was largely completed before the scandals at Enron, Arthur Andersen, WorldCom et al had spectacularly burst on to the scene.
speculative land projects, extensive equity purchases of both domestic and foreign issue, and other short-term “get rich quick” projects. But when conditions changed, and the private sector (which included very many subsidiaries of major western multinationals) was unable to service the huge foreign debts it had built up, many free market-oriented governments were embarrassingly forced to nationalise their entire banking system in order to avert a major financial sector collapse (Akyz, 1998). A succession of Latin American countries only managed to stave off complete economic collapse thanks to the urgent infusion of substantial international financial support.

The tragedy continued into the 1990s; spectacularly in the case of Argentina. Following the earlier breakdown of the previous neo-liberal programmes in Argentina, in the late 1980s the new government agreed to implement once more, and even more decisively this time, the full package of neo-liberal policies. Indeed, possibly bested only by New Zealand, Argentina stands out today as one of countries that has most vigorously and thoroughly implemented the neo-liberal policy model. Unfortunately, the results of this latest version have been even more catastrophic than its predecessors. An initial boom in the early 1990s was underpinned by the sale of virtually all of the countries main public utilities and other assets to foreign multinational companies, which quickly hiked up prices and began repatriating profits back to their home country on a huge scale. The downward effect on incomes and demand in poorer communities brought about by the now higher utility prices was marked. At the same time, rising prices and quickly terminated contracts for non-payment meant that whole new communities emerged 19th century-style without access to energy, water, and sewage and waste removal systems. The boom came to an end when there was nothing left to sell off, though other crises elsewhere in particular East Asia no doubt helped to push the teetering economy over the edge. Argentina was forced to signal in 2001 that it was likely going to have to default on its debts of over $128 bn, creating the largest sovereign debt default in history. Poverty and unemployment subsequently rose dramatically, wages of the bottom sections of society collapsed, great swathes of domestic industry got into serious difficulty and/or closed down, and the entire country seemed about to explode.

Neo-liberal policy in the case of post-Communist Central and Eastern Europe also appears to have fared very badly, if indeed it has not been responsible for an outright calamity in the region (Andor and Summers, 1998). Initially, the transition to more market-based economies in the region was widely supported by the overwhelming majority of the people, in the expectation that it would bring fairly quick economic recovery, and that western-style living standards would soon follow. This is indeed what most incoming advisors confidently predicted, if only the basics of the neo-liberal model were adhered to (for example, see Sachs, 1990). However, save for a small urban elite, the rapid dismantling of central planning and the imposition of

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13 As pointed out by Wade (2001), in the mid-1980s New Zealand embarked on a radical shift to neo-liberal policies even more thorough than Argentina’s. Indeed, at the time these two countries were the international financial institutions’ “star pupils” and were regularly entreated to discuss together their common experiences and “best practises” via the exchange of key personnel from government and the central bank. However, the end results in New Zealand have been equally as bad as in Argentina. Productivity has slumped, inequality has risen sharply, and growth has been slow. As a result New Zealand fell from 9th in the OECD league table of rich countries in the early 1980s, to 20th just above Korea and Portugal by 1999. Yet institutions such as the OECD largely ignore such results and – as everywhere else – continue to push the New Zealand government to go much deeper and much faster with its neo-liberal reforms. Very much as with the case of the EBRD in Eastern Europe (see footnote 10), Wade (p18) notes that “The champions of the New Zealand model described the success of the reforms by what was done (taxes cut, public spending cut, public assets sold, labour market restrictions removed, central bank given statutory independence and told to take price stability as its sole objective), not by the results of what was done” (italics in the original).
neo-liberal policy programmes have brought far less immediate benefit than expected. In fact, the transition process has so far simply reshaped and, for a great number of people, actually intensified the nature of the poverty, inequality, exclusion, despair and powerlessness that existed under communism. A collapse in output was followed by major increases in poverty and social exclusion, massive criminality, rising unemployment, and drastically deteriorating public health and social welfare systems. Privatisation has denuded the previously comprehensive health system in favour of one where cash payment is now routinely required for basic access and emergency treatment. Privatisation has also ensured foreign control over much of the industrial and financial infrastructure, ensuring that the goals and objectives of such institutions are now determined abroad (for example, many foreign owned factories, such as in Hungary, have already begun to close down and production has been shifted to lower cost China). Social unrest and financial insecurity have shot up, which have fed through into a dramatically declining level of health of the population. Lastly, agricultural production has declined in nearly all of the countries of Central and Eastern Europe as a result of intense competition from heavily subsidised (mainly EU) suppliers, creating rural poverty of an historically unprecedented magnitude. Most countries in Central Europe have only recently begun to approach the GDP levels they started with in 1990 when they brought their respective centrally planned economies to a sudden halt, though these statistics, of course, mask the dramatically skewed distribution of the gains made since then.

The “local developmental state” model

Contrasting markedly with these experiences, however, are those of post-1945 Germany, Italy and Japan, South Korea and Taiwan from the 1950s onwards, and China since 1980. These countries or just some regions (e.g., northern Italy) adopted what has been described as the “developmental state” model (Johnson, 1982). This is an approach founded upon a pro-active state apparatus working towards long-term goals of industrial developmental, social inclusion and technology “catch up and forging ahead” against the background of market conditions. Crucially, one of the central explanatory factors behind the success achieved in a number of countries covered by the “developmental state” argument was actually the pro-active role of specifically local, rather than national, state institutions. This gives rise to the “local developmental state” model (Blecher, 1991; Bateman, 1999, 2000b; McIntyre, 2001a).

In Japan, a dense tissue of local and prefectural (regional) state-led institutions worked very successfully to promote the community and SME development. Local governments were encouraged to develop a wide array of support programmes and measures to assist small enterprises after 1945. They were quick to introduce an extensive range of low-cost financial support policies to help the most vulnerable individuals (particularly de-mobilised soldiers) establish new small enterprises. The resources for these measures came partly from central government and partly from local savings mobilisation through local state-owned banks. In addition, large numbers of credit unions, financial co-operatives and other forms of small-scale mutual association were also re-established by state prompting and financial support after 1945. Crucially, these non-state financial institutions were also strongly regulated by prefectural and local governments, working alongside the Ministry of Finance, in order to avoid any fraudulent activity that might undermine both the fragile economic situation and the important social consensus constructed within the community. These local financial institutions became important complimentary community-based providers of funds for new starts and small growing enterprises outside of the state support schemes, thus promoting important local “savings and investment cycles”. Friedman (1988, p167) summed up the financial system for small-
scale enterprises in Japan as being nothing less than, "...an industrial equivalent of the American savings and loan system for the US housing market (but funding) not home ownership but independent factories". Crucially, very many of these small-scale enterprises found their way into the supply chains then being constructed around the large export-oriented motor vehicle and electronics firms. The market mechanism thus provided the background against which the local state was able to promote and finance those local enterprise sectors and foreign technologies it calculated would generate most benefit to the economy in the longer run, yet which the market was unwilling to support because of the high risk and low profitability. Overall, local economic development policy has been officially cited as one of the "...two major pillars of Japanese economic development policy since the Second World War" (MITI, 1980, p14).

In northern Italy, a raft of very successful small enterprises arose after 1945 in a region that became known as the "Third Italy". The contribution of the local state was critically important. Pro-active municipal and regional governments, often working with very little support from central government, were determined to reconstruct the region through local economic development and, particularly, through small enterprises. Great value was placed on promoting small enterprises that would become embedded within an industrial community where local co-operation mattered as much as, if not more so, than local competition. These factors provided the motivation to build a solidly supportive institutional structure within, and within the orbit of, the local administration (a development that did not, however, take place in the south of Italy). Extensive systems of local financial support were established by both the regional and municipal administrations. For example, Peluffo and Giacone (1997) highlight the importance of the regional state-owned banks and credit institutes, which were encouraged to channel affordable financial support into local small enterprises. A whole host of other local financial institutions were established by the regional and municipal governments, including Artisan Funds that were, as Wiess (1988) notes very important to machine purchase and workshop modernisation. In addition, large chunks of abandoned land and business premises were rapidly converted by local governments into industrial parks and "cottage industry" incubators, in order to encourage a large number of entrepreneurs to try out new business ideas with a minimum of fuss and risk (Best, 1990).

A critically important factor behind the early post-war success of small enterprise development in the northern regions was the high level of social cohesion, trust and civic tradition fostered by the pro-active regional and local governments. These factors underpinned the multiple layers of inter-enterprise and community co-operation that strongly encouraged local business development and investment. One practical indication was seen in the high-trust region of Emilia-Romagna, which also had the highest concentration of co-operatives and co-operative institutions in all of Italy (Birchall, 1997). High levels of local trust and social cohesion also meant that the municipal and regional governments generally had the moral authority to enforce a local inter-class consensus or "social contract". For example, local workers willingly accepted an initial period of wage "flexibility" (that is, lower wages) during the reconstruction period as part of a fair disbursement of the costs and benefits of local economic success, with the guaranteed return on this "sweat equity" investment coming a little later in the form of extensive kindergarten provision, high quality social welfare services, quality public infrastructure, and so on. This widespread

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14 The other was the more familiar national export policy co-ordinated by MITI.
15 Speculation on land was also strongly prohibited so that entrepreneurs outside of these property-led initiatives could also benefit (Best, 1990).
understanding that all must and will benefit from the reconstruction effort, and not just the most aggressive or entrepreneurial, encouraged most people and social groups to “buy in” to the initial sacrifices and efforts required.

In the former West Germany the Lander (regional) and local state were important development catalysts. The Lander institutions were especially strong and motivated to promote the reconstruction process. Indeed, the former West German economy became noteworthy for its very dense and well financed institutional fabric at the local and regional level. The Lander and local governments were both instrumental in establishing and regulating a wide range of support structures that could promote local economic development. Of particular importance, as stressed by Meyer-Stamer and Wältring (2000), were the strong Landerbanken (regional banks) owned by the Lander governments and the publicly-owned Sparkassen (savings banks), both of which provided to small enterprises a substantial amount of affordable and easily accessible credit. Credit was affordable since these banks were aiming for longer-term sustainability through developing a solid base of clients, rather than short-term profitability through servicing high-profit but “here today and gone tomorrow” trading and importing ventures. The Sparkassen also became involved in the provision of other forms of institutional support for the small enterprise sector, such as technology centres and economic development agencies. The credit cooperative sector also played an important role in local development in post-war West Germany, with the urban-based Volksbanken and rural-based Raiffeisenbanken becoming major providers of credit to micro- and small enterprises (Birchall, 1997). Above all, this dense local institutional structure was critical to the re-emergence of the Mittelstand (medium enterprise sector). As in Japan and Italy, therefore, the new West German state very much based its post-war development upon pro-active regional and local state administrations that were able to develop the capacity and generate the local resources to be able to promote recovery and development from the bottom up.

Taiwan and South Korea are somewhat different from the above examples because superior industrial performance has been largely attributed to the activities of the central state, rather than local state institutions. Of course, democracy was also a late arrival in these countries. However, it is the case that both the initial and a complimentary development impetus was very much provided by pro-active local and village administrations working in conjunction with highly motivated local populations. In South Korea after 1960, the local township and village administrations were quick to support local farmers credit unions get started, establish an extensive out-reach service for farmers and potential rural entrepreneurs, and construct a layer of community services that promoted social cohesion through greater economic security and fairness (Wade, 1982). According to Whang (1981), following the establishment of the Saemaul Undong (New Community Movement) in 1970, local government became even more visible, responsive and active in its own right in promoting an Integrated Rural Development (IRD) approach to community development. In Taiwan, the townships and village state bodies supported local farmers associations which were able to offer credit, key inputs, technical support, cooperative marketing channels, and so on. The government initially put most of its effort into the rural communities in order to facilitate the growth of agricultural productivity. The number of agricultural outreach workers in Taiwan provided through local and village administrative units was far and away above that in other East Asian countries. As agriculture was able to provide for the food requirements of the population, by the 1960s the emphasis began to shift towards export-promotion and technology-intensive SME development, with the government establishing a myriad of local supporting institutions, state-owned banks and other local financial programmes.
(see Lall, 1996, pp 98-99). Indeed, Lall (ibid, p207) considers the de-centralised technical support offered by the state to small-scale enterprises in then still very poor Taiwan to have been "...the developing world's most advanced system of technology support for small and medium enterprises". Crucially, this technology support was quite critical to the entry of new manufacturing SMEs, which from the 1960s onwards, very rapidly created its highly successful small enterprise-dominated industrial system. Overall, Wade (1990) attributes the success in Taiwan to the fact that the government was very quickly able to establish a "...mass of publicly owned assets and organisations (...) able to guide the market" (p 325).

Finally, local state agency has unequivocally been at the heart of the staggering rural and local industrial transformation that has taken place in China since 1980. By allowing extensive autonomy for the local state the Chinese government was able to encourage a strong rural and urban industrial development trajectory that acted to counter-balance the reduction of activity in inefficient large-scale state industries. From the mid-1980s onwards, Blecher (1991) points out, local governments became the key element of a decentralised developmental state apparatus willing and able to promote local economic development institutions, mechanisms and trajectories, often in conjunction with higher levels of government where appropriate. The local state was encouraged to engage in a wide range of local economic and social development initiatives that created local wealth, encouraged greater local participation in economic development and, significantly, repaired the damage to the social fabric in most local communities caused by the horrors of the Cultural Revolution. The main instrument for rural industrialisation has overwhelmingly been the local government and community-owned Township and Village Enterprise (TVE), the numbers of which rose rapidly from 1986 onwards to nearly 8 million by the mid 1990s (O'Connor, 1998). Crucially, despite their ownership structure, TVEs are profit-seeking, work under hard budget constraints and operate according to strict performance targets.\footnote{However, some of the TVEs have undoubtedly been engaged in straight-forward local rent-seeking operations, but this is officially tolerated (if not encouraged) because the profits and local tax revenues thereby generated flow to the local community rather than to individuals (for example, see Duckett, 1998).}

Purushotham (1998) notes that in 1996, for example, the TVEs accounted for manufactured products valued at US$213 bn, which amounted to two-thirds of rural economic output, one third of national GDP and 40% of national exports. The high profits and taxes generated by the TVEs thus enabled local governments to finance a range of increasingly sophisticated business infrastructures, such as industrial parks, incubators and modern production facilities geared to foreign investors, which in turn helped to deepen and sustain the local growth trajectory well into the 1990s. Strong support was also offered to social and community development projects that extended the financial benefits of the TVEs to the wider social community, and thereby promoted the wider participation of the local population in the process of change taking place. In 1992, for example, 59% of after-tax profit of the TVEs was reinvested and 40% used for local public expenditure.\footnote{Figures quoted in the Statistical Survey of China, 1993.} Rural poverty was greatly reduced in most regions of China and, after many years of passively coping with the results of an inefficient system of central planning, local communities were able to re-emerge once more as strong and self-sufficient entities.

In the above examples it is possible to delineate the work of the "local developmental state". The "local developmental state" (LDS) model can be broadly defined as a regional, city, local or village state administration that has developed the competence, democratic or popular legitimacy, long term vision, institutional vehicles, trust-based linkages within the community, and a range of policy interventions that
combine to continuously promote, adapt and upgrade the local rural and industrial structure in response to emerging internal deficiencies and external opportunities, threats and other environmental parameters. Market forces are important as the background against which the LDS model is operationalised, but not in the neo-classical sense of being able to orchestrate efficient market dynamics into place through individual self-interest and market signalling. The local resource base is sometimes important to support the LDS approach, as in post-war northern Italy, but so too are the technical support and financial resources routinely passed down from the centre to local administrative units, such as in Japan, Taiwan and South Korea. Moreover, while full local autonomy and formal democracy is preferable to top down control, it is has not always been necessary on the ground. The examples of East Asia indicate that an authoritarian government denying a democratic mandate to the local state must nevertheless still allow sufficient autonomy for local state administrative units to function effectively and develop trust within the local community. Non-democratic regimes realise that local economic progress can underpin their survival. Having said that, energetic local state institutions and popular participation in economic development will inevitably precipitate democracy-building measures, as was eventually the case in Taiwan and South Korea, and will surely be so in China in the not too distant future.

4. Establishing the “local developmental state” approach in South-East Europe

Drawing from the above examples of the “Local Developmental State” (LDS), we can begin to outline some of the likely key components of the LDS model that might be useful in the context of the ongoing reconstruction and development of South-East Europe.

Strong local state-led institutional vehicles

The key base-line criterion for sustained local economic and community development is the existence of a range of local state-led institutions (i.e., owned or effectively controlled by the local state) charged with promoting a sustainable local economic development trajectory. It is crucially important to underline the fact that it is not impossible to reproduce the key pro-active developmental aspects of state institutions, including local state institutions, that lie behind successful economic development trajectories elsewhere. As Akyuz et al (1999) make clear, key aspects of the Japanese state support structures were successfully adapted by Taiwan in the 1950s and 1960s, and then after 1980 parts of the Taiwanese experience were in turn copied very successfully by the Chinese.

Urgent local state capacity-building measures are therefore required in South-East Europe in order to create local institutional vehicles that can competently and impartially promote local industrial restructuring and community development. The local state must be able to act as an “institutional bridge” that can facilitate the conversion of unsustainable development trajectories (e.g., de-industrialisation, growing import dependence, social exclusion, abandoning technology) into longer run trajectories that are locally sustainable and equitable. It must be able to construct and maintain the necessary technical, business and physical infrastructures that underpin effective SME development. Accordingly, training, advice, technologies, resources and legitimacy must be conferred on the local economic development

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18 This definition owes much to the idea of “transformative capacity” developed by Weiss (1998) to describe the activities of the central state in promoting successful upgrading, adaptation and restructuring.
capacity within the local state. One important aspect will be to reverse the trend to smaller local government units and to fiscal centralisation that has left many local state units way below a minimum efficient scale of operations. This is finally happening in some parts, (e.g., Macedonia), but in others there is much to be done to reconstruct a local administration commensurate with the ability to act meaningfully to promote local economic development.

Local financial support policies

The LDS approach is to take comprehensive action to build accretions of local capital (i.e., savings) and to ensure that the disbursement of local capital (and any capital coming in from outside) takes place in a manner that benefits the wider community and promotes sustainable local economic development. As Addison et al (2000) point out, so-called “narrow development”- development that does not address poverty and actually increases inequality - can be a direct outcome of the local financial system if it is structured in a way that benefits local elites, fails to deter fraud or prioritises obviously temporary forms of business development. The establishment of sources of local finance was a crucial aspect in all of the above examples of successful community and local economic development. Restructuring and promoting promising local enterprises is not easy, but in the absence of local financial support it is virtually impossible. This financial support was extensive (in comparison to that supplied to the large enterprise sector), affordable (i.e., below market price) and relatively accessible (i.e., no collateral required).

Current financial support initiatives in South-East Europe are dominated by the so-called “new wave” MFIs. Yet, as we noted above, their track record on the ground is remarkably poor. The LDS policy model would therefore suggest the use of a number of alternative local financial sector interventions. First, the more extensive use of local development funds to support key small enterprises and key local growth sectors (e.g., externality creating, export potential, technology transfer promoting) that have a long-term commercial perspective. The most advanced of the South-East European states - Slovenia and Croatia - have some quite positive experience of local funds established by municipalities that can be referred to. Research by Grundner and Komar (1999) in Slovenia demonstrated that the local funds established in 48 municipalities became an important source of flexible and affordable loan capital for micro- and small businesses in the community. Croatia developed municipal funds as well and has also accumulated some good experience under more difficult conditions (Želinski-Matunec, 2000). Whether managed by competent officials or sub-contracted to outside private bodies is of little importance: what is important is that financial support is channelled directly towards potentially sustainable enterprise development and that longer run local development trajectories are patiently and judiciously supported.

There is also some merit in the establishment of a local development banking function. For example, some local state-owned banks can be converted into small-scale development banks using international advice and financial assistance. One possible route, as proposed by Šević (1999), is to adapt the US-inspired Community Development Bank model for use in the region. Accepting lower rates of return than commercial banks can be fully justified on the grounds that community and local economic development goals are not always commensurate with commercial, usually short-term, goals. Moreover, promising long-term small enterprise infrastructures -

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19 To date the international community has offered little support for development banking in the region, as in the wider Central and Eastern Europe (see Amsden et al, 1994).
such as marketing co-operatives, incubators, cluster development initiatives - often require a source of long-term finance to become established. Given that individual and groups of enterprises that might be most interested are currently cash-starved, and so find it hard to address their known longer-term survival requirements, an external source of long-term financial support and technical advice is crucial. Independent venture capital funds and long-term equity investments are another area where the local state can be usefully involved. Venture capital funding and equity participation by the local state can be used to recycle local rents or benefit from local spending or development (e.g., where government spending increases land values). The Chinese example where local governments used their own capital resources to establish new industrial SMEs is a salutary lesson of what can be achieved at the local level given local commitment and a reasonably competent administration.

Second, support for traditional non-governmental financial institutions - credit unions, rural savings associations, financial co-operatives and so on - is vitally important as a way of promoting local savings mobilisation and in meeting the investment needs of very small-scale business projects. These independent small-scale local “savings and investment cycles” are a very useful adjunct to the judicious support for key sectors noted above. While ultimately independent and self-financing, these institutions often need an appropriate stimulus and concrete help from the local state to get established. Most importantly, as experience has amply demonstrated, in low trust environments, such as in South-east Europe at present, such financial schemes are an open invitation for unscrupulous individuals and groups to take advantage of the situation. There is therefore a need for strong regulation and oversight by the local state (see also below).

Promoting technology transfer and diffusion

The notion that low labour costs alone would ensure successful recovery in post-Communist Eastern Europe was a fundamentally wrong proposition to make in 1990. Instead, it was generally low product quality, lack of innovation, poor design, and the use of out-dated technologies that largely precluded successful reconstruction of individual enterprises. The same holds for South-East Europe today, where wages have spiralled downwards in many regions, yet most enterprises still find it difficult to find and maintain a market for their product. While technology is at a reasonably high level across heavy industries in the region, there remains much to be done at the local level to support the small enterprise sector. South Korea represents an excellent example of a country where heavy industry came to dominate the economy, but where concerted moves to then diffuse new technologies to the small enterprise sector paid very high dividends. Particularly in rural areas, its patient investment in the establishment of solid technology diffusion and upgrading processes facilitated through local and village administrations, as well as several major funds through which local supply chain-oriented small enterprises could obtain new technologies with grant and loan support, greatly improved the performance of the Korean economy. Technology upgrading support offered to small enterprises in initially very under-developed Taiwan was largely planned and implemented locally through competent local administrations, combining a mixture of central state funds and local co-financing arrangements. The end result took the country’s small enterprises to the very frontiers of new technology development in only twenty years, and underpinned the spectacular rise to power of the economy in that period. It is important to remember, particularly those who might otherwise argue that a country “cannot afford” such new institutions and policy interventions, that at the start of the processes described both South Korea and Taiwan were officially listed as being among the poorest ten or so countries in the world.
Clearly, promoting technology transfer and diffusion are crucial imperatives if the local industrial structure in South-East Europe is ever going to be able to incorporate a level of technology sufficient to compete for local and, later, more discerning foreign markets. To (re)start the technology transfer process then requires, firstly, that existing local applied R&D institutions are strongly supported and encouraged to develop their work in line with current and potential sectoral specialisations. New institutions may be required where the existing infrastructure is particularly weak, but existing (albeit exhausted) institutions should be targeted in the first instance if appropriate. Even in places like Bosnia, where little might be expected to remain after the bitter civil war, some high quality applied R&D institutions are still just about operational. Second, university and other academic institutions should be brought into the frame through dedicated applied projects, and by building up a cadre of specialists in key areas ready to undertake consulting activities with local enterprises. The German method of financing secondments from the University system into local technology transfer institutions is one possibility to replicate locally to a modest degree (see Pyke, 1994). Third, the level of education and technology training needs to be supported and co-ordinated in line with local potentials. In some countries in South-East Europe where employment subsidies remain an important labour market policy (e.g., Croatia), the targeting of such subsidies to trainees and work-placements in specific technology-intensive enterprises could be a very useful approach to facilitate technology transfer. Fourth, large firms unlikely to have a commercial future should be nurtured to the extent that they can spin-off key technologies, business units and personnel into new, smaller commercial undertakings before they exit. Finally, if structured and financed appropriately, technology incubators and Technology Parks could play a major role here in co-ordinating the (re)use of specialised accretions of expertise, skills and equipment and helping newly established technology-intensive enterprises to achieve full commercialisation.

