

Strengthening the Territorial Dimension of Development Policies in South East Europe

Report to the OECD

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Abbreviations

| | |
|---------|--|
| ARD | Agency for Regional Development of the Republic of Croatia |
| ARDA | North West Region Development Agency |
| BD | Brčko District |
| BICRO | Business Innovation Centre of Croatia |
| BiH | Bosnia and Herzegovina |
| BRD | Bureau for Regional Development |
| CBC | Cross-border Co-operation |
| CDS | County Development Strategy |
| CF | Cohesion Fund |
| CfP | Call for Proposals |
| CIP | Competitiveness and Innovation Programme |
| CODEF | Central Office for Development Strategy and Coordination of EU Funds |
| CSRD | Cross-cutting Strategy for Regional Development |
| EC | European Commission |
| ENRF | European Regional Development Fund |
| ESF | European Social Fund |
| EUSF | European Union Solidarity Fund |
| EU | European Union |
| EURED | EU project Regional Economic Development |
| FBiH | Federation of BiH |
| FP7 | Seventh Framework Programme |
| GDP | Gross Domestic Product |
| GNI | Gross National Income |
| GoA | Government of Albania |
| GoC | Government of Croatia |
| GoM | Government of Macedonia |
| GoS | Government of Serbia |
| HRD | Human Resources Development |
| IFI | International Financial Institution |
| IPA | Instrument for Pre Accession Assistance |
| MARFD | Ministry of Agriculture and Rural Development, Croatia |
| METE | Ministry of Economy, Trade and Energy, Albania |
| MERD | Ministry of Economy and Regional Development, Serbia |
| MIFF | Multi-Annual Indicative Financial Framework |
| MINGORP | Ministry of Economy, Labour and Entrepreneurship, Croatia |
| MIPD | Multi-Annual Indicative Planning Documents |
| MLS | Ministry of Local Self-Government, FYROM |
| NARD | National Agency for Regional Development |
| NCRD | National Council for Regional Development of Macedonia |
| NERDA | North East Region Development Agency |

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| NGO | Non Government Organisation |
| NPCRD | National Partnership Council for Regional Development |
| NPRD | National Plan for Regional Development |
| NSDI | National Strategy for Development and Integration |
| NSRF | National Strategic Reference Framework |
| NUTS | Nomenclature of Territorial Units for Statistics |
| OECD | Organisation for Economic Cooperation and Development |
| OP | Operational Programme |
| RC | Regional Council |
| RCOP | Regional Competitiveness Operational Programme |
| R&D | Research and Development |
| RD | Regional Development |
| RDA | Regional Development Agency |
| RDC | Regional Development Centre |
| RDF | Regional Development Fund |
| REDAH | Herzegovina Development Agency |
| REZ | Central BiH Development Agency |
| ROP | Regional Operational Programme |
| RS | Republika Srpska |
| RSEDP | Programme of Regional Socio-Economic Development |
| SAA | Stabilisation and Association Agreement |
| SDF | Serbian Development Fund |
| SEE | South East Europe |
| SERDA | Sarajevo Macro-Region Development Agency |
| SME | Small and Medium-size Enterprise |
| SWOT | Strengths, Weaknesses, Opportunities and Threats |
| ToR | Terms of Reference |
| UNDP | United Nations Development Programme |
| USAID | United States Agency for International Development |
| VET | Vocational Educational Training |
| ZELS | Association of the units of the local self-government |

1 BACKGROUND

1.1 Background

The Organisation for Economic Cooperation and Development's (OECD) Investment Compact for South East Europe (Investment Compact) commissioned Dr. Ricardo Pinto, Pinto Consulting GmbH to undertake the assignment: "*OECD Strengthening the Territorial Dimension of Development Policies in South East Europe*" in June 2011.

The assignment starts from recognition that significant strides have been made in recent years in the South East Europe (SEE) region, as far as regional policy and development are concerned. Regulations (laws and by laws), institutions (e.g. ministries, regional agencies, etc.) and policies (strategies, action plans, etc.) are in the making, often driven by the imperatives of the process of joining the European Union (EU).

However, each country is pursuing its own model as far as territorial development is concerned and the embryonic territorial development systems may be in need of support and strengthening. Therefore, the **general objective** of this assignment is "**To assist a sub-set of SEE countries in developing territorial competitiveness.**" More specifically, the assignment focuses on five SEE economies:

- Albania.
- Bosnia and Herzegovina.
- Croatia.
- FYR Macedonia.
- Serbia.

The **specific objectives** of the assignment are:

- Improve the understanding of the economic and social contexts of SEE countries and their territories, focusing on macroeconomic patterns and factors of attractiveness at territorial level.
- Investigate how SEE countries have been facing the need to strengthen the territorial dimension in their development policy.
- Support policy makers at the local level to develop policy frameworks and tools to improve capabilities for territorial development and ensure coordination between different levels of government in this field.
- Transfer OECD best-practices in developing factors of attractiveness at a sub-national level.
- Facilitate the exchange of knowledge on existing institutions and policies among a selection of SEE countries.

1.2 The Assignment

The OECD ToR to the Consultant covers the following aspects:

- Task 1: Conduct a comparative analysis of 5 countries: Croatia, FYR Macedonia, Bosnia and Herzegovina, Albania and Serbia with a focus on territorial (regional) development (i.e. laws/regulations for research and development, institutional system, policies, strategies and action plans);
- Task 2: Provide an overview of regional development in relation to: SME development, innovation and human resource development (to the extent possible);
- Task 3: Provide a brief assessment of each system, highlighting notable weaknesses;
- Task 4: Produce a profile for each country based on an agreed structure; and
- Task 5: Prepare a presentation highlighting the main conclusions from the report.

In the Consultant's Technical Proposal, which was accepted by the Client, the above tasks were converted into the following structure for the report.

Overall OECD Report Structure

Foreword by Investment Compact

Contents Page

Executive Summary

Chapter 1: Introduction: territorial development in SEE, link to IPA and EC policy

Chapter 2: Albania

Chapter 3: Bosnia and Herzegovina

Chapter 4: Croatia

Chapter 5: FYR Macedonia

Chapter 6: Serbia

Chapter 7: Conclusions and Recommendations: based on preceding analysis and highlighted weaknesses

Country Structure

1. Legal basis: laws and regulations on territorial development
2. Policies, strategies and action plans
3. Institutional structures: national, regional and local structures
4. Links to i) SME ii) Innovation iii) HRD (to the extent possible)
5. Brief assessment, highlighting weaknesses

Source: Pinto Consulting GmbH Technical Proposal to OECD, 2011

1.3 The Approach

The approach used by the consultant has involved the following:

- Contacting the body or bodies responsible for regional development in each of the countries involved;
- Collection of data and reports as far as possible;
- Country mission to all five (except Albania; Serbia is about to be carried out this week);
- Discussions with government officials and other relevant stakeholders.

This report is the result of the above process, which has been carried out during June – November 2011.

2 INTRODUCTION

2.1 What is Regional Policy

Regional policy may be defined as a policy, typically adopted by governments, which basically aims to redress uneven development within a country. The reasons for tackling regional imbalances are many and varied but typically boil down to ensuring social and economic justice across regions, reducing the prospect of social tensions, reducing migratory pressures, maximising the potential of different geographical areas, etc. The measures that are typically deployed in regional policy include investment in infrastructure; housing; enterprise, etc. through the provision of inducements in the form of incentives, grants, loans and subsidies.

One of the most notable examples of national regional policy is the Italian experience of regional policy is the so-called “Cassa per il Mezzogiorno” (Southern Development Fund), which was formed in 1950 to stimulate economic and industrial development in southern Italy and Sardinia. It targeted communities suffering poverty, emigration and de-population and its measures focused principally on public works and infrastructure (such as roads, bridges, irrigation, schools, electrification, land reclamation, etc.) and subsidies and tax incentives to promote investment in the Mezzogiorno area. This particular regional policy was expected to last no longer than six months, but continues in one form or another until today, though most evidence suggests that it has achieved mixed results.

2.2 EU Regional Policy

Purpose

The European Commission (EC) defines the purpose of the European Union’s (EU) regional policy as being to reduce the significant economic, social and territorial disparities that still exist between Europe’s regions. Failure to tackle these disparities would undermine some of the cornerstones of the EU, such as the single market and the euro.

For the EU, regional policy is basically an expression of the EU’s solidarity with its less-favoured countries and regions, working through integrated programmes to support the sustainable development of the regions and of the EU as a whole. More specifically, EU regional policy is designed to:

- Foster the best in every region.
- Raise the competitiveness of all regions.
- Generate more and better quality employment.
- Address related issues such as climate change, energy supply, globalisation, ageing population, etc.

(source: http://ec.europa.eu/regional_policy/what/index_en.cfm).

Since 1986, the objective of EU's cohesion policy has been to strengthen economic and social cohesion. The Lisbon Treaty and the EU's new strategy, Europe 2020, which sets five ambitious objectives on employment, innovation, education, social inclusion and climate/energy (Europe 2020: A strategy for smart, sustainable and inclusive growth, COM(2010) have introduced a third dimension, namely territorial cohesion. This refers to policies to reduce disparities, enhance competitiveness and promote sustainability through new programmes emphasising on the role of cities, functional geographies, areas facing specific geographical or demographic problems and macro-regional strategies.

Process

Regional policy covers all geographical scales from the EU to the local level and is implemented by national and regional actors in partnership with EC. The regional policy framework is set for a period of seven years (the current one will last until 2013). The budget of the structural funds and rules for its use are decided by the European Council and the European Parliament on the basis of proposals from the European Commission. The strategic guidelines on cohesion are used by the national and regional authorities to align their own programming on the agreed EU-wide priorities.

Based on the above framework, each country produces a National Strategic Reference Framework (NSRF), setting out the strategy and a list of operational programmes (OPs). The OPs present the priorities of the country and/or regions. Workers, employers and civil society bodies participate in the programming and management of the OPs.

For 2007-13, 455 OPs have been adopted, which are implemented by the member countries and their regions. The selection, monitoring and evaluation of thousands of projects is organised by 'management authorities' in each country and/or region.

The EC commits the funds, pays the certified expenditure, monitors each OP with the country concerned and the EC and member countries submit strategic reports during the programming period.

For the current programming period, 2007 - 2013, EU regional policy is worth €347 billion, targeted at economic growth and creating jobs, for example, by improving transport links, boosting small and medium-sized enterprises (SMEs), investing in a cleaner environment, improving education and skills, etc. This amounts to ca. 36% of the total EU budget or ca. €50 billion a year. Since all cohesion policy programmes are co-financed by member countries, the total available funding is almost €700bn.

(http://ec.europa.eu/regional_policy/thefunds/funding/index_en.cfm#1)

Instruments

EU cohesion policy during 2007-13 has three main objectives:

- Convergence – solidarity among regions.
- Regional Competitiveness and Employment.
- European territorial cooperation.

EU regional policy is financed via three main funds, which can be used under some or all of the regional policy objectives listed above, namely:

- European Regional Development Fund (ERDF): strengthens economic and social cohesion by correcting imbalances between regions. It finances:
 - Direct aid to investments in firms (e.g. SMEs) to create jobs;
 - Infrastructure linked notably to research and innovation, telecommunications, environment, energy and transport;
 - Financial instruments (capital risk funds, local development funds, etc.) to support regional and local development and to foster cooperation between towns and regions;
 - Technical assistance measures.
- European Social Fund (ESF): aims to improve employment and job opportunities in the EU in the framework of the Convergence and Regional Competitiveness and Employment objectives. It supports:
 - Adapting workers and enterprises: lifelong learning schemes, designing and spreading innovative working organisations;
 - Access to work by job seekers, unemployed, women, migrants;
 - Social integration of disadvantaged people and combating discrimination in the job market;
 - Strengthening human capital by reforming education systems and setting up a network of teaching establishments.
- Cohesion Fund (CF): is aimed at countries whose Gross National Income (GNI) per inhabitant is less than 90% of the EU average (Bulgaria, Cyprus, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia, Slovenia and parts of Spain), reducing their economic and social shortfall, as well as stabilising their economies. It supports:
 - Trans-European transport Networks, notably priority projects of European interest;

- Environment, such as energy and transport, as long as they present a clear benefit to the environment: energy efficiency, use of renewable energy, rail transport, inter-modality, public transport, etc.

It should be noted, however, that four new financial instruments were set up in 2007 to provide technical assistance (JASPERS & JASMINE); improve access of SMEs to microfinance (JEREMIE); and support urban development (JESSICA). Furthermore, the European Union Solidarity Fund (EUSF) provides assistance in case of major natural disasters. Finally, support for EU candidate and potential candidate countries is available via the Instrument for Pre-Accession Assistance (IPA). The IPA system is discussed in detail below as it is of major relevance to the five countries covered by this report.

New Programming Period (2014-2020)

The EC has already initiated a debate on EU cohesion policy for the new programming period (2014-2020), connected with both the EU budgetary process and the Europe 2020 strategy. In particular, the Fifth Cohesion Report (2010) highlights a number of possible reforms to EU cohesion policy, the most notable of which are:

- Focusing funds on a few priorities, linked to the Europe 2020 strategy.
- Defining clear and measurable targets.
- Strengthening regulatory and institutional frameworks.
- Strengthening conditionality and incentives.
- Increasing the leverage effect of investments.
- Enhancing private sector finance.
- Simplification of the management rules.
- Strengthening territorial cohesion.
- Concentration on the poorest Member States and regions.

Public consultations involving representatives of EU institutions, Member States, regions, economic and social partners, NGOs and academics are being carried out. This is being supplemented by evaluations to provide lessons and recommendations for the future of the policy. Finally, Legislative proposals for the future cohesion policy will be prepared and discussed by the Council and European Parliament during 2012-2013, in time to enter into force in 2014.

2.3 EU Regional Policy and Potential/ Candidate Countries

Instruments

The Instrument for Pre-Accession Assistance (IPA) replaced a series of other programmes and financial instruments for potential/candidate countries (i.e. PHARE, PHARE CBC, ISPA, SAPARD, CARDS and the financial instrument for Turkey) from 2007 onwards. IPA comprises **five different components**, namely:

- I Transition assistance and institution building.
- II Cross-border Co-operation (with EU Member States and other countries eligible for IPA).
- III Regional development (transport, environment, regional and economic development).
- IV Human resources development (strengthening human capital and combating exclusion).
- V Rural development (rural development-type measures).

