“POLITICAL ECONOMY OF REGIONAL COHESION IN TIMES OF CRISIS: CASE STUDY OF SOUTH EAST SERBIA”

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Abstract

Data on poverty and social exclusion testify to a deep polarization that is rooted in geographical, economic, political and historical reasons in Serbia. A coherent regional policy is an essential step on Serbia’s path toward the EU. The first Law on Regional Development was adopted in 2009. However, many critical questions remain unresolved and the process is affected by fundamental contradictions. Concurrently, institutions for regional development were established at the local level through a bottom-up process.

The paper aims at assessing regional development patterns across Serbia, and it’s based on the case study of “Timok region”, South-East Serbia. Moreover, as this process is unfolding to severe cuts in public sector expenditures as pivotal anti-crisis measures, it discusses how reduction in transfers to local self-governments threaten this fragile process, potentially undermining progress in social inclusion. The study is based on empirical research, namely field visits and meetings with key stakeholders, and secondary data.

JEL Classification: P26; R58; H70; I30

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Economic growth policy in Serbia during the last decade has been entirely centrally managed and mostly based on an unsustainable economic agenda. On one hand, personal and public spending have by far exceeded GDP growth, while on the other hand value added was mostly generated from non-tradable goods and services, leading to chronic balance of payments deficits. Much of the public expenditures, which included paying out above-productivity-levels wages for public sector employees, were financed from privatisation proceeds, as well as borrowing from abroad. Public wages pushed other wages in the economy up, which, coupled by improved access to personal loans, led to high and unsustainable levels of personal consumption. Public expenditures have also been heavily linked to election cycles, which have in the past decade by far exceeded the “one election every four years” model.

The process of transition, which started in 2001, with the adoption of a privatisation law, resulted in limited microeconomic restructuring and privatisation of around 2000 socially owned companies. Large-scale privatisation was delayed and it only started in 2006, so the overall success of privatisation has been limited, even 9 years after its initiation (Avlijas & Uvalic, forthcoming). Moreover, the process of privatisation was not very transparent and the government has frequently been accused of leading socially owned companies into intentional bankruptcies, in order to sell them for low prices to certain individuals, thus creating business tycoons, which would in turn finance political parties and strengthen those in power.

Such a lack of transparency of the transition process has led to complete absence of the competition policy as well as weak social outcomes, especially in terms of employment generation. In circumstances which favoured the sectors of financial intermediation, retail and telecommunications, the Serbian economy has been unable to generate enough new jobs to make up for the effects of transition, i.e. privatisation and company restructuring, on the labour market. As the economic crisis hit Serbia in the second half of 2008, structural weaknesses in the economy were further uncovered. Privatisation proceeds have almost dried up, not only because of the crisis, but also because there is a limited pool of public and socially owned companies to begin with. At the same time, greenfield investment has not been substantial enough to make up for the budget deficit.
Although both employment and unemployment indicators saw slight improvements during the 2000’s, labour market trends were entirely reversed with the economic crisis, which resulted in historically low employment and record high unemployment in Serbia in 2010 – 47.2 and 20.1 per cent respectively in April 2010 (Labour Force Survey). While absolute poverty halved between 2003 and 2007, down to 6.6 per cent (Living Standards Measurement Survey) with the start of the economic crisis, it started increasing again, as households’ coping mechanisms started to dry up.

2. Regional Policy and Local Economic Development

During the last decade, policies directed towards more equal regional development have regained momentum in Serbia, following years of economic downturn during the 1990s. Regional policy grew in importance, since newly underdeveloped areas emerged as a consequence of two processes: centralisation of municipal resources during Milosevic’s regime, and economic transition, which followed during the 2000’s.

Re-capture of resources and assets from the highly decentralised local self-governments by the central government during Milosevic’s regime, had as its consequence the weakening of municipal authorities’ financial capacities and their influence on local economic policy. During the past decade, and especially since the adoption of the 2006 Law on Financing Local Self-Governments\(^1\), municipal financial capacities have increased, and local authorities have gained greater control over local economic development. Namely, as the Law defined new sources of finance for local self-governments, including the delegation of some centrally collected taxes, as well as a new formula for non-earmarked transfers from the central government, local authorities acquired more resources for investment into the local economy, which changed their role from simply covering current expenditures and acting as deconcentrated units of central government, into participating in the economic development policy making process. Although no legal framework was introduced to increase responsibilities of local self-governments towards investing into local economic development,

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\(^1\) Official Gazette 62/06, Government of Serbia
there were clear political benefits to reap by providing investment and growth opportunities for local businesses, and especially in terms of employment generation.