Strong and effective local regulation mechanisms and control of speculation

As noted above, there is no doubt that one of the main destabilising factors in South-East Europe to date has been the progressive stripping away of legislation and regulations in line with the perceived need to “get government out of the way”. Given also the “winner takes all” mentality that has typically arisen in association with the imposition of neo-liberal reforms elsewhere in the world, this provided the obvious foundation upon which illegal and anti-social activities would flourish: and they have. Specifically, it was widely predicted that the weak regulation of the local financial system would inevitably allow for large-scale financial fraud, “wildcat banking” and bogus savings schemes. These manifestations then undermine the vital local savings mobilisation function and wider social acceptance of the reform process. An important element in building social cohesion is therefore the willingness of the local state to robustly regulate local business activities and financial systems where it has the competency and jurisdiction to do so. For example, it makes sense that local private banks should only be established by investors who can demonstrably prove they have a depth of banking knowledge, integrity and sufficient capital assets. Any financial scheme that involves the mobilisation of savings simply has to be carefully

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20 A possible example is the EnergoInvest Centre in Sarajevo.
21 Business Incubators have also had to accord with neo-liberal policy imperatives in order to obtain legitimacy and funding, and now have to “earn their keep on the market” in order to survive. As elsewhere (see Bateman, 1999), this has been deeply damaging to their ability to nurse potentially high value technology businesses into existence.
22 See Hutton’s (2002) excellent treatment of these issues with regard to the USA.
examined. Regulations may also be required to discourage certain activities, such as land and property speculation, as well as the practise of equity purchase with commercial bank loans. Second, it has also been well recognised that effective regulation of the local labour market is one task usefully performed by local government in order to minimise competition based on low-wages and low investment, and maximise competition based on high investment and flexible specialisation techniques. The local state can articulate this fair outcome through regulations ensuring fairness at work, support for Trade Unions and through local forms of redistributive taxation.

Co-operative development

The co-operative is a business format that is universally recognised as a way of promoting fairness, motivation, solidarity and inclusion at work, as well as underpinning wider community-level cohesion. In all its various guises - agricultural, workers, financial, consumer, housing, marketing, and so on - co-operatives also evince efficiency-enhancing forms of horizontal and vertical co-operation between individuals and institutions. This has particularly been the case in the northern Italian region of Emilia-Romagna, for example, which is the most successful region in Italy very much because of the multi-faceted layers of co-operation that exist between SMEs - the famous "Industrial Districts" - as well as within businesses - Emilia-Romagna has the highest concentration of co-operatives in Italy (Birchall, 1997). Co-operatives were also important in Germany's economic development trajectory in the last century, where the first financial co-operatives were established. Networks of co-operatives established in many of the East Asian "Tiger" economies, notably in Taiwan and South Korea, have proved highly instrumental in both spreading the benefits of rapid urban growth down to rural communities and in underpinning the necessary wider social inclusion that served as the basic foundation for that high growth (Wade, 1990).

Reflecting the higher economic and social returns generated by the co-operative sector, it is natural that co-operative development will be a crucial aspect of the LDS model. This support should start with educational programmes that endeavour to illustrate the benefits of co-operative enterprise to all concerned - employees and the community - and that lay particular stress on how "normal" it is to work co-operatively. Second, the enterprise development structure should be directed to offer preferential support for co-operative development. Enterprise development agencies certainly need to be made much more aware of the important role of co-operative development in helping to fulfil their immediate mandate to create employment and wealth, as well as their relationship to other important community-wide goals, such as poverty reduction and social inclusion. A solid level of technical assistance will be required to help new and existing co-operatives to achieve their goals. Given that many co-operatives often require considerable time to establish and perfect a co-operative management system, special training and mentoring support is required to offset this initial disadvantage. For sure, also, special forms of financial support - grants and loans - are clearly required to help overcome the historic financial sector bias against the establishment of non-traditional structures. Third, the legal, regulatory and taxation system should be structured to encourage the co-operative option. A discriminatory taxation system, such as in Italy, can help to encourage both greater reinvestment in the co-operative and the conversion of a larger number of conventional businesses into the co-operative format. This will also help co-operatives compete against those informal sector competitors who choose to hide from the authorities. Fourth, government procurement policies can be used to offer "starter contracts" to new co-operatives and also just to provide a better quality service for the public in the longer term. Fifth, co-operatives that facilitate market access for groups
of small-scale farmers, artisans and other producers, should be targeted for special support as a way of promoting economic development from the “bottom up”.

Supporting local clusters, sub-contracting and networks involving SMEs

The establishment of local clusters, networks and sub-contracting chains involving small enterprises has been important to the success of virtually all of the historical episodes of post-war and post-crisis reconstruction and development, particularly with regard to economies of scale, reduced transactions costs and promoting technology diffusion. In the Italian experience, this was the “Industrial District” model, while in post-war Japan and Germany it was the emergence of strong local sub-contracting chains involving small and large enterprises. Local inter-enterprise linkages have also flourished in East Asia and that local governments have often played an important role in both creating the background conditions that provide the most propitious environment for clusters, sub-contracting and networks, as well as actually helping to form them directly.

The local state can thus play an important role in promoting new entry into sectors where clusters, networks and local subcontracting chains may well emerge, as well as promoting the growth of those links that have spontaneously emerged. First, special forms of financial support for inter-enterprise linkage establishment and growth must be established at the local level. Since inter-enterprise structures are rarely profit generating in the short term, Bateman et al (1998) advocate the use of special forms of affordable finance and technical support to make them attractive propositions to the many enterprises desperately struggling to survive on a day-to-day basis. Second, it is possible to establish local information and “marriage-broking” functions that bring potential partners together. Many potential partners are unaware of what can be achieved and with whom they might be able to achieve it with. Bringing potential partners together, assisting them with problem solving and promoting a culture of co-operation are all important activities. Third, there should be support for local business and technical associations that might lead on to concrete linkages. Inter alia, such associations have a track record of being the seedbed for many inter-enterprise links, and so the should be tapped for the potential they contain. Fourth, greater provision of common services and forms of business accommodation (e.g., incubators) to promote cluster development may be needed. Bringing potential partners together physically is an important way of identifying and then nurturing potentially efficient links.

Strong local action to promote equity, education, fairness and social cohesion

Poverty alleviation and social inclusion are crucially important to the reconstruction and development process and community building in South-East Europe. When some sections of society are seen to benefit more than others from reconstruction and development, the bonds that link communities together - social capital - are often decisively broken. Motivation and commitment collapse and each section of society ends up pushing for the immediate redistribution of the existing wealth and assets (rent-seeking), rather than focusing upon the longer term local wealth creation process. This has, for sure, been the fate of many of the states in post-communist Eastern Europe. But we can contrast the situation there with that in the Indian state of Kerala, which Parayil (2000) shows has managed to achieve

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23 The best example of this is probably Russia since 1991 (see Stiglitz)
comparatively very high levels of social inclusion and living standards through the auspices of a very active and politically committed local state. Thus, to increase motivation and popular identification with basic reconstruction and development objectives, inevitably means having to ensure high levels of equality, education and social welfare provision.

In South-East Europe, the links within the community are not entirely broken, but they are severely strained. The local state thus has a crucially important role to play in promoting the new programmes that will underpin the notion of community and inclusion. Note that this is not the same as extending the institutions of civil society into the space conventionally inhabited by the local state (see above), which is largely related to the neo-liberal imperative of attempting to disengage the poor from activating state agency on their own behalf (see Harriss, 2002). By far the most important of the measures to be taken by the local state, then, is to ensure the retention of the social welfare entitlements of poorer sections of the community. Social welfare programmes require local state co-ordination, economies of scale realisable through public provision, and a strong local tax base. Ensuring sustainable provision may often require the passing of many social welfare functions from the non-governmental sector back to the local state - that is, the reverse of the current vogue in the region. These measures should be implemented alongside suitable reforms to ensure competence, value-for-money and transparency. A related imperative here is to maintain the quality of the general education system. Inter alia high levels of education are robustly linked to local participation in promoting and achieving community development goals. More immediately, high levels of education are also linked to high levels of entrepreneurship and non-farm rural business activities.

6. Conclusion

The argument made here is that local state institutions should have been far more central to the reconstruction and development project that began in South-East Europe after 1991. Instead, the democratic institutions of the local state in South-East Europe have been progressively stripped of their remaining power to formulate, plan and implement policy choices on behalf of all their constituents. Policy has increasingly been turned over to the un-elected and unaccountable institutions of civil society for their deliberation, action and veto. Quite apart from being thoroughly anti-democratic in a region crying out for an extension of democratic legitimacy and institutional responses, as convincingly argued by both Chandler (1999) and Kekić (2001), this ideology-driven local economic development approach has - as elsewhere - decisively failed is its assigned task.

The experiences reviewed here provide the substance for an alternative policy response to the neo-liberal programme of “dumbing down” the local state. Support for “bringing local government back in” should therefore be an urgent policy priority in South-East Europe. Of course, replicating earlier successful examples of the LDS model will not be easy: there are historical, cultural, geographical and social specificities that preclude an easy transfer of models and experience. However, the very varied nature of the environments in which the LDS model has been able to function to date, from a destroyed post-war northern Italy to rapidly changing post-communist China today, strongly suggests that key aspects of the model are generalisable. But to accomplish anything the local state in South-East Europe must now be legitimised, reanimated, up-graded, resourced, more extensively democratised and, crucially, assigned a pro-active function in the local economic development process. There will be many problems along the way. Corruption, political interference
and basic inefficiency have been characteristic of all too many local governments in the region, and this is likely to remain a problem well into the future. Resource constraints are also a significant barrier. In addition, the aggressive form of economic globalisation now being imposed upon the world economy manifestly reduces the local scope for promoting sustainable economic, environmental and social policies. Perhaps proving to be most intractable, however, will be those international development institutions and western governments that first imposed the neo-liberal policy model on the region, and who continue to believe that it is the only way to eventually begin to improve the lives of ordinary people. Notwithstanding, now that the populations of South-East Europe have finally acquired democratic control over the(ir) local state, this should encourage the development of their own pro-active and democratically accountable policy responses to the huge array of problems that currently exist.
Mr. Goran Ćirić
Mayor of Niš and President of the Standing Conference of Towns and Municipalities of Serbia and Montenegro.

Mr. Ćirić’s position enabled him to have an unparalleled view of the situation facing all local government units. In his view, the strategy for economic development was often over-centralised. The Standing Conference has many ideas to change this situation for the better. Of course, it was stressed that there has been some progress already. For example, local self-government units in 2000 finally received from the new government urgently needed increased budgets, with the increases ranging from between 100% to 400%.

However, there is still a need to talk about principles and models of compromises between central and local authorities. A number of problem still remain to be solved, but we are getting there. For example, take the principles of financing local economic development and enterprise development in particular. Solidarity between local self-government units is important. There also needs to be more motivation for longer-term development - sometimes only short-term profits are treated as motivating. Then there is also the issue of nepotism related to development, for example when funding new enterprise development in the community. But such issues have a solution. For example, if you establish a development fund, it is possible to take non-local consultants to deal with these funds.

Local authorities have a new democratic legitimacy. However, we still need to raise the level of efficiency of most municipalities, and also include civil society in the process. There is still not enough support for this sort of “popular planning”. The media also often presents an obstacle to achieving successful local economic development. The local media need to have the relevant information about what the local authorities are trying to achieve, in order that they can encourage them to fulfil their promises. The local media also need to support the long term strategies of local authorities, rather than just opportunistic short term popular ones, and also make sure that good strategies continue to be followed up when leadership changes.

Bordering regions are probably the least developed regions in the country. This should not be the case since they should be using their comparative advantages to benefit from extensive cross-border co-operation. These sorts of initiatives foster political security, as well as Local Economic Development. Local Authorities need also to co-operate with civil society, namely NGOs, Universities and other local interest communities. A “hard budget constraint” continues to be a precondition necessary for stable economy.

It is also important to recognise that motivation is required locally for Local Economic Development to make a significant impact. Three issues are particularly important:

- Motivating towards better management of communal (public) systems, such as water supply, solid waste management. For 12 years the policy of fixed prices of communal services has generated losses of 40% on average. Moreover, services were far below the required standards.
- Raising social development levels, such as quality of local service provision, education.
- Motivating local officials to promote Local Economic Development. This is difficult if local officials do not provide the leadership at the local level.
What are our chances to move forward? There should be more efficient use of local budgets. We should also consider more co-operation with the private sector, through such as public-private partnerships. The public side might, for example, contribute 30% of any project via land, permits etc. with the remainder coming from the private sector. There is also a need to explore more fully the potential for cluster projects; for example in Southern Serbia and the six municipalities. We also need to come to terms with world strategies. For example, by promoting more efficient and more extensive use of geo-thermal waters, wind and water power, etc. With the help of UNDP we should now focus upon small projects that will help people to see what sort of development strategies we should pursue in all stages from feasibility studies to business plans.
"Issues for Pro-Poor Local Economic Development in Southern Serbia"

Jonathan Brooks
UNDP Bratislava

1. Introduction

My aims in this short paper are twofold. First to review current development trends in Southern Serbia and their implications for poverty, and second, in the light of these trends, to identify key issues for pro-poor local economic development. What kinds of policies and initiatives will be required to stem the tide of worsening poverty in the region?

Unless otherwise stated, data referred to in the paper were gathered as part of a study financed by the European Agency for Reconstruction (EAR). The analysis and views expressed are however my own.

2. The Current Situation

As is well known, Southern Serbia is one of the least developed areas in the Balkans. By comparison to other parts of Serbia, municipalities here score less well on a range of human development indices, including the Government of Serbia's (GoS) 'Law on Underdeveloped Regions' and the UNDP Human Development Index. This, combined with political sensitivities highlighted in the 'Covic Report' make the region especially important to organisations such as UNDP with a long term commitment to poverty reduction, both as an end in itself and as a means for shoring up efforts to ensure long-term peace and stability.

The economic situation of the region is extremely depressed. Most socially owned enterprises (SoEs) have dramatically scaled down production or collapsed altogether and the progress of privatisation and new company registrations has been extremely slow.

Data supplied by local authorities indicate that in most parts of the region, 'real' unemployment now appears to have risen above 50% and is considerably higher in the case of towns such as Medvedja, which have suffered additionally by virtue of their remote location and 'branch plant' structure. By 'real' unemployment, I refer not only to the officially registered unemployed, but also to persons who are economically active and not currently receiving an income. This includes large numbers of people who are registered as employed in socially owned enterprises solely in order to maintain social insurance benefits, but are not actually working (so called 'forced vacation' workers).

In keeping with the country-wide pattern, unemployment in Southern Serbia falls disproportionately on unskilled and first-time job seekers. Labour Market Bureau data indicate that over 90% of the current jobless total is comprised of persons who were not educated beyond high school level, the majority being persons who have

24 "Study and Activity Identification for Refugee and Local Economic Integration" EAR Serbia August 2002.
never worked (first time job seekers) or persons who may or may not have worked previously but have been out of work two years or more (long-term unemployed).

This rather bleak economic situation is being compounded by a combination of poor and rapidly deteriorating infrastructure and adverse demographic trends. Significant infrastructure deficits exist in areas such as water supply (during the summer months water is rationed in Vranje, Bujanovac and Presovo), wastewater treatment and solid waste management and many of the villages are serviced only by narrow dirt roads that lack drainage and are frequently inaccessible during winter months.

At the same time the region is experiencing rapid out-migration of younger people in search of employment, especially from rural areas and areas close to the Kosovo Administrative Border Line (ABL), as well as continued movement of ethnic Serbs and Albanians as a result of the Kosovo crisis. Whilst reasonable accurate data is available on IDP in-migration, the picture with respect to the out-migration of ethnic Albanians is hard to gauge since many continue to be registered in Serbia whilst working and residing in Kosovo. Anecdotal evidence nevertheless indicates that the largest migrations have taken place in areas within approximately five kilometres of the ABL.

<table>
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<tr>
<th>Area</th>
<th>Total unemployed</th>
<th>Looking for first job</th>
<th>% 1-2 Years waiting for job</th>
<th>% 2-10 Years waiting for job</th>
<th>% Educated to primary school (A)</th>
<th>% Educated to secondary school (B)</th>
<th>% Total (A)+(B)</th>
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<td><strong>41</strong></td>
<td><strong>59</strong></td>
<td><strong>41</strong></td>
<td><strong>53</strong></td>
<td><strong>53</strong></td>
<td><strong>94</strong></td>
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</table>

*Figure 1. Structure of Current Unemployment in Serbia. Source: Labour Market Bureau.*
Many of the worst affected areas in the region are those where deteriorating infrastructure conditions have been exacerbated by the sudden in-migration of large IDP populations.

3. Immediate Prospects

The on-going enterprise restructuring and privatisation program in Serbia offers little hope for improving the region's prospects in the immediate future. Country wide estimates produced by the Belgrade-based Economics Institute indicate that by the end of 2002 current unemployment will be increased by an estimated 65,000 redundancies resulting from 'surplus employment' in the 44 socially owned enterprises scheduled for privatisation, and an estimated further 60,000 from the on-going process of 'regular' privatisation.

These observations are corroborated by municipal estimates from across the country which suggest that 'new unemployment' resulting from the restructuring and privatisation of individual socially owned enterprises alone (i.e. not including unemployment from 'regular' privatisation and other sources) will increase by at least 29% of the current official total. Arguably Southern Serbia will be less badly affected by this process than certain other regions of the country on account of the relative under-representation of large-scale industrial enterprises in the total employment figures. Nevertheless, UNDP estimates indicate that the total increase in 'new unemployment' is still likely to be in the region of 30,000.

Anecdotal evidence suggests that this will only be offset to a limited degree by 'informal sector' employment (currently estimated at approximately 1 million for Serbia as a whole), as well as employment creation in new and existing small and medium sized enterprises (SMEs), engaged for the most part in subsistence and small-scale agricultural production. Consequently it is agreed that the net effect will be to significantly swell the ranks of the existing unemployed, adding a new 'cohort' of skilled and semi-skilled workers to existing 'surpluses' of unskilled labour and first time job seekers.

4. Poverty and Humanitarian Assistance

More precise estimates of the impact of on going restructuring efforts on poverty in Serbia will hopefully be enumerated in the Poverty Reduction Strategy Paper (PRSP), due to be finalised and adopted by GoS in June 2003. In the meantime however, it seems reasonable to assume that the effect will be significant, since, as the Interim PRSP notes, 'households where the head is unemployed face the highest risk of falling below national and absolute standards of poverty.'

Aside from the direct effects of unemployment on the individuals and households involved, a proper calculation of the impact of 'new unemployment' on poverty also needs to take into account the effect of negative local income multipliers and the fact that, due to price inflation, increasing costs of living and a decline in the provision of welfare benefits, households in Serbia as a whole need increasingly higher incomes to stay above the poverty line. Hence, it is estimated that between 1990-2001 the poverty gap (i.e. the amount needed to bring the income of the poor to the poverty line) in Serbia increased from 1% to 3.1% of GDP.

This growth in 'new poverty' in Serbia coincides with a planned decline in the availability of humanitarian assistance to refugees, IDPs and other vulnerable groups in the community. According to OCHA, most humanitarian agencies have already reduced assistance to IDPs in 2002, citing a variety of justifications including the expectation that Federal and Republican Governments will take an increasing share of responsibility and this trend is expected to continue in future. A similar scenario is presented in the GoS 'Status Report on International Assistance to Serbia' which reports that humanitarian assistance from all sources (including ECHO and the United Nations) will be phased out by the end of 2002, to be replaced increasingly by development assistance aimed at expediting social and economic development.

![Figure 2. Humanitarian vs Development Assistance](Source: OCHA)

This situation has given rise to widespread concerns, particularly within the GoS which argues that in view that the persistence of poverty and its likely increase as a result of enterprise restructuring and privatisation 'humanitarian assistance is still necessary for the most vulnerable categories'.

Similar concerns have also been expressed by municipal and social welfare professionals in Southern Serbia, many of whom note that reductions in humanitarian assistance are not being offset by commensurate improvements in social conditions and living standards. On the contrary, unemployment and poverty appear to be increasing with the most serious consequences for vulnerable groups such as elderly persons with small pensions, households with dependent members and unemployed parents, refugees and IDP families living in rented accommodation.

27 'Internally Displaced Persons in Serbia and Montenegro' UN Office for the Coordination of Humanitarian Assistance, Belgrade April 2001.
5. Development Programmes and Employment Creation

How far is the planned increase in development assistance likely to mitigate this situation? Will new employment opportunities created through economic and social development programmes prevent a continuing slide into poverty? I would argue that there are at least three good reasons why we should be sceptical about this.

The first is the general observation that employment creation initiatives tend, by their nature, to assist persons who are economically active and have labour as a resource. Consequently they provide few direct benefits to members of the poor population who are not able to work; children, the elderly, primary carers and so on. As I have indicated, such persons are strongly represented in the poor population of Southern Serbia for a variety of reasons including rapid out-migration.

The second is that Southern Serbia, relative to other regions in the country, remains under-served with respect to international development assistance. This is clearly illustrated by the fact that the European Agency for Reconstruction (EAR), the largest single international donor to Serbia in value terms, does not target Southern Serbia in any of its mainstream programmes having employment creation as a principal objective, including programmes for supporting SME development and the delivery of vocational education and training.28

The third relates to the effectiveness of existing 'development programmes' in actually creating sustainable new employment opportunities. The USAID funded Community Revitalisation and Development Programme, for example, provides small grants for locally identified projects in areas such as income generation, environmental improvement, civil works and community participation, but is explicitly aimed at encouraging democratic processes and improving 'hearts and minds,' rather than creating jobs per se. Similarly, the UNDP Rapid Employment Programme provides grant assistance for high visibility public works projects including cleaning rivers, sports fields, school playgrounds, health centres and archaeological excavations, but is primarily concerned with creating temporary employment opportunities as a means for short-term poverty alleviation.

I should stress that my point about these programmes is not that they have been unsuccessful in terms of engendering increased political stability and social cohesion (and hence in assisting to build a solid foundation for future economic growth) but that they contribute at best marginally to long-term employment creation. As such they tend to fall into a kind of 'no-man's-land,' somewhere in between addressing the needs of the poor and most vulnerable headon and creating sustainable economic activity.

5. Implications for Poverty Reduction

What does the above imply in terms of a way forward? Bearing in mind the current structure of poverty in Southern Serbia, the likely consequences of continued enterprise restructuring and privatisation and the shortage of existing development assistance in the region, I would argue that in the short-term there is little prospect of reducing poverty below existing levels. Indeed the danger is that, in the absence of

28 Rather EAR appears to be concentrating its efforts on the relatively industrialised regions of Sumadija, Belgrade and the Western Vojvodina. German development assistance provided through GTZ is similarly targeted exclusively at the Vojvodina.
significant external interventions, the proportion of the population living in poverty will continue to increase.

It also seems clear to me that whatever medium- long- term solutions might be proposed for reducing poverty in the region, these will have to go beyond the 'standard prescription' economic development approach described by a number of other contributors to the conference. This is not simply because, as noted above, the creation of sustainable (as opposed to temporary) new jobs will provide limited benefits to a large proportion of the poor population who do not have labour as a resource. It is also because, all other things being equal, any new employment opportunities created in the region are more likely to be filled by relatively skilled and highly-motivated workers currently employed in or recently made redundant from enterprises undergoing restructuring, as distinct from the long-term unemployed.

In addition, there is little evidence from elsewhere to suggest that the benefits of increased household income attendant on new job creation will be automatically redistributed to the most needy or impoverished household members. Indeed, in the absence of additional labour market interventions to ensure, amongst other things, adequate care provision and equal employment opportunities and pay, new job creation may effectively conceal poverty at the household level whilst reinforcing existing patterns of gender segregation and dependency.

6. Pro-Poor Local Economic Development?

What does all of this say in turn about the need for and potential scope for pro-poor local economic development in Southern Serbia? In terms of the substantive nature of policy required, it follows from what I have argued above that in the short to medium term, some form of humanitarian assistance will continue to be required in order to ensure that basic welfare services are provided to the most needy and vulnerable. As noted earlier, this is also the view of GoS. Precisely how much support and of what kind is another question, requiring further on-the-ground analysis.

At the same time a new economic programme will be required which explicitly aims at mitigating the short term effects of continued enterprise restructuring and privatisation, whilst assisting the existing poor to create and or / find new job opportunities. This is not the place to elaborate the details of such a programme, but it is important to stress that it would differ significantly from the SME development approach to local economic development, which has been characteristic of many other transition countries. The principal axis of difference would be a more pro-active public policy role in educating entrepreneurs and actively nurturing businesses in growth potential sectors of the regional economy. It also would include a much greater emphasis on fostering the development of local producers' co-operatives, especially in sectors such as small scale agricultural production which, for many households, provides the main buffer against absolute poverty, together with mutual financial initiatives such as credit unions and guarantee societies as a means for mobilising local savings and increasing access to affordable sources of investment finance.