The IPA beneficiaries are divided into two categories, which the countries covered by this report also fall into:

- EU candidate countries (**Croatia**, Turkey, Montenegro and the former Yugoslav Republic of **Macedonia**): eligible for all components of IPA;
- Potential candidate countries in the Western Balkans (**Albania**, **Bosnia-Herzegovina**, **Serbia**, and Kosovo under UN Security Council Resolution 1244/99): eligible only for the first two components.

Assistance through IPA can take the following forms:

- Investment, procurement, contracts or subsidies.
- Administrative cooperation, such as experts from Member States (e.g. twinning).
- Action by the EU in the interest of the beneficiary country.
- Measures to support the implementation process and programme management.
- Budget support (granted exceptionally and subject to supervision).

IPA is designed to mirror the management and programming principles of structural, cohesion and rural development funds, thus enabling the relevant countries to begin the process of managing the EU Cohesion

Policy instruments. The assumption is that by doing so, the relevant countries will be well-placed to absorb future structural, cohesion and rural development funds once they become eligible for them. A significant share of IPA funds managed by the DGs for Regional Policy and Employment are allocated to Lisbon-type expenditure (roughly 15 to 20 % of the overall programme allocation, depending on the country - see InfoRegion Panorama, No. 27, 2008).

The policy and programming framework for delivering pre-accession assistance under IPA consists of:

- Multi-Annual Indicative Financial Framework (MIFF): included as part of the pre-accession strategy package presented annually by the EC to Council and Parliament.
- Multi-Annual Indicative Planning Documents (MIPDs) per country or per groups of countries (regional and horizontal programmes).

Process: IPA strategic planning and programming

The Candidate Countries (eligible for all IPA Components) are required to prepare a number of strategic documents designed to prepare them for future use of the Cohesion policy instruments by imitating closely its strategic documents (namely National Strategic Reference Framework and Operational Programmes) and management modes ("learning by doing" approach), as illustrated below.

Strategic Coherence Frameworks (SCF)

The SCFs are prepared by all Candidate Countries and the objective is threefold:

- Ensure complementarity and consistency between the Community assistance through the various Operational Programmes to maximise the expected development impact;
- Ensure consistency on one hand with the key Community areas of intervention and priorities set out in the Multi-Annual Indicative Planning Documents and with the beneficiary country's priorities expressed in the relevant national development documents on the other hand;
- Guarantee concentration of the assistance, both sectoral and geographic, around a limited number of core strategic priorities.

As with the NSRF, the SCF covers the whole programming period (2007-2013) and does not need to be revised annually. This timeframe is longer than for the initial Operational Programmes under components III and IV (which are three years) and the priorities retained in the SCF have a wider scope than those covered in the initial Operational Programmes.

Multi-annual Operational Programmes

The multi-annual operational programmes under IPA are precursors of the operational programmes under the Structural funds regime. They are established by country, by component and by theme. Their content translates the major areas of intervention and main priorities laid down in the MIPDs into detailed priorities and measures. The Operational Programmes specify the objectives pursued, fields of intervention, expected results, management procedures and total amount of financing planned.

Component III: Regional Development

Consequently, the Regional Development component (III) of pre-accession assistance is basically a precursor to the Structural and Cohesion Funds. The Operational Programmes under component III are being implemented under the decentralised management system, which require that the implementation of actions by beneficiary countries are subject to ex-ante (initially) or ex-post (at a later stage) scrutiny by the EC.

Perhaps the most impressive result of IPA has been the preparation of the Operational Programmes. While the Strategic Coherence Frameworks (similar in nature to the National Strategic Reference Frameworks prepared by Member States) were developed under the leadership of central government authorities, the Operational Programmes are created by the relevant line ministries in consultation with regional authorities and stakeholders and civil society representatives. Alongside developing these core programming tasks, IPA also enable national bodies in Candidate Countries to develop skills in financial management and control (InfoRegion Panorama, No. 27, 2008).

However, the structures being put in place as far as regional development is concerned are far from simple, as illustrated by the Box below.

Box 1: IPA Regional Development glossary

The following structures and authorities are responsible for IPA Component III (Regional Development) implementation in Croatia, Montenegro, Turkey and the former Yugoslav Republic of Macedonia. IPA Component III Operational Programmes follow closely the monitoring, evaluation and communication and publicity rules as set under Structural Funds.

- *National IPA Coordinator*: responsible for the coherence and coordination of the IPA programmes; the annual programming for the transition assistance and institution building component at national level; the coordination of the participation of the beneficiary country in the relevant cross-border programmes.
- *Competent Accrediting Officer*: responsible for issuing, monitoring and suspending or withdrawing the accreditation of the national authorising officer and the national fund.
- *National Authorising Officer*: head of the National Fund, bears overall responsibility for

the financial management of EU funds in the beneficiary country; and is responsible for the legality and regularity of the underlying transactions; as well as for the effective functioning of management and control systems

- *National Fund*: body located in a state level Ministry of the beneficiary country with central budgetary competence. It acts as a central treasury and be in charge of tasks of financial management of assistance under the IPA Regulation, under the responsibility of the national authorising officer.
- *Audit Authority*: responsible for verifying the effective and sound functioning of the management and control systems.
- *Strategic Co-ordinator*: ensures coordination of the regional development component and human resources development component under the national IPA coordinator.
- *Operating Structure*: body within the administration of the beneficiary country with functions similar to those of the Managing Authority. It is responsible for managing and implementing the Operational Programmes in accordance with the principle of sound financial management.
- *Sectoral Monitoring Committee*: established for each Operational Programme; co-chaired by the Head of the Operating Structure and the Commission; and meets at least twice a year, at the initiative of the beneficiary country or the EC. The principal responsibilities are: reviewing progress made towards achieving the specific targets of the Operational Programme; examining results of implementation, particularly the achievement of the targets set for each priority axis and measures and interim evaluations; examine the sectoral annual and final reports on implementation; examining any proposal to amend the financing agreement of the Operational Programme. The Sectoral Monitoring Committee may also propose to the Operating Structure any revision or examination of the Operational Programme likely to make possible the attainment of the programmes' objectives or to improve its management, including its financial management.

(http://ec.europa.eu/regional_policy/funds/ipa/glossary_en.htm)

New Programming Period (2014-2020)

The Fifth Cohesion Report (2010) has little to say specifically on IPA, other than that:

“Cohesion Policy would continue to foster territorial dimensions of cooperation (cross-border, transnational and inter-regional). This would include a review and simplification of the current arrangements for cross-border cooperation, including IPA, ENPI and EDF cross-border cooperation at the EU’s external borders, and also of current practices in transnational action supported both by the ERDF and the ESF.” (Summary of Investing in Europe’s future: Fifth report on economic, social and territorial cohesion, 2010, p.25).

3 ALBANIA

3.1 Legal basis

3.1.1 Laws

A draft Law on Regional Development was prepared in 2008, however, it was not forwarded to Parliament for approval so no consolidated high-level act regulates RD policy in Albania.

A Regional Development Fund (RDF) was established in November 2009 by the Law no. 10190, which is the main instrument regulating sub-national investments in public infrastructure, so it partially covers areas typical for regional development interventions.

The formulation of a draft law on regional development is expected to define the institutional structures at national and regional level. The Integrated Support for Decentralization Project (implemented by UNDP/EC) is tasked with providing the institutional, legal and regulatory basis for regional development for Albania.

It is worth noting that there is a Law on Territorial Planning (no. 10119 from 23.04.2009) and a special National Territorial Planning Agency has been established. The secondary legislation has been developed and partly completed in 2010. USAID and other organisations have been supporting the process and directly the local governments (municipalities/communes and counties) to contribute to the development of secondary legislation and to prepare for implementation.

3.2 Territorial Arrangements

3.2.1 Municipalities

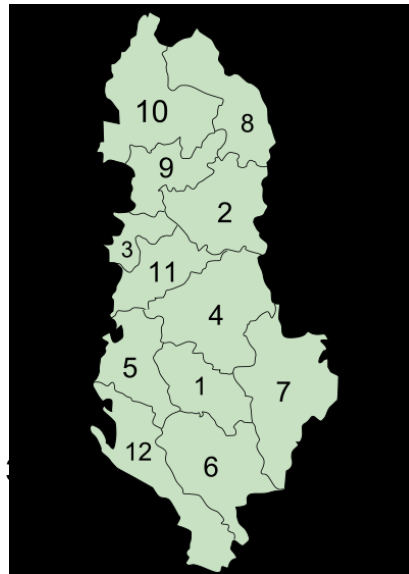
Albania is divided into 373 municipalities, 72 of which have city status. Tirana, the capital city, is divided into 11 boroughs, with their own elected council and mayor.

3.2.2 Districts

Albania is divided into 12 counties (also known as qarku prefectures, see below); the counties include 36 districts (Albanian: rreth).

3.2.3 Regions

The 12 Albanian counties (also known as prefectures or regions) are the units in which regional policies are constructed and implemented, consistent with state policy (Constitution, Article 110).



Source: Wikipedia

According to a Decision of the Council of Ministers (No. 1037, 15.12.2010) “On the implementation of the nomenclature in three NUTS II regions” the decision has been made that there will be three planning regions, namely:

- Durrës and North.
- Tirana and Elbasan.
- South.

3.3.1 Regional Development

3.3.2 IPA Funds

There is no financial support for regional development itself. The IPA funds covers for Albania Transition Assistance and Institution Building, as well as cross-border co-operation.

| Component | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|------|------|------|------|------|------|------|
| 1. TA & Institution Building | 54.3 | 65.2 | 71.4 | 84.2 | 84.3 | 85,9 | 87.4 |
| 2. Cross-Border Co-operation | 6.7 | 8.5 | 9.8 | 9.9 | 10.1 | 10.3 | 10.7 |
| Total | 61,0 | 73,2 | 81.2 | 94.2 | 94.4 | 96.3 | 98.1 |

Source: IPA Revised Multi-Annual Indicative Financial Framework 2011-2013

3.3.3 Other

The Regional Development Fund (RDF) is a budgetary instrument and is used to support investments at regional and local levels through a competitive grant system. It is discussed in detail below.

3.4 Policies and Strategies

Albania lacks a consolidated policy on RD. In 2007, the Government of Albania (GoA) adopted the “Cross-cutting Strategy for Regional Development” (CSR). In 2008 a partial legal framework was proposed but not enacted. Since then little progress has been made in the implementation of a policy framework. Currently efforts are underway to link the reintroduction of RD policy into the revision of the National Strategy for Development and Integration (2011/2012). Details of such policy have not yet been agreed at the time of writing. The review of the National Strategy for Development and Integration 2007-2013 is likely to require a reconfiguration of sector and cross-cutting strategies. At the time of writing the Government of Albania (GoA) is planning to include RD as a separate chapter within the NSDI macro document, rather than develop a new sector strategy.

In practical terms, a form of RD policy is expressed by the Regional Development Fund (RDF) established in November 2009 (Law no. 10190). The RDF is a budgetary instrument and is used to support investments at regional and local levels through a competitive grant system. The RDF has the following features:

- Line ministries and the Albanian Development Fund select projects and deal with implementation, but the overall coordination is performed by Department for Strategy and Donor Coordination (Council of Ministers) with the involvement of Ministry of Finance;
- Each policy domain has its own financial allocation and budget line for regional development. The apportioned funds per policy domain are distributed to the qarku on the basis of pre-determined criteria;
- The budget per project is allocated on the basis of a competitive grant system;
- The projects are appraised on the basis of an evaluation grid using indicators and scores, including their relevance to a given sectoral policy priority.

The Decision of the Committee for Regional Development (DCRD) No. 2, dated 11.03.2011 “On the definition of the criteria for the distribution of the Fund for Regional Development”, sets the criteria for the distribution of this fund among counties. The weighted criteria for fund distribution are:

- i. Counties’ population (35%);
- ii. Poverty level (35%);
- iii. Investments received in the last 4 years in respective sectors (30%).

Currently, RDF is the key financial instrument for RD. The RDF is financed by the state budget as an allocation mechanism to support public investments at regional and local levels. It has the potential of to complement/contribute the EU support for RD though it is not yet compatible to EU-requirements vis-a-vis IPA and/or Structural Funds. The RDF is being reviewed and redesigned with the support of EU-UNDP Project “Integrated Support to Decentralization”. This is expected to improve project selection, enhance transparency and operational efficiency of the fund management.

3.4.1 Regional Development Strategy

A Regional Development Cross Cutting Strategy (2007) has been prepared. The Government’s vision statement for the RDCS is:

“A balanced and sustainable socioeconomic growth among the regions of Albania, in general, and of mountainous and peripheral areas, in particular, in order to support a fast development of the whole country and accelerate the integration processes into the EU and NATO”.

The RDCS vision is achieved through two strategic objectives (p.8):

- Strategic objective 1: to ensure that all counties are enabled to contribute to sustainable development and competitiveness, and thus reduced social and economic disparities across the country. This is to be achieved through the delivery of the National Programme for the Development of Counties and the Disadvantaged Areas Development Programme.
- Strategic objective 2: to set in place an efficient management framework for regional development. This is to be achieved through the promulgation of a future Law on Regional Development and associated secondary legislation.

The RDCS is intended as a key element of the new National Strategy for Development and Integration (NSDI).

3.4.2 Operational Programme for Regional Development

An OP does not exist since Albania is not eligible for IPA III. From the perspective of the EU cohesion policy, Albania is preparing for use of IPA III (Regional Development) through the elaboration of the Strategic Coherence Framework for IPA III and IV and through the elaboration of IPA III Operational Programme. The first IPA III Operational Programme is expected to be approved by end of 2011. In parallel, preparations for Decentralized Management of IPA III and IV have been initiated in Albania.

3.4.3 Regional Development Action Plans

The Regional Development Cross Cutting Strategy also refers to the creation of Action Plans in two phases:

- Phase 1 - 2008-2009: outline of the steps needed to be taken in order to pilot the RDCS, establish the legislative and institutional framework, and prepare Phase 2 of the Action Plan.
- Phase 2 - 2010-2011: address the first two years of full implementation of the approved RDCS.