However, this trend did not last very long, since with the onset of the economic crisis, the 2006 Law on Financing Local Self-Governments has been broken by the Ministry of Finance in 2009 and 2010, leading to severe reductions in central government transfers to local authorities (the total reduction of transfers established by the stand by arrangement with the IMF amounted to 15bn dinars). The reduction of transfers, coupled by lower tax revenues due to the economic crisis, has made it increasingly difficult for local authorities to finance their newly established responsibilities. Such circumstances at the local level particularly impacted investment into all sectors.

Observing the central government level, regional policy, which has included investment into less developed areas, has not had a clear strategy from 2001 onwards on how to achieve regional cohesion and reduce disparities across Serbia. The National Investment Plan (NIP) was launched as part of a 2006 pre-election campaign and its significant budget of 600mn Euros in 2007 was financed from privatisation proceeds. Its particular focus has been on repairing and building new physical infrastructure, as the fastest and most visible form of public investment. Although local authorities have had some discretion in deciding on local development priorities, since most of the finance was centrally provided, investment choices, and especially their locations, have been severely politically influenced. NIP has been complemented by other financial incentives, such as affordable credit lines and subsidies for enterprises, which have directly or indirectly served to contribute to regional policy and its main aim of balanced and inclusive regional economic development. The lack of transparency in allocating state aid has been common practice in the past decade. In addition, new private sector investment (especially foreign) has been mainly attracted through heavy employment subsidies and other financial incentives for foreign companies, which have questioned the sustainability of such endeavours and particularly the long-term perspective of jobs generated through them (not to mention the room for corruption these types of measures can create). Such an approach to attracting investment

2 NIP has since lost its initial financial strength, yet it remains a relevant stakeholder with over a 150mn Euros annual budget.
is particularly worrisome if we take into consideration that not much has been done to concurrently improve the business environment, through reduction of red tape and, in particular, enforcement of competition policy. Finally, regional policy has not been based on cross-sectoral cooperation between line ministries and other stakeholders, such as those involved in tourism and agricultural policy (of particular relevance for the Timok region), which has resulted in further discrepancies between the written word, i.e. the development strategies, and the real world, i.e. investment priorities.

Since a coherent regional policy is one of the essential steps on Serbia’s path towards the European Union, the Ministry of Economy became the Ministry of Economy and Regional Development in 2007 and the first Law on Regional Development was adopted in July 2009 and amended in February 2010\(^3\), testifying of a political willingness to institutionalize regional development planning and implementation. However, many critical questions remain unresolved and undefined and the process is affected by fundamental contradictions as it is strictly intertwined with the sensible and over politicized issue of decentralization. There are two main reasons of the overlapping of those, in principle distinct, questions of regional development and decentralization. First, as no intermediate level of government exists in Serbia, being the districts deconcentrated units of the central government, Local Self Governments have been important actors of regional development, often seeing this process as a tool for advocacy and the only possible way for counterbalancing their structural weakness toward the central government. Moreover, as the transfer of competences and resources to the local level is a fundamental condition for the definition and implementation of regional and local development strategies, the question of regional development opened the way to a political and academic debate on the opportunity to institutionalize a third level of government. This, in turn, tends to hamper the process, stalling the debate on hotly disputed issues. Among Western Balkans, Serbia is the country where the process of decentralization met the biggest political resistance, especially since the 2006 Constitution was adopted, when the dispute with Kosovo was increasing political tensions, which reached their peak with the self-declared independence of the autonomous province of Kosovo in 2008.