Within this overall context, early priorities for such a programme would include:
- Assistance to the government of Serbia and National Bank of Serbia to develop legislation and an appropriate regulatory system for non-bank financial institutions, including micro-finance institutions, local credit associations and mutual societies. On a conservative calculation, this would unlock approximately $20 million in increased funds for micro-credits alone and
enable the rapid development of alternative local financial institutions that have been successful in financing economic development in other transition countries.29

- Assistance for the development of a central credit referencing agency to ensure that bank and non-bank financial institutions have accurate and up-to-date information about enterprises, thus encouraging increased lending and investment.
- Technical support for 'skills benchmarking,' enabling enterprises, including private sector enterprises, currently undergoing restructuring to identify more accurately the skills they will need to improve or maintain their competitiveness, relative to industry leading enterprises in EU member states. This could be undertaken as an adjunct to current EAR enterprise restructuring and Vocational Education and Training initiatives.
- The development and implementation of an entrepreneurial development programme aimed at workers made redundant from restructuring SoEs and other large enterprises. The programme should involve a significant element of positive vetting to ensure that workers wishing to use their severance pay, savings, etc., to go into business have the entrepreneurial attributes and commitment to succeed.
- The formulation and implementation of a system of incentives designed to encourage employers to provide jobs for the long-term unemployed. N.B. such a system would not necessarily involve a direct employment subsidy and could, for example, take the form of a reduced rate of employment tax.
- The development of a comprehensive system of 'accreditation for prior learning' providing long-term unemployed and other vulnerable groups with formal recognition for previously acquired skills. Capacity building for municipalities to play a stronger role in the formulation and implementation of 'bottom-up' regional and local economic development strategies.

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29 See 'Survey of the Legal and Regulatory Environment for Microfinance Institutions in the Republic of Serbia' Report commissioned by DfID, April 2002
Mr. Davorin Pavelić  
SEED Programme, World Bank and IFC  
Sarajevo, Bosnia

In his presentation on the experiences of Bosnia and Herzegovina, Mr. Pavelić highlighted that there are a number of ways of achieving local economic development. He noted, in particular, that public private partnerships are important in being able to reconcile the mixed goals of the community and in energising the community to do more. There needs to be a solid local consensus about programmes that are about to be implemented and the strategy for development small and medium enterprises and other aspects of the local economy. Without this factor, the necessary local support might well be missing.

Bosnia is a very difficult country to promote local economic development. The heritage of the communist period includes entire regions that came to depend on a single industry or factory. Large factories were built to soak up rural unemployment and under-employment, but these factories are now mostly working at just 10-20% of capacity. Most of the workers are still on the payroll, however, in order to ensure social stability. Some local authorities are still optimistic that these factories will somehow grow back to their full potential: but most serious analysts realise that this is now virtually impossible in all but a very tiny number of cases. Instead, other areas for local economic development and growth will have to be found.

In spite of these huge difficulties, it is surprising that comparatively little attention is still being paid to the development of the private sector. The level of coordination between government, donors and other institutions about who should be doing what is very low. There is also little or no formal communication between local authorities and private investors. Commonly, entrepreneurs are invited to meetings only in order to solicit donations from them. On the institutional level, there is clearly a need for municipality restructuring. A strong leadership is needed to carry this out and to ensure that the new institutional structures arising will be sufficiently skilled and motivated to promote local economic development. The commitment of the local Mayor him/herself is vitally important to facilitate this restructuring process. In fact, this was the most important factor in SEED’s experience - Mayors need to show commitment for the process of local economic development to take place, otherwise it often proves impossible to achieve anything.

Mr. Pavelić remarked on the need to evaluate the success of any local economic development project. How is this done? One method is through the public’s perceptions and knowledge of the project. Successful projects soon become known through the system of local connections and contacts. Finally, one major factor in success is to know that if you do not carry the project to its full end, it will not reap any results. There are too many examples in Bosnia where the commitment of both local authorities and the international donors has been diverted, and the project has failed.
Discussion

Discussion followed a question from the audience requesting clarification of the “crowding out” concept raised in the presentations in relation to local economic development and the financial system. “Crowding out” was explained by Mr. Milford Bateman as the process whereby the particular short run conditions relating to the financial system may serve to favour one type of unsustainable economic and enterprise development project over another sustainable one. The example used to illustrate the concept was the high interest rates and short payback periods attached to most credit institutions in South-East Europe currently working with the micro- and small enterprise sectors. Largely for institutional sustainability reasons (high interest rates may mean higher revenues) these particular conditions are favoured by policymakers because they increase the chances of a credit institution surviving without the need for additional donor or government funding. The critical drawback, however, is that such strict conditions are only serviceable in practise by a particular stratum of business—low capital, low skills, low technology and low growth enterprises. These are thus “crowded in”, and given room to get established for however long they exist (often for just a short period, or at least long enough to repay any credit). Meanwhile, those enterprise and economic development projects that may be commercially viable in the longer run, fail to become established because they cannot service the strict conditions offered by financial institutions in the short run. They are “crowded out” of the market. Short term cost-cutting practises and temporary (initial) conditions may therefore very easily establish an unsustainable longer run path of enterprise and economic development that cannot be later remedied.
**Session Three:**
**Local Institutions and Local Economic Development**

**Chairperson:** Ms. Juliette Hage, UNDP Deputy Resident Representative
**Rapporteur:** Ms. Milica Kokotović, UNDP Belgrade

**Paper No 3:**
"Regional Integration and Economic Development: The role of local authorities"

Will Bartlett
Centre for Urban Studies
School for Policy Studies,
University of Bristol, UK

1. Introduction

It is widely accepted in the West that local authorities can make a substantial contribution to local economic development through their activities in the promotion of local businesses, in education, and in urban and spatial planning (Blair and Reese, 1999). It is, however, undeniable that the development of the global economy has to some extent reduced the ability of the local level of governance to influence economic development outcomes. The economic development policies of local authorities are
constrained not only by the limitations placed upon them by higher levels of
governance (regional, national and supra-national) but by the relatively autonomous
activity of and mobile capital (including multi-national corporations and international
financial institutions), and, to a lesser extent, by mobile labour. Competition between
companies that operate in the market economy takes place at global, national, and
regional as well as local levels, depending on the sector of activity, the structure of
demand, as well as the regulatory and legal environment. People migrate not just
between neighbouring localities but also globally in search of improved life chances
and living conditions.

In response, institutions to regulate and promote economic development have
emerged at all these levels, giving rise to a complex web of “multi-level governance” in
modern societies. The European Union is a prime example of the emergence of
institutions at supra-national level, while the widespread creation of lower level
institutions, such as regional development agencies, demonstrates the need for
regulation at lower levels of governance as well (Halkier et al., 1998). Within the
context of multi-level governance, the primacy of the national level of government is
being reduced, as nations club together in regional integration arrangements (so-
called RIAs), such as the EU, NAFTA, and ASEAN, while simultaneously, regulatory
power and influence is increasingly decentralised to lower levels of governance, at
regional and local level giving rise to what has been called, in Europe, a “Europe of the
Regions” (Balchin et al., 1999).

In South-East Europe, the countries of the region, encouraged by the
international community, and in the wake of the Kosovo war, have begun to embark
upon a new set of measures to enhance regional cooperation and regional integration.
Innovative measures have been introduced to begin the process of establishing a free
trade area through the conclusion of a set of bilateral free trade agreements between
the countries concerned. In this paper I ask whether and to what extent there is a role
for the lower levels of government, in particular the region’s local authorities, in this
process. I outline the importance of actions at a local level to the process of regional
integration and the role that local authorities can play in facilitating that process. I
begin with a general review of these recent policy developments. In the second section
I turn to an analysis of the nature and possible effects of the free trade agreements
which have been recently concluded, or in some cases about to be concluded,
between the various countries of the region. In the third section I assess the potential
contribution of local authorities to the process of regional cooperation, and finally
summarise with a brief conclusion.

2. Free Trade Agreements

EU policy makers are beginning to realise that after the next enlargement of
the EU takes place in 2004, there will be no way that the final piece of the European
jigsaw cannot be put into place. The eventual integration of the Balkans into the
European Union is not a question of if, but of when. The faster economic development
takes place in the region, and the more harmonised are the regional economies and
the regional institutions and laws to those of the EU, the faster can the eventual
accession of those countries to the EU take place. This requires simultaneously actions
at regional, national and local levels in the Balkans.

An important element of EU policy in the Balkans has been to promote regional
cooperation through the Stability Pact and the Stabilisation and Association Process
(EC, 2002). Thus far two Stabilisation and Association Agreements have been signed
with Macedonia and Croatia. The rationale for the policy of regional cooperation is
partly economic and partly political. The economic dimension stresses the benefits of an expansion of intra-regional trade. The reduction of trade following the wars of Yugoslav succession was one of the main reasons for the disastrous fall in GDP and living standards in the Yugoslav successor states, a situation which the imposition of sanctions against FRY from 1992-1995 did much to exacerbate. The political dimension stresses the reduction of illegal migration and organised crime. Much of the expenditure on the regional dimension of the EU's CARDS aid programme is devoted to these latter issues, rather than to regional economic development per se.

A policy commitment to regional cooperation was agreed between the EU and the heads of state of the five countries of the Western Balkans at the Zagreb Summit of 24th November 2000. The form of words used was that "rapprochement with the European Union will go hand in hand with (the) process of developing regional cooperation". Regional cooperation clearly has some essential political objectives to ensure improved security in the region, and to lock in democratic reforms. It also has an economic content, which is reflected in the emphasis on regional economic integration. The logic for this is the simple observation that most Balkan states are just too small to develop economically on the basis of their own limited markets. Together however, the countries of South-East Europe have a collective economic strength and capacity measured by their joint population of 56 million people. As a region they can potentially engage in the wider processes of European integration and of globalisation to their mutual advantage.

One of the most important and significant elements of the rapidly developing pace of regional economic cooperation in the Balkans is the completion of a set of multiple bilateral Free Trade Agreements (FTAs) between the countries of South-East Europe. One of the main motivations for the policy of encouraging the Balkan states to enter into free trade agreements has been political: the idea that trade cooperation will lead to increased security of international relations between the different countries, and that the agreements will lock in economic and political reforms.

In its first annual report on the Stabilisation and Association process, the Commission stated that "the EU has no interest in reinforcing or recreating a single Balkan space for its own sake: but rather an interest in sharing its own experience of regional cooperation and integration between strong but mutually dependent nation states". Cooperation is seen as complementary to further EU integration and the idea that regional cooperation might be an alternative to that process is firmly rejected. In a Memorandum of Understanding signed in June 2001 under the auspices of the Stability Pact, all five countries of the Western Balkans plus CEFTA countries Romania and Bulgaria (and later Moldova) agreed to sign WTO compatible free trade agreements with each other by the end of 2002. This process, which is nearly complete, will result in 21 bilateral free trade agreements, which will, de facto establish a Free Trade Area in the Balkans. Some countries have in addition joined the WTO (Albania, Croatia, Macedonia), which means they will lower their external tariffs to the rest of the world as well.

The idea is to create a broad free trade area in the region. In theory, there will be several positive economic effects of a free trade area. Firstly there are competition effects: a larger market which encompasses more firms leads to greater competition, and reduces welfare losses due to monopolistic power of firms in smaller national markets. Competition from other producers in the region can lead to an increase in the efficiency of previously protected companies. In addition there will be scale effects: reducing barriers to trade through reductions in tariffs and quotas will expand the market available to local companies and enable production to be carried out on a
larger scale than before the agreements came into effect. Since companies can take
greater advantage of scale economies, the costs of production can be reduced and
economic efficiency improved. This will make companies more competitive on
international markets too. Thirdly, there are trade creation effects: following a
reduction of tariffs, the prices of imports will fall. In so far as import demand is price-
elastic, imports (and hence exports of partner countries) will increase and trade will be
created.

But there can also be negative effects. Just as trade is created between partner
countries in the integrated market, so trade may be diverted from third countries.
Take the case of Macedonia, Bulgaria and Turkey, for example. Suppose prior to the
free trade agreement imports to Macedonia face a 50% tariff for goods imported from
both Bulgaria and Turkey, but that Turkey is a lower cost producer than Bulgaria by
25%. In that case it pays Macedonian textile companies to import raw materials from
Turkey, and the government earns substantial revenue from import duties. Now let a
free trade agreement be signed between Macedonia and Bulgaria. The price of imports
from Bulgaria falls by 50% and so now imports from Bulgaria are cheaper than from
Turkey. Macedonian companies switch their imports therefore from Turkey to Bulgaria.
The Macedonian companies gain because they can import more cheaply, but the
government loses all its revenue from customs duties, which may more than offset the
gain to the producers of cheaper prices. The introduction of the free trade agreement
may have reduced welfare, rather than increased it. Of course, this possibility is less
likely if the Macedonia has a low external tariff towards Turkey. And that is likely if
Macedonia joins the WTO and reduces all its tariffs, as indeed it has done.

An additional cost can arise through the process of trade deflection, which can
occur in a free trade area if all the countries have different external tariffs. Then third
countries exporting to the free trade area will try to switch their exports to the country
with the lowest external tariff. This will distort trade, and reduce the effective external
tariff of the group to that of the lowest tariff member. This causes a loss of revenues
from import duties to all the members except the one to which trade is deflected. The
solution to this is rules of origin, which specify that imports to any country should
bear the tariff of the country of final destination. This introduces a lot of new
bureaucracy and paperwork into the trade system. The costs of this have been
estimated to be as much as 3-5% of import prices.

In practice the plethora of bilateral agreements in the Balkans is producing a
confusing patchwork, which lacks transparency. No one has an overview of the overall
effect that these sometimes mutually incompatible agreements are and will have on
regional trade patterns. They therefore do little to unify the regional market. As Stojan
Jovcevski, Director of Studio Moderna, a company based in Skopje and which trades
throughout the region, commented to me in a recent interview, “There are too many
different laws in the region. It is a fragmented market. You need a different strategy
for each country”.

Furthermore, the FTAs do not entirely removed quota restrictions, and for
many products the free element of trade is limited to trade carried out within a quota.
This provides a continuing incentive for corruption in the allocation of quotas and in
the supervision of imported goods by customs officers, which raises the cost of trade
and reduces the beneficial impact of trade liberalisation.

Further perverse adjustment effects may arise when external economies of
scale lead to clustering of activities in one country and a corresponding decline in
activity in another, weaker country. Such geographical “agglomeration” effects may
lead to divergence of incomes and production levels rather than convergence among the group, threatening group cohesion. This is possibly part of the explanation of the growth of tensions that lay behind the break-up of the Yugoslav federation in the first place.

It is therefore important that complementary measures should be taken to stimulate trade within the FTA group of countries, so that the maximum amount of trade creation takes place. Such measures necessarily require a higher degree of political coordination and agreement than are required by the basic FTA itself. But, in the case of the Balkan countries there is an obvious and understandable reluctance to deepen political cooperation. As Dragan Tilev, head of the Sector for European Integration in Skopje said to me recently in an interview there “Regional cooperation is a top priority for the Republic of Macedonia. It makes economic sense. But, there are concerns and fears about regional cooperation. There is a fear of re-federalisation with Serbia and Montenegro. We want to confirm our borders and our state as an equal partner in the EU integration process, and as an equal partner in the new European architecture.” But international forums, such as the recently held CEI summit in Skopje in November 2002, are encouraging signs of an awareness of the need for deeper forms of economic integration in the region.

The gradual entry of the countries into the WTO (for example Macedonia’s entry was approved in Geneva on 15th October) will bring some order into this confusing situation and encourage common standards and further tariff reductions throughout the region. But the FTAs have been largely accepted as they stand by the WTO and the general defects of the system of multiple bilateral agreements will not be removed by WTO membership alone. The alternative to multiple bilateral FTAs is the creation of regional customs union with a common external tariff and internally agreed common procedures and institutions to facilitate trade between the various countries involved. But, this is almost certainly far more politically demanding than current levels of democratisation allow.

Free trade agreements on their own are not likely to be sufficient to stimulate a significant growth of trade, which could boost economic development in the region in the absence of further measures to remove non-tariff barriers to trade. Such measures are sometimes referred to as “deep integration”. An example is the creation of the Single Market in the European Union in 1992. It involves the harmonisation of legislation, quality standards and numerous other measures, which facilitate trade (of which infrastructure development, action against the grey economy, developing the financial framework for trade, liberalising the visa regime to permit free movement of labour, and so on, are some key elements). But much action can also be taken at a local level to encourage and facilitate local companies to take advantage of the newly opened market space.

**Institutions**

Many institutions are active in the Balkans at different levels of governance, from international, European, regional, national, regional and local institutions. Each level is fragmented or Balkanised, to different degrees. The international level is perhaps the least fragmented. The IMF, the World Bank, the OSCE, each with its own local office, have common policies throughout the region. The EU institutions are to some extent also integrated, with a common reference point in the policy set out in the Stabilisation and Association process. Yet there are elements of fragmentation here too. For a start each country has a different contractual relationship with the EU. As noted above, Bulgaria and Romania are candidates. Macedonia and Croatia have
SAAs. In Macedonia there are three agencies of the EU: the EU Delegation, the European Agency for Reconstruction, and soon the Special Representative of Javier Solana's office. This is the only example of a country where the EU representation itself has become fragmented.

National governments are highly fragmented. In the five countries of the so-called “Western Balkans” there are ten different parliaments, each with their own prime minister. Local governments are equally in turmoil. In Macedonia a new Law on Local Self-Government, brought into force following the Ohrid Framework Agreement was signed to end the civil conflict of 2002, the local authorities will be restructured and their powers will be strengthened. Elsewhere, too, local governments are beginning to attain a much greater significance than in the past. These reforms, and the complex layering of multi-level governance within which they are situated, will have a profound impact on the prospects for regional integration in the Balkans.

Regional economic integration is a complex process involving the development of trade, infrastructure, finance and the free movement of people. Of these, local authorities have a key role to play mainly in the development of the trade and export capacity of their local companies, and in developing local infrastructure of both hard and soft forms. They have lesser competence in the provision of finance and in facilitating the free movement of people which are task which require the interventions of national governments and the private sector on a national level, although the encouragement of local financial institutions such as credit cooperatives can also have a role to play in some cases (see Bartlett, Bateman and Vehovec, 2002).

Based on the findings of a research project on regional integration and economic development in the Balkans that I have been conducting over the last four months and on several years’ observations of local economic development practices in Croatia, Macedonia and the UK, I offer the following hypothesis. Actions which local authorities can undertake to integrate their local economies into the wider Balkan markets are seven-fold. They involve (i) the provision of information about trade opportunities, (ii) the provision of training in export practices, (iii) the development of local infrastructure in both hard and soft forms, (iv) the development of trust and social capital on a regional level through twinning agreements between local authorities in different countries, (v) the creation of a “thick” institutional framework to enable the participation of SMEs, NGOs and local authorities in collective actions for economic development and export promotion and (vi) procurement procedures which are based on a regional, rather than a purely local, level (vii) promotion of business networking.

3. Local Authorities Role in Regional Cooperation

3.1. Information

Provision of information in local economic development office is of great importance in the Balkan context where information is often privately held rather than shared within the community.

In Macedonia the USAID Local Government Reform Programme has established a network of 13 Local Economic Development Offices within local authorities. One of their main functions is the provision of information. Such offices should be linked on a regional basis in a network that offers the exchange of information on region-wide trade opportunities. The UNDP in Skopje has proposed developing a system of Balkan “Trade Connection Centres” to support the development of SMEs on a regional level.
that would play a similar role. There is no reason why such centres should not be based in local authorities Local Economic Development Offices.

3.2. *Education and training*

SMEs often lack knowledge and experience in engaging in international trade. Exporting requires much documentation and entrepreneurs need to learn how to export effectively. The alternative of course is to employ forwarding agents. For example, the Macedonian company Feršped provides such a service throughout the Balkans. But even with this there remains a need for a basic understanding of the exporting process and procedures by entrepreneurs. Local authorities can play a useful role in encouraging the supply of training or by directly providing such training in collaboration with existing educational institutions. Often such education and training can be best provided through evening classes. In Emilia Romagna in the 1980s business associations provided this type of training, but local authorities can have a role here too.

3.3. *Local infrastructure*

One of the essential functions of local authorities is that of urban planning. This involves planning the creation of local infrastructure that can be hard infrastructure or soft infrastructure. Hard infrastructure involves the provision of mundane items such as street lighting, upkeep of pavements and so on. On the business development side it also involves planning urban space for business parks, and business incubators, and the provision of premises on leasehold, perhaps in the unused premises of bankrupt companies. Soft infrastructure involves the provision of information and “real services” to SMEs among which the provision of information is a key component as already indicated. Another important activity can be the creation of SME networks, which requires the employment of a “network broker” who facilitates the creation of such networks, playing a catalytic rather than a directive role (but never the provision of subsidies to establish such networks). SME networks can be promoted locally in an initial phase, but in a second phase they can be expanded to encompass cross-border and regional networking agreements and activities.

3.4. *Twinning*

Regional cooperation between LAs can be promoted by the setting up of Twinning Agreements between local authorities in different countries. Such agreements are designed to build trust between divided communities, and to and develop social capital. This is extremely important in facilitating businesses transactions on a local level, and even more so on a regional level. In the absence of trust, entrepreneurs will be reluctant to export their products to other countries, since they cannot be sure that they will be paid or that goods will be delivered on time. Some rather neglected twinning agreements already exist between local authorities in different Balkan states. One example is the twinning agreements established between the Opština Centar in Skopje with local authorities in both Belgrade and Varna. These could be usefully developed in the future.

3.5. *Institutional thickness*

Joint working with chambers of commerce, business associations, educational establishments - creating “institutional thickness”. One example taken from the UK is of the Bristol European Forum that was established to bring together local economic development stakeholders to exchange information and discuss joint approaches to
project opportunities emanating from the European Commission. Similar joint fora in the Balkans could be established in a locality to debate issues of common concern at the Balkan regional level. They would discuss joint approaches to Balkan initiatives, and funding opportunities for the municipality. Joint forums established at a local level (for example a “Novigrad Balkan Forum”) could eventually be linked together in a regional network for the exchange of information on local economic strategies, and trade and investment opportunities, and regional donor initiatives.

3.6. Procurement

Local authorities are engaged in a wide range of purchasing activities. The more that local services are decentralised and contracted out to the private sector (e.g. waste collection) the more opportunities there are for SME development. Recent research has indicated gross cost savings in the order of 20% across the spectrum of contracted out local authority services in the West (Domberger and Jensen, 1997). Despite concerns to the contrary, these cost savings have arisen mainly from improvements in technical efficiency rather than wage cuts and forced redundancies (Bailey, 1999). Of course, contracting out is not suitable for every type of service, especially where services are not contestable (i.e. where competition is low). For this reason especially, local authorities should not restrict their tenders to local businesses alone. Tenders should be offered on a regional basis, in order to ensure a high degree of competition and the most cost-effective provision of services. A regional scope of local authority tendering would go a long way to begin the process of developing a deeply integrated regional market in the Balkans.

3.7. Promotion of regional business networking

Inter-firm collaboration and networking among entrepreneurs seems to be a fundamental feature of the way in which successful capitalist economies operate. The reason is that a single firm in isolation can seldom carry out innovation activity, which underlies growth in productivity. Innovations very often (although not always) span the competencies of individual firms requiring joint development and cooperation in research and development (Cooke and Morgan, 1993). Moreover, really large-scale innovation that is systemic must be introduced in a coordinated way, with many firms involved in adaptations to new techniques and technologies simultaneously. This requires some coordination of activities and mutual adjustment, which in turn requires information flows between firms over and above the normal arms-length adjustment to price signals between competing firms. Policy interventions to develop such capacities underlie the emergence of learning regions in several west European countries (Morgan, 1997). Theorists of orthodox neoclassical economics who emphasize the atomised nature of competition in market economies often miss this point. In South-East Europe, the programmes of transition to a market economy have also often been predicated on the creation of cut-throat competition, and have sought to break down pre-existing business networks, which have perversely been forced underground into the grey economy or exploited by organised crime and mafia-like organisation of shadowy business and financial groups. Local authority interventions to promote legitimate business networking programmes on a regional level can harness the power of business networks to legitimate ends and so simultaneously promote regional cooperation, local economic development, growth and job creation.