However, at the time of writing, these action plans do not yet exist.

3.4.4 Planning Region

Some strategies regarding the development of counties (qarku) exist, mostly developed in 2004-2005 under the UN Millennium Development Goals concept. Due to weak qarku structures and the ambiguity of their roles under the current legislative framework, these strategies are only partly implemented and monitored. Some local authorities also have local development plans, usually created with donor support, though they vary in quality. There is weak alignment of strategies at the various territorial levels.

3.5 Institutions

3.5.1 Ministry

At the national level, the Ministry of Economy, Trade and Energy (METE) is responsible for RD, though the Strategic Programming Department. The Regional Development Cross Cutting Strategy foresaw a significant role, including significant staff capabilities for the Strategic Programming Department. However, in reality, METE has not been as active in fronting regional development in Albania.

More recently, the Department for Strategy and Donor Coordination (at the Council of Ministers), which coordinates the RDF, is playing the key role in regional development, certainly with regard to investment support from the national budget (see preceding discussion on the RDF).

3.5.2 National Council for RD

The RDCS foresaw the establishment a National Partnership Council for Regional Development (NPCRD) in accordance with the expected Law on Regional Development (RDCS, 2007, p.36). The NPCRD was expected to advise METE on various issues related to regional development but it was never established. An interim National Council for Regional Development was created to monitor the implementation of the Action Plan for the RDCS and the formulation of the Law on Regional Development.

3.5.3 Agency for RD

This neither exists nor is anticipated in the RDCS or other documents.

3.5.4 Councils for Regions

According to the Cross cutting strategy (p.39) a range of consultative structures and implementation structures are expected to be created at the national and regional level, such as:

- The National Partnership Council for Regional Development: bringing together government ministries, county and local government, the social partners and civil society.
- The County Partnership Councils: bringing together the same range of actors at county level.

However, in the absence of a Law on Regional Development, these have not yet been established.

The regional structures (qarku) lack clear mandates and capacities in relation to RD. Support is being provided by the EU-UNDP Project “Integrated Support to Decentralization” in four pilot regions (out of 12), namely Berat, Elbasan, Diber, Kukes for the establishment of Regional Development Strategies, Investment Plans and Project Pipelines. Also Regional Partnerships have been established to ensure participatory strategic planning processes.

3.5.5 Regional Development Agencies

The RDCS anticipated that the counties would establish so-called County Development Agencies to County Development Strategies. However, these were never established.

3.6 Links

3.6.1 SME Strategy/Programme

A Sectorial Strategy of Business Development and Foreign Investments 2007-2013 has been prepared by METE (2007). It is unusual in that, in addition to covering SME development and investment matters, it also deals with the non-food industry, mineral industry and export promotion, a rather ambitious undertaking.

A clear vision is missing, though it does state (inelegantly) that:

“The mission of the Strategy is to guide Government policy toward steady growth and dynamic development of Albanian business entrepreneurship, productivity and competitiveness, investment promotion and orientation, and better use of financial, human and natural resources, etc.” (2007, p.7)

The specific SME challenges and goals result in a set of strategic priorities (p.17) for the development of the sector, namely:

- Ensure harmonization with sector strategies impacting on the SME sector.
- Ensure transparency of decisions and action affecting business environment.
- Ensure fair competition and support for the integration of SMEs in the international market.
- Development of information technologies and entrepreneurship culture.

3.6.2 Innovation Strategy / Programme

The GoA has approved a National Strategy of Science, Technology and Innovation 2009–2015, which is fronted by METE:

“The vision of science, technology and innovation is anchored on the single most important resource for a knowledge economy: people. By 2015, the government will seek to ensure that, in a selected number of fields, Albanian scientists will be recognised as undertaking and producing international quality research.” (2009).

The key policies to be pursued are:

- Structuring policy implementation.
- Strengthening policy-making capacity.
- Creating an appropriate capacity for programme management.
- Improving the legal and institutional framework for research policy-making and research funding.
- Adopting an adequate budgetary framework.

Furthermore, a Strategic Programme for the Development of Innovation and Technology of SMEs for the period of 2011 – 2016 has been prepared, complementing the previously discussed Business and Investment Development Strategy. Its vision is:

“... to increase the competitiveness of Albanian enterprises within the national, regional and global contexts, by encouraging and effectively supporting firm-based innovation and technological development through financial, technical, informational, infrastructural and other types of support, improving framework conditions, creating a favourable environment to business innovation and strengthening the National Innovation System.” (2011, p.4)

The main objectives of the strategy are:

- Capacity growth of Albanian businesses to develop, use, adapt and commercialize technology.

- Business innovation support to providing assistance to the Business Service Providers (2011, p. 5).

3.6.3 HRD Strategy/Programme

None exists.

3.6.4 Other Strategies/Programmes

None exists.

3.7 Assessment

3.7.1 EC Progress Report

The EU progress Report (2010, Chapter 22: Regional policy and coordination of structural instruments) recognises that Albania is still in the process of developing a law laying the foundation for regional development policy in Albania. It notes that currently, Albania has:

“... fragmented regional development operations ... the Albanian authorities adopted a number of decisions to put in place an institutional framework to plan, manage and monitor future assistance under IPA components III and IV... Administrative capacity to deal with the requirements of the EU’s structural policy need to be developed... Sound financial management, control and monitoring mechanisms will need to be given adequate human resources to deliver the expected results... Attention must be paid in this context to build up a pipeline of eligible projects. The same applies to the capacity at local and county levels and in municipalities, which must be significantly strengthened... The National Programme for Development and Integration for 2007-2013 is the main national planning strategy for Albania... Strategy-making, including for regional development, is coordinated via the Integrated Planning System, which involves line ministries and other stakeholders in setting policies... Given that its per capita GDP is considerably below the EU average, Albania would be entitled to receive EU contributions from the Cohesion Fund under the convergence objective. Following a preliminary assessment of Albania’s economic situation and considering the current capping rules of the structural funds, the estimated impact of Albania’s possible accession on EU cohesion policy is considered manageable.”

The EC’s “Commission Opinion on Albania’s application for membership of the European Union” (COM(2010) 680 final) is unequivocal in its conclusion:

“Overall, cohesion policy instruments and structures are at a very early stage in Albania. Institutional structures need to be established and their administrative capacity will have to be considerably strengthened to allow successful participation in the IPA regional development component and

EU cohesion policy. *A positive start has been made with preparations for IPA components III and IV, however, considerable and sustained efforts to set up sound procedures and competent administrative structures will be necessary to allow Albania, in the medium term, to apply EU rules and channel the funds from the EU structural instruments.*” (2010, p.92, emphasis added)

3.7.2 Other

Based on the preceding overview, it can be concluded that the Albanian regional development system is still at an early stage of development. There have been some efforts to establish a comprehensive policy framework, not least in 2007-2008, but these were not successfully concluded. The system of governance remains centralised; the regional structures (qarku) remain weak; and the expected legal and institutions structures have not evolved. Further progress will rely on the success of the IDS project (EC/UNDP), which is expected to improve the legal and operational base of regional development in the country. Once this is in place, it progress with implementation will be gradually made.

3.8 References

Council of Ministers (2008) National Strategy for Development and Integration 2007-2013

EC (2010) Commission Opinion on Albania 's application for membership of the European Union, (COM(2010) 680 final)

Girejko, R. (2011) communication with author, Ecorys.

METE (2007) Sectorial Strategy of Business Development and Foreign Investments 2007-2013

METE (2007) Regional Development Cross Cutting Strategy

METE (2009) National Strategy of Science, Technology and Innovation 2009–2015

METE (2011) Programme for the Development of Innovation and Technology of SMEs 2011 – 2016

4 BOSNIA AND HERZEGOVINA

4.1 Legal basis

4.1.1 Laws

Bosnia and Herzegovina (BiH) consists of two Entities, the Federation of BiH (FBiH) and Republika Srpska (RS). The Brčko District (BD to the north of the country) was created in 2000. It officially belongs to both Entities but functions under a decentralized system of local government. The constitution of BiH is part of the Dayton agreement dating back to 14th December 1995; the constitution of BiH establishes central institutions with limited competences, with the result that most domestic matters fall into the competence of the Entities, subject to the basic rights guaranteed by the Constitution.

No Regional Development Law exists, though drafts were prepared by EU project Regional Economic Development (EURED) projects.

4.2 Territorial Arrangements

4.2.1 Municipalities

The FBiH is divided into cantons and 79 municipalities whereas the RS is a centralised entity (it has no Cantons) sub-divided into 63 municipalities. Brčko District functions an autonomous local government unit of BiH.

4.2.2 Districts

The FBiH consists of ten Cantons, which also retain a certain amount of decentralised power, including in relation regional economic and Small and Medium-sized Enterprise (SME) development. The Cantons reflect the distribution of the Bosniac and Croat population and are further sub-divided into municipalities. Each canton has its own government under the law of the FBiH, which in practice means that each has legislative and taxing powers.

4.2.3 Regions

Regional development in BiH has been largely driven by different phases of the EU Regional Economic Development project (EURED). The main output of the EURED was the establishment of five regional economic regions (RED):

- ARDA: North West Region.
- NERDA: North East Region.
- REDAH: Herzegovina.

- REZ: Central BiH.
- SERDA: Sarajevo Macro-Region.



Recently, ARDA has been replaced by the Northwest RDA and relocated from Banja Luka to Bihac. The RS considers the new RDA to cover a sixth economic region, namely the territory of the RS.

The economic regions do not have official status and are not officially recognised either by the state or the entities.

4.3 Finance

4.3.1 Regional Development

No state funds are allocated to regional development per se.

4.3.2 IPA Funds

Bosnia and Herzegovina is to be supported through IPA Components 1 & 2, illustrated below.

| Component | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|------|------|------|-------|-------|-------|-------|
| 1. TA & Institution Building | 58.1 | 69.9 | 83.9 | 100.7 | 102.7 | 104.7 | 106.9 |

| | | | | | | | |
|-------------------------------------|------|------|------|-------|-------|-------|-------|
| 2. Cross-Border Co-operation | 3.9 | 4.9 | 5.2 | 4.7 | 4.7 | 4.8 | 4.9 |
| Total | 62.1 | 74.8 | 89.1 | 105.4 | 107.4 | 109.5 | 111.8 |

Bosnia and Herzegovina intends to apply to become a Candidate Country, possibly in 2012. Should the application be successful, IPA support will be available for all components, including III, which focuses on RD.

4.3.3 Other

Not applicable.

4.4 Policies and Strategies

4.4.1 Regional Development Strategy

There is no strategy for regional development for BiH at the state level. A BiH -EC Delegation Working Group on regional development has resulted in a call for the preparation of a regional development strategy and action plan, which is planned for 2012.

The Council of Ministers' Directorate for Economic Planning has produced a draft "Development Strategy of BiH 2010-2014 (2009), which presents a list of development priorities for BiH, FBiH, RS and BD. However, this cannot be considered to be a regional development strategy and has not yet been approved at either RS or BiH levels.

However, each of the regional agencies has established its own regional strategies, with the support of the two phases of the EURED project:

- ARDA - North West Region: www.arda.ba (Regional Development Strategy for the North West Region, 2004). It is not know if the new SWRDA is working in the basis of the strategy prepared by ARDA or whether it will be looking to focus its activities on the Entity / region.
- NERDA - North East Region: www.nerda.ba (Regional Development Strategy for the North East Region, 2004).
- REDAH – Herzegovina: www.redah.ba (Economic Development Strategy of Herzegovina, 2004).
- REZ - Central Region: www.rez.ba (Strategy of Regional Development for the Central Region of BiH 2009-2015, 2009).
- SERDA - Sarajevo Macro Region: www.serda.ba (Regional Development Strategy for the Sarajevo Macro Region, 2006).

4.4.2 Operational Programme for Regional Development

Does not exist since BiH is not eligible for IPA III.

4.4.3 Regional Development Action Plans

Do not exist, except as implementation documents supplementing the RDAs' strategies.

4.4.4 Planning Regions

None of the existing five RED regions meet the NUTS II criteria. Rather, they rely on topographical, demographical, cultural and economic considerations, rather than population factors or political / administrative criteria. The fact that the RED boundaries cut across Entity boundaries has resulted in palpable frictions which have hindered regional development cooperation. In particular, the RS has never officially recognised these regions. Official NUTS II regional planning regions do not exist in BiH. However, the BiH – EC Delegation Working Group on regional development has deliberated the establishment of planning regions, a process which is expected to begin in 2012.

4.5 Institutions

4.5.1 Ministry / Government Structures

There relevant Government structures are many and varied:

- State: Ministry of Foreign Trade and Economic Relations (MoFTER) is responsible for a number of aspects related to economic development. The Directorate for Economic Planning is responsible for the coordination and preparation of monitoring and evaluating development documents. It has nominal responsibility for the regional development, as well as SME development, where the Division of Economic Development and Entrepreneurship deals with these issues.
- RS: the Ministry of Administration and Local Governance as well as Ministry of Economic Relations and Regional Cooperation are the coordinators of local and regional development in this Entity.
- FBiH: the Ministry of Development, Entrepreneurship and Crafts coordinates regional development matters in this Entity.
- DB: the Department for European Integration Brčko District is the key institution for regional development.

4.5.2 Agency for RD

There is no national Agency for RD.

4.5.3 Councils for Regions

There are no Council for the Regions. However, each of the five Regional Development Agencies (RDAs – see below) has its own governance Councils / structures.

4.5.4 Regional Development Agencies

As previously discussed, five RDAs exist, namely:

| RDA | Location | Region | Municipalities |
|----------|----------|-----------------------|----------------|
| 1. NWRDA | Bihac | Northwest | n/a |
| 2. NERDA | Tuzla | Northeast | 34 |
| 3. REDAH | Mostar | Herzegovina | 22 |
| 4. REZ | Zenica | Central | 16 |
| 5. SERDA | Sarajevo | Sarajevo Macro-Region | 32 |

The RDAs were established during 2003 - 2004 with EC Delegation funding, except for the NWRDA (which replaced the ARDA, which used to be located in Banja Luka). The RDAs are institutions founded by public, private and non-governmental organisations, to contribute to overall economic development in their respective regions. As such, they are a tool to support economic regeneration, job creation and human resource, SME development and infrastructure development in the five economic regions.