\(^3\) Official Gazette 31/09, Government of Serbia
The Law on Regional Development establishes for the first time in Serbia a legislative and institutional framework, which recognizes the importance of a comprehensive approach to regional development aiming at reducing regional and intra-regional socio-economic disparities (art. 2). The law defines the region as a statistical functional territorial unit (art. 4) for the purpose of planning and implementation of regional development. The amended version foresees five statistical regions\(^4\) (NUTS II). The revision was driven by both political (the former Law divided Sandzak) and ‘statistical’ reasons (the seven regions established in the former Law were not NUTS II). The Law defines the institutional architecture in charge of regional development, to be regulated through laws which have not yet been adopted. Besides the National Council and the National Agency for Regional Development at the central level, Regional Development Councils and Regional Development Agencies (hereinafter referred to as RDAs) have been foreseen. If the first version of the Law foresaw seven RDAs created *ex novo* by the Ministry, with no mention of the nine already existing, according to the amended Law nine RDAs will be accreditated. This is a fundamental change in the provision of the Law, as it recognizes those Regional Agencies which were set up in Serbia since 2003-2004 through a bottom-up, often donor driven, process which anticipated the provision of central institutions for regional development and encompassed Municipalities, Cities, Enterprises and NGOs. The majority of RDAs were established with the legal form of limited liability companies without distribution of profits. In many cases strongly encouraged by international donors, RDAs have suffered their undefined institutional and political status, being highly dependent for their development on personal commitment and connections. Not only the institutionalization of regional development leaves many question unsettled, it also opens the way for a complex process of institution building, influencing inter-institutional relations in different ways. The role of Local Self Governments in legitimating RDAs at the local level, both politically and institutionally, has been crucial.

A complex process of creation of “regional” interests can be traced back to Serbia’s recent history. The Autonomous Provinces of Vojvodina and of Kosovo and Metohija have been established by the

\(^4\) Vojvodina, City of Belgrade, Western Region, Eastern Region and Kosovo.
first Constitution of the FSRY. The fourth FSRY Constitution represents a critical step of this process, being the first political attempt to plan development strategy at a regional level. Nine intermunicipal regional communities were established in the area which is now Central Serbia. These entities were an important basis for the development of regional identities. The provision of administrative districts with the Law on Territorial Organization and Territorial Self Government (1991) influenced this process as well, as it introduced an intermediate administrative tier between the local and the central level. Being deconcentrated units of the central government, districts aren’t political entities. This notwithstanding, they favored the formation of economic areas made up of bordering municipalities which started to gravitate also towards regional administrative centers rather than only toward Belgrade. Finally, the Spatial Plan of Republic of Serbia introduced in 1996 five “possible areas of influence of macro regional centers”.

In conclusion, regional policy has been subject to varying political and economic interests of different stakeholders, both from the central and local level government, as well as the donor community, which has generally resulted in a plethora of legal and strategic frameworks, as well as development projects, with often overlapping mandates. Furthermore, their approaches have in most cases not been tailored to local needs and the real impact of these activities for the local communities have rarely been assessed and evaluated.

3. The case of Eastern Serbia

Data on poverty and social exclusion testify to significant spatial disparities and a deep polarization that is rooted in economic, political, historical and geographical reasons in Serbia. Eastern Serbia, the so-called Timok region, represents an interesting case in this respect. Former Yugoslavia was characterized by a sort of North-South division in terms of economic development. Located at the borders with Romania and Bulgaria, Eastern Serbia was placed just on the edge of various economic and political limes. In the socialist period it was a vital industrial area due to the rich ore deposits and

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5 Adopted on January 31, 1946.

6 Adopted on February 21, 1974
water resources. The RTB Bor copper mine was among the largest and most successful enterprises of former Yugoslavia, guaranteeing high living standards in the region (Table 2) and attracting workers from all Eastern Europe in Bor and Majdanpek, which were and still remain one-company towns. The presence of the Danube along the borders with Romania led to the emergence of regional interests that exceeded national borders. Djerdap I and II, still the biggest hydro electric power plants in Serbia\(^7\), were built and are still managed jointly by Romania and Serbia. The region was an important transit area, being now nearby to the Pan European Corridors X and IV. One of main kombinat of the Former Yugoslavia, Salaš, was located in the region, which has more than 300,000 hectares of farming land.