4. Conclusion

Local authorities can play an important role in the integration of their local companies into the wider regional market in the Balkans, and in this way make a big
impact on the development of their local economies. They can carry out important activities in the field of the provision of information, promotion of training, the development of hard and soft local infrastructure including networks of SMEs, the creation of twinning agreements with local authorities in other countries, in the development of thick local institutional framework, and in the region-wide procurement of services. These activities will not be easy to implement without the active engagement of local stakeholders and outside donor support. Nor will they be self-sustainable in the short run. But with the signing of region-wide free trade agreements at the beginning of 2003, with phasing in to full free trade within five to six years, real progress should be evident and self-sustainability should be achievable over that time scale.

APPENDIX A: Regional trade flows

<table>
<thead>
<tr>
<th>Share in Total Exports in 1997 (%)</th>
<th>From Albania</th>
<th>From Bosnia</th>
<th>From Bulgaria</th>
<th>From Croatia</th>
<th>From Romania</th>
<th>From Macedonia</th>
<th>From Yugoslavia</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Albania</td>
<td>0.1</td>
<td>0.5</td>
<td>0.1</td>
<td>0.0</td>
<td>1.1</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>To Bosnia</td>
<td>0.0</td>
<td>-</td>
<td>0.1</td>
<td>15.6</td>
<td>0.1</td>
<td>0.1</td>
<td>15.8</td>
</tr>
<tr>
<td>To Bulgaria</td>
<td>0.0</td>
<td>0.1</td>
<td>-</td>
<td>0.2</td>
<td>0.7</td>
<td>1.9</td>
<td>1.5</td>
</tr>
<tr>
<td>To Croatia</td>
<td>4.2</td>
<td>57.0</td>
<td>0.3</td>
<td>0.2</td>
<td>3.6</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>To Romania</td>
<td>0.0</td>
<td>0.0</td>
<td>1.3</td>
<td>0.4</td>
<td>-</td>
<td>0.4</td>
<td>1.9</td>
</tr>
<tr>
<td>To Macedonia</td>
<td>2.6</td>
<td>1.8</td>
<td>2.0</td>
<td>1.9</td>
<td>0.1</td>
<td>-</td>
<td>8.6</td>
</tr>
<tr>
<td>To Yugoslavia</td>
<td>0.3</td>
<td>1.2</td>
<td>2.5</td>
<td>0.5</td>
<td>1.7</td>
<td>9.3</td>
<td>-</td>
</tr>
<tr>
<td>To EU &amp; EFTA</td>
<td>87.9</td>
<td>17.7</td>
<td>44.2</td>
<td>50.9</td>
<td>57.8</td>
<td>44.0</td>
<td>54.7</td>
</tr>
<tr>
<td>Totals</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: UNECE Economic Survey of Europe, 1999, No.2 Table 1.3.1.
Note: The largest bilateral trade flows are highlighted.

APPENDIX B: Free Trade Agreements in the Balkans: THE STATE OF PLAY END 2002

<table>
<thead>
<tr>
<th>BiH</th>
<th>Bulgaria</th>
<th>Croatia</th>
<th>FYR Macedonia</th>
<th>Romania</th>
<th>FR Yugoslavia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>Under negotiation</td>
<td>Bulgaria to approve mandate</td>
<td>Signed 27/9/02</td>
<td>Applied 15/7/02</td>
<td>Under negotiation</td>
</tr>
<tr>
<td>BiH</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>FR Yugoslavia</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Under negotiation</td>
<td>Bulgaria to approve mandate</td>
<td>Applied 1/1/02</td>
<td>Applied 1/7/02</td>
<td>Under negotiation</td>
</tr>
<tr>
<td>Croatia</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FYR Macedonia</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Romania</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Source: UNECE Economic Survey of Europe, 1999, No.2 Table 1.3.1. Note: Under negotiation means that the agreement is in progress and will be finalized in the future. |

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Acknowledgements

The research on which this paper is based was carried out as part of a Leverhulme Trust Research Fellowship held from June-December 1992. I am grateful to the Trust and to the Institute of Economics in Skopje, Macedonia, which hosted my visit to the Balkans in autumn 2002. Thanks are also due to Milford Bateman for inviting me to participate at a UNDP conference in Belgrade where the first version of this paper was presented, and to the participants at the conference for their useful comments. I am also grateful to Verica Hadzi Vesileva-Markoska in Skopje for help in arranging research interviews, and to Jani Bogoevski in Brussels for data on the matrix of bilateral free trade agreements. The responsibility for any errors or omissions is entirely my own.
Mr. Meekel started by asking what is it that makes infrastructure so important? Essentially, it is difficult for any enterprise to operate in the absence of good quality infrastructure, such as a good road system, a water system, electricity, etc. Everyone now recognises the link between good public services and infrastructure, and effective local economic development. Moreover, a good quality of life is directly linked with investment in communities.

Currently, around 1.6 billion Euros is urgently required for priority infrastructure needs in Serbia. Yet the budget of Serbia is already in deficit, and so the likelihood of being able to attract the amount of financial resources required from here is small. Moreover, it is also not possible to approach the commercial banks at this time. They are currently very weak and have other more profitable things to do. Even when they do consider on lending to municipalities, the criteria are not always clear.

This suggests some sort of credit market is needed to support local infrastructure upgrading. Larger municipalities, such as Belgrade, Nis and Novi Sad, may not have too much trouble obtaining these municipal loans, but how can small and medium-sized municipalities attract the attention of lenders? Municipalities must prove to them that they are credible and will be able to reach the criteria of lenders. This will not be easy. So who will finance these urgently needed investments?

Many international organizations are currently interested in working in Serbia. This will probably remain the case for two to three years to come. It is therefore likely that international support will be forthcoming to help in the task of upgrading municipal infrastructure. However, the plans and proposals to obtain whatever financial support is around must be of the highest quality, relevant, transparent and with a minimum of overlap. It is also important that the most urgent cases are dealt with first, rather than passed over in favour of those that can wait a little longer until local conditions are more appropriate.

To co-ordinate this task a Municipal Infrastructure Agency has been established to help municipalities raise the necessary funds. The agency will streamline investment projects with municipalities, as well as provide TA to help municipalities present their urgent infrastructure projects as credit-worthy to donors and investors. The most basic and urgent infrastructure will have to be prioritised. The Agency will also capacity build with municipalities in order to implement these projects. Moreover, since foreign development banks are keen to see a sovereign guarantee, the Agency will contain an expertise to advise on these issues.

Mr. Meekel then pointed out that to date, the European Agency for Reconstruction (EAR) has provided €12 mn for this program: €8 mn in grants and €4 million for the Agency itself. According to the draft law, the Republic Govt. (not the Municipalities) will finance the Agency. The new Agency will be managed by a Management Board and overviewed by a Supervisory Board, composed by six representatives from the Ministerial level and 6 representatives from the local authorities. These local government members will be elected by the Agency Council consisting of every municipality. The new Agency Council will meet at least once a year, with co-operation from the Standing Conference of Towns and Municipalities. It is hoped that this new institution will enable the urgent task of upgrading the local infrastructures to go ahead without further delay.
Mrs. Vasvija Gusinac
Mayor of Novi Pazar

Mrs. Gusinac started by providing a general background to conditions in Novi Pazar. She noted that Novi Pazar is the unofficial centre of an unofficial region, the Sandzak, which is one of the most undeveloped regions in Serbia. Currently, the population in the town is around 100,000. Because of the adverse economic situation there are many projects currently underway with international donor support, including USAID’s CRDA (Community Revitalization through Democratic Action), SDC’s municipal development program, and the OSCE’s capacity building with local partners.

Within the framework of the undeveloped region of Novi Pazar, however, it is not easy to absorbing these capacity building programs and utilise them for the greatest benefit of the people. Most donors are not aware of the conditions in the region and its enormous lack of related institutions, including the fact that there is no university, clinical centre, institute of health protection, Chamber of Commerce or regional and local statistics collection. The international donor community should note that central government decision-making organs do not exist in the town or the region. For example, there are no decision-making organs for health care, schools, urban planning, postal services, the energy supply, forests, and the water supply. All decisions concerning these public services are made outside of the region. When institutions and decision-making organs do not exist at the regional level, this inevitably undermines the impact that can be promoted with the use of donor support. For example, despite two years of requests, there is still no information about the level and use of donor funding on hospitals and the energy sector in the region - even though Novi Pazar has presented proposals to access this information through the correct channels at the Ministry of Foreign Economic Relations and according to the proper procedures.

Mrs. Gusinac emphasised the importance of regional level institutions, and that ideally all projects emanating from the central government should go through these institutions. In the absence of regional institutions, donors will remain in ignorance of their real necessities and priorities. Thus, the decentralization process is the key to regional development.

The region particularly feels the lack of a regional University. An attempt was made to establish a University, but very little support was forthcoming from central government and the donor community. More recently, Novi Pazar along with Tutin and Sjenica municipalities opened an Agency for Economic Development for Sandzak. This includes a business centre to assist SMEs. There is a lot of work for this new agency to do since there are many obstacles to SME development in the region, including the fact that municipalities have no property, a lack of urban planning laws, weak infrastructure, and the cadastral system is many years out of date. Finally, institutions such as UNDP can help with capacity-building and training, as well as co-ordinating support with other donors. Capacity building should also extend to members of local parliament and to lower ranking administration officers.
Discussion

A lively discussion ensued the contributions. Tom Thorogood (Vranje FAO) raised two points in connection with the contribution by Dr. Will Bartlett on regional integration - whether regional trade liberalisation did not involve considerable risks and, while export markets are important, are not local markets easier to open up? Will Bartlett replied to the first question that the key idea is partial liberalization. Some of the more sensitive markets for goods should retain some form of temporary protection. But with the question of WTO membership being negotiated by Croatia, Albania and others underway, it is simply not possible to contemplate widespread protection. In the manufacturing sector, for example, restructuring will have to take place and clearly some companies will have to adapt or fold - it's a natural and inevitable part of economic development. But complementary policies can be put into place to ease that restructuring process and, crucially, to assist in the establishment of companies that will have better opportunities to grow. It's all a process that has to evolve. And indeed, the process of convergence and growth in the Balkans is beginning to emerge - growth rates are currently at around 4%, which is greater than that of EU countries. With regard to the second question, Mr. Will Bartlett noted that it is not an either/or scenario - there is a mix to be achieved.

Mr. Robert McIntyre (Institute for International Economic and Political Studies, Moscow) then questioned the idea raised by Mr. Will Bartlett that local governments should be encouraged to outsource municipal functions. He pointed out that this strategy when deployed everywhere else in Eastern Europe has simply produced an underclass of very low paid, insecure private sector workers collecting rubbish on behalf of (often mafia-type) private organisations. The view that this could be construed as a build block of “progress” was perhaps a particularly Anglo-Saxon interpretation. Responding, Will Bartlett noted that what constitutes “progress” is indeed a very subjective concept and people often disagree. He noted that, of course, labour conditions have to be regulated and exploitation curbed, but he maintained that since local governments have no particular expertise in rubbish collection such a function should not lie within their orbit. Exactly where such a responsibility should lie can be the subject of another debate.

Mr. David Coombs (UNDP) noted that the mid-west region of Ireland was considered a very important region in Western Europe in terms of successful Local Economic Development (LED) in the 1980's. “Associative capacity” is a term used to describe the ability of local authorities to work with their local communities, particularly with Universities. We must see LED globally, rather than just what goes on in our own locality. It is also very important to recognize the importance of the role of the state, ie., the central government. It is equally important for local governments to have representation at the state level. The Standing Conference on Towns and Municipalities is an obvious opening to promote this greater interaction between the central and local on policy issues. In particular, the central government must recognise the impact it will have on local communities in the privatisation process, so representation for local governments is again critical.

Mr. Jonathan Brooks (UNDP) then rose a question with regard to municipal financing and what the new Municipal Infrastructure Agency means by “credit-worthiness” being central to its new mandate. He asked whether the new Agency meant for projects to be credit-worthy, or the municipality itself? If it was the former, then this implies that you charge a commercial tariff for infrastructure projects. What then is the argument for having a state-funded agency for this role, instead of a commercial body? If it was the latter, however, then this implies that only those
municipalities in a healthy position will be able to raise more funds. Would this then not mean that you would only end up helping those municipalities that are already better off? Those with budget deficits may, and probably do, have greater needs. He suggested that greater clarification is needed here on the aims of such agencies. Mrs. Vasvija Gusinac added that the new Municipality Infrastructure Agency might make things worse, since it will be a move toward further centralisation instead of vice versa. Would this not lead to more centralised finance, and even worse, those lesser-developed towns such as Novi Pazar, will never have a chance to access this funding? Would this not slow the process of decentralisation?

Mr. Thomas Meekel replied that the new Agency will not promote centralisation because the Agency will improve the efficiency of service delivery in the selected municipalities by assisting municipal authorities and/or public utility companies with the preparation and implementation of priority municipal infrastructure projects. Helping also municipal officers to run their infrastructure projects and present and clarify their financial situation to potential lenders has no link with “centralisation”. The Agency will definitely serve local authorities and not the State. Regarding creditworthiness, the Agency is not designed to provide funding to underdeveloped cities but to involve credit in the financing of municipal infrastructure. It is only the development of a sustainable private sector municipal credit market that will provide sustainable sources for cities. But in order to interest lenders to do business with municipalities, it is necessary to start first with the most creditworthy projects and to prove that these cities are able to deal with the repayments of the loans. Once this is proved, it would be more likely to work with more difficult projects, where the grant component must be bigger.
Session 4:  
The Role of Agriculture in Local Economic Development

Chair Person: Mr. Dragan Veselinov, Minister of Agriculture, Serbia  
Rapporteur: Ms. Paola Pagliani, UNDP Belgrade

H.E. Mr. Dragan Veselinov  
Minister of Agriculture, Government of Serbia

Mr. Veselinov began by providing some overview statistics on the agricultural sector in Serbia. Key facts included:

- There are 800,000 farms in Serbia
- The land-ownership structure of farms in Serbia is quite unfavourable - 76% of farms are smaller than 5 hectares and the majority is smaller than 5 hectares.
- There are only 11,000 full-time farms, of which 40% of these are individual farmers
- More than four times more men than women are engaged in agriculture
- There was a fast introduction of a free market in the aftermath of the collapse of the old regime, including free prices, no quota restrictions on imports (only tariffs) and few quotas on exports that will be removed soon.

The current situation in the agricultural sector can be described as chaos. Accordingly, the Serbian Government will very soon launch the agricultural plan for 2003, which will be based upon:

- A reduction in the number of farmers and farms without affecting the agricultural production
- The introduction of subsidies for farmers (especially in the sectors of sunflower, soya and milk production). Of course, important institutions such as
the WTO are against subsidies, but at this moment we have none and they will anyway not exceed 7% of the exported value.

- In 2005 we will start to negotiate a quota arrangements with the EU, so in the meantime there is space to increase the production
- The budget will be lower than $150 million.

Mr. Veselinov went on to emphasise that rural development is extremely important for Serbia, since more than 50% of the population lives in the countryside or in villages. The situation can be very different in different regions. For example, in any part of Vojvodina there is no more than a 12-minute drive from one village to the next; but in central Serbia there are vast deserted areas as the population seeks to move to Belgrade or other cities in search of employment. It is therefore vital that all Ministries in the government design a strategy for rural development to present in front of the parliament.

Perhaps most importantly here, a Rural Development Agency has been designed. However, it is still not receiving the recognition and level of financial support needed in order to underpin effective rural development. Nevertheless, it is a beginning. We must emphasise that rural development requires agriculture, but also solid infrastructure, culture and other developments. Finally, perhaps we in Serbia must move away from equating the notion of “farmer” with that of the “peasant”, who largely produces just to feed his family and no more. Instead, we need to work to promote “specialised agricultural producers” that are professional, dedicated and efficient.
Promoting agricultural co-operative development: lessons to be learned from the Danish experience

Holger Hasle Nielsen
Danish Agricultural Co-operative Federation
Denmark

1. Introduction

Denmark is known as one of the countries in the world where the co-operative movement has had greatest success in the agriculture sector. In 1882 the very first co-operative dairy in the world was established in Hjedding in Denmark, and that marked the beginning of a continuous process of growth, which is still ongoing. It is important to note that the members themselves operate the Danish co-operatives, and all members of governing bodies are farmers elected by and among their farmer colleges.

In Denmark there is no co-operative act that regulates the co-operatives activities. Instead the co-operatives are legal governed by the bylaws set up by the members themselves. These bylaws regulate the relations between the members and also the member’s common activities through the governing bodies as Board of representatives and Board of directors, which all consist of farmer-members. This structure gives a very good background for active member-participation, member-motivation and member-responsibility for their own situation and common activities. Members of co-operatives are active involved in the decision process and that is fundamental for the active process of co-operatives. It is important to underline one important thing - that it is not the Co-operative that has members, but that it is the members who have a Co-operative.

2. Strong Danish position on the World market

Danish agriculture and Danish co-operatives have a very strong position on the world market and in international trade of agricultural products. One important reason for this strong position is that Danish farmer’s have continuously changed the structure of their organisations and have merged their co-operatives as necessary to form larger units in order to best meet the competition on the markets. Without these structural changes in the co-operative organisations and the willingness to adopt new ideas the Danish co-operative sector would never have been able to play the role on the world market that it has. This important role if noted in the following figures:

- Denmark’s total area is around 43,000 sq. km.
- Denmark’s population is 5.3 million.
- Denmark consists of 500 Islands and one peninsula.
- The average farm size in Denmark is 50 hectares.
- Each Danish farmer on average exports products to the value of US$150,000 per year.

The Danish agriculture and food industry therefore has good experience in adapting to market economy and producing exactly what the market needs. This goes for the home market as well, just as much as in relation to the 180 markets that receive Denmark exports agricultural products to. Most of all, the Danish agricultural
system is dominated by farmer's co-operatives. Out of all agricultural production 50 - 98 % is taken care of by the members own co-operatives.

It is important to note that Danish co-operatives are established from the "bottom up" and not from the "top down". This means that the core of any co-operative is fulfilling the member's wishes and needs, and for this reason the members themselves take the lead in establishing the co-operative.

3. Characteristics of Danish co-operatives

In Denmark there is no specific law for co-operatives, which is quite different compared with most other countries. This means that the legal fundamentals governing the operations of the co-operative are their own by-laws as the members have confirmed them. The by-laws regulate the member's influence, their rights and obligations. The rights and the obligations balance each other. The members decide themselves how much they will produce, and their co-operative has the obligation to receive the amount for processing and marketing.

On the other hand the members have an obligation to then deliver their total production to their co-operative. This is one of the reasons why the co-operative movement in Denmark is so strong. When you are a member of a co-operative you are 100 % member and you do not have the right to sell your production to others. Your alternative is to be a non-member and by this be a sole seller on the market, incurring the full risk of not being able to have your production sold on the market. The members commit themselves to pool all their production in the co-operative so that the co-operatives can optimise the processing and marketing activities and thereby minimise costs and again maximise benefits to the members. When the accounts are made for the full year the members discuss and then vote to decide how much money shall remain in the co-operative as common consolidation, and how much money shall be paid back to the members.

Education and training are keywords in the work of all agricultural co-operatives. The co-operative movement offers the members several opportunities to participate in meetings and workshops in order to train themselves and be updated on all aspects of co-operative membership and management. More than 40 % of all members attend such meetings and it gives a good background for influence in the further development of the joint co-operative. Debate is an important part of a co-operative's activity, leading to much better understanding and motivation to make the decisions passed in the General Assembly. Often the debate also takes place in the co-operative magazines. It often leads to the false conclusion in the public that the co-operatives are in permanent crisis; such is the extent of discussion on key issues. But the fact is that debate is a vital part of the democratic process and makes for a better understanding on the part of members, and from there more sustainable solutions to the problems under discussion.

4. The first co-operatives in Denmark

The first co-operative dairy in Denmark, as well as in the world, was established in 1882 and it became a success. By joining forces the member-farmers were able to produce the same high quality output as the bigger farms, and they also made better prices if they produced better quality. The co-operative idea was fully accepted, and new co-operative dairies came up very quickly. The co-operative concept became such a success that over an eight year period a new co-operative dairy was established every three days. The number of co-operative dairies thus increased dramatically, and
by 1935 the total number in Denmark was 1400. This effectively meant a co-operative
dairy in every local community. According to the by-laws, the organisation of the dairy
was decided by the General Assembly, which is where the members meet and debate
the situation with regard to their common activities, as well as decided on issues
related to the financial results. Finally the members elect the board of directors
among themselves. The members also decided to collaborate with the other co-
operative dairies on joint purchasing and marketing of cheese and butter. Importantly,
the agricultural co-operatives also began to form new co-operatives (secondary co-
operatives) to take care of their non-production common interests.

In the local communities the members were very proud of their co-operatives
and the co-operatives were doing well under the given circumstances. The number of
co-operative dairies before the 2nd World War topped 1400 in number. After the Second
World War new techniques came to the market, and the co-operative dairies found they
were simply too small to invest in the new possibilities. The Management Boards of
each co-operative considered this situation at some length, and often they found that
they had to choose between maintaining the local dairy and accepting the drawbacks
to this, or look into the possibility of merging with their neighbour. Many chose to
merge and grow bigger and more efficient using new technologies. The following
table illustrates the dramatic rise in the number of agricultural co-operatives after
1900, and then the gradual consolidation into more efficient units as the market and
technology changed.

### The structural development of Farms and Co-operatives

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<td>62</td>
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<td>2</td>
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<td>Number of members</td>
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<td>194.056</td>
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<td>36.020</td>
<td>25.300</td>
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<td>800</td>
<td>1.400</td>
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<td>1.605</td>
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<td>33</td>
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<td>95.306</td>
<td>107.100</td>
<td>47.000</td>
<td>48.700</td>
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</table>

Federation of Danish Co-operatives

5. New merger trends - two examples

In Denmark there are now co-operatives in nearly every sector of agriculture,
and they achieved a dominant market position just about everywhere in Denmark. For
example:

The pig slaughterhouse sector: the system of slaughterhouses has been
dominated by farmers co-operatives for more than a hundred years. The first one was
established in 1887 and the number of co-operative slaughterhouses grew to 62 by
the 1960s. Since then the merger process took over and members decided to merge in order to obtain a grow stronger. Mergers have been a continuous process since then, and after the very latest merger there are now only two co-operative slaughterhouses in Denmark, but the level of production has never been bigger. The largest one is DANISH CROWN, which over the years is a merger of 61 co-operatives, which merged after the member’s decision. Today DANISH CROWN is the Worlds largest co-operative slaughterhouse. It has 22,891 farmer-members and has 22,170 employees. DANISH CROWN slaughter 20 million pigs a year and export too more than 120 countries over the World. The turnover is 46,100 billion DKK = 5,763 billion US$.

Dairy sector: Mergers have also taken place in the dairy-sector in Denmark over the last 40 years. Accordingly, the number of cooperatives has fallen from 1400 to 14 in the dairy-sector. Last year the Danish MD-FOODS developed a strategic alliance with the Swedish co-operative dairy ARLA, which is the largest dairy in Sweden. The name of the new merger is ARLA-FOODS. This strategic alliance has been successful in many ways. As two independent national dairies they coordinated their specialised products and they joined forces in many other ways. Another good reason is the fact that if you wish to be sustainable on the international and global market you must have a certain size. You have to prepare your organization for this situation in due time in order to be a player on the market, and that is what they did in this large merger.

6. Conclusion

The Danish agricultural co-operatives are among the strongest in the world, and have delivered to members and their community alike very many benefits. Danish farmers co-operate voluntarily and successfully manage their co-operative in their own long-term interests. In addition, many institutions have arisen that help them to develop their co-operative and to react positively and quickly to the many changes taking place in the world around them, such as new technologies, markets, products and processes.
Paper No 5:
“Initiatives to stimulate agricultural production in the Sandzak region”

Anthony Pope
Agriculturalist and Agronomist
United Kingdom

1. Introduction

It is correct to assert that a healthy rural economy is a key factor in ensuring stability and economic growth in a region or country, particularly in view of the historic importance of agriculture and its traditional role of providing food, jobs and shelter for rural people. Unemployment, as a factor of vulnerability, has a relatively larger influence on effective poverty in Serbia than in the other countries in the region. Serbia has one of the largest official unemployment rates in the region, as well as a very high rate of covered unemployment, implying very low wages for employed workers. In rural areas, a large proportion of the population formerly employed in State companies (e.g. Zastava in Kragujevac and a big factory in Priboj) resumed or fostered agriculture activities, whose production covers part or all their economic needs.