In 2011, the EC funding for the RDAs came to an end and it is not clear whether they have become sufficiently well-established as to become financially sustainable. The most well-established institutions appear to be SERDA (Sarajevo) and REDAH (Herzegovina). In addition, there are also a number of local development agencies, such as the BD Development Agency, Tuzla and Zenica Cantons, regions Dialer, Semberija, Posavina, Central Bosnia Canton, entrepreneurial development agencies in Bihac, Banja Luka, Zenica, etc.

4.6 Links

4.6.1 SME Strategy/Programme

A “Small and Medium-Sized Enterprise Development Strategy in Bosnia and Herzegovina 2009 – 2011” exists whose priorities are to (2009, p.24):

- Adopt regulations which make possible statistical tracking of the SME sector at the state level.
- Adopt and implement regulations relating to collateral, leasing, bankruptcy and debt enforcement.
- Adopt SME Strategy and one SME definition on BH level.
- Develop a plan of activity for realisation of SME development policies, in line with priorities of BH Mid-term Development Strategy (PRSP) and European Charter for small enterprises.
- Establish and operationalise the Council for Development and Entrepreneurship.
- Institutionalize communication between government, entrepreneurs and unions.

The process of up-dating the strategy has started; the new SME strategy is expected to cover the period 2012-2014. A new SME Act is also expected to be prepared during 2012 (all previous attempts to create such a law, most recently in 2011, have failed). However, since the RS' position is that the Constitution does not allow for the establishment of such a law, unless the Entities are willing to cede powers, the latest initiative is unlikely to be successful.

The FBiH, RS and DB have their own documents in relation to SME development and promotion:

- FBiH (2008) Project for SME Development Strategy (2008-2011).
- RS (2011) A strategy for the development of SMEs – Republic of Srpska (2011-2013).

4.6.2 Innovation Strategy / Programme

There is no specific innovation strategy, however, the SME Strategy devotes a chapter to the issue of "Strengthening the Technological and Innovation Capacity of SMEs" (Chapter 9, pp.52-55). The main goals for SME innovation are:

- Improvement of access for SMEs to appropriate infrastructure, knowledge and research results (referring to number of incubators, technological parks, university centres for applied research, which are opened for partnership with the private sector and number of users which are SMEs);
- Promotion and training in the area of research and technological development and innovations (referring to the number of training programmes and participants, number of patents through innovation friendly legislation, etc.).

The new SME Strategy, currently being prepared, is expected to place greater emphasis on innovation.

4.6.3 HRD Strategy/Programme

There are no specific strategies/programmes for HRD in BiH, though the following exist:

- BiH: Development Strategy for Vocational Education and Training 2007-2013.
- BiH: Strategic Directions for the Development of Education in Bosnia and Herzegovina 2008-2015.

4.6.4 Other Strategies/Programmes

- BiH: National Development Strategy, 2010.
- BiH: Strategy for the Development of Science 2010-2015.
- FBiH: Draft Strategy for Science for FBiH 2011-2121.

4.7 Assessment

4.7.1 EC Progress Report

None

4.7.2 Other

To conclude, despite extensive efforts on the part of EC funded projects, relatively little progress has been made in relation to regional development:

- No Regional Development law exists (or SME law, for that matter). While the state level and the FBiH institutions are willing to work towards such laws, the position of the RS, certainly as far as an SME law is concerned, is that the Constitution does not cover such a requirement, which means that it views SME development an Entity responsibility, rather than a state level function.
- No NUTS II regionalization has occurred.
- No regional development strategy and action plan exists.
- Regional development remains highly fragmented in an institutional sense (state, FBiH, BS, DB, cantons, etc.).
- There is little cooperation and coordination.

The EC Delegation is maintaining the pressure on BiH to produce i) official NUTS II planning regions and ii) a regional development strategy and action plan. This could be the starting point for the development of a more

coherent regional development policy and institutional structure in BiH. However, the starting point must be the establishment of a Council of Ministers (Government) and consensus about the importance of regional development, both of which have been lacking hitherto.

4.8 References

Council of Ministers (2009) Development Strategy of BiH, Working Paper, Directorate for Economic Planning.

ARDA (2004) Regional Development Strategy for the North West Region

NERDA (2004) Regional Development Strategy for the North East Region

REDAH (2004) Economic Development Strategy of Herzegovina.

REZ (2009) Strategy of Regional Development for the Central Region of BiH 2009-2015.

SERDA (2004) Regional Development Strategy for the Sarajevo Macro Region.

BiH (2009) Small and Medium-Sized Enterprise Development Strategy in Bosnia and Herzegovina 2009 – 2011

FBiH (2008) Project for SME Development Strategy.

FBiH (2011) Strategije razvoja nauke u Federaciji BiH za period 2011-2021. Godina.

RS (2011) A draft strategy for the development of SMEs – Republic of Srpska 2011-2013.

BiH (2007) Development Strategy for Vocational Education and Training 2007-2013.

BiH (2008) Strategic Directions for the Development of Education in Bosnia and Herzegovina 2008-2015.

BiH (2010) National Development Strategy.

BiH (2010) Strategy for the Development of Science 2010-2015.

FBIH (2011) Draft Strategy for Science for FBIH 2011-2121.

5 CROATIA

5.1 Legal basis

5.1.1 Law

The Law on Regional Development of the Republic of Croatia, 11 December 2009 (Official Gazette, No. 153/2009) defines the basic legal framework for regional policy in the country. It covers the following main elements:

- I: Basic Provisions.
- II: Strategic Planning of Regional Development.
- III: The Institutional Framework and Management.
- IV: Assessment and Classification of Local and Regional Self-Government Units According to Level of Development and Assisted Areas.
- V: Reporting on Implementation of the Regional Development Policy.
- VI: Transitional and Final Provisions.

Furthermore, the Act on Areas of Special State Concern (AASSC) contains two different approaches to determining the areas for special concern of the state. The first is based on the criteria of being under occupation during the war, while the others are based on socio-economic indicators. An amendment to the AASSC introduced three criteria to determine a third group of areas under special concern. These are: i) economic criteria ii) structural problems criteria and iii) demographic development criteria. The Act needs to be harmonised fully with the RD law.

The Act on Hilly and Mountainous Areas seeks to encourage demographic renewal, settlement and creation of conditions to better use of natural and other resources for economic development of these areas and Croatia as a whole, while preserving the biological and landscape diversities and better and more equitable solving of social problems and economic growth and development of all areas of the Croatia. The Act needs to be harmonised fully with the RD law.

The Islands Act aims to protect islands and promote their development. The law also regulates the issue of managing the islands' development, divided them into two groups based on criteria related to the demographic situation and economic development.

There is also a Decision on the Classification of Local and Regional Self-Government Units According to the Development Level (2010). As implied

by the title, it defines a “development index” which groups local seven regional self-governments into the following groups:

- Group I: with a development index below 75% of the average of Croatia: Bjelovar-Bilogora, Brod-Posavina, Karlovac, Koprivnica-Križevci, Lika-Senj, Osijek-Baranja, Požega-Slavonia, Sisak-Moslavina, Šibenik-Knin, Virovitica-Podravina and Vukovar-Srijem;
- Group II: with a development index between 75% and 100% of Croatia: Krapina-Zagorje, Međumurje, Split-Dalmatia, Varaždin and Zadar;
- Group III: with a development index between 100% and 125% of the average of Croatia: Dubrovnik-Neretva and Zagreb;
- Group IV: with a development index above 125% of the average of Croatia: City of Zagreb, Istria and Primorje-Gorski Kotar.

5.2 Territorial Arrangements

Revision of the Constitution in 1997 resulted in two levels of self-government: i) municipalities (općine), districts and cities (gradovi); ii) counties (županije). With a further revision of the Constitution in 2000, a new article (132) recognises the right of citizens to “local and regional self-government”.

5.2.1 Municipalities

Croatia comprises 123 cities and 427 municipalities.

5.2.2 Districts/ Counties

Croatia is divided into 20 counties, plus Zagreb, which has the rank of a county. A Prefect is appointed to each county by Government, with the duty to supervise local government.

5.2.3 Regions

The Illustration below highlights the three NUTS II Croatian regions: HR01 Northwest Croatia; HR02 Central and Eastern (Pannonian) Croatia; HR03 Adriatic Croatia.

Although this is the formal NUTS II regional planning structure, discussions are on-going to determine whether they should be revised. For example, the discussion revolves around whether Istria and Dalmatia could be split-up, as well as whether Zagreb City should be separated, possibly resulting in possibly five NUTS II regions.

The Croatian Counties and Statistical Regions



5.3 Finance

5.3.1 Regional Development

The “Strategy for Regional Development of Croatia” describes the main funding sources for implementation, namely (2010, p.89, emphasis added):

- The basic source of financing for the implementation of the Strategy and development programmes until EU accession will be *state, county and local budgets* and upon the accession, this will be *EU funds*.
- Measures proposed by the new Act on Supported Areas will primarily be funded from the *Ministry of Agriculture, Forestry and Water Management*.

- With regard to funding stimulating measures for border areas before EU accession, funds from another part of IPA programme, *Cross-Border Cooperation*, will be available.

5.3.2 IPA Component III

Breakdown of the IPA Envelope for 2011-2013 Allocations (Reg. Dev.)

| Comp III | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|----------|------------|-----------|-----------|-----------|-----------|-----------|---------|
| Croatia | 45,05 mio. | 47,6 mio. | 49,7 mio. | 56,8 mio. | 58,2 mio. | 59,3 mio. | 62 mio. |

IPA Revised Multi-Annual Indicative Financial Framework 2011-2013

5.3.3 Other

Various ministries and state bodies contribute state funds for different aspects of regional development including:

- Ministry of the Sea, Transport and Infrastructure.
- Ministry of Economy, Labour and Entrepreneurship (MINGORP).
- Ministry of Tourism.
- Ministry of Culture.
- Ministry of Agriculture and Rural Development (MARFD).
- Ministry of Environmental Protection, Physical Planning and Construction.

In addition International Financial Institutions (IFIs) such as the World Bank, European Investment Bank, European Bank for Reconstruction and Development and Croatian Development Bank are also funding regional development activities.

5.4 Policies and Strategies

5.4.1 Regional Development Policy

The Law defines regional development policy as: “...a comprehensive and harmonised set of objectives, priorities, measures and activities aimed at stimulating long-term economic growth, in accordance with the principles of sustainable development aimed, in the long term, at reducing regional disparities.” (Art. 3, 2009)

The RD policy principles focus on the need to create living conditions providing everyone with equal opportunities for the development of their potential, including the areas lagging behind in comparison with the national average. A key principle of RD is that policy is based on

partnership and cooperation between state administration, regional self-government, local self-government, businesses, the scientific community, social partners and civil society organisations.

5.4.2 Regional Development Strategy

Three principal RD planning documents exist, namely:

- Regional Development Strategy of the Republic of Croatia.
- County development strategies.
- Development Strategy of the City of Zagreb.

The Regional Development Strategy sets out, in detail, the objectives and priorities of regional development of Croatia and the way of achieving them, as well as the institutional and plan framework of the RD policy.

In 2010, the MRDFWM prepared the “Regional Development Strategy of the Republic of Croatia 2011 – 2013”. The RD Strategy aims to create a coordinated approach to sustainable social and economic growth of all parts of the country and to connect the top-down/bottom-up management of development through different ministries and other actors in the country (at national, regional and local level) to achieve more equitable development and reduce social and economic differences. This is to be achieved through three specific goals:

- Development of County and Statistical Regions: aims to achieve a better connection of local and RD needs with national development priorities, which provides for a basis of strategic planning and preparation of development programmes at the county level and level of the regions by inclusion of partnerships of all interested parties.
- Development of Supported Areas: allows for support of areas with social-economic development difficulties for optimising their development potential. The main goal is to contribute to even RD by helping supported areas to accelerate social-economic development, thus catching up with the rest of Croatia.
- Development of Border Areas: creates a basis for development of coordinated, systematic and strategically directed cooperation at the local, regional and central state levels, with partners from neighbouring countries and other regions of the EU in order to reduce negative influence of borders and to promote social-economic cohesion in border regions. The goal is to be fulfilled through strengthening of cross-border, transnational and interregional cooperation through joint local and regional initiatives, taking into consideration goal of economic and social cohesion.

5.4.3 Regional Development Action Plans

There are no RD action plans per se. The counties' capacities with regard to RD were initially developed through the preparation of Regional Operational Programmes (ROPs). ROPs were first developed in eight counties and then the practice was expanded with Government support to other counties. Almost all counties now have a ROP with which to channel national, EU and other donor funding for development activities, including regional development. The ROPs involve a strategic planning process, including a participative approach for the identification of the county development priorities of all partners.

The RG Law requires each of the 21 counties, including Zagreb, to develop their own County Development Strategies. These set out the objectives and priorities of development of the regional self-government unit concerned. The development plans of local and regional self-government units must be in conformity with the county development strategy. By the end of 2011, each county has either produced a new CDS or updated their ROP into the new CDS to meet the requirements of the Law (which foresees an implementation period up to 2013, consistent with the national RD strategy's timeline). The only county still to complete the process is Zagreb.

The Ministry of Regional Development, Forestry and Water Management (MRDFWM) reviews all County Development Strategies to ensure compatibility with the specifications of the RD Law and/or Strategy, such as the methodology and priorities. These appear to be appropriate, though the view is that they have too many projects but the budget is not always clear.

5.4.4 Operational Programme for RD

Croatia prepared a Regional Competitiveness Operational Programme 2007 – 2009 (RCOP); which was updated in 2010 (the new version did not modify the priorities but did revise the financial allocations). Within the overall aim of ensuring that Croatia achieves readiness for EU membership and develops the institutional capacity and experience with the management of investments similar to those co-financed by the ERDF, the RCOP serves as a basis for using the EU pre-accession assistance for the purpose of achieving the strategic priority of promoting social and economic cohesion within Croatia, based on an improved overall competitiveness. A Sectoral Monitoring Committee (SMC) of RCOP ensures effectiveness and quality of implementation of the OP.