Eastern Serbia underwent a severe economic downturn as the result of the long-term economic crisis which started in the 1970s, the political breakup of Yugoslavia, the civil war and the process of economic transition. Despite several attempts over the past decade, privatization of the main industrial complexes has achieved poor results. Agriculture is underdeveloped, mainly due to the fragmented ownership (average of less than one hectare) and the poor technology. Moreover, the conflicts in the 1990s modified tourism and transit routes. As a consequence, rural population of Eastern Serbia is one of the most vulnerable population groups in Serbia. With poor infrastructure, several industrial complexes closed, abandoned or under-utilized, unemployment rate and out-migration much higher than the average in the country, Eastern Serbia represents a case of failed transition. This double heritage is at the core of the contradictory features of Timok Region, of its constrains and opportunities.

3.1 Background of the Timok Region

Timok region is a rural area made up the districts of Bor and Zaječar. Encompassing the Municipalities of Majdanpek, Kladovo, Negotin, Bor, Knjaževac, Boljevac and Sokobanja and the City of Zaječar, it roughly covers the inter municipal regional community of Zaječar established in 1974 by the fourth FSRY Constitution. Yet, ‘region’ here is neither referred to an administrative or political entity nor to a statistical territorial unit, as the area is just a portion of the Eastern statistical

\(^7\) They counts for 17% of total electric power and 67% of total hydro-electric power in Serbia.
region established by the Law on Regional Development. It is rather referred to the way these LSGs consider themselves in terms territorial identity, historical and cultural heritage, development potentials and constraints. The Regional Development Agency of Eastern Serbia (RARIS), was founded in 2007\(^8\). Since then, the Agency has been significantly engaged in coordination and promotion of regional development and in advocacy. RARIS is one of the few RDAs in Serbia created more by local than donors’ initiative, testifying of the strong sense of political identity emerged in this area. The open commitment of RARIS toward regionalization in Serbia shows the emergence of long-term processes irrespective of the current unfavorable political circumstances at the national level. LSGs funds part of the budget of RARIS, which set off a highly participative process for the elaboration of a regional development strategy and of a regional development plan. The active inclusion of local stakeholders is particularly critical in an area which underwent a process of severe depopulation started in the 1960s in the district of Zaječar and during the 1980s in the district of Bor, due to the crisis of the RTB (from 317,405 inhabitants in 1991 to 284,112 in 2002). With an area of 7,133 km\(^2\) (8.1% of the Republic of Serbia), Timok region counts for the 3.8% of national population.

Out-migration and low fertility rates are causing significant ageing of population (the average age is 43.1 as to the Census 2002) and a severe brain drain. On average, 33% of the population older than 15 years old did not complete primary school. However, the differences between municipalities are significant (46.1% in Boljevac). In this group the rate of illiteracy is 4.7%.

Overall living conditions have deteriorated at sustained path in the last two decades. Industrial employment rate fell by 240% between 1991 and 2008. Privatization of the main industrial complexes achieved remarkably poor results (see, for example, the attempts to privatize RTB Bor, or the privatization of Salaš), contributing to the dramatic increase of the unemployment rate, which is significantly higher than the national average (see Table 1), being over 30% in the city of Zaječar and in the municipality of Knjaževac. At the same time, the average income is considerably lower than the

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\(^8\) The founders are the Municipalities of Majdanpek, Kladovo, Bor, Knjaževac, Boljevac and Sokobanja, the City of Zaječar, the Regional Chamber of Commerce in Zaječar, two enterprises, an NGO and a Serbian private University.
The average monthly income in the districts of Zaječar and Bor is respectively 24,822 and 29,340 dinars, while the national average is 31,930 dinars (Table 2).

The structural lack of resources of the LSGs and the lack of investments by the central level affected severely education, healthcare and transport infrastructures, as well as water supply and sewage systems, posing a heavy burden on development. Besides the roads, which are in general in poor conditions, the railway is highly damaged and old and would require huge investments due to the morphology of the region as about the 40% of the area is mountainous, with 300,000 hectares of forests.

Moreover, the standard of living of the population, as well as development potentials, are affected by environmental pollution. Due to obsolete technology, poor maintenance, as well as irrational use of raw materials and energy in part incentivized by lack of regulation, the industrial sector has a strong impact on air, water and land pollution. The agricultural sector, as well as the citizens, are sources of water and soil pollution as well.