The agricultural sector, once the mainstay of the regional economy, has been hit hard by the collapse of the agricultural support structures after 1991, principally the top-down state co-operative structure (Zadruga), and the loss of markets following the break-up of the former Yugoslavia. Institutional problems have provided further constraints that farmers have to cope with; the collapse of technical advisory/extension services, the general technological isolation and the transition from a State controlled to a market economy have all restricted farmers in reorienting and planning their activities. As a result, very few farmers are in a position to apply modern techniques, which in turn could form the foundation of grass-root development of the sector and improve their general economic situation.

Because of the mountainous topography, livestock production in this region is the mainstay of farming activity and income for farmers, and during the past decade has acted as a safety net for many vulnerable families. Farmers in isolated areas have only subsisted by tending not to concentrate on specific lines of animal production, but instead keeping small numbers of different types of livestock. In this way they spread their risk and have access to dairy, meat and other products for household consumption, with any excess products for sale or barter trade with neighbours. They have also survived by reducing the use of fertiliser and agricultural chemicals, foregoing repairs on tractors and equipment, and by selling breeding stock. Survival has come at a high price, however, because their capital base has been severely eroded.

Livestock numbers have declined quite sharply during the past ten years, particularly for the socially owned enterprises, most of which are now financially insolvent and barely functional. In the Sandzak region, cattle numbers have fallen by 33% and sheep numbers by 49% since 1991. Production has dropped even more than livestock numbers, due to the difficulty of providing adequate feed and veterinary care. The decline in numbers and productivity in the private farming sector can be attributed to:
• Retrenchment of their farming activities to little more than a subsistence level
• Greatly reduced numbers of different types of livestock to spread their risk
• An ageing rural population unable to farm as actively
• Sale of some of their breeding stock
• Reduced use of fertiliser and agricultural chemicals for animal forage and feed production
• Little repair and maintenance of tractors and equipment
• Fall in demand for livestock products (particularly for more expensive beef, lamb and cheese) as disposable incomes in urban areas have fallen
• Loss of traditional export markets for meat and dairy products in former Yugoslavia, neighbouring countries and Western Europe
• Lack of investment capital for farmers to improve facilities, machinery and production technology
• Lack of adequate processing facilities for milk and dairy products

Within the industry as a whole, there is also a huge gap in government/institutional backup and support for these small private livestock farmers. Extension, technological information and marketing advice are almost non-existent.

2. Farmers’ Needs

Behind every initiative to enhance rural livelihoods in these mountain areas is the critical need to improve roads, infrastructure and communications. Farmers themselves have many priority needs to improve their production and efficiency:

• Education and Training in new technologies and production techniques
• Credit and easier access to rural finance
• Better marketing of their livestock and livestock products
• Improved input supply and service
• Improved animal breeds and genetics
• Research and extension advice

**Education and Training in new technologies and production techniques** - Farmers in these mountain areas have been in a backwater for the past decade and need to be educated in the new technology and production techniques for livestock production. For example, there is a desperate need to improve the yield and quality of forage conserved for winter feed. Currently farmers use extremely poor quality stacks of hay stored outside, for their winter feed. Although silage is hardly known in these regions, it could if sensibly introduced and adopted, greatly improve milk and meat production. Introducing these new ideas would involve one of the better, dynamic farmers in the cooperative being selected as a “demonstration farm” for the application of these new methods. Farmers in the cooperative could have field days on the demonstration farm - farmers assimilate information extremely well in this way and the peer effect is a great tool for disseminating information and new technologies. Seminars and field visits to other areas and cooperatives would be arranged, with possible overseas trips to learn from successful co-operative operations.

**Credit and easier access to rural finance** - Most of the demand by farmers is for short-term and seasonal loans for the purchase of livestock, inputs and small agricultural equipment. Banks are willing to lend to cooperatives, associations and groups of farmers. The cooperatives may be able to assist in securing this credit as well as using revolving funds. In the longer term the sustained development of small-
scale private farms in the Sandzak region will depend upon establishing appropriate financial facilities and mechanisms to allow such enterprises to expand profitably. The establishment of a network of rural finance institutions such as village-based rural credit unions or rural credit associations may fill the rural financial gap.

**Better marketing of their livestock and livestock products** - Farmers do not have much choice of marketing channels. In limited areas milk is collected from the farm and brought to a nearby collection centre for processing at the milk plant. In other outlying areas milk is processed into cheese at home and the cheese is sold to consumers.

Marketing on a cooperative basis allows members to combine their strength while maintaining their status as independent business people. They can reduce distribution costs, conduct joint product promotion and develop the ability to deliver their products in the amounts and types that will attract better offers from purchasers. Farmers would be encouraged to sell locally processed milk, cheese, yoghurt, sheep cheese, veal, lamb, beef, pork, poultry, hides and wool through pooling their products to give the quality, uniformity, good packaging and labelling, competitive price and availability that the market requires for national and export markets. One such example to be used by the project is the collection and cooling of farmers' cow and sheep milk for processing by local dairies. This introduces a steady and secure cash flow for the farmer, who can still process a proportion of his milk into cheese on the farm. Encourage the establishment of farmers marketing associations to undertake processing and marketing of animal foodstuffs, marketing of animal products, farm input purchases and credit associations.

**Improved input supply and services** - The cooperatives, by virtue of the number of its members, would be able to purchase a wider selection of cheaper farm inputs for farmers. Access is gained to volume discounts and negotiations are carried out from a position of greater strength for better delivery terms, credit terms and other arrangements.

**Improved animal breeds and genetics** - The farmer cooperatives would be provided with suitable semen for artificial insemination to improve local stock. Genetics for both cattle and sheep would have to be orientated to meet the national and export market demand. Private veterinarians in each municipality together with AI technicians would assist with any advice and distribution of semen to the farmers.

**Research and extension advice** - Research into various types of livestock production should be carried out in the region, where linkages can be established with farmers and extension advice given.

3. Cooperatives/Associations Formation

The formation of Cooperatives amongst livestock producers in the Sandzak region could address some of the farmers' needs mentioned above and provide strength and cohesiveness to the current fragmented livestock sector. These associations of farmers are a critical "bottom-up" intervention developed by the farmers, which will help to enable them to move out of subsistence/survival farming and into the small commercial farming sector. Legal, organisational and educational advice, as well as technical and technological assistance will be offered to the farmers wishing to join the cooperatives. Earnings are usually allocated among the members on the basis of the amount of business each did with the cooperative during the year.
Farmers will be introduced to and made aware of the idea of a “bottom-up” intervention developed by and for the benefit of the farmers themselves, which will ensure strength and cohesiveness for their individual farming operations, their fellow farmers and the industry in their municipalities. The establishment of “Cooperatives of Livestock Producers” will enhance farmers' livelihoods and secure sustainable development in the agricultural sector of this isolated mountainous region. They will also have a positive impact on the local economies by their multiplier effects on local agro-industry and employment opportunities, contributing to local and rural stabilisation and development.

Young and innovative farmers will be encouraged to become involved, and should form the basis of any cooperatives established. With an ageing rural population it is important to encourage young people back onto the land, with the knowledge that secure livelihoods in farming are possible.

The key elements, apart from the “bottom-up” development through the farmers, is first and foremost that the farmers involved have TRUST in their new system, their fellow farmers and the personnel helping to initiate it, and that they get immediate BENEFIT and results for themselves.

Key priorities for the establishment of farmer cooperatives:-
1) Education of farmers to improve their awareness and understanding of the “new” cooperative concept,
2) Necessity of spending considerable time and effort in the early stages of cooperative development, to encourage farmers to work together and form effective groups,
3) The farmers should have a clear understanding that they have developed the Cooperative and they have a major control of its activities and the purpose it must serve,
4) Technical assistance, training, demonstration farms and field visits are vital for the education of the farmers in the new technology and production techniques for livestock production, improved forage production and conservation, increased marketing capacity and guidance to find new markets and outlets for their livestock products.
5) Training and farmer education should continue for as long a period as possible, with top quality presentations during the winter months, well organised field visits and a possible Study Tour to a European country,
6) The provision of tangible inputs to channel and bind farmers into one form of production or another.

4. Livestock Breed and Producer Associations

Farmers should be encouraged to create livestock breed associations (cattle and sheep), as well as producer and marketing groups over the whole Sandzak region, incorporating highland areas and valleys that would each be able to offer something different to the relationship.

Semen could be provided or purchased by the breed association to help improve the quality of livestock for different forms of production. Producer and marketing groups offer possibilities for small farmers to work together. Establishing central collection centres will enable produce to be assembled in volume, which, in turn attracts buyers and creates competition between them. Higher prices are often realised and economies can be achieved in transport, particularly where ad hoc shipments of produce are being made to distant markets.
Linkages will also be established with representative communities as well as between the commercial sector and local authorities through training, workshops, commercialisation groups and technical advice on livestock production. Farmer groups can work with agribusiness enterprises (e.g. livestock exporters and processors) in order to co-ordinate farmers' production, provide training and negotiate contracts on behalf of the farmers. The exporter could introduce a modern system whereby:

- Suitable farmers are identified to produce specifically for export markets, which is graded and packed to meet international standards;
- Production techniques and programmes are introduced;
- Farmers are trained in improved management techniques;
- Export producer groups negotiate prices on behalf of members.

5. Machinery Rings and Contractors

The difficulty in the timing of cutting of forage and conservation methods available is restricted by the farmers' access to mechanisation. On the smaller two to four cow farm the traditional methods of hand scythe cutting are possible. As larger cattle and sheep units with higher genetic potential livestock develop, requiring high daily dry matter intakes (20 kg +), conserved forage is increasingly important. Mechanisation in the form of machinery rings should be encouraged, where farmers with different pieces of machinery, pool their resources to perform operations for the members of the ring.

Some farmers who have purchased their own equipment can generate extra income through the contracting of silage making and fieldwork on an hourly or area charge basis for farmers in their vicinity.
Mr. Aleksandar Pajtić
Agricultural specialist

Mr. Pajtić began by presenting some basic macroeconomic indicators:

- Fiscal and macroeconomic stability have been reached at a very painful price, though the IMF is insisting that the public sector costs are still too high
- Monetary stability has been largely achieved
- GDP annual growth of 4% is comparably good
- Inflation has been reduced quite successfully to around 20% and it is expected to be lower in the future (10%)
- Free trade agreements have been signed with other transition countries

These stories are useful in order to attract foreign investors, but what the government is usually reluctant to say at the same time is that:

- GDP per capita is $US1,240 making Serbia the poorest nation in Europe
- 66% of capital lies in 7,000 socially owned companies which are generating around 85% of total enterprise sector losses
- There are 900,000 registered unemployed people, even if we accept that many of them are operating in the grey and black economies
- There is a deficit of around 500,000 companies in comparison to the enterprise structure of neighbouring countries
- A total of 38 new companies opened in 2001 in relative terms (that is, the difference between the number of newly registered private companies and those exiting)
- The level of internal debt between companies in Serbia is around 700 billion Dinars
- According to the Heritage Foundation's "Economic Freedoms Index", Serbia and Montenegro is ranked 149 out of 156 countries.

Mr. Pajtić mainly works in Vojvodina, which is considered the richest region in Serbia. The key agricultural information is:

- There is around 1,650,000 ha of cultivable land
- Around 20% of the land remains socially owned
- The average dimension of a privately owned landholding is around 3.5 ha
- Most mechanisation is more than 10 years old
- Only 5% of the cultivable land is covered by needed irrigation systems
- The current monthly pension paid to farmers is below 500 YUD (that is around 7 Euros)
- The main crops are maize, wheat and sunflower
- Farming households are unable both to obtain credit (because of collateral issues) nor afford credit (because of high interest rates, short repayment periods)

Given these issues, Mr. Pajtić estimates the needs of the agricultural sector to be:

- Convert more production to large-scale (for which state intervention will be necessary)
- Stimulate the formation of agricultural cooperatives. It remains difficult to stimulate agricultural co-operative in Serbia because of the bad experience
many farmers had with the land reform episode of 1945-1947, when farmers were invited to join the collectives and lost their land when these were nationalised. Therefore, national and local authorities and NGOs have an important role to now support new and existing agricultural co-operatives. Crucially, these bodies must go much more into the field to explain to farmers that this is the right thing to do and not a repeat of past mistakes.

- Stimulate the opening of new production and processing capacities

Moreover, there are many problems affecting SMEs in general attempting to operate in rural areas. For a start, a huge amount of paper work is necessary to register a small production-based enterprise. Mr. Pajić estimated that there were around twelve major steps to go through in order to get all the necessary permission.
Discussion

Mr. Dragan Veselinov first intervened to correct some of the wrong assumptions that might be drawn from Mr. Pajić’s presentation, including:

- The complexity of the paper work was largely inherited from the past and the present government is seriously engaged in simplifying all the requirements of registering a business.
- It should be noted that 45%, and not 20%, of the land in Vojvodina belong to the state.
- GDP in Serbia is not the lowest in the region. Over the last two years Serbia has overtaken both Bulgaria and Romania, and remains well ahead of both Macedonia and Montenegro.
- Anyway, GDP figures are not really the most proper measure of poverty, since official statistics fail to reflect the huge grey economy contribution.
- Farmers’ pensions have been raised to 1,200 Dinars per month, from 500 Dinars. Of course there is no reason to be satisfied with this amount either, since it is very low and often paid with some delay. But the government recognises and is trying to improve the situation.
- It should be noted that the Serbian government is providing interest free loans to many farming activities and also there is no direct taxation on farming activities. These interventions should therefore be seen as subsidies to agriculture. So from this perspective, the funds invested in agriculture are significantly more than what the state budget indicates.

Mr. Veselinov was then asked by a member of the audience to comment on the progress made in the agricultural sector in relation to the liberalising measures recently introduced. He responded that Serbia has achieved price stabilisation and avoided a major shortage of agricultural supply. Moreover, the liberalisation is not total since the government is still protecting national products with import tariffs. Problems still remain, of course. For example, potato producers suffered last year because excessive production led to extremely low prices and the Serbian government was simply unable to buy-up the excess. But at least the country is not importing potatoes or potatoes seeds, which is an improvement on previous years. A few other issues were raised during the open discussion, such as the destiny of small farms with few units of cattle; healthy food production, agricultural sector taxation.
Session 5:
Models of Local Economic Development Promotion and Poverty Reduction

Chair Person: Mr. Riza Halimi, Mayor of Preševo
Rapporteur: Ms. Renata Ikić, UNDP Belgrade

Mr. Riza Halimi
Mayor of Preševo

Mr. Halimi first pointed out that the bordering municipalities of Preševo, Bujanovac and Medvedja were the most undeveloped regions of all the undeveloped municipalities in Serbia. There had been some attempts to remedy the situation, but little progress has been made to date. The Municipality of Preševo thus remains at 20% below the average national income level for Serbia. With such a low resource base it is impossible to do anything substantive to help the local enterprise sector. In fact, the local large enterprise sector - that is, maybe three firms in total - has effectively already collapsed. The two largest - SIMCO and YUMCO - still exist, but employment levels are down from many tens of thousands to a handful. For example, SIMCO survives with just 150 workers. YUMCO is doing equally badly.

Mr. Halimi pointed out that even when organisations, such as UNDP, initiate activities; the central state is not following them up. Co-ordinating bodies for the whole of Southern Serbia have almost no resources and personnel (other than police).

Mr. Halimi then commented on the World Bank’s Poverty Reduction Strategy Paper (PRSP) project, which is now the National Strategy of the Government of Serbia and Montenegro. The part of the strategy dealing with local initiatives failed to receive sufficient attention. Many of the UNDP’s temporary employment programmes should have been highlighted more. In Southern Serbia, for example, the UNDP’s REP (Regional Employment Programme) has produced good results for them. All municipalities see REP as a good programme and all are willing to participate financially in the project.
Paper No 6:
“Local Economic Development: Policy and ownership alternatives for poverty reduction”

Robert J. McIntyre
Institute for International Economic and Political Studies, Russian Academy of Sciences, Moscow
Russia

1. Introduction: Market realities and market ideology

Local and regional governments have a central role in stimulating growth of various types of business activity, which are key to successful poverty reduction. This includes creation of a local finance system based on credit co-operatives (to overcome the SME credit famine and stimulate local saving-investment cycles), as well as directly para-entrepreneurial functions (including equity ownership), all generally consistent with the 'local developmental state' growth model.

There is a natural synergy between savings/credit co-operatives and production units with co-operative or partial employee ownership. National-level policy must create a coherent framework for this, allowing room for constructive local initiative and varieties of ownership forms but preventing self-defeating 'competition downward' to secure foreign direct investment. UNU/WIDER research shows that the 'productive' SME sector success requires both active support services at the local level and the survival, revival or development of a healthy large enterprise sector as supplier of inputs, output market, provider of various social and technical externalities, and also (unexpectedly) as source of individual entrepreneurial leadership. The small enterprise sector will not by itself create successful economic growth.

Equally misguided were assumptions that individual private ownership was the only viable form and that banking services are best provided by large, usually foreign-owned, national units. Various forms of full and partial employee enterprise ownership are appropriate, as illustrated by developments in Russia and elsewhere. 'Incomplete' privatisation will often leave local government with de facto ownership rights, raising the possibility that something like 'core-TVEs' will develop. Pressures to reorganize provision of municipal services into quasi-corporate 'ESCOs' (Energy Service Companies), 'TSCOs', etc., offer similar opportunities.

World Institute for Development Economics research on 'SMEs in Transition Economies' is useful in reaching conclusions about the appropriate role of government in poverty reduction. This requires sour, pessimistic evaluations of what has happened thus far, but is followed by happier conclusions about the future, suggesting that there is a delayed but still potentially important role for cooperatives and other employee-owned enterprise forms in filling the still gaping (directly-productive) small enterprise 'black hole'.

The Small and Medium Enterprise (SME) sector is crucial to the evolution of all transitional economies, but hopes that it can, by itself, have a systems-dynamising and transformational effects have simply proved false. It would be highly unfortunate at this late date for Serbia and Montenegro to go down this same blind alley. Despite the centrality of the SME sector in both the theoretical understanding and practical
functioning of market economies, little attention has been paid to the conditions necessary for its new or expanded development in transition economies. This omission partly reflects assumptions of market automaticity -- that spontaneous processes can be counted on to create new, viable entities to fill the interstices between large organizations.

The theoretical constructs economists use to describe and analyse small movements within established market systems offer little help in deciding which institutions to adopt or how to construct them de novo. It is important to look at both the realities of the SME sector and the unfortunate interactions of SME policy with transition ideology. Sensible policy making in transition requires avoiding a simplistic view of capitalism as a self-organizing system of natural equilibrium.

Real markets function 'successfully' only when surrounding institutional, infrastructural and behavioural conditions are already in place and, equally important, are widely accepted as a cultural norm. Without competent market-oriented policy at the national level, 'market exchange' brings few of benefits of real competition. National or local governments that attempt to carry out policies mediating, steering or limiting the range of market relationships, with the goal of allowing time to build market infrastructure, are often accused of opposing 'market reform' per se.

One conclusion that emerges from this now decade-long experience is that the small enterprise sector is not by itself enough to create successful economic growth. The complexity of creating and sustaining SME development becomes evident as soon as attention shifts from the more obvious retail and neighbourhood-level services to directly productive small enterprises. Unless surrounding large enterprises have been successfully commercialised (meaning that privatisation has either been delayed or done in a way that does not sever existing working relationships) and overall demand conditions are not severely restrictive, no significant and sustained SME growth can be expected.

The SME sector needs the large enterprise sector as a source of inputs, a market for its output and also (unexpectedly) as source of individual entrepreneurial leadership. It is important to avoid thinking of a zero-sum environment where success of the small can only be secured by destroying or disassembling the large. Synergistic (positive and mutually reinforcing) interactions can be expected to emerge if ways can be found to encourage the formation of purpose-built alliances and sub-contracting relationships.

The combination of the ideological dynamics of the end of the Cold War (defining the new 'Western' path as simply the opposite of each and every organizational feature of a Soviet-type system), an exaggerated sense of the role actually played by small enterprises in advanced capitalist economies, fascination with the textbook version of market processes, and an unrealistic, a-historical, self-defeating conception of the 'shrinking, minimal state', together led many transitional economies to fail to directly address these issues.

2. The 'New' SME sector as a poverty trap

Glinkina (2003) stresses that much of this very small-scale activity (excluding traditional skilled trades and professions) has a 'dead-end' and essentially subsistence character. These developments are often emphasized as the most visible sign of the marketisation process in transition economies, as well as in other countries that do not have established advanced capitalist market economies. At the individual level this
type of 'business activity' holds little promise of cumulative growth and is highly unlikely to provide the foundation for successful system-level growth. It is thus more properly considered as part of the poverty and health crisis aspects of the transition.

Especially in those countries where the transition has been abrupt and chaotic, independent economic life emerged in specific forms that often involve a high level of 'self-exploitation' as well as exposure to physical conditions that are directly destructive to the health of the participants. There has been a largely uncritical reception accorded to reports of the rapid growth of 'small trader' and 'shuttle trader' (chelnoky) activity in transition economies. A large proportion of this 'independent' work force may simply be engaged in a desperate survival struggle, perceiving few or no options to the course taken. This activity is admirable in its own right, but is not the kind of society-transforming entrepreneurship that is expected by advocates of market-automaticity views (Glinkina 2003 and Scase 2003).

McIntyre (2002) dismisses the usefulness of both the Anglo-American social ideal of the solitary entrepreneur (rapid development from 'a single entrepreneur in a garage' to a large high-technology firm) and the 'Latin Americanization' view a la De Soto (1989) that treats the 'informal sector' as the motor of development. Neither analogy is very helpful to the policy formulation process here. It is more useful to analyse the conditions of transition economies from inside their institutional/behavioural universe, where it is surprising to find that many people whose formative experiences were in the 'old' private sector or illegal economy of the pre-transition system seem to adapt poorly to the new 'post-shortage' environment (Dallago 2000). In a number of countries, owners and managers drawn from the old state sectors are the sources of much of the productive, dynamic entrepreneurial activity that has emerged. The surprising roots and characteristics of the 'new entrepreneurs' in transition economies (Surdej 2003, Dallago 2003, Csaba 2003) highlight the inappropriateness of 'Latin Americanisation' analogies.

3. Multi-dimensional SOE-SME and macro connections

The WIDER study also considered the complex multiple connections between the large enterprise sector and the existing/emerging SME sector. The large enterprise sector includes both those entities that remain state-owned (SOE) and those previously state-owned (PSOE) but now in private hands. Uvalic (2003) explores the link between the way (the extent, form, speed, and degree of social assent to) privatisation of the large enterprises is carried out and the resulting health and character of the SME sector that functions in the surrounding economic space.

Despite the tendency to think of and present the SME as an alternative to the former SOE, except for the face-to-face retail and service delivery sector, little can be expected from the SME without either: (a) active, complex organizational efforts at the local level; (b) the survival or development of a healthy large enterprise sector which the SME can utilize as supplier, customer and provider of various social and technical externalities; and (c) national government support these approaches. Hopes that internationalisation and the local effects of globalisation will make it unnecessary to formulate local level development polices are also likely to be forlorn. The recent UNCTAD study (2002) led by Charles Gore echoes the WIDER conclusions, pointing to central and south-eastern Europe as among those areas where conventional policies reflecting Bretton Woods Institution structural adjustment priorities and simultaneous economic liberalization had or would have a devastating effect on both rural and urban SMEs.
It is also important to consider whether the macroeconomic conditions that result from conventional stabilization approaches allow SME growth to occur. As a number of authors have stressed (Kolodko 1999, 2003, Kolodko and Nuti 1997, Amsden, Kochanowicz and Taylor 1994, Taylor 1994, Nolan 1995 and McIntyre 1993), the very different macro policies, such as were followed in Poland and Russia, had direct and sharply different implications for SMEs at multiple levels. In addition to a long established and unbroken tradition of fully private SMEs in both urban and rural areas and transition period policies favourable to SME growth, Poland had the overwhelming important policy trio of generally expanding aggregate demand, relatively healthy large enterprises and continued normal use of money as a medium of exchange and store of value. In Russia, to the extreme contrary, and in especially unfavourable ways to the SME, all of these conditions were reversed. Barter is difficult for most SME firms, so for this reason alone they are at a very serious competitive disadvantage.

The 2002 UNCTAD study on the effects of structural adjustment programs on SMEs suggests that the process of opening up even well established market economies has strong negative effects on the SME sector. This reflects a mixture of the effects of domestic demand repression and the arrival of more mature foreign competitors in all economic sectors. The results could be even more negative for many transition countries, where an era of normal growth is yet to occur, making vulnerability of outsiders even greater.