The objective of the RCOP is to achieve higher competitiveness and balanced regional development by supporting SME competitiveness and by improving economic conditions in Croatia's lagging behind regions. Concerning institution building, the purpose of the OP is to develop the capacity in Croatian institutions to programme and implement activities supported by the ERDF upon accession. The priorities are the following:

- Address development issues which have proven important in light of sector and area needs analyses.
- Enable national and sub-national actors to gain skills with implementing investments typical of the Structural Funds, which IPA is a direct means of preparation for.
- Undertake mutually reinforcing and complementary measures which address competitiveness and cohesion, the two main concerns underlying modern day regional (and national) development policy.
- Use the project pipeline which has been created through previous EU assistance, particularly in regions lagging behind.

5.4.5 Planning Region

The three planning regions (NUTS II) have previously been discussed, which are defined according to the RD Law. There is some discussion about possible expansion into five NUTS II regions, but this is not concluded.

5.5 Institutions

5.5.1 Ministry

The Ministry of Regional Development, Forestry and Water Management (MRDFWM) is the responsible institution for regional development policy in Croatia. Within the MRDFWM, the Directorate for Integrated Regional Development proposes policies for regional development and establishes an integrated system of planning, programming, management and financing of regional development. It has a staff complement of 29 staff which is expected to increase to 43 in due course. Its list of responsibilities is rather long; it also coordinates institutions and activities related to planning, programming, implementation, monitoring and evaluation of regional development programs and projects financed from the state budget from other sources of funding, encouraging the development of cross-border, transnational and interregional cooperation as well as preparation of perennial and annual strategic and operational documents for the use of EU funds. The MRDFWM has several other departments with related areas of responsibility, such as the Directorate for Areas of Special State Concern, the Directorate for Regional and Local Infrastructure (which is compatible with the activities of the ARD), Reconstruction Directorate, Water Management Directorate and International Projects Directorate.

Other state bodies and public bodies which contribute significantly the RD policy objectives, also participate in preparation and implementation of the RD policy. For example, the Central Office for Development Strategy and Coordination of EU Funds (CODEF) has an important role to play. It is the

body that coordinates all funding connected with the EU (IPA), as well as the Operational Programmes and National Strategic Reference Framework until 2013 (see below).

5.5.2 Agency for RD

The Agency for Regional Development of the Republic of Croatia (ARD) has a number of functions, according to the law. It basically:

- Implements part of the programme within the responsibility of the MRDFWM.
- Establishes the Register of administrative bodies of local and regional self-government units, agencies and others established to achieve effective co-ordination and stimulation of regional development.
- Performs administrative and professional activities necessary for the work of partnership councils of statistical regions.
- Other duties connected with implementation of the regional development policy.

ARD is a public institution with the purpose of implementing part of the programme under the competence of MRDFWM. The Agency establishes and manages the Register of organisational units of regional self-government, agencies and other legal entities founded in order to efficiently coordinate and stimulate regional development and other affairs within the scope of its activities.

Despite its broad title, in reality the functions of the ARD are highly constrained. As things currently stand, its main responsibility is as the Implementing Agency for the IPA CBC component. It currently comprises 27 staff, however, two strategic issues are of critical importance:

- The IPA CBC programme is rather small (ca. EURO 3 million).
- The IPA programme will end in 2013, however, under the Structural Funds, no provision is made for Implementing Agencies. Rather, the Ministries (Ministry of Economy, Labour and Entrepreneurship, as far as regional competitiveness is concerned) will be the management authority.

The preceding discussion raises the question: what will be the role of ARD, if any, beyond 2013? This key issue is expected to be addressed during 2012, following the General Election scheduled for December 2011. However, in principle, the RD Law anticipates the ARD taking a fuller RD implementation role of behalf of the MRDFWM.

5.5.3 Councils for Regions

There is no official Council for the Regions. However, there are two other bodies which perform a similar role:

- As per the requirements of the RD Law, each of the NUTS II regions formed a Partnership Council for RD in 2010. Each has some 45-50 members covering central government (Ministries and CODEF); regions (counties and local self-government) as well as business associations and civil society. These are still in the making; they are supposed to meet three times a year, but at the moment this is an annual process. There is still some way to go before the Partnership Councils can perform the role that is envisaged of them, not least to act as the forum for the strategic prioritisation of the developments in their respective regions.
- Furthermore, the counties and RDAs (see below) have Regional Partnerships involving state administration, private sector and civil society organisations. These partnerships have been involved in the process of creating the ROPs and now the County Development Strategies. They have a role in monitoring the implementation of the Strategies and their Action Plans.

5.5.4 Regional Development Agencies

The situation in relation to Regional Development Agencies (RDAs) is in a state of flux in Croatia. There are some 40 institutions that call themselves RDAs or perform an RDA-type role. However, they have different legal forms (NGOs, LTDs, etc.), different roles and responsibilities, ways of funding and cover different geographical areas (cities, municipalities one or more counties etc. None cover entire NUTS II planning regions.

As a result, the Ministry and ARD had to select partners to work with in the 21 counties. This was done by asking the Prefect of each county to nominate one RDA each to act as the counterpart to the Ministry/ARD. It is estimated that 80% are private (LTDs) in nature and that 20% are public in nature. This is an intermediate arrangement which will probably require addressing in the future, to ensure that Ministry/ARD have a coherent and reliable partner per county/region in future.

5.6 Links

5.6.1 SME Strategy/Programme

The key tool designed to support SMEs is the “Medium Term Small and Medium-sized Enterprises Programme (2008-2012)” that has been developed by the Ministry of Economy, Labour and Entrepreneurship (MELE) as a strategic framework for development of SMEs, including resources, subsidies, targets, programmes and projects.

The SME Promotion Programme 2008-2012 is aligned with the European Charter for Small Enterprises and was adopted by the Government of Croatia in 2008. Its objectives are:

- Enhancement of the competitiveness of the small business sector.
- Balanced regional development.
- Improvement of business support infrastructure.
- Reduction of administrative barriers.
- Creation of a positive entrepreneurial climate.
- Introduction of e-business and extensive use of Internet.

Within the overall framework of the Programme, MELE adopts annual programme implementation plans which support SME competitiveness through direct grants/subsidies/ bank guarantees/micro-credits, etc. and non-financial support. The implementation of the annual plans prepared by MELE often involves the Agency for Small Businesses in Croatia (HAMAG), which is the SME Implementing Agency.

5.6.2 Innovation Strategy / Programme

Croatia has taken the strategic decision to support innovation and technology, as both are considered to be drivers of economic development. The overall objective in this context is to improve the conditions for innovation by encouraging industry-driven research and development (R&D) with the aim of achieving scientific excellence as a basis for innovation, technology transfer and commercialisation. The key institutions for R&D and innovation are the centres of excellence and technology, in partnership with universities and SMEs.

These efforts are based on the Science and Technology Policy of the Republic of Croatia 2006-2010 (Ministry of Science, Education and Sports), which seeks to promote scientific excellence, transfer of knowledge and cooperation between science and industry, leading to competitiveness, sustainable growth and productivity. The four main objectives are identified, as follows:

- Increasing investments into R&D and their efficiency.
- Restructuring Croatia's science system.
- Strengthening cooperation between science, government and industry in creation of new knowledge and goods.
- Increasing participation of Croatian scientists and other entities in EU Framework Programmes.

Interventions in the field of research and innovation support cooperation between higher education institutions, research and technological centres and enterprises are expected to foster innovation and technology transfer. Another key national document in this respect is the “Action Plan to Encourage Investment into Science and Research”. The Business Innovation Centre of Croatia (BICRO) is the Implementing Body for the innovation activities in Croatia.

5.6.3 HRD Strategy/Programme

Croatia has prepared an Operational Programme for Human Resources Development, Second Version (2010); the OP HRD cover a wide spectrum of the Croatian policies relating to employment, education, social services and social cooperation, health and welfare, all aiming to:

- Support access to sustainable employment and adaptability of the workforce.
- Reinforce social inclusion of disadvantaged groups and people with special needs.
- Enhance human capital in education and in research and development.
- Strengthen the role of civil society for better governance.

The above strategic objectives form the four key priority axes of the OP HRD, together with a fifth priority axis, which is solely devoted to the implementation of technical assistance activities.

The measures planned for the education sector are in line with national strategic documents on education and VET, namely the Education Sector Development Plan 2005-2010, Development Strategy of the VET System in Croatia 2008-2013 and the Act on Quality Assurance in Science and Higher Education” (April 2009).

5.6.4 Other Strategies/Programmes

The Strategic Coherence Framework 2007-2013 (SCF) is Croatia’s main strategic document for programming of component III and IV of IPA. It defines key priorities to be financed in the areas of environment protection, transport, human resource development and regional competitiveness, which are elaborated in individual Operational Programmes (OPs). The SCF is a precursor to drafting of the National Strategic Reference Framework (NSRF).

The objective of the National Strategic Reference Framework 2012-2013 (NSRF draft, 2010) is to accelerate economic growth rate and promote sustainable development, with the prospect to achieve real convergence. The NSRF focuses on the attainment of three key strategic objectives:

- Faster economic growth based on market integration and institutional reform.

- Higher employment through faster creation of jobs.
- Promotion of sustainable development.

The NSRF 2012-2013 aims to maximise the competitive advantages of the regions and promoting balanced territorial development, as a territorial priority, in line with Croatia's development needs and the provisions of national legislation on regional development. Support to balanced regional development is to be based on the utilization of the attributes of each area (geographical, natural, raw material, human resources, tradition, experience, image, etc.) and their comparative advantages.

It is now expected that the Croatian NSRF will only cover a six month period, until the Structural Funds kick-in (Croatia is expected to join the EU in 2013); it is also expected that there will be five OPs: regional competitiveness, transport and energy, environmental protection, human resources development and capacity building and justice.

5.7 Assessment

5.7.1 EC Progress Report

The latest progress report is (2010 CROATIA: 4.22. Chapter 22: Regional policy and coordination of structural instruments) is very positive about the progress of regional development in Croatia:

- Further progress has been achieved and the legislative framework necessary to ensure full compatibility of operations financed by the Structural Funds with EU policies and legislation is now largely in place.
- On the institutional framework, Croatia has adopted advanced individual organisational development strategies for key organisations involved in management and implementation of cohesion policy. On the basis of these strategies, Croatia adopted the designation of the institutional set-up for managing structural instruments.
- Both the programming stage and setting-up of the institutional system under the IPA were accomplished well, but the track record of implementation under IPA so far is mixed, notably due to limited administrative capacity in certain IPA bodies.
- Croatia revised its National Strategic Reference Framework (NSRF), which is now an advanced and comprehensive document outlining the key priorities and expected results of cohesion policy assistance.
- There has been good progress in the area of monitoring and evaluation of the IPA operational programmes. Croatia is also using an IT tool (LOTHAR) to monitor absorption of funds.

The conclusion is that: *“Good progress was made under this chapter, notably on preparing strategic documents and designating the institutions and mechanisms to implement the EU cohesion policy. Administrative capacity was further strengthened by recruiting and training staff. Croatia is at an advanced stage of preparations for cohesion policy and needs to complete its preparations by focusing on establishment of a mature project pipeline and absorption of funds.”*

5.7.2 Other

Croatia has made significant progress in relation to regional development. The necessary laws, institutions, strategies, programmes, partnerships, etc. exist and the country is well placed to make the transition to Structural Funds from 2013 onwards. However, it is also clear that reforms are still needed:

- The role of ARD is still not clear except in the context of IPA CBC, which is coming to an end in 2013. If it is to perform the implementation role expected of national agencies for regional development, the strategic role of the ARD will need to be addressed in 2012.
- The NUTS II issues, including whether to expand to four/five etc regions, need to be clarified (exact configuration) and agreed with Eurostat.
- The Partnership Councils need to be strengthened to perform their anticipated role, such as providing regional strategic oversight at the NUTS II level (setting the strategic priorities)
- Further harmonization of the legislation is likely to be required by mid-2013, such as fully harmonising the Act Areas of Special State Concern (AASSC) and the Act on Hilly and Mountainous Areas with the new RD Law.
- Introduction of enhanced electronic monitoring and reporting systems for regional development programmes and projects, partly to fulfil the State Aid requirements.

5.8 References

EC (2010) Croatian Progress Report

MELE (2008) Medium Term Small and Medium-sized Enterprises Programme 2008-2012.

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Official Gazette (2009) Law on Regional Development of the Republic of Croatia, 11 December 2009, No. 153/2009.

6 FYR MACEDONIA

6.1 Legal basis

6.1.1 Laws

The Law on Balanced Regional Development ("Official Gazette of Republic of Macedonia No. 63/2007) defines the basic legal framework for regional policy in the country. It covers the following main elements:

- I. General Provisions.
- II. Goals and Principles of Policy on Encouraging Balanced Regional Development.
- III. Regional Development Planning.
- IV. Holders of Policy on Encouraging Balanced Regional Development.
- V. Financing of Regional Development.
- V. Allocation and Awarding of the Funds for Encouraging Balanced Regional Development.
- VII. Monitoring and Evaluation of the Planning Documents and Regional Development Projects.
- VIII. Supervision.
- IX. Transitional and Final Provisions.

Five of the by-laws have been adopted and two more are awaiting approval by the Minister of Local Self-Government (MLS), namely the Book of Rules for procedure for selection of evaluators and methodology for evaluation of the planning documents; and for selection of evaluators, procedure and methodology for ongoing and final evaluation of the projects. These are important for the Bureau for Regional Development's Calls for Proposals since projects are already under implementation (see below).

A discussion has already started about how the RD Law could be amended, however, no decision has been made about whether and how this will happen.

6.2 Territorial Arrangements

6.2.1 Municipalities

There are 84 municipalities plus the city of Skopje (the latter being a special unit consisting of 10 municipalities). The Mayors and municipal councils are directly elected for a period of four years. The 85 municipalities are grouped together into eight planning regions.

6.2.2 Districts

There are no districts in Macedonia.

6.2.3 Regions

Article 5 of the Law on Regional Development prescribes the establishment of eight planning and development regions for the needs of development planning according to the nomenclature of the territorial units for statistical purposes (NUTS 3 - "Official Gazette of Republic of Macedonia" No. 158/2007), in order to provide the statistical basis to plan the development of the regions. The eight planning and development regions are as follows: Vardar, Eastern, South-western, South-eastern, Pelagonija, Polog, North-eastern and Skopje.