A compelling question is the environmental impact of the Bor mining and smelting basin as far as water, soil and hair pollution are concerned. In particular, living conditions in the town of Bor are severely affected, and air can be unbreathable under specific climate circumstances. Air pollution is caused both by mining and processing of ores and by inadequate storing and flotation tailings dumping. The industry complex requires urgent intervention⁹, being a driver of the economy in the area and operating in a pivotal sector for the development of the region, which is particularly rich in minerals (copper, gold, quartz, coal, lignite) and construction materials.

Besides being an objective per se, environmental protection is pivotal for the development of the area, which can rely on rich and differentiated natural resources only partially exploited. A noteworthy aspect is that, while LSGs are responsible for the maintenance of common pool resources, they are not

⁹ The commitment of the World Bank program in this respect is significant.
haring the fees for their exploitation with the central government, as the sectoral laws which should regulate the question have not yet been adopted (Avlijas & Uvalic, forthcoming).

Agriculture has been favored by fertile soil (farming land is 45% of the territory, with 304,370 hectares) and the rich water resources of the region, named after the affluent of the Danube Timok, which is navigable for a large part of its course (about 200 km). The Danube represents a fundamental opportunity for the development in the region, especially because it runs along the border with two EU countries with which economic cooperation and commercial exchanges have for long represented a distinctive feature of the economy of the area. Besides the joint management of Djerdap I and II and the possible cooperation in the construction and management of Djerdap III, Timok region established stable commercial relations with Bulgaria and Romania, with relatively high levels of exports which tend to constantly exceed imports.

Several industrial complexes in the area, namely Djerdap and the mining complex of Bor and Majdanpek, are pivotal in Serbia’s industrial development strategy. At the same time, the position of Timok region is favorable, being close to the Pan-European road Corridors 4 and 10 and river Corridor 7. Fundamental, in this respect, will be the EU Strategy for the Danube. Therefore, the area is interested by infrastructural and industrial programmes (namely Corridor 10, Djerdap and Bor mining complex). Nevertheless, the local implications have been, up to now, very limited due to inconsistent interventions, lack of long term comprehensive planning and of coordination among sectoral and donors’ activities.

4.2 Regional Policy in the Timok Region

The first attempt to elaborate a comprehensive and participative development strategy for the region is the Regional Development Strategy which is due to be completed by 2011. The first draft (September 2010), indicates as strategic development priorities agriculture and food industry, power industry based on renewable resources, tourism and exploitation and processing of mineral raw materials. So-called cross-section priorities are regional accessibility and mobility, support to SMEs, human resources development and the environment (RARIS, 2010, p.11).
Before the conflicts in the 1990s, the tourism in the area was mainly related to the geographical position – East-West corridor – and to the geothermal springs and well known spas (Sokobanja), which have been used to host refugees or are now in depletion. At the same time, in the region there are national parks and beautiful natural sites (National Park Djerdap, Nature Park Stara Planina, Iron Gates) and remarkable archeological sites, such as Lepenski Vir and Felix Romuliana, a UNESCO World Heritage Site. There is therefore room for the development of ecotourism, agrotourism, hunting, cultural and historical tourism.

However, the potentials of tourism as a source of endogenous local development in the area should be considered with caution. An over optimistic view is often shared by donors and local communities (Bartlett and Sisevic, conference paper). As mass tourism is not likely to develop in Timok region, specific idiosyncratic features should be emphasized. It is thus critical a systemic approach able to widen the region’s tourism offer and to harmonize different needs (such as transportation infrastructure and ecotourism).

Although development of diversified tourism on Stara Planina is recognized as one of the main development potentials of the Timok region, most of the central government financing into Stara Planina has gone towards the construction of the skiing resort. Such an expensive endeavor as a skiing resort is not entirely in line with the idea to develop wine production, rural tourism, fishing and other similar activities. Namely, a major part of the resources are invested into a skiing resort, although due to climate change, European insurance companies have stopped insuring construction of skiing resorts below 1400m altitude and banks have stopped issuing loans for them (Knezevic, Jeremic, & Avlijas, 2009). The decision to invest almost all available public funds allocated to the region into such and expensive project, with a high level of risk, is not very clear, unless we take into consideration the fact that it is a politically visible investment with a lot of public procurement, which leaves room for personal financial gains for some of the stakeholders.