4. Immortality, propaganda and entrepreneurship

Transition and development are entirely different processes and it is important to be alert to the ways in which the handling of the transition encourages or inhibits developmentally successful patterns and practices in the new society. The very existence of a retail and service culture featuring owner-shopkeepers and small premises is taken as a fundamental sign of movement to a consumer-oriented economy, but the extent of this change during the transition is often exaggerated (since many of these service and retail functions existed and were carried out as auxiliary activities of the large SOEs, many with 'small premises' points of delivery), but the increased variety, especially of foreign goods, is indeed new and the atmosphere decisively different.

Further, much of the transition period activity presented as evidence of successful SME sector development is actually ‘proprietorship’ rather than ‘entrepreneurship’, recognizing that there is an ambiguous border between the two and individuals can evolve or devolve from one to the other, possibly more than once. As Scase (2003) notes, the former is reasonable and attractive behaviour at the individual level, and is not bad for the system, however it is very different and more conservative in its systems effects that would be the broader prevalence of real entrepreneurial activity. The confusion of these two very different dynamics makes intelligent analysis of or policy prescription for the SME sector difficult.

A calm assessment of the extent and nature of the change in the scale, function and importance of the SME is rendered difficult by enthusiastic systems-level propaganda and individual-level identity-assertion that occurs in the new ‘after-planning’ society. Governments point with pride at the numbers of new entities formed or existing and treat this number itself as a policy success. Individuals stress their entrepreneurial activities, multiple jobs and so on as a way of showing they have disengaged from the mind-set of the old-system and are fully in tune with the new world. These developments are evidence of successful adaptation at both the systems
and individual levels, but both the statistical record and the understanding of their developmental effects are clouded by the inevitable boosterism (Scase 1998, 2003).

Statistical reporting of burgeoning self-employment in transition economies is highly debatable in light of the way comparative statistics on the share of total employment in the SME are collected. There are two sharp warnings to be noted in dealing with such statistical evidence. First, the dividing lines between size groups differ from country to country and from time-to-time within countries. Second, there is such large scale, but hard to measure, inflation of the numbers due to exaggeration of the number of enterprises founded (many never function or function briefly to serve criminal or subsidy collection motives) while the death of enterprises is never reported. Systematic bias of this kind and extent does not allow use of the so-called 'law of equal cheating', meaning that not only are the levels reported not useful, but even the year-to-year changes should not be taken to contain much serious information. As far as I know, 1995 is the last year in which the EBRD attempted to publish 'comparable' data on the size of the SME sector in all transitional economies. Since almost everyone is happy to report SME success, there is a polite and sustained conspiracy to ignore these unfortunate facts.

5. Market systems with diverse property forms

It is important to take account of this past experience with unconventional mixed systems in order to appreciate the opportunities for SME growth in the presence of other-than-free-market conditions. McIntyre (2001b) discusses a series of examples, including the New Economic Policy (NEP) in the Soviet Union, the Hungarian New Economic Mechanism (NEM), the GDR small enterprise programme and the Chinese Township and Village Enterprise (TVE) development. In each a small enterprise system worked around, with, and in the interstices of, a large enterprise system made up of state-owned enterprises (SOEs).

The Chinese Township and Village Enterprises (TVE) are just the most recent example of the local developmental state (Johnson 1982). This model has been pervasive in successful post-World War II cases, from Germany, Austria and Italy to Japan, Taiwan and South Korea, but has been conspicuously absent from policy advice or practice in the transition economies after 1989 (Bateman 2000b, 2003b). The Finnish co-operative approach to local-level enterprise finance and production is another example that reinforces the local developmental state conception while illustrating a highly successful solution to the pervasive SME finance famine.

Although they are very different, the firm-to-firm relationship in an Italian-style industrial district; and the big firm-supplier linkage of the classical post-World War II Japanese keiretsu, both provide an organized and reliable path of market access for small entities. The successful keiretsu-small supplier relationship developed after MITI (Ministry of Foreign Trade and Industry) forced large firms in the 1950s to abandon American-style large firm-small firm relationships (Johnson 1982). This government-mandated supply chain relationship soon came to be seen as a crucial competitive advantage for Japanese firms and was actively copied all over the world. In the Italian case, the small firms of an industrial district often explicitly combine resources to carry out marketing, design or export promotion projects that none could afford alone. In Northern Italy (and Southern Germany) the pattern of small enterprise development, often described by the term 'industrial district', provides a number of examples of the development of synergistic relationships both within the SME sector and between the SMEs and local large enterprises. Bateman (2000b, 2003b) points out that virtually everywhere, national-level success in rebuilding and modernizing after
World War II was heavily dependent on SME support measures, carried out by local-level governments, but as part of a national strategy.

Relationships like this can be found all over the world -- another provocative example is role of the Lankide Aurrezkkia Bank in the functioning of the famous Mondragon system of locally-owned cooperatives in Spain, all of which were and many of which remain SMEs. The Bank provides borrowers with technical and management guidance when needed and sometimes has even moved employees between cooperatives in keiretsu style (Shuman 1998). These examples underline a core insight: too often SMEs in transition economies are assumed to only have a future as atomistic competitors, whereas real-world experiences point to the centrality of a small-enterprise system for both micro- and macro-level success and a wide range of possible organizational and ownership forms.

6. TVEs exemplify the 'Local Developmental State'

The emergence of mixed, unorthodox ownership and governance forms is one of the most interesting aspects of dynamic Chinese development after 1978, resulting in a distinctive 'mixed property' system, in some ways like the Soviet NEP. The TVE part of the system is in active, rapid evolution toward unclear future forms (Granick 1990, Sun 1997, Sun et al. 1999). Remarkable institutional evolution during 1990-2001 brought important new varieties (joint stock partnerships and joint stock cooperatives) of what had been relatively simple organizational types. It is important to understand the role of TVEs within this complex environment, considering not just the ownership forms, but also the relationships with large SOEs and government authorities at both national and local levels over several decades. This discussion focuses only on the context within which TVEs developed and uses that example to call attention to the role of the local developmental state (Johnson 1982).

After the death of Mao Tse-tung, rural communes (large amalgamations of collectives) were broken up into their constituent small collectives, requiring creation of village and township governments to assume their administrative functions, such as public health and education. Villages and townships also took over many small purely local production enterprises surviving from the 1958-1960 rural industrialization campaign during the Great Leap which became the core TVE sector, supplemented by many newly created entities. From these unpromising roots, TVEs survived and through time developed effective economic characteristics, becoming the most economically successful and dynamic element of the Chinese economy.

TVE success occurred despite structural and behavioural features that would appear disadvantageous (if not profoundly disabling) when viewed from a standard perspective emphasizing the need for clearly established property rights and individual incentives to secure effective performance (Weitzman and Xu 1994, McIntyre 1998). Already in 1978, 19 million workers were employed in TVE, producing simple implements and relatively crude products. By the mid-1990’s more than 60 million worked in TVEs and the array of products widely proliferated and moved to export-level quality. By 1997 the TVE sector accounted for more than 30 per cent of GDP and 46.3 per cent of export earnings (Nolan 1995: 221-222, People's Daily 5.02.1998, 22.03.1998). Local officials manipulated the reforms to move beyond TVEs to directly influence or control local branches of even large SOEs.

The remarkable success of Chinese local authorities as facilitators and direct entrepreneurs (para-entrepreneurial activity) is extremely important to other transition economies. Local authorities in some CEE & CIS economies face structural
situations that are similar in important ways (bearing effective responsibility for much local production and distribution, in the face of the collapse of the economic leadership role of the central state and a stagnant local economy) and often have nearly identical ownership/partial ownership/effective ownership rights in some local goods- and service-producing entities. Even in countries where privatisation and market reforms have gone quite far, some structural carryovers from the planned economy remain.

In addition to their role as facilitator of local economic development, local-level governments in transition economies are likely to remain economic actors on a scale generally greater than in long-time market economies. A key lesson of Chinese experience is that the original core TVE\textsuperscript{30} should be considered as a promising model for other countries. Within this complex small town and rural mixed system there are strong elements of municipal socialism in which 'socialist' but non-nationalized property ownership is central. In what are essentially closed cooperatives local government may either play only a supervisory and facilitative role or may act directly as full or partial owner. The classificatory logic used by the World Bank treats both as 'private sector development' (no matter who owns it, if it is not the national government, it is considered 'private').

Chinese institutional reforms and mixtures thus have unexpected relevance elsewhere, especially as these new structures resonate with the multi-owner partnership form that is widely successful in advanced market economies. What ownership forms of the future will be is an open question with multiple correct answers. Many small- and medium-sized local-SOEs slated for comprehensive reform and loss of national subsidies are likely to end up under township and local government control, taking joint stock co-operative form with some degree of employee ownership. This is an example of what Stiglitz (1999) advocates as 'privatisation to stakeholders'.

Stiglitz and others (Nolan 1995, McIntyre 1996, 1998, Stiglitz and Ellerman 2000) propose wide application of this aspect of the Chinese approach in other transition countries. When TVEs move from full local government ownership to joint stock co-operative form (with mixed local government and employee share ownership) they are indeed 'privatisation to stakeholders'. A similar category of 'employee-owned' enterprises (narodnaya predpreyatiya) that was established by 1998 Russian legislation has interesting potential. It is structurally similar to Chinese joint-stock co-operatives and may be able to include local government as partial equity owner (McIntyre 2001a).

Barriers of culture, development level and political culture have made it convenient to not think carefully about the challenging and complex lessons of the Chinese experience. It is useful to remember that the main Chinese institutional innovation is much like a multi-member partnership - a familiar organizational form in many other countries. The role of local government is also distinctive but not unique, directly following the logic if not the details of other 'local developmental states' emphasized by Bateman (2000b, 2003b). A combination of these features could be useful in local-level revitalization efforts elsewhere, even though enormous regional differences in incomes and living standards and sharply increased inequality within

\textsuperscript{30} Many existing TVEs changed legal form during the 1990s, becoming joint stock co-operatives or joint stock partnerships (Sun \textit{et al}. 1999). While sometimes little more than a name change, large TVEs are thereby structurally prepared for the future possibility of becoming autonomous publicly traded entities. It is interesting to note a sharp movement by purely private entities to take on this same legal form.
regions pose the greatest threat to the continued success of this mixed model (Riskin 2001).

7. Finnish Co-operative approaches to finance barriers

The Finnish co-operative tradition provides a second useful point of reference for consideration of the problems of triggering economic development under peripheral conditions found in much of the FSU and parts of CEE. For over a century, Finland has used co-operatively-owned local-level financial institutions as part of a national-level economic development strategy (Kuisma et al. 1999). It is a provocative addition to debates about SME financing and suggests new tools to support market-based economic growth in impoverished and remote areas of transition economies (Skurnik and Vihriälä 1999).

Contemporary Finland has been astute and vigorous in pursuing complex and subtle industrial and developmental policies, while appearing to practice free-market rectitude. Banking is a case in point, since the success of the co-operative banking system traces back to initial deposits from the state treasury, overcoming the initial trust and scale problems, forming local banks into regional alliances under a national confederation to assure political visibility. Parallel to and with the support of co-operative banks, a wide array of production and marketing co-operatives arose. In 2000 they retain a large share (meat 71%; dairy 96%; eggs 60%; forest owners 34%; livestock breeding 100%; retail trade 41%; banking 34%; insurance 8%) of the contemporary Finnish market (Skurnik 2002).

This type of intervention is not unique to Nordic countries, but is especially strong there. The European Observatory for SMEs notes that across the EU, "Many banking/credit/insurance co-operatives and mutuals have their roots in the co-operation of SMEs and the objective of providing auxiliary services to these enterprises. Co-operation is an important strategy for SMEs to strengthen their market position against larger competitors. In crafts, retail, trade, transport and some production, co-operative members are almost exclusively SMEs. Many co-operatives have been founded by and for SMEs and are, on the whole, SMEs themselves" (1996, pp. 351-352). The Observatory also notes that it is hard to judge the scale of operation by productive cooperative SMEs, because in many countries co-operatives operate in legal categories that are not explicitly 'co-operative'.

Combining co-operative saving and lending institutions with production, processing and service co-operatives is promising in many transition economies. The hundreds of 'new wave' co-operative formed during the severe early 1990s Finnish depression are similarly promising. Many are technology and technical service companies, in the form of multi-branch work co-operatives and single-branch expert co-operatives. The national or local government engagement generally required to start such institutions is criticized as unproductive subsidies or unfair competition to commercial banks. On theoretical and historical-empirical grounds, Bateman (2000b) has attacked the idea that market interest rates, combined with banking conventions about acceptable risk, answer all necessary questions about what is wise and developmentally viable. A study appraising differential SME access to finance within the EU concludes that "The financial structure of an enterprise seems to depend more on the financial system and the financial habits of the country in which it operates than on any other characteristics of enterprises such as size, sector, age and even profitability. Moreover, the smaller the enterprise, the greater are the international differences in financial structure" (Observatory 2000, p. 19). It is useful to consider the implications of these findings for SME policy in transition countries, especially in
light of the felt policy imperatives within the EU, which are that, 'The efforts aimed at meeting the Maastricht criteria have substantially narrowed the room EU countries' governments used to have for maneuvers in the field of SME policy. This has not reduced the necessity to adopt new stimulating measures especially for SMEs and, in some case, has led governments to widen the scope of their enterprise policy' (Ibid, pp. 249-250)

This suggests that Finnish-style use of national policy to create conditions in which local-level saving, financial services, production, marketing, wholesale buying and other co-operatives take root, is directly relevant to solution of the puzzling failure of productive SMEs to play a significant role during the first decade of transition. Hansmann (1996, 1999) and Stiglitz (2000) offer a bracing reinterpretation of the efficiency advantages of co-operatives in light of new developments in agency and information theory.

8. Potential policy implications of WIDER SME research

If SMEs could survive, and even in some cases thrive, under fundamentally 'hostile' old system conditions, it is at least superficially puzzling that their experience in transition has been so difficult and at best mixed. Clearly institutions matter, but not in any simple sense of the words. At the micro- and mezo-levels, it is not the existence of a legal code and court system, but the broad acceptance of this system as the actual forum in which disputes are to be settled. Not the existence of a wholesale distribution network, but the terms of access to this system by small-scale producers.

At the mezo- and macro-levels, the foundation of small productive enterprises produces little or no ultimate effect if their putative customers are in a fiscal crisis that inhibits or prevents expenditures. This is true regardless of whether the demand reduction is for inputs from SOEs (fragmented and damaged in a hasty privatisation process) or for consumer goods from the general public (incomes repressed by contractionary monetary and fiscal policy). Policies that target the SME without paying attention to these surrounding conditions are unlikely to have substantial and long-lasting positive effects. Programmes designed to provide direct assistance to SME often end up mired in corruption, have high overhead costs and ultimately serve other than announced programme interests (Wedel 1998, Bateman 2000b).

A successful SME sector that goes beyond neighbourhood-level services and retail distribution (much of the latter doomed by looming hypermarkets) requires national-level policy which allows both active support services at the local level and the survival, revival or development of a healthy large enterprise sector as supplier of inputs, output market, provider of various social and technical externalities, and also (unexpectedly) as source of individual entrepreneurial leadership.

Local and regional governments have a central role in stimulating growth of various types of business activity. This includes creation of a local finance system based on credit co-operatives to overcome the SME credit famine and stimulate local saving-investment cycles, as well as directly 'para-entrepreneurial' functions (which in light of both Western European and Chinese experience should not exclude equity ownership), all generally consistent with the model of the 'local developmental state'. The natural synergy between savings/credit co-operatives and production units with co-operative or partial employee ownership is evident in Nordic and other experience and is relevant here as well.
At the enterprise level, various forms of full and partial employee ownership are appropriate, as illustrated by some promising recent developments in Russia and elsewhere. 'Incomplete' privatisation often leaves local government with \textit{de facto} ownership rights, raising the possibility of development of something like 'core-TVEs'. Pressures to reorganize municipal service provision units into quasi-corporate 'ESCOs' (Energy Service Companies), 'TSCOs', and so on, offer similar opportunities.

All of these 'requirements' for active, serious, sustained government efforts and policy are only intensified by internal 'liberalization' process, as the 'rules of the game' change in adjoining countries. No attractive long-term developmental processes will occur without active policy measures, sustained by growing internal demand and sharp attention to the competitive threat of new EU members who will experience great difficulty selling in old EU markets but will dispose of various EU subsidies for exploring 'outside, but nearby' markets.
Mr. Geert Van Boekel
ILO/UNDP Zagreb, Croatia

Mr. Van Boekel highlighted some of the experiences of Local Economic Development (LED) in Croatia. In August 1996 UNDP and UNOPS started a programme in Croatia aimed at the rehabilitation of the so-called 'Areas of Special State Concern'. The programme has since then gained significantly in importance and has broadened its activities thanks to the substantial support of the EU, Japan, Norway and Belgium in five regions in the country, Dalmatia, Lika, Banovina, Western and Eastern Slavonia. The strategy of the programme is based on the promotion of sustainable human development initiatives in selected local areas in these regions. Its stress on social development implies that it is looking for means to respond to the fundamental necessities of the local population.

The Programme activities are focussed on three different sectors: rehabilitation and reconstruction of community infrastructure; social programmes and support to vulnerable families; local economic development (LED) and income-generation activities. Since 1998 the ILO has been sub-contracted by UNOPS to give follow up to the credit activities as well as the LED initiatives of the project. As part of ILO policy on economic development, the LED approach within the program is focussed on; technical advice to business starters and entrepreneurs as well as local authorities; identification and optimisation of the local economic potential; adequate financial support to entrepreneurs and counselling and monitoring of existing entrepreneurs. This is provided through already existing Business Service Providers or otherwise such institutions have been set up, like the newly created 'Local Economic Development Agencies' (LEDA). Four LEDA were created between mid 2000 and 2001.

Regarding the financial support services, Mr. Van Boekel pointed out that the Loan Guarantee Funds were established some years ago in order to facilitate the access to credit for those people that would not have sufficient collaterals to become a normal customer of a commercial bank. More than 1550 loans have been approved so far, mainly for small-scale agriculture, livestock and small family businesses. More than 3800 new jobs have been created, as a direct result of these guarantee funds, since 1998. These loans are small loans up to 7,500 Euros. Since mid 2002, 5 new guarantee schemes are operational, with loans to SMEs up to 70,000 Euros. This time the loans are aimed at supporting SMEs, Agro-industries, Co-operatives, eco-food production, commercial farming, tourism, crafts and services.
Mr. Peter Simkin emphasised that the main focus of the international community in southern Serbia had been to support the Coordination Body and local political leaders in consolidating the peace agreement reached in May 2001. Government and international resources had concentrated on infrastructure programmes and the strengthening of municipal capacities and civil society as a basis for local economic development. It has been a political programme to support the implementation of the 'Covic Plan' and the reintegration of the ethnic Albanian community into State administrative structures. Much has been achieved in the rehabilitation of infrastructure (e.g., schools, local health centres, water supplies, roads, electricity supplies, playing fields home rehabilitation) in the war-affected communities in and around the former Ground safety Zone. Above all, the security situation has gradually improved to the extent that the UN has been able to lift all staff travel restrictions in southern Serbia. Nevertheless, the political situation remains delicate and contingent upon events underway in neighbouring territories (i.e., Kosovo). The economic collapse of the large, socially owned companies made it imperative to continue a high level of international assistance to southern Serbia. Since the beginning of the year YUMCO, which employs over 9000 workers has been paying monthly wages of 2,000 Dinars (£30) to its staff. It is of great concern that there should be strategies in place to cushion the effects of what will happen when these companies are privatised. Social and political instability must be avoided in this highly sensitive strategically important part of Europe. One of the main achievements of the UNDP implemented programmes has been the establishment of the Regional Steering Committee, which includes the mayors of the six municipalities in the programme, the Co-ordination Body and the Okrug (District) Presidents. It is planned to extend the UNDP programmes from the current six to eleven municipalities, once European Agency for Reconstruction (EAR), Norwegian and Sida funding has been guaranteed for another two years.
Ms. Biljana Stanković
UNDP Vranje

Ms. Stanković presented the work of the South Serbia Municipal Improvement and Recovery Programme (SSMIRP), which is implemented by UNDP in partnership with the World Bank and funded by UNDP, the World Bank, Sida, and the governments of Holland, Luxembourg and Norway. This programme has three components: municipal capacity building and development, economic recovery and strengthening of civil society. SSMIRP is working with GOAL on the formation of commodity producer groups in Medvedja, Presevo and Bujanovac. Municipal Technical Units and Municipal Development Funds have been established in six municipalities. The municipal development funds have received initial cash grants of $100,000 each on the understanding that there will be matching contributions from municipal or republic resources. Since these MDFs were established in October, an Operations Manual has been developed with the World Bank. Municipal Development Committees have been formed to prioritise community driven projects and supervise implementation. Most of these are related to human resource development.

Future challenges:
- Privatisation
- Tackle unemployment
- Consolidate peace and security
- Involvement of the Republic in the area
- Municipal capacity building to facilitate decentralization.
- Cultural manifestations - equally important as business relationships.
Ms. Jelena Dinov
UNDP Vranje

Ms. Jelena Dinov presented an outline of the Rapid Employment Programme (REP). The key goal of the REP is job creation and income generation. Through the REP, more than 4150 people have been employed for an average period of three months on a range of infrastructure and environmental projects. A major goal of REP has been to involve local communities in the project, by helping them to choose and prioritise projects as they see fit. This objective has been achieved via the involvement of the smallest element of local government, the Local Community (Mesna Zajednica), in the process of decision-making. The Local Communities, municipal authorities and the UNDP have thus jointly identified the projects to be undertaken through the REP. The increased community participation also enhanced the Municipal capacity building and made the Municipalities more ready to implement public works programmes. The resources available to REP are provided by the European Agency for Reconstruction (EAR). A total of € 4 mn has been provided so far, with the Republic Government of Serbia co-funding one third of the projects via the Co-ordination Body and through the Municipalities. Some other NGOs are co-financing REP projects such as: USAID/OTI, SDC, CHF, CIDA.

The major achievement of the REP has been to provide a socially useful form of temporary employment for many unemployed and socially vulnerable people. In the absence of alternative employment possibilities, this has proved valuable to those concerned on a number of levels: a basic income, dignity, motivation, new skills, etc. Moreover, all the ethnic communities have been transparently and evenly involved in REP. Over 110 projects have been implemented to date. It is also important that REP provides additional cash injection into the local economy, which brings tangible wider benefits and capital to other individuals and the community at large. REP has sustained numerous small and medium size contractors and suppliers in the locality through jointly implementing infrastructure and environmental protection initiatives. The statistics indicate that over 40 local contractors and suppliers received additional economic opportunities and were able to sustain their businesses. In addition, over 100 Local Community leaders and supervisors were trained to undertake community infrastructure rehabilitation and social works. Finally, it should be pointed out that the REP has played a role in the consolidation of regional stability and security through community development.
**Discussion**

Mr. Anthony Pope pointed to the fact that Serbia cannot simply wait for foreign direct investment (FDI) to arrive. Instead, more pro-active measures must be taken. He noted that FAO (Food and Agriculture Organisation) has a few projects, which should kick-start the process of local investment. Mr. Robert McIntyre added that FDI was very often an illusion in terms of its long-term contribution to growth and development, and certainly waiting around until its arrive was counter-productive. He pointed to the example of Poland, where large enterprises are now making something of a comeback after serious support from government and other programmes.

With regard to promoting local economic development and the lack of resources, Mr. Vladimir Kostić pointed out in the municipality of Leskovac it was possible to organise three forums (economic, social and environmental) where around 500 people participated and formed into working groups. The results of the working groups are 186 projects submitted to an evaluating commission that decides which to take further and finance. The criteria for evaluating have been set externally. He stressed that this region is very multiethnic - there are 24 nations identified, and all with low educational levels. One critical issue is that there is no local bank present in the area - there are just a few branches of banks with headquarters in Belgrade. He put forward a concrete suggestion, which was to form a local/regional bank in the region of southern Serbia.
Session 6: Self-employment, Privatisation and Other Tools for Local Economic Development

Chair Person: Mr. Nagip Arifi, Mayor of Bujanovac
Rapporteur: Ms. Milica Kokotović, UNDP Belgrade

Mr. Nagip Arifi
Mayor of Bujanovac

Mr. Arifi provided a brief sketch of the situation in Bujanovac, a multi-ethnic town in Southern Serbia with 53,000 people. The town has declined substantially thanks to the ongoing closure of most of the factory units associated with the only large company in the town - SIMPO - a furniture manufacturer that was established in the region in the 1960s to take advantage of the local supply of timber products. Only a very small part of SIMPO has been bought up by private investors and some of the jobs saved for the time being, with the rest likely to close eventually. Most of the workers remain on the company's books but they have actually returned to working on their family farms or else engage in simple trading activities to make ends meet. With very little potential in large companies, the city's economic development officials see privatisation and new investment, and self-employment as the only potentials for today's unemployed to ever work again. A new highway connecting the north to Greece should be ready in time for the 2004 Olympics, which should create some jobs from passing tourist trade, but this will be temporary. Meanwhile, the infrastructure remains grossly under-developed and quite unsuitable for new small-scale employment measures.
Mr. David Miller
Team Leader, European Agency for Reconstruction (EAR)
Belgrade

“Non-financial Assistance for SMEs” programme

Mr. Miller began by describing the EAR SME project, which he manages. This project is a two-year €3.6 mn project designed to establish a network of Regional Enterprise Support Agencies. The EAR itself will financially support seven agencies, with other agencies being picked up by other international donor bodies (e.g., Swiss Development Corporation, GTZ). These agencies should grow to become the focal point for local SME development.