Source: Wikipedia

6.3 Finance

6.3.1 Regional Development

The Law on Balanced Regional Development (BRD) identifies the following sources of financing the regional development (Article 27):

- Budget of Republic of Macedonia.
- Budgets of the units of local self-governments.
- EU funds.
- Other international sources.
- Donations and sponsorships from natural persons and legal entities.
- Other sources specified by law.

The Law stipulates that 1% of GDP from the national Budget will be allocated annually for RD purposes, in the following manner:

- 70% for financing projects for development of the planning regions.
- 20% for financing projects for development of areas with specific development needs.
- 10% for financing projects for development of villages.

Analysis by the GIZ-supported regional development project suggests the target is approximately met if the funding by various ministries, broadly defined as being regional in nature, is pooled (GIZ).

6.3.2 IPA Component III

Breakdown of the IPA Envelope for 2011-2013 Allocations (Reg. Dev.)

| Comp III | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|-----------|----------|----------|----------|----------|----------|----------|----------|
| Macedonia | 7,4 mio. | 12, mio. | 20, mio. | 29, mio. | 39, mio. | 42, mio. | 51, mio. |

IPA Revised Multi-Annual Indicative Financial Framework 2011-2013

6.3.3 Other

Mainly international donors, such as GIZ.

Not applicable.

6.4 Policies and Strategies

6.4.1 Regional Development Policy

The law defines RD as a process of indentifying, promoting, managing and utilizing the development potential of the planning regions and the areas with specific development needs. The Law lays down the following objectives for a balanced RD policy:

- Balanced regional development on the whole territory of the Republic of Macedonia, based on the polycentric development model.
- Reducing disparities between and within the planning regions and raising the standard of living for all citizens.
- Increasing the planning regions' competitiveness by strengthening their capacities for innovation and through optimal utilisation and valorisation of natural resources, human capital and the economic characteristics of the various regions.
- Preserving and developing the distinguishing identity of each planning region, and promotion and development of the planning regions.
- Revitalising villages and developing areas with specific development needs.
- Supporting inter-municipal and cross-border cooperation between the local self-government units, with the aim of promoting balanced regional development.

6.4.2 Regional Development Strategy

The "2009-2019 Strategy for Regional Development of the Republic of Macedonia" adopted on 29 September 2009 and covers a ten year period, as specified by the Law. The strategy is a fairly general long-term planning document that establishes the principles, goals and priorities of the regional development, and defines the measures, instruments and financial and other means for the realization of the strategy.

Vision

"Balanced and sustainable development on the whole territory of Republic of Macedonia, which is characterized with high rate of economic growth and competitive planning regions with relatively small disparities, and optimal utilization of natural, human and energy resources, high economic and social cohesion and decent life standard for the population."

Strategic objectives

- Competitive planning regions, distinguished for dynamic and sustainable development.

- Greater demographic, economic, social and spatial cohesion among and within the planning regions in Republic of Macedonia.

A three year action plan has also been prepared (2011-2012) to provide a framework for the implementation of the strategy.

6.4.3 Operational Programme for Regional Development

It should be noted that in the context of IPA Component III, an OPRD has also been defined for the period 2007-2009 and has four priorities:

- Corridor X Motorway Completion.
- Upgrading and Modernization of the Transport Infrastructure.
- Improvement of Environmental Infrastructure.
- Technical Assistance.

The OPRD is heavily biased towards investment in the transport sector, where 75% of the total assistance is allocated. The measures are focused on upgrading and modernisation of roads and railways, whereby the implementation of one major road construction project along corridor X is considered (OPRD, 2007, p.9). In addition to Corridor X, attention has also focused on the development of a large waste water treatment facility located in Prilep.

6.4.4 Regional Development Action Plan

The Strategy for Regional Development forms the basis for the “Action Plan for Implementation of the Regional Development Strategy”. The Action Plan defines the priorities of regional development during the period 2010–2012.

6.4.5 Programme for the Development of the Planning Region

Regional Councils (RCs – see below) are responsible to the development and adoption of the Programmes for the Development of the Planning Regions over a five-year period. Currently ca. Euro 3.25 mio. is allocated by the Ministry of Local Self-Government (MLS) on an annual basis: 70% for the development of the planning regions, 20% for areas with specific development needs and 10% for the development of villages. In order to ensure the programmes’ implementation, an Annual Action Plan and an Annual List of project proposals, financed from the national budget, have to be adopted annually.

6.5 Institutions

The Law for BRD, which was adopted in May 2007, defines five main stakeholders, as discussed below.

6.5.1 Ministry for Local self-Government (MLS)

The MLS, thought the Department for Regional Development (ca. 6 staff), is responsible for regional development policy. It allocates funds for regional development, defines national policy in accordance with other national strategic documents, elaborates laws and by-laws, develops the National Strategy for Regional Development 2009-2019 and the Action Plan to implement the strategy. The MLS is also responsible for the management of the IPA CBC Component (ca. 8 staff). As far as RD is concerned, the OP for Regional Development is managed by the Operating Structure, which comprises the Central Finance and Contracting Department of the Ministry of Transport and Communications and Ministry of Environment and Physical Planning. Neither the MLS nor the Ministry of Economy are currently closely integrated into the IPA structures as far as regional development and/or regional competitiveness are concerned.

6.5.2 National Council for RD (NCRD)

The National Council for Regional Development of Macedonia is Chaired by the Deputy Prime Minister for Economic Affairs and is the highest regional development body in the country. It comprises 8 representatives of ministries (Transport and Communications, Finance, Labour, Environment and Physical planning, Culture and Agriculture, Forestry and Water Economy), regional representatives (i.e. eight Presidents of Regional councils – see below) and the President of the Association of the units of the local self-government (ZELS).

The NCRD has a coordination role to align the policy for regional development with the sector policies of the responsible line ministries, as well as the wider macroeconomic policy. It has the capacity to establish committees consisting of regional development experts, representatives from the economic chambers and other private and civil society partners, though this has yet to happen. It meets on average twice a year, though only one meeting has occurred in 2011. Administrative and technical support is provided by the Department for Regional Development at the MLS. Currently, the NCRD focuses on the selection of the annual Call for Proposals connected with the Euro 3.25 mio. allocated by the MLS on an annual basis. The NCRD does not yet engage in the policy-oriented and strategic regional development issues, though this may evolve over time.

6.5.3 Bureau for Regional Development

The Bureau for Regional Development (BRD) is under the aegis of MLS and is responsible for implementation of regional development, distribution

of the state regional development funds and oversees the network of the Regional Development Centres (see below RDCs). The BRD has ca. 22 staff and an annual operating budget of ca. 1.4 Mio. EUR. The BRD and MLS launched Calls for Proposals (CfP) for regional development projects during 2009-2011. There was no CfP in 2011 because of a lack of funds. It should be noted that due to technical problems, BRD was not able to finalise the contracting for 2010 projects and thus “lost” its 2010 budget. In consequence, it has had to use the 2011 budget to finance the projects from 2010.

Two by-laws (Book of Rules) await approval by MLS, namely the procedure for selection of evaluators and methodology for evaluation of the planning documents; and for selection of evaluators, procedure and methodology for ongoing and final evaluation of the projects. These are of critical importance for the BRD’s capacity to implement its Calls for Proposals. In addition to running the CfP’s the BRD is responsible for monitoring and evaluation of the running projects.

6.5.4 Councils for Development of the Planning Regions

According to the Law, Regional Councils (RCs) have been established in all eight regions. The RCs comprise of the Mayors of the municipalities which are part of the respective planning region and are responsible for the regional policy within particular regions. The RCs basically coordinate the activities of the municipalities, private sector, civil society organisations and other relevant stakeholders within the region which work in the field of regional development. The RCs also promotes cross-border cooperation with other regions from other countries based on mutual interests, as well as cooperation with other regions within the country. The degree of activity varies from RC to RC, with the more proactive ones meeting on a monthly basis or even more frequently, according to need. Proactivity also seems to depend on the influence and pre-disposition of the President of the RC.

6.5.5 Centres for Development of the Planning Region

The administrative and implementation activities of the RCs are performed by the Centres for Development of the Planning Regions (or Regional Development Centres - RDC). The eight RDCs are located within the municipality with the largest number of inhabitants in the relevant region. The RDCs prepare draft proposals for the programme, annual action plans and the individual project proposals. They also coordinate activities related to the implementation of the programme and prepare an annual report. The RCDs have 3-5 full-time employees each. Since 2010, they have started to implement the applications for regional development projects based on the Calls for Proposals.

The RDCs have a variety of other functions, such as providing information to all interested parties in the region regarding the implementation of the Programme and other issues related to regional development; provide professional and technical assistance to municipalities for the preparation of their development programmes; assist other to prepare projects; encourage inter-municipality cooperation; implement regional development projects funded by the Government and other sources such as the EU; and promote the development opportunities of the regions.

Financing of the eight RDCs is in the competence of the municipalities within the planning region (on a per capita basis). The MLS co-finances (50%) the first five years of operation of the RDCs (annual budget of ca. Euro 40,000 per RDC). At the present time, not all municipalities are contributing their financial share; indeed MLS itself is not always able to deliver the anticipated co-financing. Consequently it is not clear whether the RDCs will become sustainable after the five initial years of state/local government funding comes to an end.

6.6 Links

6.6.1 SME Strategy/Programme

The Ministry of Economy is responsible for SME development and for implementation of both an SME strategy and programme.

Strategy

The Ministry of Economy has published the SME strategy 2002-2013, which was updated in 2007. It sets out a series of goals and objectives:

Goals

- Increase the number of SMEs.
- Increase employment in SMEs.
- Increase the contribution of SMEs to GDP.

Objectives

- Enhance Policy Making.
- Simplify the Legal and Regulatory Environment.
- Improve Access to Finance.
- Simplify Taxation.
- Foster Information and Communication Technology.
- Enhance Science, Technology and Innovation in function of the development of SMEs.
- Promote Entrepreneurship in Education and Training.
- Encourage Internationalization.

- Improve Business Development Services.
- Strengthen the Public Private Dialogue.

Programme

The SME Programme was adopted in April 2011 and covers the period up to 2013. The SME programme addresses the key components of the Small Business Act developed by the European Commission (EU, 2008). The focus of the SME Programme is to:

- Set-up an adapted institutional architecture.
- Improve the business environment.
- Facilitate access to finance.
- Better develop innovation and competitiveness of SMEs.

6.6.2 Innovation Strategy / Programme

There is currently no Innovation Strategy in Macedonia. However, the MoE has recognised the importance of innovation and has requested support from the OECD / EC for the development of an innovation policy. This is expected to be ready during the course of 2011.

The Ministry of Education and Science (MES) is the key governmental institution for issues such as education, science, technology, research and innovation. Research and Development (R&D) has hitherto not been a strategic priority, despite its importance to the long-term economic development and future competitiveness of the country. This is evidenced by the fact that the level of Government expenditure on R&D was 0.22% of GDP in 2008 (compared with the EU 2020 Strategy target of 3%). However, the MES has a new R&D Programme, which is in line with the EU 2020 Strategy and places greater emphasis on innovation, including a target of investing 1.8% of GDP in R&D by 2020.

6.6.3 HRD Strategy / Programme

The overall strategic objective of IPA Human Resource Development Component is to foster the development of human resources, in particular by improving the quantity and quality of human capital, leading to more and better jobs, higher growth and development and the increased national competitiveness at international level. The HRP OP includes a strategy defining the priorities and objectives, as well as a description of the priorities and measures. It aims at addressing the following weaknesses:

- Low employment and high unemployment especially long-term unemployment.

- Increase in unemployment among disadvantaged groups in the labour market (ethnic communities, women, disabled, young people, older) and their exposure to social exclusion.
- Mismatch between the relevant educational profiles and the labour market needs and demands.
- Early school leaving, unsatisfactory level of adult literacy.
- Low level of funding for active employment policy.

6.6.4 Other Strategies/Programmes

A number of other strategies have been produced, the most relevant of which are the followings:

- Programme for Stimulating Investment (draft).
- Strategy for Export (draft) .
- Strategy for Intellectual Property Rights.

6.7 Assessment

6.7.1 EC Progress Report

Chapter 22 (Regional policy and coordination of structural instruments) argues that:

- No relevant progress has been made in the legislative framework. Further alignment is needed to ensure that Cohesion Policy can be implemented in respect of Community legislation and policies. Legislation needs to be put in place which allows for multi-annual programming and budget flexibility. In this area, preparations are moderately advanced.
- There has been uneven progress in the institutional framework. In October 2009, conferral of management was granted under the Operational Programme for human resources development. The efficiency of the operating structure of the IPA human resources development programme has improved. Inter-ministerial coordination within the operating structure of the IPA regional development programme needs to be further strengthened.
- Continuous efforts are needed in the preparation and implementation of projects and operations under IPA Component III due to the longer period necessary for preparation of mature projects, the technical and financial complexity of the operations and the number of preliminary steps that need to be undertaken before commencing major infrastructural works. Preparations in this area are moderately advanced.

- Progress has been uneven in the area of administrative capacity. The implementation of the IPA human resources development programme is progressing well. However, the implementation of the regional development operational programme is significantly delayed.
- The administrative capacity of the national structures dealing with IPA Component III, and in particular of the relevant line ministries, needs further strengthening. Recruitment of technically knowledgeable staff with project management experience and well targeted training would contribute to improvement of the technical expertise within the ministries. In this area, the country is not yet sufficiently prepared.
- In the area of programming, limited progress has been made. The national authorities have presented proposals for revision of IPA operational programmes for regional development (component III) and for human resources development (component IV). Administrative capacity in the area of programming and project preparation needs to be strengthened. Preparations in this area are advancing.