Another large investment is into the Corridor 10, a portion of highway, which passes close to the Timok region, and which is expected to increase the usage of Serbian roads by trucks travelling to Greece and Turkey (as well as further), and as a consequence, Serbian revenues from road tolls. This investment is also in contradiction with developing Stara Planina as a nature park and spot for eco-
tourism, and even more so in light of the CO2 emission limits, which have forced other European
countries to search for innovative ways to reduce transport induced pollution. Moreover, although
close to the Corridor 10, the region has poor and sluggish connections to it due to its damaged road
system, which is not included in the investment plan.

Investment into smaller projects which take a longer time to materialize (including investment into
human resources) are not politically attractive, so they have been predominantly left to the donor
community, which, without adequate assistance from and coordination with the government, cannot
achieve its aims in some areas. For example, absorption of the World Bank project resources in the
Timok region has been very low since 2007. There has been a 10mn US$ available for the Borski
county regional development project since 2007 (which includes SME development), but very little
has been used so far. When it comes to another project which is supposed to help rural areas in the
National Park Stara Planina, only 600.000 US$ have been used of the available 1.7mn US$ (Brefort,
2010).

The few attempts to boost SMEs creation contributed marginally to the development of the private
sector in the region. In 2008, SMEs in the districts of Bor and Zaječar accounted respectively for the
1.2% and 1.3 % of the total number of SMEs in Serbia (0.7% of the national gross value added).
Although during the last five years the number of registered companies and entrepreneurs have
significantly increased, SMEs in the region are hardly competitive and often barely surviving, mainly
engaged in food processing, retail and service sectors. An increasing number of domestic companies
are not based in the region, and therefore do not contribute to LSGs’ tax revenues. The enterprises
which perform better both in terms of value added and job creation are foreign owned. The endeavours
to promote entrepreneurship have been left mainly to international donors, despite the relevance
recognized to SMEs in public documents. An example is the WB program aimed at fostering
diversified sources of growth and job creation during the restructuring and privatization of the RTB
Bor copper mine in order to minimize the distributional impact of severe downsizing of the labour
force. In most cases, those employees who left RTB chose to spend the funds rather than to invest
them because of the lack of additional sources of financing, of experience and of those human
capacities, which are relevant for private sector creation. The role of public policy seems pivotal
particularly in a context in which, during the last twenty years, the environment in which economic agents act has been varying dramatically in terms of incentives, opportunities and constraints. This makes the socioeconomic, political, formal and informal institutional environment atypically unpredictable and highly unstable, with manifold implications for economic and non-economic incentives to become an entrepreneur (Guglielmetti, 2009 and forthcoming). As a matter of fact, economic transition implies structuring the basis of a competitive market, also through the redefinition of incentives, as well as conveying dispersed resources. These tasks need a comprehensive strategy, which cannot be pursued by LSGs on their own, which have far too scarce financial resources and too narrow competences. Namely, although the Serbian Constitution of the 2006 foresees LSGs property right (art. 86), banned during the Milosevic regime in 1995, the law which should regulate public property has not been adopted yet. Therefore, Serbia is still the only European country in which LSG cannot rely on own assets. This situation poses a heavy burden on LSGs, and makes the local utilization of public assets particularly bureaucratic. For example, a number of abandoned industrial buildings, which are property of the state, cannot be smoothly employed, with beneficial outcomes both for the development of the private sector and for LSGs financial resources. The World Bank Doing Business indicator, which measures a number of aspects related to business environment, ranks Serbia 18 over 25 Eastern European and Central Asian countries, and 89 over 183 countries. The need to create, rebuild and strengthen social ties and economic networks is particularly strong also as far as the agricultural sector is concerned. Despite a long tradition of wine and fruit production, a sticking contrast between the significant potentials of this area is noticeable, the scarce utilisation of the arable land and the low level of technology employed. The highly fractionated and often undefined ownership structure calls for urgent public intervention both in terms of property rights definition and of institutionalization of a corporate cooperative legal structure able to foster coordinated efforts. The current features of the sector make highly unlikely a bottom up upgrading process, as the majority of peasants are elderly people who produce for own need or for green markets, while more skilled and younger people are unwilling to embark in agriculture-related activities. Due to the lack of buying stations where the products would be sold and the large gap between prices on the green market and the purchase prices offered by organized buyers of vegetables, agricultural products are mainly sold on
green markets, or even unused. The necessity of coordinated efforts as far as investment in technology are concerned is even more urgent due to the weak internal market. Increasing agricultural exports implies increasing the efficiency all along the value chain and requires cooperative structures in order to fill unmet market demand in neighbouring countries as well as the growing demand in the domestic market. USAID Agribusiness is supporting projects aimed at increasing the production of storable vegetables, for which Serbia has a competitive advantage, targeting production technology and post-harvest handling and storing. The Ministry of Agriculture, Forestry and Water Management started in 2007 a Rural Development Support Programme. A Regional Rural Centre for Eastern Serbia has been established, as part of a Rural Development Support Network made up of 6 regional centres. It is noticeable that the Centre is managed within RARIS. In a context where local capacities to take over management responsibilities are often questionable, the central government *de facto* is increasingly relying on existing RDAs. However, the impact of this programme on the region has been, up to now, negligible, as the majority of the subsidies earmarked for rural development went to areas with more capacity of funds’ absorption, like Vojvodina, reinforcing the distributional disparities between richer and poorer municipalities. This is a common trend despite the introduction of equalization mechanisms with the Law Financing LSGs (2006). Lagging municipalities are more dependent than others on state transfers, and are therefore the most affected by the current significant reductions in transfers to LSGs. These cuts threaten the already questionable sustainability of LSGs engagement in local as well as regional development, hampering those fragile, and intertwined, processes and potentially undermining progress made up to date in the sphere of social inclusion. At the same time, the crisis did not affect adoption of national legislation, which continued to pass new competencies onto local authorities without ensuring adequate funds for their implementation. As Zaječar became a town with the Law on Territorial Organization in 2007\textsuperscript{10}, it acquired new competences but not additional funds. For example, the Law on Communal Police (2009) gave towns the obligation to hire