Mr. Miller then went on to indicate the magnitude of the job to be done. He noted that there were very many problems in terms of SME development in Serbia. Key ones he thought were:

- The notion of “small” still has a negative connotation in Serbia, being associated with backward technologies, weakness, etc, rather than, say, flexibility, dynamism and agility.
- It remains difficult to navigate through the legal framework in terms of both establishing and managing a small business.
- Access to investment finance is difficult, mainly because the banking sector is weak and anyway largely uninterested in small businesses.
- The market in Serbia is small. The best small businesses are often specialised, niche producers that require at least some scale economies to survive.
- There has been very little evolution from small to medium to larger enterprise. The growth path appears to be very difficult to manage.
Dr. Jelica Minić
Assistant Minister, Ministry of Foreign Affairs, Serbia and Montenegro

Dr. Minić began by noting the importance of being able to strengthen institutional capacities and making regional links with a view to future EU membership. In addition, however, well-functioning local communities and local governments are very important instruments that will consolidate the democratic process and help underpin local economic development. In turn, successful local and regional economic development will strengthen the ties between the regions of South-East Europe, which is an important policy goal itself.

Dr. Minić pointed out that the Ministry of Foreign Affairs has already undertaken a campaign to teach local governments and NGOs about their important role in local economic development. To this end the Ministry invited colleagues from other Balkan countries to exchange information about their own experiences and, in particular, to talk about their success stories. These success stories are extremely helpful as an example and as a motivator to do better things elsewhere. Knowing that others nearby have done what you are trying to do is very often a major stimulation to improve your own activities.

Moreover, EU membership in part depends on grouping local communities and developing joint co-operation across a range of activities and geographic areas. Co-operation between communities is essential, for example, in identifying where enterprises may work together to develop new markets. For example, in the textile industry there is a need to identify the regional potential for successful production, with tie-ups between enterprises based upon mutual benefits.

Dr. Minić also pointed out that the experiences of the NGO sector have showed that inter-community co-operation can be a powerful political instrument indeed in terms of facilitating major political change. Grouping together of municipalities and communities allows for solidarity and realisation of joint development goals much better than “going it alone”. In this vein, cross border co-operation is going to be of great importance and will continue to grow. Euro region links established already include Niš-Skopje, Osijek-Novi Sad-Tuzla and some others have been established mainly through NGO activities (civil sector). A number of central initiatives exist to promote this regional and cross-border co-operation, but it is also important for local communities to get more involved. From tourism to ship building, there is much scope for regional co-operation. Here it is particularly important to build “pilot projects” as a way of demonstrating the practical application of regional co-operation.
Paper No 7:
“Alternative forms of enterprise: Can they alleviate the unemployment problem in Serbia and Montenegro?”

Milica Uvalić
University of Perugia
Italy

1. Introduction: current economic problems in Serbia and Montenegro

After the October 2000 radical political changes in Belgrade, the new Yugoslav government embarked on fundamental economic reforms which had been substantially delayed during the Milosevic regime. Notwithstanding notable progress in many areas and particularly high speed in implementing economic reforms over the past two years, the positive effects of the transition, for the moment, are not yet fully visible. This should be of no surprise: twelve years of economic mismanagement, international sanctions and isolation, many forms of distortions and absence of fundamental systemic change, have left profound traces in the economy which cannot be removed overnight. FR Yugoslavia in 2001 was one of the poorest economies in Europe, with a GDP at less than 50% of its level in 1989, a GDP per capita (at market exchange rates) of US$ 1,300, or at Purchasing Power Parity of US$ 3,550 (the second lowest among all Southeast European countries, right after Albania; estimates of the Economist Intelligence Unit, 2002). Even before the current reforms, the official unemployment rate was close to 30%, although many of the registered unemployed workers are active in the informal economy. Average salaries have somewhat increased (by late 2002 to around 180 Euro), but still they remain at the pure subsistence level. The economic and social situation is already difficult, and with the further implementation of more drastic measures of reform, especially at the microeconomic level, a further drop in living standards is probable over the next few years. These are among the most difficult aspects of Serbia and Montenegro current transition, for which the government, under present budgetary and other constraints, cannot easily find the right remedies.

What can be done to decrease the severity of these problems? Unemployment is already high and is bound to grow further over the next few years with privatisation, restructuring of the economy, and the closing down of many loss-making enterprises. Along with output recovery, employment generation is therefore a top priority on the agenda. Although the Serbian government has undertaken a number of measures in order to provide a favourable environment for SME development, including the setting up of an Agency for their promotion, this may prove to be insufficient to successfully combat the present huge problems of unemployment. The generic promotion of SMEs may not prove sufficient, as suggested by evidence from other transition economies (see Dallago and McIntyre, 2003). There may be more that could be done at all levels, also by governments at the local level, particularly those in less developed parts of the country.

In considering ways which could possibly alleviate the current problems of very high unemployment in Serbia and Montenegro, we should also take into account various forms of enterprise or modes of organising work, alternative to the traditional capitalist firm - including the producer cooperative, the employee-owned firm, or incentive schemes such as profit-sharing. These alternative forms of work organisation have proved to be a valuable response to economic crises in many
western market economies, providing new employment opportunities or enabling a smaller fall in aggregate employment than otherwise would have been the case.

The present paper discusses these alternative forms of organising production and draws some policy implications for Serbia and Montenegro. The main features of the standard employment contract are first recalled, stressing some of its main advantages and disadvantages (Part 2). Alternative forms of enterprise, which represent a departure from the traditional capitalist enterprise, are then described (Part 3), as well as their main benefits and drawbacks (Part 4). On the basis of the previous discussion, the most important policy implications for a country like Serbia and Montenegro are singled out (Part 5).

2. The traditional enterprise and the standard labour contract

The traditional enterprise in western market economies is characterised by the standard employment contract, which usually has the following main characteristics (see Nuti, 1993):

- A fixed wage payment per unit of time;
- No employment tenure;
- Workers are subject to their employer's authority, both in the organisation of labour and in the overall allocation of labour and other resources.

This standard labour contract, typical of the traditional enterprise, has its obvious positive features. Generally speaking, it is considered to have provided efficient employment and redeployment of labour, high levels of effort for fear of dismissal, and productivity gains. At the same time, however, the standard labour contract also has some negative features, including:

- The need for supervision of the labour force, which is costly;
- No link between employee earnings and enterprise performance;
- A conflictual relationship between workers and employers;
- Inflexibility of wages downward.

It is in the search of reducing some of these negative features of the standard employment contract that a number of alternatives have been explored, both in the theoretical literature and in practice. Although traditionally the main arguments in favour of such alternative arrangements, which will be discussed further below, were motivated by objectives such as greater equality in the distribution of income and wealth, improving relations between workers and capitalists, reducing workers' alienation, these schemes are today considered as part of a new culture of industrial relations based on innovative managerial strategies, more flexible remuneration policies, and higher degree of cooperation between labour and capital, which should ultimately result in increased enterprise efficiency and overall productivity.

3. Alternative forms of enterprise

Alternative forms of organising production enterprises in a market economy involve the reduction or elimination of the above features, whether limited to the organisation of labour, through forms of industrial democracy, or extended to entrepreneurial decision-making, involving various degrees of labour participation in decisions and/or enterprise results in conventional enterprises, or even forms of employment tenure in place of wage employment contracts, as in producer cooperatives. These various forms all represent a departure from the main features of the traditional capitalist firm.
The theoretical debate on the potential benefits of employee participation in decision-making and in enterprise results, together with the desire to introduce greater flexibility in payments systems and the commitments to a property-owning democracy, have led the governments in a number of western countries to adopt measures actively stimulating the adoption of such schemes, which in turn has contributed to the growth of such arrangements in practice. Today, schemes which provide for employee participation in profits and/or enterprise results are also actively promoted by the European Union, as they have been included among the objectives of the Action Programme for the implementation of the Community Charter of Basic Social Rights of Workers (see Commission of the European Communities, 1989). This initiative led to the preparation of a Report for the EU Commission on the Promotion of Employee Participation in Profits and Enterprise Results, or PEPPER (see Uvalic, 1990 and 1991), on the basis of which the European Council adopted a Recommendation on PEPPER in 1992 (see Commission of the European Communities, 1991, and Council of the European Communities, 1992), while a more updated report, PEPPER II, was prepared in 1996 (see Commission of the European Communities, 1997).

The main alternatives to the traditional enterprise come within the following main categories:

- **Profit sharing** provides workers, in addition to a fixed wage, a variable part of earnings, which depend on enterprise profits, or some other measure of enterprise performance. The variable part of earnings can be paid in cash or in enterprise shares. Alternatively, a certain percentage of profits is directed to an enterprise fund, which is then invested for the benefit of all employees, most frequently in shares or other securities.

- **Employee participation** in decision-making, as practised in conventional enterprises in some western countries, can either take the form of co-determination; assuring workers representation on enterprise boards (as e.g. in Germany), or it can be limited to the right to information and consultation.

- **Equity sharing** schemes encompass various forms of employee ownership, such as sales of shares at privileged terms or their free distribution to workers; combination of sales and free distribution of enterprise shares to workers (so-called 'BOGOFs' practiced in the UK - buy one, get one free); employee share ownership plans (ESOPs); employee management buy-outs (EMBOs); deferred profit-sharing plans; or offers of share options to employees.

- **Producer cooperatives** provide participation of workers in decisions and profits, frequently also in equity, but voting rights are linked to membership, and not capital (as in the traditional firm), on the basis of one man, one vote. Therefore, workers' control is ensured irrespective of capital contributed.

4. The theoretical debate - Benefits and drawbacks

Which are the main arguments that have been advanced in favour and against these alternative forms of enterprise? The advantages proposed in the theoretical literature generally apply to all the different organizational forms, whether those practiced in the traditional capitalist firm or the workers' cooperative, while the potential drawbacks are somewhat different since the workers' cooperative is expected to face some additional problems (as will be seen below).

The main benefits of alternative forms of enterprise can be synthesised as follows:

- Schemes envisaging employee participation in enterprise property, results, or decision-making, are expected to have important effects on employee motivation, therefore also their effort and productivity. In the case of profit-sharing, for example,
the change from a rigid system of guaranteed wages in which rewards are independent of effort, to a system which provides employees with a part of income directly linked to enterprise performance, will increase individual motivation and commitment, and will provide for greater identification of employees with the interests of their firm, thus resulting in higher labour productivity and improved overall enterprise efficiency. Stronger employee incentives are also expected in case of equity sharing, namely various forms of employee ownership. By receiving dividends, or through the appraisal of the value of their shares, employees will be more interested in enterprise performance. Thus there is a high potential for increasing "X-efficiency", i.e., efficiency based on increased motivation and effort, mobilisation of entrepreneurship, and a correlation is expected between employee participation in effort and in equity (see Ellerman, 1993). Because of higher employee commitment, we can also expect lower employee absenteeism and increased interest in education and training, thus higher investment in firm-specific human capital.

- Other important benefits of the discussed schemes are related to the greater flexibility of labour earnings, permitting less variable employment, and even higher employment. Employee ownership can induce wage moderation: enterprises introducing employee ownership may be able to offer lower wages, since workers will be receiving a part of their income as shareholders. The wage that management must offer workers to persuade them to accept it will be lower if employees are likely to lose capital gains and dividends by rejecting the wage offer. This may in turn lead to less variable employment policies, which can lower the risk of unemployment, provide more job security and job stability. In this way the duration of employment contracts can be lengthened and labour turnover reduced. Although job security will foster labour immobility, the firm will in turn gain employee trust and identification with the interests of the firm, and therefore the potential efficiency gains from unlocking human effort within a firm may turn out to be much larger than the allocative efficiency gains of shifting labour between firms (Ellerman, 1993, pp. 17-18). In the case of specifically profit-sharing, more variable income for the individual worker can help preserve full employment, contrary to the fixed pay which tends to contribute to unemployment; thus overall welfare might be improved by having more performance-related compensation schemes (Weitzman, 1995).

- Making employees partial owners of the firm, or allowing them to share in profits, may improve the system of monitoring individual workers. As owners, employees will bear all the costs of their shirking and thus will have an incentive to expand the level of effort closer to that, which is efficient. Although each individual worker will bear only a small fraction of the costs of his own shirking, he will also have an incentive to monitor his fellow workers and to apply pressure to them not to shirk (Hansmann, 1990, pp. 1761-2). Consequently, more cooperative behaviour can be expected, and the possibility of mutual monitoring of effort levels by workers themselves, thus reducing monitoring costs.

- Participatory schemes can also improve intra-enterprise relations. By reducing inequality in the distribution of income and wealth, they can lead to reduced intra-firm conflict and labour-management tension, and can provide insurance against managerial opportunism. Mechanisms uniting the interests of workers and management, by giving everyone a stake in the outcome, are likely to reinforce productivity-enhancing workplace behaviour. Sharing in equity or profits can also provide for a more equal distribution of risk: forms of partnership in which both capital and labour share the risks of success and failure hold out more promise than other forms in which labour or capital bears the whole of the risk (Meade, 1972, 1989).
As to the main drawbacks, the following can be singled out as the most important:

- The "free rider" problem suggests that individual incentives will be diluted in a group setting where rewards are linked to group effort (as in the case of profit-sharing). Since each worker will receive only a small fraction of any additional income due to his own effort, workers will be tempted to free-ride, shirking and on-the-job leisure will be encouraged, and difficulties in monitoring a single worker's contribution will arise. Consequently, it is argued that we can expect a lower level of effort and productivity, negatively related to the number of employees.

- *Weakening of property rights* is another argument against forms of economic democracy such as profit-sharing or equity-sharing, since they represent an erosion of property rights, the transfer of wealth from owners of capital to workers, thus a purely distributive wealth confiscation scheme. If workers share more in enterprise results (e.g. by receiving dividends), then capitalists, of necessity, share less (Weitzman, 1995). This will lead to the dilution of the capitalist's incentives and may compromise their motivation, discretion, power, or authority, and thus the reversion to the classical firm is the most desirable development. Such arrangements may also lead to increased workers' demands for participation in decision-making, which will further weaken the authority of capitalists and effective managerial control.

- High degree of workers risk has also been stressed in the literature. Schemes providing employee ownership may expose workers to a high degree of risk. Because of the physical impossibility of diversifying the use of their labour in different sectors and enterprises (as capitalists can do with their capital), by putting "all eggs in one basket", workers will not only bear the risk of unemployment but will also face additional income risk; thus if the firm goes bankrupt, they will lose not only their jobs but their savings as well (Meade, 1972). This additional risk may, however, be compensated by higher employment security which such schemes are likely to provide (Uvalic, 1991).

- Workers cooperatives are likely to face additional and somewhat different types of problems. According to the theoretical literature on the labour-managed firm, which refers to both the Yugoslav-type self-managed enterprise and the western co-operative (see Bartlett and Uvalic, 1986), this type of firm is distinguished by its specific objective function: contrary to the capitalist or entrepreneurial firm, which maximises absolute profits, the labour managed firm is taken to maximise income per worker-member, since it is the workers themselves who exercise control over all areas of the firm's activities. A firm controlled by its employees, in which decision-making rights rest entirely with the workers-members, is therefore likely to exhibit a number of specific problems, including above-optimal employment, excessive wages, insufficient investment, obstacles to efficient restructuring, and problems of finance with limited access to outside funds. Since full control rights by employees is also a frequent characteristic of the employee-owned enterprise, it has been argued that these negative features will also be present in privatised enterprises in transition economies, in all cases where privatisation methods leading to substantial employee ownership have been used (such as employee and management-employee buy-outs; sales at privileged terms, or free distribution, to insiders, both workers and managers).

There is a rich empirical literature testing for these various effects (for a summary, see Uvalic, 1991), checking for the relationship between alternative forms of enterprise and enterprise performance. Thought the evidence varies greatly and is
still inconclusive, a large part of it is generally supportive of the positive link between these participatory forms of enterprise organisation, and labour productivity and enterprise efficiency.

6. Policy implications for Serbia and Montenegro

Serbia and Montenegro - is presently implementing very radical changes in practically all segments of its economic system. In the microeconomic sphere, the transition to a market economy requires measures of privatisation, restructuring, introduction of hard-budget constraints, and different systems of intra-enterprise labour relations. In most if not all cases, this is taken to mean the application of one uniform model of enterprise, work organisation, and payment system, namely the standard traditional capitalist enterprise. Though today in contemporary market economies in the West, this indeed may still be the most diffused form of enterprise, we also find a rich variety of other forms of organising production, which may have certain advantages with respect to the more traditional firm. This may be the case particularly in a country like Serbia and Montenegro, considering its past legacy of workers participation practised for over forty years of self-management.

This is the main message of the ongoing discussion, which argues in favour of variety and against the application of stereotype models to any type of environment, independently from specific conditions and previous history. The discussed alternative models of organising work ought to be considered in a transition country like Serbia and Montenegro, despite the fact that several of these forms - like the producer cooperative, the employee-owned, or the co-determined firm - are frequently associated with the Yugoslav-type labour-managed firm. Because of the need to radically break with the past, including the Yugoslav enterprise as it operated before 1989, all participatory forms of enterprises are today not considered in Serbia and Montenegro. But these alternative forms must not be rejected on purely ideological grounds. Though in theory, there are many similarities between these participatory forms and the pre-1989 self-managed enterprise as it existed in former Yugoslavia, there are also important differences.

The most important difference lies in the system of property rights. Contrary to the pre-1989 Yugoslav enterprise in which all enterprise property was "social" (therefore non-individual), in an employee owned firm in the West, or a privatised enterprise in FR Yugoslavia with substantial employee ownership, workers have become shareholders and as such have individual property stakes in the firm in which they work. Similarly, in producer cooperatives, membership usually also implies some form of workers' share-ownership - through the payment of an entry fee, subsequent loans of individual capital to the cooperative, or other forms of investment of private savings (though in some countries there are restrictions on the distribution of assets in case of closure). Codetermination does not give full control rights to workers (as was the case in former Yugoslavia), only participation of workers' representatives in enterprise decision-making. Comparisons between the pre-1989 Yugoslav self-managed enterprise, and today's participatory firm in western countries are therefore rather misleading.

In should also be added that in the practice of the workers' cooperative in the West, many of the potential problems which have been underlined in the theoretical literature have been successfully overcome (or counterbalanced) through specific institutional arrangements. Thus it is not surprising that the long-established experience with workers cooperatives in many western countries rejects most of the alleged theoretical propositions on their inefficiency. Alternative forms of enterprise,
including cooperatives, have played a very positive role in many western market economies, especially in periods of economic crises.

Therefore, certain options must not be rejected \textit{a priori} simply because of resemblance to the pre-1989 Yugoslav firm. The discussed alternative enterprise forms are to be explored also in Serbia and Montenegro, as they could prove to be a viable alternative, in certain cases, to the standard employment contract - they could enforce incentives, bring about greater commitment of workers to their firm, produce better intra-enterprise relations, induce to more flexible employment policies, provide greater flexibility in remuneration systems, and in the case of workers cooperatives, offer very convenient forms of self-employment.

The existing legislation in both Serbia and Montenegro, is flexible enough to allow these alternative models to be implemented. The Company Law, or the new Serbian Labour Law, are sufficiently general not to represent a legal barrier to experimenting with different models. This is particularly so in newly set up private firms, which are not constrained by any legal norms inherited from the previous system. As to the concrete application of the various models in Serbia and Montenegro, a few further clarifications can be made.

- Regarding workers cooperatives, since in the West they have proved to be a viable form primarily in labour-intensive and low-risk activities - such as trade and other services, agriculture, food processing, handicraft, small-scale manufacturing, construction - these sectors could also be among the most suitable for creating cooperatives in Serbia and Montenegro, particularly in the less-developed parts of the country, which are likely to suffer most, at least in the short run, from the present transition. In southern Serbia, cooperatives could be a valid response to present reforms in course, as they could provide self-employment to many workers losing their jobs due to enterprise closures.

- In case of the more traditional firm with employee ownership, many such firms have already been created in Serbia, through the implementation of provisions of the previous, 1991 and 1997, privatisation laws (but not in Montenegro, where the privatisation legislation since 1992 has been very different and has not stimulated the use of this method). During the privatisations of the 1990s, many other transition countries have also experienced the creation of enterprises in majority workers' ownership, which have not necessarily demonstrated any negative features, but have on the contrary been rather efficient, actively implementing restructuring and investing in firm expansion (see Uvalic and Vaughan-Whitehead, 1997).

Therefore, Serbian firms which are today in majority insider ownership should not be constrained in any way to change their ownership structure simply because of incorrect interpretations which identify today's employee-owned firm with the pre-1989 Yugoslav-type labour-managed firm. In Slovenia, for example, which today is one of the most successful and the most developed transition economy, about to join the European Union (in May 2004), the privatisation process has led to many firms being in majority employee ownership which today seem to be quite efficient, parallel to the introduction of a codetermination law which has introduced workers representatives on company boards.

- Some of the traditional economic arguments in favour of employee ownership are particularly relevant for alleviating some of the most pressing economic problems in Serbia and Montenegro. For example, both the productivity effects and the employment effects of employee ownership could prove highly beneficial, considering
the low level of productivity in many industries and very high unemployment rates. A related argument concerns wage moderation: if employees become shareholders of their enterprises, they may, in principle, be willing to accept lower wages in order to preserve employment, which could contribute to fewer layoffs. Employee ownership can also have positive social effects in Serbia and Montenegro, as it can partly compensate for some of the negative consequences of the ongoing economic reforms, such as the fall in real wages or the abolition of self-management rights.

- Profit sharing, and other similar remuneration schemes which enforce workers incentives, are also to be recommended, especially in newly set-up private enterprises, which are likely to be among the more profitable firms in Serbia and Montenegro today. Such flexible remuneration schemes could bring employees substantial advantages, thus contributing to increasing labour productivity.

- Finally, within labour relations reforms, workers right to information and consultation ought to be generally introduced in enterprises in Serbia and Montenegro, as a basic right presently guaranteed in practically all developed market economies in the European Union. The EU Charter on Basic Social Rights for Workers in fact provides for the implementation of these right in EU member states, and since Serbia and Montenegro is aspiring to join the European Union, the process of legal harmonisation will also imply accepting norms in this domain.

In the context of the present discussion, local governments in Serbia and Montenegro bear an important part of the responsibility for present measures of economic reform, also in stimulating and facilitating the setting up of new enterprises of various profiles, including those considered in this paper. Since participatory firms may have certain advantageous over the traditional capitalist firm, in terms of providing better intra-enterprise relations, major commitment of the workforce, stronger incentives, more flexible payments systems or even higher employment, they may be not only a valid alternative to the more traditional enterprise, but even the more preferred form. The active involvement of local governments in these processes could include the following measures.

- Setting up support structures which provide various types of services, including information about different types of enterprises and work organisations and procedures for setting them up, availability of donors funds for such purposes, standardisation norms, technical assistance, training, etc.

- Offering fiscal or other types of incentives in order to stimulate the setting up of firms of a certain profile, or incentives offered to specifically cooperatives, as this is a diffused practice in some western countries (e.g. France or Italy).

- Support by the local financial system, through various financial facilities such as local bank credits, credit guarantee schemes or other.

- Helping create local networks, which would provide a link between the smaller, newly set-up firms or cooperatives, and larger, longer-established enterprises. Such enterprise networks have been an essential element for the success of SMEs in many western countries.
Mr. Selman Murić  
Manager of the Rožaje Business Centre, Montenegro

Rožaje Business Centre

Mr. Murić pointed out that the Rozaje Business Centre opened on October 4th, 2002 and is the fourth such business centre opened as part of the economic development strategy of the National Agency of SMEs. This is part of a project to establish regional and local business centres to support the development of SMEs, with a further objective of supporting decentralization. The municipality of Rozaje contributed € 50,000 from its municipal budget to the business support role of the Rozaje Business Centre. Such Business Centres are desperately needed in Montenegro because of the very high level of unemployment and the continuing deteriorating of the few large companies in the country. In order to survive most people are now engaged in unofficial business activities, such as trading and catering, but this is not a sustainable situation from the national economy point of view.