6.7.2 Other

A number of issues are worth highlighting in relation to RD in Macedonia:

- No one institution, with the possible exception of Deputy Prime Minister (Economic Policy), is responsible for regional development in Macedonia. As a consequence, there is fragmented institutional responsibility which needs to be overcome in the future, so as to develop a clear and consistent approach to RD. As a result, there is an institutional and policy gap between the EU requirements and the reality in the country, as far as regional policy is concerned. This is illustrated in the context of the OP on Regional Competitiveness and will continue to be a gap unless the GoM prioritises this important issue. In this context, it is worth quoting from a recent GIZ report:

“One has to bear in mind that, in Macedonia there is also an existing gap between the national policy for RD and the policy for RD of the EU. Namely, the MLS which is by the Law for BRD responsible to carry out the national policy for BRD has no role in the IPA Component 3 – Regional Development. Therefore it is of utmost importance to establish complementarity of both policies. In this context, the current (in the frame of IPA) and the future institutional set-up for programming, managing and implementing the EU-funded assistance under the Structural Funds and Cohesion Policy in Macedonia is of crucial importance.” (GIZ, Survey of Centres for Development of the Planning Regions, 2011, p.10)

- Institution and capacity building is required at all levels national level: the MLS has to reform its institutional structure, raise the quality of human capital and establish effective coordination and implementation of RD policy (including

implementation of IPA components); the Regional Councils and Centres for Regional Development are relatively new institutions. Further capacity building, networking, project cycle management, coordination and monitoring and evaluation skills and experience are required; the Bureau for Regional Development also needs further support to develop fully into its allocated role.

- The absorption capacity, as far as regional development projects and programme pipelines are concerned, needs to be enhanced over time at all levels: national, regional and local.

6.8 References

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7 SERBIA

7.1 Legal basis

7.1.1 Laws

The Constitution of the Republic of Serbia specifies that “the Republic of Serbia shall promote balanced regional development in accordance with the Law” (Article 94). Furthermore, the Law on Equal Territorial Development (2009) defined the basic legal framework for regional policy in Serbia. Shortly afterwards, the Law on Equal Territorial Development (April 2010) was amended. The law covers the following elements:

- I. General Provisions.
- II. Region and District.
- III. Classification of Regions and Local Government Units.
- IV. Types of Development Planning Documents.
- V. Subjects of Regional Development.
- VI. Measures and Incentives.
- VII. Financing Regional Development.
- VIII. Final and Transitory Provisions.

Based on the Law on Regional Development, the main goals of RD are:

- Setting-up the legal and institutional framework.
- Reducing regional and inter-regional disparities.
- Sustainable socio-economic development.
- Developing an economy based on knowledge, innovation, new technologies and competitiveness at all levels.

7.2 Territorial Arrangements

Serbia has two autonomous provinces. Vojvodina in the north (39 municipalities and 6 cities) and Kosovo and Metohija in the south (28 municipalities and 1 city). The Autonomous Province of Kosovo and Metohija (Kosovo) has been under the responsibility of UN administration (UNMIK) since June 1999. In February 2008, the Government of Kosovo declared its independence, a move not yet recognised by Serbia and various other countries.

7.2.1 Municipalities

Serbia comprises 150 municipalities, 83 of which are located in Central Serbia. The rest are located in Vojvodina (39) and Kosovo (28).

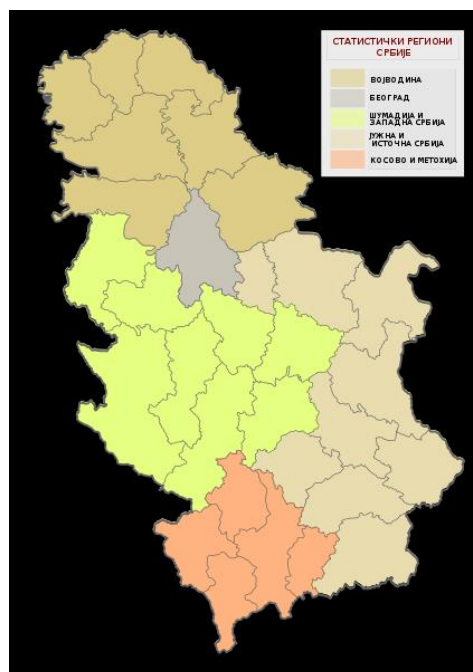
7.2.2 Districts

The municipalities and cities comprise 29 districts, which are administrative in nature, 17 of which are located in Central Serbia and the rest in Vojvodina (7) and Kosovo (5). Belgrade is a district in its own right.

7.2.3 Regions

The Law on Equal Territorial Development (2009) led to the establishment of seven statistical regions; it was amended in April 2010 to make it compatible with the NUTS II criteria, reducing the number of regions to five (Eastern Serbia merged with Southern Serbia and Šumadija merged with Western Serbia), resulting in the following five NUTS II statistical regions:

- Belgrade.
- Kosovo and Metohija (autonomous province).
- Southern and Eastern Serbia.
- Šumadija and Western Serbia.
- Vojvodina (autonomous province).



Source: Wikipedia

The NUTS II regions can be aggregated into a NUTS I statistical unit (North and South Serbia).

7.3 Finance

7.3.1 Regional Development

The laws states that RD in Serbia is financed from the following:

- Budget of the Republic of Serbia.
- Budgets of Autonomous Provinces; municipalities; and City of Belgrade.
- European Union pre-accession funds and international community.
- Loans from the international financial institutions and business banks.
- Donations, contributions and gifts from legal and natural entities.

The law does not stipulate a specific allocation for RD purposes.

7.3.2 IPA Funds

Serbia is to be supported through IPA Components 1 & 2, illustrated below.

IPA allocations to Serbia by component

| Component | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|-------|-------|-------|--------|-------|-------|-------|
| 1. TA & Institution Building | 181.4 | 179.4 | 182.5 | 186.2 | 189.9 | 193.8 | 203.1 |
| 2. Cross-Border Co-operation | 8.2 | 11.4 | 12.2 | 11.8 | 11.9 | 12.1 | 11.6 |
| Total | 189.7 | 190.9 | 194.8 | 197.96 | 201.9 | 201.9 | 214.7 |

Once Serbia becomes a Candidate Country (a decision on the official application is expected on 9 December 2011), IPA support will be available for all four components, including III, which focuses on RD. The perception is that the current plans for regional development will be compatible with the requirements of the IPA regime for the new components.

7.3.3 Other

Several credit lines for legal entities and entrepreneurs are provided by the Serbian Development Fund (SDF). Moreover, a number of sub-national schemes are financed by the Province of Vojvodina. However, there are no state funds specifically allocated for regional development.

7.4 Policies and Strategies

7.4.1 Regional Development Policy

The law defines RD as a long-term process aimed at improving sustainable economic and social development of regions and municipalities, taking into account their specific characteristics. It defines the objectives of RD policy as being to promote:

- Comprehensive and sustainable socio-economic development.
- Reduction of regional and inter-regional disparities in levels of socio-economic development and living conditions.
- Reduction of negative demographic trends.
- Development of an economy based on knowledge, innovation, new technologies and management organisation.
- Development of competitiveness at all levels.
- Establishment of a legal and institutional framework for planning, organisation, coordination and implementation of development;
- Inter-municipal, inter-regional, cross-border and international cooperation in matters of common interest.
- More efficient use of domestic natural resources and goods, and foreign resources at state, provincial, regional and local level.

7.4.2 National Plan for Regional Development

An IPA funded project “Support to establishing new RD-framework” is currently being implemented with a focus on policy, institutions, and the establishment of a National Plan for Regional Development during the period November 2010-April 2013. An assessment of the available sectoral and regional development strategies in Serbia has led to some preliminary conclusions:

Assessment of sectoral strategies:

- Many strategies exist (ca. 80), with different time horizons/orientations; ca. 24 of these have a regional development dimension.
- Sectoral policies do not consider their impact on different regions.
- Instruments and financial means are not allocated to territorial interventions.

Assessment of regional development strategies:

- Existing documents are limited in their coverage (territorial area and population).
- Existing documents are not entirely consistent in approach, content or quality.

“Regional Development Challenges in Serbia and NPRD-process”, presentation by Sjaak Boeckhout, NPRD-launch, 21 June 2011.

This analysis has served as the basis for developing the National Plan for Regional Development (NPRD), which will define the key development priorities for Serbia over a ten year period starting in 2013, as well as the plan for their achievement. The Ministry of Economy and Regional Development (MERD) is in the process of developing the NPRD, with the assistance of an IPA project and is expected to comprise three main sections:

- Basic plan: analysis, synthesis, implementation and evaluation.
- Regional part: regional strategy, SWOT, regional social and economic analysis.
- Sectoral part: sectoral contribution, instruments and sources.

Once the NPRD is finalised, around mid-2012, it is expected to be adopted by Parliament. Plans are well underway for the creation of the NPRD, building on the Vojvodina, Belgrade, NUTS III strategies, etc.

7.4.3 Regional Development Strategy

The Republic Development Bureau published the “Regional Development Strategy of the Republic of Serbia (2007 – 2012)” in compliance with the Constitution, which specifies (Article 94) that “the Republic of Serbia promotes balanced regional development in accordance with the Law”.

Goal

“The main goal is to stimulate balanced regional development of the Republic of Serbia.” Operationalisation of this goal includes: enhancing regional competitiveness; reducing regional discrepancies and poverty; and building institutional and regional infrastructure.”

The Strategy defines the goals of regional development as being:

- Sustainable development.
- Enhancing regional competitiveness.
- Alleviation of regional disparities and poverty.
- Curbing negative population trends.

- Continuation of the decentralisation process.

However, it is clear that the above strategy, which is largely descriptive in nature, has been superseded by developments, not least requirements of the amended Law on Equal Territorial Development (April 2010). This requires that the Regional Strategy be defined in accordance with the National Plan for Regional Development (NPRD - 10 year period) and Regional Development Strategies (for each region, over a five year period). These are to be in line with already adopted local development strategies, regional and national strategies, but also with the new Europe 2020 Strategy. The NPRD is in the process of being prepared by MERD, in cooperation with the relevant stakeholders. The Regional Development Strategy of the Republic of Serbia (2007 – 2012) will continue until the end of 2012, when the NPRD will take over.

7.4.4 Regional Development Strategies and Programmes for Funding Development Regions

Regional Development Strategies are expected to be developed (with assistance of the IPA Project), which define the main priorities for a period of five years. These Regional Development Strategies are to be prepared individually for each NUTS 2 region, in accordance with the National Plan and the Priorities for Regional Development set out within the NPRD. These are in the process of being prepared and are expected to be prepared and approved in 2012.

In addition, Programmes for Financing the Development of Regions are expected to be prepared with the assistance of the IPA project. The Law states that Programmes for Funding the Development of Regions are basically development planning documents highlighting specific projects for the regions and allocating funds for implementing for the financial year, partly through state funds, and in accordance with the National Plan for Regional Development and the related Regional Development Strategies.

7.5 Institutions

7.5.1 Ministry of Economy and Regional Development

Within the Ministry of Economy and Regional Development (MERD), the Department for RD Policy and IPA Projects is responsible for all aspect of RD policy, including compiling laws and other regulations, as well as

initiatives relating to policies and strategies. As the name suggests, this Department also coordinates the activities connected with IPA (programming and implementation of projects). Within MERD, the Department for Regional Development Policy and IPA comprises 13 people in two units, namely i) a Regional Development Policy Unit (7) and an IPA Unit (6).

7.5.2 National Council for RD

The National Council for Regional Development (National Council) is responsible for promoting RD in Serbia. It comprises a President (Minister responsible for RD) and 28 members (ministers, mayors, presidents of the five regions / autonomous provinces, etc.) appointed for four years. The National Agency for Regional Development acts as the Secretariat for the National Council. Its responsibilities include:

- Monitor the RD situation and propose measures for promoting RD.
- Promote the RD objectives and encourage their implementation.
- Comment on the draft National Plan and draft Regional Strategy.
- Comment on the proposals of programmes for funding development of regions from the budget of the Republic of Serbia.
- Analyse the principles and effects of implemented Government policies and measures from the area of RD.
- Coordinate the work of Regional Councils (see below).
- Establish working groups for issues considered to be of interest for RD;
- Adopt the Rulebook on its work.
- Submit annual reports on its work to the Government.
- Perform other activities in accordance with the RD Law.

The National Council is a fledgling institution, having been created in 2010 and having held two meetings; it is expected to be convened to discuss the draft NPRD. It should be noted that there are also five Regional Councils at the level of the NUTS II regions (see below).

7.5.3 National Agency for RD

The National Agency for Regional Development (NARD) is responsible for various RD functions, such as:

- Participate in preparation and implementation of development planning documents and monitor their implementation.
- Monitor and implement measures and projects for infrastructure improvement, entrepreneurship and regional development.

- Issue accreditation certificates to RDAs, public documents on accreditation and keep a register of issued public documents.
- Coordinate the work of RDAs and provide professional assistance necessary for performing their activities related to RD.
- Prepare and implement the training consultants and trainers to developing economic societies and entrepreneurship.
- Plan and propose development projects from the area of RD and ensure necessary conditions for access to and implementation of the projects financed from the EU funds, donations and other forms of development aid.
- Perform the activities of international and inter-regional cooperation from its area of responsibility.
- Keep the Single register of accredited regional Development Agencies; and manage the information system for RD.

NARD has 62 employees located in the National Centre in Zajecar and the Belgrade Office. NARD also accredits and coordinates the work of the “Republic Network for Support to SME Development,” consisting of 17 partners (RDAs, Centres for SME Development and business incubator).

7.5.4 Development Fund of Serbia

The Development Fund of Serbia has some 60 staff members and implements RD promotion programmes through loans in accordance with the Law on Development Fund of the Republic of Serbia. The roles and responsibilities of the Development Fund for Serbia do not appear to be substantially different from that of the NARD. It is unclear why it is necessary to maintain two separate institutions; it might be advantageous to consider merging the two institutions.

7.5.5 RD Councils

Each region has an RD Council, which promotes development of the regions. They comprise of a President and members with a mandate lasting five years. The members are representatives from local government units constituting a region, and the representatives from city municipalities, representatives from public and civil sector, and other institutions and organisations from the territory of these local government units, and a representative of the Government. Representatives of other institutions and experts participate in the activities of the RD Councils (non voter status).

The RD Council perform the following activities:

- Promote RD objectives and their implementation within their territory.
- Comment on Regional Strategy which is adopted for their region.

- Comment on the programme for funding the development of the region, financed from the budget of the Republic of Serbia.
- Comment on proposals for other regional development documents.
- Establish working groups for issues of importance to the region.
- Submit annual reports to the Government and National Council.

The RD Councils are institutions in the making (since June 2011). At the time of writing, the RDCs in Vojvodina and Belgrade are more advanced and in the process of convening Working Groups to assist with the preparation of the Regional Development Strategies. The President of the RD Councils are also members of the National Council for RD.