\textsuperscript{10} The Law on Territorial Organization, Official Gazette n. 129, 29.12.2007, Government of Serbia, recognises the city status to all local self governments with more than 100.000 inhabitants.
communal police officers, a task which has to be complied by the town’s own revenues (Avlijas & Uvalic, forthcoming).

The case of Timok region brings to light the contradiction between short-term socio-economic concerns, which result in path dependency (e.g. introducing quick fix solutions to increase employment in the short run) vs. innovation (including investment into human capital and diversification of the economy), which pays off in the long-run, but is too far-fetched for political cycles. This issue is further exacerbated by the fact that the central government holds and decides on allocation of most resources, leaving little room for local authorities to become accountable to their own constituencies and improve their local environments.
References


### Tables

**Table 1. Average unemployment rate (2009)**

<table>
<thead>
<tr>
<th>Location</th>
<th>Average Employment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bor</td>
<td>29.1</td>
</tr>
<tr>
<td>City of Zaječar</td>
<td>33.0</td>
</tr>
<tr>
<td>Knjaževac</td>
<td>39.6</td>
</tr>
<tr>
<td>Majdanpek</td>
<td>21.8</td>
</tr>
<tr>
<td>Sokobanja</td>
<td>25.4</td>
</tr>
<tr>
<td>Kladovo</td>
<td>28.5</td>
</tr>
<tr>
<td>Boljevac</td>
<td>23.7</td>
</tr>
<tr>
<td>Negotin</td>
<td>22.6</td>
</tr>
</tbody>
</table>

Source: Chamber of Commerce, Zaječar

**Table 2. Monthly average income (in dinars)**

<table>
<thead>
<tr>
<th>Monthly income (in dinars)</th>
<th>District of Zaječar</th>
<th>District of Bor</th>
<th>Serbia</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>273</td>
<td>422</td>
<td>366</td>
</tr>
<tr>
<td>2009</td>
<td>24,822</td>
<td>29,340</td>
<td>31,930</td>
</tr>
</tbody>
</table>

Source: SIEPA, Serbia Investment and Export Promotion Agency