The Business Centre has both an R&D and a development role as well as a business support role. In terms of its R&D role, there are a number of activities:

- Defining the development strategy of the municipality, particularly in relation to the regional and national plans.
- Analysis of the SME sector in the municipality
- Statistical tracking of the SME sector in the municipality
- Researching business and market development trends in the municipality
- Analysis of all relevant legislation at the local and national level
- Undertaking specific studies by request
- Recommendations for concrete development projects

In terms of its business support role, the services offered include:

- Information dissemination
- Assistance with business registration
- Developing business plans
- Helping SMEs to draw up business strategies
- Support in acquiring credits for viable self-employment projects
- General promotion of SMEs
- The organization of employment and management courses for SMEs
- Providing marketing, management, organizational advice to SMEs

In the initial phase of operations of the Business Centre, the focus will be on registration: documentation, legal assistance, making business plans (with the help of foreign consultants). All such assistance will initially be provided free of charge, with commercial fees being introduced at a later stage.

Mr. Murić noted that the Rozaje Business Centre has begun to make a database of information across themes that will be especially helpful to new SMEs. The Business Centre will also use these statistics to target training courses, such as those that are intended for women. Within Rozaje's population of 30-50 year-olds, 50% are unemployed, of which nearly 66% of women are unemployed.

Over 4000 new jobs have been created thanks to the support offered by the Business Centre to SMEs making a credit application to a number of donor and
government funding programmes. The Business Centre provides all the necessary assistance for small, independent firms (employing up to five workers) to apply for these credits. This support is necessary because the commercial banks in Montenegro are uninterested in working with SMEs because generally they know that the typical SME cannot afford the very high interest rates they charge on credits. To further alleviate this problem, the Business Centre is also working to establish a guarantee fund that will be available through local banks to local business association members.
**Discussion**

Ms. Jelena Dinov (UNDP Vranje) asked whether more Regional Enterprise Centres would be developed in southern Serbia? Mr. David Miller responded that in addition to the seven EAR centres, there are also two in Vojvodina funded by GTZ, plus one in Novi Pazar funded by the Swiss Development Corporation. There is a gap in geographic coverage, however, and hopefully other donors will help to fill it. Mr. Will Bartlett (University of Bristol) expressed surprise at the high percentage of unemployed women in Rozaje. He asked what measures will actually help address women’s entrepreneurship? Are there any credits targeted to women? Mr. David Miller responded that the Serbian Association of Business Women has recently started a series of seminars for women who want to be entrepreneurs. These are funded by the Dutch government. Part of the EAR training program will also focus on women. Mr. Selman Murić responded to the question by noting that much of the previous employment in Rozaje was hard manual labour, which largely meant that the training and education of women was ignored. However, this is beginning to change through the Business Centre's own activities, which include a women's training component as well as one for disabled persons.

Mr. Milford Bateman (IMC Consulting) noted that typically very many of the institutions presenting their programmes are still in the process of becoming established. They are promising all sorts of services, but they have yet to face the financial crunch that will come when donor funding ends and they are “left to earn their keep on the market”. Most new bodies are being structured on very commercial lines in order to survive the financial “crunch” when it comes, but this means that the body is being established not as a development institution, but as a commercial body that simply aims to sustain itself. After the donors depart, it is very likely that they will turn into commercial/private institutions and forget about SME development. This is what the experience of neighbouring countries has overwhelmingly demonstrated. Indeed, it was thought useful to invite a speaker to this UNDP event from one Enterprise Development Agency anywhere in South-East Europe that has successfully survived the end of donor funding, but it proved impossible to locate even one. Most are now private consultancies competing with the private sector. So why do these agencies perform the services that the private sector can do well enough on their own? What “additionality” is being generated? And will the EAR’s latest Agencies be around three years later after the EAR and other donors pull out?

Mr. David Miller responded that Serbia is only about two years into the transition process, if not less. From his experience in Poland, he said the objective was to establish regional agencies that were not commercial. They should provide services not just for the SME sector, but also provide support for social and economic development in local communities. The agencies in Serbia will have a variety of functions to perform, including the restructuring of local, socially owned businesses. But supporting businesses is one way to support local development as well. The point is not to set up an organization or agency that will become sustainable. Hopefully the local and national governments will see these organizations as useful and will provide support to them. It’s vital that other organizations - NGOs, entrepreneur associations be involved as well. In Poland, the two agencies that he helped develop are still running nine years later. In Bulgaria he helped develop 29 regional agencies that are still functioning a couple of years down the road.

Mr. Selman Murić added that the Business Center in Rožaje is the fourth in Montenegro; four regional centres are foreseen, with one local business centre branch in each municipality. So far they are the only institution on the national level that can
provide advice, technical support, information and training. In addition, the Rozaje Business Centre is the only institution at the local level (covering 30,000 people) that is developing a database of information relevant to the SME sector. The local government is also supporting its activities.

Mr. Davorin Pavlović (SEED, World Bank and IFC) pointed out that one of the key dilemmas is to decide upon the role of these economic development agencies. Do they provide simple business services or do they facilitate the development process? His experience from the functioning of the Economic Development Agencies (EDAs) in Bosnia-Herzegovina is that they tend to commercialise very quickly after the donors leave. He pointed out that of the nine original EDAs established with donor funding, there are currently only two left and these two are now consulting firms whose clients are primarily the international donor agencies and the government.
Concluding discussion

Chairpersons:

Ms. Juliette Hage, UNDP Belgrade
Dr. Milford Bateman, IMC Consulting Ltd, United Kingdom

Mr. Milford Bateman began by summarising what he saw to be some of the key issues and conclusions that seemed to emerge from the Workshop discussions and core papers. These included:

- **Decentralisation**: greater decentralisation is not the same as promoting effective local economic development. It is important to distinguish what aspects of decentralisation are important to local economic development - such as local development institutions, local savings bodies, strongly inclusive local social policies, good educational institutions, quality infrastructure and technology institutions - and what are not - local control over large industries or utilities, such as energy, natural resources, which in most countries are most always better managed centrally. It is important to remember that efficient local economic development nearly always involves an effective *partnership* between local and central levels of government, with each level doing what it can do best to help the other.

- **Policy**: a key policy outcome should be “institutional diversity”. This relates to the need for a multiplicity of institutions within the local community geared to a variety of development goals. These institutions should overlap both horizontally and vertically, in order to offer mutual support and knowledge and experience transfer. Policy should be longer term focused, rather that commensurate with donor or any other institutional preference for short term impacts.

- **Time perspective**: it is important to accept that promoting sustainable local economic development is a longer-term process and will not always give results according to the timetables of the donors. There are also many times when short term results run counter to longer run success, such as when micro-credits promote short term employment creation in petty trading and retailing operations at the wider and longer term expense of the local economy and community.
• **Markets**: all countries are trying to enter neighbouring countries’ markets, so there is the prospect of a “zero-sum” game as countries gain some trade abroad but lose it at home. However, it is important to build capacity (quality and quantity) at home before embarking on a trading strategy, and this might require special support to build upon local comparative advantages.

• **Agriculture**: as a result of the old industrial sector collapsing, the agricultural sector has been forced to absorb large numbers of the unemployed. Most of these new units exist as subsistence farms, so great attention is needed to transform at least some of them into modern, professional farms geared to local and international demands.

• **Foreign Direct Investment (FDI)**: a policy of waiting for FDI to solve problems is quite unrealistic. The region remains very unsuited to large quantities of FDI and most of the initial surge of FDI associated with the search for lower labour cost regions has already found a location in the early transition economies or in China. And anyway, the impact of FDI is not always positive as it usually results in job losses to improve productivity, responsibility to pay local taxes is usually waved in order to attract the FDI in the first place, and profits are repatriated to the home country rather than invested locally.

• **Low wage growth strategy**: it is now clear that the earlier emphasis on promoting labour flexibility that is, a low wage economy is not the answer. Despite low wages in the region already, there are other even lower wage economies (China) that can out-compete the region in labour intensive markets. More emphasis is needed on locating higher value added markets and in more intensively using the regions’ pre-existing technology base.

**Mr. Peter Simkin** (UNDP) pointed out that there are also many potentials in the bed-and-breakfast tourism sector: converting old abandoned houses and empty properties into new tourist facilities. **Jonathan Brooks** (UNDP) noted that Serbia should start to think in terms of competitive advantages. He agreed that an example could be rural tourism, even if there is a lot of competition in this sector. Other opportunities could come from the mineral water production.

**Mr. Robert McIntyre** emphasised two points: first, that rural tourism is correlated with availability of fresh local food, and thus with agriculture, which must therefore be of a higher quality than at present. Second, based on the experience of neighbouring countries, Serbia is very likely to suffer far more than gain in the short to medium term for example, Serbia has little chance to make inroads into EU markets at present, yet the Serbian government must give EU producers the complete freedom to flood its markets with their own (often highly subsidised) products. He stressed that the donor community should be addressing the issue of uneven impact and the morality that underpins such an approach. Such a one-sided approach, he argued, was simply not sustainable.

The discussion then moved on to the specific issues. **Mrs. Vasvija Gusinac** (Mayor of Novi Pazar) pointed out several issues of concern to local governments in the region: first, that donors distribute money directly to the central governments (Serbia and Montenegro), rather than directly to the localities themselves. As a result, she claimed that Novi Pazar and the whole region had not been reached directly by donations, even by those dedicated to the local communities, which are channelled through the central government. Two years of experience showed to her that what is given to the centre never reaches the most underdeveloped regions. Second, the
Sandžak region (centred on Novi Pazar) is a self-designated region not yet recognised by central government, and so it does not have its own institutions. Yet the region is extremely active and dynamic and local government is very supportive and pro-active in developing the local economy, yet still most institutions remain in the hands of central government. Third, she noted the difficulties in cross-border trade with Montenegro and Kosovo, which are the closest markets for Sandžak.

Mr. Radojica Živković (Vice-Mayor of Berane) noted that Berane was once a developed municipality because of the large paper-processing factory, but it is now deeply underdeveloped, as the factory has declined. The reason for this situation is the centralisation within the country. Local governments do not have authority over local industries, but only for public utilities, and so cannot intervene to support collapsing industries that are in need of investment. Greater decentralisation is therefore required. He went on to note that one of the main reasons for the loss of markets is the double currency system (Dinars in Serbia and the Euro in Montenegro), which is an obstacle for Montenegrin enterprises willing to trade with Serbia. It would be best if assistance could be channelled directly to local governments since they have the local knowledge necessary to efficiently allocate such assistance - to the best local SMEs, to local institutions, for agriculture and to support sport and tourism.

Mr. Richard Minns (Sandžak Economic Development Agency, SEDA) pointed out that the final report should highlight the following: the well-known development gaps in South Serbia; political issues; the potential conflict between central and local government; the important role of Local Economic Development Agencies; the need for better co-ordination of international interventions; the role of the private sector in development; and the scope and targets of UNDP intervention.

Mr. Selman Murić (Head of the Rožaje Business Centre) summarised what he saw as the key points to remember in terms of promoting effective Local economic development (LED). These were: that LED depends on both effective national strategies and the active role of local communities to help implement those strategies; local institutions that have access to central funds and can contribute to the decentralisation of the decision making process; donor funding of specialised training programmes for LED staff since capacity building is necessary to use donors’ funds in the proper way; local communities taking the initiative to change laws at the central level; removing the heavy restrictions upon local governments contained in Montenegrin Law on Local Self-Government, which exclude support for private initiatives and the improvement of infrastructure.

Ms. Juliette Hage (UNDP Deputy Resident Representative) formally concluded the Workshop event by noting that the UNDP is very much concentrating its interventions in the poorest areas in Serbia and Montenegro. One technique they are using to ensure efficient support here is the Human Development Report, which will map the initial situation in both republics. Even though UNDP has encountered problems in data collection, the Human Development Index (covering GDP indicators, but also educational, health and other indicators) has been dis-aggregated at the municipal level. She went on to emphasise that the evidence so far indicates a major role for local governments. Central government must support this important role for local government, as should the donors. Commenting upon what needs to be done further, she pointed to the lack of jobs being the main problem, and that there a long-term strategy is needed to help to remedy the situation. She emphasised a number of points from the UNDP perspective:
• That it is not just a matter of job creation, but also the quality of the jobs created - that is, it is important to avoid creating only short-term and insecure forms of employment.

• The health and education systems are still quite extensive, but the quality is clearly deteriorating. Urgent measures must be taken here also in order not to exacerbate the underlying situation.

• It is necessary to identify growth opportunities (entry points) and to concentrate on them, rather than allowing them to just possibly develop into sound growth opportunities. The regions in the south are rich in some assets and resources, and these must be used constructively.

• There should be a common donor and government effort to identify where the poor are and what they can do themselves to remedy their plight.

• More effort needs to be invested to underpin the “virtuous circle” whereby local savings are mobilised and channelled into local investment projects. The appropriate local institutions that can facilitate these “virtuous circles” must be supported, such as financial co-operatives.

• Supporting the traditional small private enterprise is a good starting point for local economic development, but it is important to recognise the real value of other forms of organisation and community-based institution - such as co-operatives - which should be offered substantive support.

• There is a need to start to think in terms of regional strategies. Here the UNDP has the capacity to gather people together to formulate and implement regional development plans.

• We need to recognise capacity building defects, such as where donors focus only upon the upper layer and these people then do not have time or capacity to convey what they have been trained in and learned to lower levels.

• Finally, whatever the effectiveness of the local government unit, it will not be able to promote sustainable local economic development without comprehensive support from the centre, especially in terms of a supportive legislative environment and strong industrial, agricultural, financial and labour-market policies - central and local levels of government are complementary.
Part III

Annexes
Annex 1

Workshop on Local Economic Development

In the Federal Republic of Yugoslavia - Serbia & Montenegro

Belgrade, 2 - 3 December 2002

Venue in Belgrade: Hotel M

Aim of the Workshop:

- Provide a wider understanding of the role of local government and non-governmental institutions in economic development;
- Encourage municipality-level support for local economic development and for upgrading of the Departments for Economy;
- Encourage central governments' legislative, financial, and technical support for economic development activities pursued by municipalities;
- Elicit donors' support for local institution-building measures;
- Propose interventions to be support by UNDP in partnership with other donors.

Agenda

Day 1
2 December 2002

Session 1: Introductions and welcome

8.30-9.00 a.m.  Arrival and registration of participants

9.00 a.m.  Introductory Address
by Mr. Francis O'Donnell, UN Resident Coordinator & UNDP Resident Representative

9.15 a.m.  Presentation on Financial and Economic Decentralization In Serbia
by Mr. Božidar Delić, Minister of Finance and Economy, Serbia
9.45 a.m.  

Presentation on the Law on the Increased Role of Local Self-Government in Serbia
by Mr. Dragoljub Sabić, Minister of Local Self-government, Serbia

10.00 - 10.30 a.m.  Coffee Break

Session 2: The Role of Institutions in Local Economic Development

10.30 - 11.30 a.m.  Chair Person: Mr. Šemsudin Kučević, Mayor of Tutin (Serbia)

Panel Discussion:

- Mr. Milford Bateman, IMC Consulting, London
  “Local Economic Development in the Southern Balkans: the need for a new institutional approach”
- Mr. Goran Ćirić, Mayor of Niš (Serbia) and President of the Standing Conference of Towns and Municipalities in Yugoslavia
- Mr. Jonathan Brookes, UNDP Bratislava
  “Key Issues for Local Economic Development Policy in Southern Serbia”
- Mr. Davorin Pavelić, Business Development Analyst, SEED Bosnia and Herzegovina
  “LED in Bosnia and Herzegovina, - SEED’s approach”

11.30 - 12.30 a.m.  Open discussion

12.30 - 2.00 p.m.  Lunch Break

Session 3: Local Institutions and Local Economic Development

2.00 - 3.00 p.m.  Chair Person: Ms. Juliette Hage, UNDP Deputy Resident Representative

Panel Discussion:

- Dr. Will Bartlett, University of Bristol, UK
  “Regional Integration and Economic Development: the Role of Local Authorities”
- Mr. Thomas Meekel, Ministry of Finance and Economy, Serbia
  “Municipal Infrastructure Agency”
- Ms. Vasvija Gusinac, Mayor of Novi Pazar (Serbia)

3.00 - 3.30 p.m.  Open discussion

3.30 - 4.00 p.m.  Coffee Break
Session 4: The Role of Agriculture in Local Economic Development

4.00 - 5.00 p.m. Chair Person: Dragan Veselinov, Minister of Agriculture, Serbia

Panel Discussion:

- Mr. Holger Hasle Nielsen, Danish Agricultural Cooperative Federation
  “The Danish Agriculture Experience”
- Mr. Anthony Pope, Agriculturist, Agronomist, United Kingdom
  “Initiatives to Stimulate Agricultural Production in the Sandžak Region”
- Mr. Aleksandar Pajtić, Chief Editor, New Deal Magazine, Novi Sad (Serbia)
  “Some Macro-economic Indicators and more”

5.00 - 5.30 p.m. Open discussion
6.30 - 8.00 p.m. Cocktail Reception

Day 2
3 December

Session 5: Models of Local Economic Development Promotion and Poverty Reduction

9.00 - 10.00 a.m. Chairperson: Mr. Riza Halimi, Mayor of Preševo (Serbia)

Panel Discussion:

- Mr. Robert Mc Intyre, Local Economic Development Expert
  “Local Economic Development: Policy and Ownership Alternatives for Poverty Reduction”
- Mr. Geert Van Boekel, Regional Expert on Local Economic Development, ILO Croatia
  “Local Economic Development: Experience from Croatia”
- Mr. Peter Simkin, Ms. Biljana Stanković and Ms. Jelena Dinov, UNDP Vranje
  “UNDP Local Economic Activities in Southern Serbia”
- Mr. Vladimir Kostić, Municipal Development Fund Manager, Leskovac (Serbia)

10.00 - 11.00 a.m. Open discussion
11.00 - 11.30 a.m. Coffee Break

Session 6: Self-employment, privatisation and other tools for Local Economic Development

11.30 - 12.15 a.m. Chair Person: Mr. Nagip Arifi, Mayor of Bujanovac
Panel Discussion:

- Mr. David Miller, European Agency for Reconstruction (EAR, Belgrade
  “SMEs and Local Economic Development”
- Dr. Jelica Minić, Assistant Minister, Ministry of Foreign Affairs, Yugoslavia
  “Partnership with Local government and Civil Society for Local Economic Development”
- Prof. Milica Uvalić, university of Perugia, Italy
  “Alternative Forms of Enterprise: Can they alleviate the unemployment problem in Yugoslavia?”
- Mr. Selman Murić, Business Centre Director Rožaje, Montenegro

12.15 - 1.00 p.m. Open discussion
1.00 - 2.00 p.m. Lunch Break
2.00-3.30 Final Open Discussion and Summary of the Proceedings

Where do we Go from Here

Chairpersons: Ms. Juliette Hage, Deputy Resident Representative, UNDP Belgrade; Milford Bateman, IMC Consulting, UK
Annex 2

Workshop on Local Economic Development

In the Federal Republic of Yugoslavia - Serbia & Montenegro

Belgrade, 2 - 3 December 2002

Venue in Belgrade: Hotel M

List of Participants

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<th>NAME</th>
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<td>Minister of Finance and Economy, Serbia</td>
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<td>Dragan Veselinov</td>
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<td>Rodoljub Šabić</td>
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<td>Vavija Gusinac</td>
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<td>Jasmina Cucić</td>
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<td>Zorica Zdravković</td>
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<td>Jusuf Sinanović</td>
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<td>Dragoš Vulović</td>
<td>Officer for Economics, Prijepolje</td>
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<td>Ljubinka Zejak</td>
<td>First Secretary, Prijepolje</td>
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<td>Risto Popović</td>
<td>Officer for Economics, Nova Varoš</td>
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<td>Radoman Gogić</td>
<td>Mayor of Pljevlja</td>
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<td>Officer for Economics, Pljevlja</td>
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<td>Slobodan Drašković</td>
<td>Mayor of Medveđa</td>
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<td>Goran Rajković</td>
<td>Municipal Technical Unit Staff, Medveđa</td>
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<td>Zoran Ivković</td>
<td>Mayor of Lebane</td>
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<tr>
<td>Melany Stevanović</td>
<td>Officer for Economics, Lebane</td>
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<td>Goran Radojević</td>
<td>ACDI-VOCA Programme Manager, Kragujevac</td>
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<tr>
<td>Brian Holst</td>
<td>Director, Community Habitat Finance</td>
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<td>Valeria Biaggioti</td>
<td>Cooperazione Italiana</td>
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<tr>
<td>Jovan Tatić</td>
<td>Programme Coordinator, DAI</td>
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<td>D. Strika</td>
<td>DFID, Embassy of UK</td>
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<tr>
<td>David Miller</td>
<td>Team Leader, EAR</td>
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<td>Tom Thorogood</td>
<td>Team Leader for Southern Serbia, FAO</td>
</tr>
<tr>
<td>Richard Minns</td>
<td>Chief Technical Advisor, ILO</td>
</tr>
<tr>
<td>Mazen Fawzy</td>
<td>Chief of Party, Mercy Corps International</td>
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<tr>
<td>Nina Ristanović</td>
<td>Programme Manager, Mercy Corps International</td>
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<tr>
<td>Pierre Maurer</td>
<td>Head of Mission, SDC</td>
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<td>Arminio Rosić</td>
<td>Programme Manager, SDC</td>
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<td>Typhaine Hoenner</td>
<td>Head of Mission, Triangle</td>
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<td>Sussane Reichelt</td>
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<td>Michael Enders</td>
<td>Director, USAID, General Dev. Office</td>
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<td>Holger Hasle Nielsen</td>
<td>Vice-president of the Danish Agricultural Cooperative Federation</td>
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<tr>
<td>Will Bartlett</td>
<td>Professor, University of Bristol, UK</td>
</tr>
<tr>
<td>Jonathan Brooks</td>
<td>Poverty Alleviation Specialist, UNDP Bratislava</td>
</tr>
<tr>
<td>Milica Uvalić</td>
<td>Professor, University of Perugia, Italy</td>
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<td>Anthony Pope</td>
<td>Agriculturist/Agronomist, UK</td>
</tr>
<tr>
<td>Davorin Pavelić</td>
<td>Business Development Analyst, SEED/IFC Bosnia Herzegovina</td>
</tr>
<tr>
<td>Greet Van Boekel</td>
<td>Regional Expert on Local Economic Development, ILO/UNDP Croatia</td>
</tr>
<tr>
<td>Aleksandar Pajtić</td>
<td>Agricultural Expert, Novi Sad</td>
</tr>
<tr>
<td>Robert Mc Intyre</td>
<td>Economist</td>
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<td>Jelica Minić</td>
<td>Assistant Minister for Foreign Affairs</td>
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<td>Francis O'Donnell</td>
<td>Resident Representative, UNDP Serbia and Montenegro</td>
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<tr>
<td>Juliette Hage</td>
<td>Deputy Resident Representative, UNDP Serbia and Montenegro</td>
</tr>
<tr>
<td>Paul Randolph</td>
<td>Team Leader, UNDP Serbia and Montenegro</td>
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<tr>
<td>Paola Pagliani</td>
<td>Programme Officer, UNDP Serbia and Montenegro</td>
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<tr>
<td>Milica Kokotović</td>
<td>Programme Consultant, UNDP Serbia and Montenegro</td>
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<tr>
<td>Daniel Varga</td>
<td>Programme Assistant, UNDP Serbia and Montenegro</td>
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<tr>
<td>Branka Andjelković</td>
<td>Programme Manager, UNDP Serbia and Montenegro</td>
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<td>Garret Tankosić-Kelly</td>
<td>Head of Liaison Office, UNDP Serbia and Montenegro</td>
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<tr>
<td>Peter Simkin</td>
<td>Area Co-ordinator, UNDP Serbia and Montenegro</td>
</tr>
<tr>
<td>Biljana Stanković</td>
<td>Economist Recovery Assistant, UNDP Serbia and Montenegro</td>
</tr>
<tr>
<td>Michael Scott</td>
<td>Programme Officer, UNDP Serbia and Montenegro</td>
</tr>
<tr>
<td>Jelena Dinov</td>
<td>Secretary/Interpreter, UNDP Serbia and Montenegro</td>
</tr>
<tr>
<td>Javier Alvarez</td>
<td>Programme Officer, UNDP Serbia and Montenegro</td>
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