7.5.6 Regional Development Agencies

The RDAs perform a number of functions, according to the law:

- Preparation and implementation of development documents and monitor their implementation at the level of regions and local government.
- Cooperation with autonomous provinces and local government preparation and implementation of local development plans.
- Representation of the interest of the region vis-a-vis NARD and participation in the implementation of the adopted documents.
- Prepare and implement training programmes on economic development, entrepreneurship, infrastructure and capacity building of municipalities.
- Monitor and implement the measures and development projects.
- International, cross-border and inter-municipal cooperation.
- Manage the information system important for the region and district.

Unusually, the Law defines the minimum number of RDAs per region implement RD:

- Vojvodina: 3 RDAs.
- Belgrade: 1 RDA.
- Šumadija and West Serbia: 4 RDAs.
- South and East Serbia: 3 RDAs.
- Kosovo and Metohija: 1 RDA.

At the time of writing, there were 11 RDAs in existence: Novi Sad, Ruma, Kragujevac, Zrenjanin, Novi Pazar, Kraljevo, Leskovac, Nis, Pozarevac, Zajecar and Uzice. Since 2009, the EU-funded Programme of Regional Socio-Economic Development (RSEDP II) has worked to raise the

capacities of the RDAs, as well as other regional and municipal stakeholders involved in regional development in Serbia. Moreover, there are also six Centres for SME development: Novi Sad, Beograd, Subotica, Krusevac, Vranje, Zajecar. All 17 agencies/centres are currently members of NARD Network. However, NARD is undergoing a process of accreditation for the RDAs to raise standards and quality of service delivery (regional development and SME services). It is not yet clear whether all 17 institutions will be accredited for the forthcoming two years.

7.6 Links

7.6.1 SME Strategy/Programme

The “Development Strategy of Competitive and Innovative SMEs 2008-2013” defines the medium-term priorities and focus on SME and entrepreneurship development in Serbia.

Aim

The Strategy creates a framework for sustainable, international competitive and export-oriented sector of SMEs, guided by the principle of developing an entrepreneurial economy based on knowledge and innovation. The content of the Strategy is based on both the European Charter for Small Enterprises and the Small Business Act for Europe, which has superseded the Charter. The Strategy is based on five pillars, namely:

- Pillar 1: Promotion and Support for Entrepreneurship and Establishment of New Enterprises (i) increase Serbia’s potential to produce new entrepreneurs and business start-ups; (ii) improve business development support to new businesses; and (iii) improve the business environment for start-ups.
- Pillar 2: Human Resources for a Competitive SME Sector (i) better quality of entrepreneurship education; (ii) more efficient business services to support SME sector; (iii) improvement of management capabilities of SME owners and entrepreneurs; and (iv) highly qualified labour force for SMEs.
- Pillar 3: Financing SMEs and Taxation (i) finance and financial expertise for SMEs; and (ii) taxation for SMEs.
- Pillar 4: Competitive Advantage for SME on Export Markets (i) developing a culture of investing in innovation by SMEs; (ii) standards and quality control; (iii) clusters and business links; (iv) support for export-oriented SMEs
- Pillar 5: Legal, Institutional and Business Environment for SMEs (i) legal and regulatory framework which encourages entrepreneurship; (ii) an efficient public sector serving SMEs and improved business environment; (iii) developed regional infrastructural support for SMEs; (iv) efficiently uphold SME sector interest through public/private dialogue; and (v) public procurement and SMEs.

The Strategy also has a five-year Operational Plan, which is implemented through annual Action plans, coordinated by the Department for SME Policy Development. Annual progress reports are submitted to the Government for information.

7.6.2 Innovation Strategy / Programme

The SME Strategy (above) covers the issue of innovation and numerous activities relate to this theme, such as: ICIP programme, new IPA project on innovation infrastructure support, the development of an Innovation Fund (in part with OECD support), development of the Enterprise Europe Network (with a focus on accessing PF7 and CIP funding), etc. The Strategy for Fostering and Development of Foreign Investment (below) also covers innovation-related elements.

7.6.3 HRD Strategy/Programme

A draft OP HRD 2012 – 2013 has been prepared, which has four priority axes:

- Employment and Labour Market: invest in active labour market policies, strengthen employment policy at local level and look to reduce the scope of the informal economy through better intelligence, enforcement of existing laws and inspectorate networks and awareness-raising.
- Education and VET: contribute to the modernisation of the education system in Serbia in line with market needs and, in the perspective of lifelong learning, ensuring an adequate supply of labour to meet the needs of the economy. It will also encourage greater inclusion of disadvantaged groups into the education system
- Social Inclusion: promote the long-term integration of disadvantaged and vulnerable groups into the labour market, by improving the design and delivery of social inclusion policies that ultimately enhance employability. The capacity of local stakeholders in identifying the needs of disadvantaged groups will be strengthened, as well as their ability to develop effective and coordinated responses across institutional boundaries.
- Technical Assistance: support the effective and efficient management of the OP, the absorption of IPA assistance, and preparation for future programming periods, including the design and development of strategies, and identification of operations for elaboration into mature and high-quality proposals.

7.6.4 Other Strategies/Programmes

The Strategy for Fostering and Development of Foreign Investment proposes legislative reform, institutional development and other actions designed to increase competitiveness, such has:

- Development and implementation of a programme on public/private partnership and concessions in key utility and infrastructural areas.
- Accelerating liberalisation of key sectors and maximise industrial development role of key research and scientific institutions.
- Support for development of clusters at sectoral level and initiatives to address common challenges.
- Development of policies and initiatives on the provision of Scientific and Technology Parks and Industrial Parks.
- Measures to facilitate full operation of regional and international trade agreements.
- Development and facilitation of supports for quality and accreditation proposals to facilitate international market access.
- Development of support to productivity and training issues through focused initiatives in cooperation with private sector.
- Elimination of barriers to export development, including focus on facilitating modern logistics through development of physical and regulatory environment.
- Preparation of programme for support to introduction of standards and certification.

7.7 Assessment

7.7.1 EC Progress Report

The EC Republic of Serbia 2010 Progress Report has nothing to say on RD. However, the Analytical Report for Serbia (2011) highlights the following main points (Chapter 22: Regional policy and coordination of structural instruments):

- With regard to the institutional framework, Serbia is currently preparing for implementation of IPA components III (regional development) and IV (human resources development), which, under the current IPA Regulation, would become available once Serbia is granted candidate country status. ... Yet, the operating structures and the way they will work remain to be specified in more detail and to be put in place in time.
- The 2010 Law on regional development established a national system for implementing domestic, non-EU- funded, regional policy in Serbia. This Law does not apply to EU programmes. ...However, in the medium term maintaining two parallel systems, one for national policy and one for IPA components III and IV, is likely to be less effective, as the procedures set up for implementing the national policy could divert already limited national resources (not only staff but also co-financing capacity) away from IPA and ultimately slow down implementation of IPA and preparations for Structural and Cohesion Funds.

- The administrative capacity to deal with the requirements of the EU cohesion policy needs to be built up. To manage this process, organisational development and training strategies need to be developed. In order to obtain the quality required in programming, implementation, sound financial management, control and monitoring mechanisms, adequate human resources will be needed. The Serbian administration still relies excessively on external consultants.
- Significant efforts need to be made to build up expertise within the national administration, at both central and local levels. In order to attract and retain qualified staff, adequate career planning and salary policies for civil servants involved in management of EU funds must be developed. The necessary financial resources need to be allocated.
- With regard to programming, the government of Serbia has developed a number of strategy documents to promote and implement sectoral policies for regional development purposes. The draft Strategic Coherence Framework (a precursor of the National Strategic Reference Framework, NSRF) and the draft Operational Programmes for IPA components III and IV were submitted to the Commission. Further improvements remain to be made before they can be adopted. In the context of programming, timely preparation of a pipeline of high-quality and mature projects to implement IPA and cohesion policy is of the utmost importance. The capacity of potential beneficiaries to prepare and implement projects must be significantly strengthened.
- Action under IPA components I and II has allowed the Serbian authorities to familiarise themselves with the basic requirements for monitoring and evaluating EU projects. However, proper national systems and mechanisms need to be put in place to evaluate and monitor the quality and impact of multiannual development programme making and reporting, a management information system needs to be introduced for EU programmes.
- Conclusion: Cohesion policy structures and procedures are at an early stage in Serbia. Further efforts are needed in order to build the administrative capacity necessary to allow successful participation in IPA components III and IV and EU cohesion policy. A positive start has been made with preparations for IPA components III and IV. However, additional efforts will be necessary to set up sound procedures, ensure competent and stable administrative structures and enhance the programming capacity to allow Serbia to implement programmes under IPA in the medium term and, further in the future, under the cohesion policy. Overall, Serbia will have to make additional efforts to align with the EU acquis in the field of regional policy and to implement this policy effectively in the medium term.

7.7.2 Other

Based on the preceding discussion, it is clear that Serbia has made significant progress with regional development matters since 2007:

- It has a Ministry for Economy and Regional Development (policy), as well as a National Agency for RD ((implementation).
- It has a law, NUTS II planning regions, a RD strategy, as well as RDAs.
- It has recently established a National Council for RD as well as five RD councils at the NUTS II levels.
- By 2012, it expected to have a National Plan for RD, five Regional Development Strategies and five Programmes for Funding Development Regions.

However, the challenges are still significant, such as:

- Strengthening the fledging institutions, in terms of human capital, funding and know-how.
- Streamlining institutions, such as the National Agency of RD and the Development Fund for Serbia.
- Ensuing coordination and coherence of regional development policy and implementation at national, regional and local levels.
- Ensuring full integration of IPA components III and IV, assuming Candidate Country status is achieved in December 2011, etc.

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8 CONCLUSIONS

When it comes to regional policy and development, it is clear from the analysis of the five countries (Albania, Bosnia and Herzegovina, Croatia and FYR Macedonia) covered by this report, that it is necessary to assess the developments through the prism of EU regional policy and, in particular, the IPA mechanism. This is, quite simply, because all five countries aspire to join the EU but in order to do so, they must and indeed are, making strenuous efforts to ensure that they i) become Candidate Countries and ii) eventually accede to the EU.

At the same time, it is also important to note that the EU *acquis communautaire's* requirements for regional policy and coordination of structural instruments consist primarily of quite general and/or fund-specific regulations, which do not actually require transposition into national legislation. Furthermore, the Stabilisation and Association Agreements (SAA) with the countries covered by the report establish the measures to strengthen regional and local development cooperation, with the objective of contributing to economic development and reducing regional imbalances.

In this context, it is not surprising that there are variations in the way that all five countries interpret the framework set by the *acquis*, the SAA and the IPA instrument.

Nevertheless, the report highlights a number of emerging themes:

- **All five countries wish to join the EU**; two are Candidate Countries (Macedonia and Croatia); one is expected to accede in 2013 (Croatia); one is expected to be shortly awarded Candidate Country status (Serbia); one was recently denied Candidate Country status in 2010 (Albania) but anticipates is planning to reapply; and one expects to apply for Candidate Country status in 2012 (Bosnia and Herzegovina).
- All five countries are required to operate within the broad and non-prescriptive framework of the *acquis*, SAA and IPA regulations. However, although all five countries are placing policy priority on regional development, **the degree of emphasis and urgency varies from country to country**.
- **Croatia is at the forefront in terms of preparation for regional development**. This is neither surprising nor unexpected since it has negotiated and signed off all the relevant chapters of the *acquis* and been given the green light for accession to the EU in 2013. However, this is not to conclude that the regional development system is either complete or fully functioning. As the analysis in Chapter 5 demonstrates, some harmonization of regional development legislation is required, institutional roles and responsibilities still need to be finalised (e.g. Agency for RD, which is currently only responsible for IPA CBC components), etc. Nevertheless, from an overall perspective, it is clear that basis for an effective regional development system exists in Croatia.

- **Serbia has made significant strides towards establishing a sound basis for regional development in recent years**, not least the establishment of appropriate institutions, the legal basis and the policies and strategies for programming. However, as Chapter 7 demonstrates, the laws, strategies, institutions, etc. are all “in the making” and will require streamlining (e.g. respective roles and responsibilities e.g. Serbian Development Fund) considerable capacity building (MERD, RDAs, National and Regional Councils, etc.) starting with establishment of the necessary IPA-related structures (Components 1-4 if Candidate Country status is awarded in late 2011), in order to be able to make effective use of the increasing flows of pre-accession and eventually structural funds.
- **Macedonia, a Candidate Country for since 2005, has made surprisingly limited progress in relation to regional development.** While in principle a regional development system exist, in practice, the necessary political will for effective reform has been lacking. The law requires harmonization, the IPA structures are taking shape slowly; the institutions (Ministry, Bureau, Councils and RDAs) are weak and underdeveloped, etc. Significant investment in time and political capital is required to raise the Macedonian standards to the levels required by the EU framework for regional development. A foundation which can be built upon exists it must be built upon in the coming years.
- **Albania has made significant efforts to develop a legislative and institutional basis for regional development, however, progress has been precarious and uneven**, with much preparatory work failing to come to fruition. There is an inconsistent legislative basis for regional development, a fragmented institutional basis for regional development, an uncoordinated network of strategies and action plans, etc, all of which hinder progress in regional development. A coherent strategic approach to regional development is, once again, in the making. However, it is far from clear whether this will result in the anticipated progress on regional development second time around.
- **Bosnia and Herzegovina may be characterised as still being in the “starting blocks” as far as regional development is concerned.** Early efforts have been largely abortive. The regional economic development model (five economic regions, strategies and RDAs cutting across the Entity boundaries) promoted by the EC failed to gain traction and appears to have resulting in conflict and lost time. Drafts of regional development (and SME) laws have foundered on the rock of the Dayton Peace Accords and the relative distribution of responsibilities between state, entity and canton governments. In particular, the Republika Srpska champions sticking to the letter of the law (Constitution), as far as divisions of economic powers and responsibilities are concerned. There is a renewed EC initiative to kick-start regional development in BiH on the basis of a NUTS II classification, regional development strategies and action plans. Despite EC and other donor support over about eight years, the fact remains that the entire regional development edifice (laws, regions, institutions, strategies, action plans, etc.) needs to be built from the ground up.

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