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**DEVELOPMENT ASSISTANCE TO SERBIA AS A MEANS OF  
ACHIEVING SUSTAINABLE GROWTH OF ENTERPRISES AND  
NATIONAL ECONOMY**

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***Abstract:** This paper provides an analysis of official development assistance to Serbia. The objective of the donors during last two decades was to assist Serbia in further development of a modern and democratic state through sustainable and inclusive development, on the path towards European integration. This paper presents development assistance as a positive measure in achieving sustainable growth of enterprises and national economy. Development assistance was also considered as a measure for reduction of regional development disparities in Serbia.*

***Keywords:** development assistance, sustainable growth, regional development.*

**1. Introduction**

Countries in transition, such as Serbia, have structural economic problems in general, such as lack of domestic capital, know-how, modern technologies for restructuring of enterprises and integration into the global economy. International assistance and donations were considered as a very important source of capital used to support economic growth, ensure technology spillover, help in restructuring the economy and reduce unemployment.

Impact of the foreign donations inflow has been a priori taken as granted, even without measuring precise effects on particular economic indicators. It is assumed that donations have positive impact on economic growth and the labour market by influencing reduction of the unemployment rate. Unfortunately, there are no available results of the previously conducted research to show positive impact of specific donations on economic growth or unemployment in Serbia.

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## 2. Donation and development assistance

Organisation for Economic Co-operation and Development defines Official development assistance - ODA as government aid designed to promote the economic development and welfare of developing countries. Aid may be provided bilaterally, from donor to recipient, or channeled through a multilateral development agency such as the United Nations or the World Bank (OECD 2017). ODA is broadly divided into bilateral aid, where assistance is given directly to developing countries, and multilateral aid, which is provided through international organizations.

A donation in this work is considered as a grant given by foreign country or international organization to Serbian government or other entity formed in line with Serbian regulations, typically for the purpose of charity and/or to benefit a cause. A donation may take various forms, including money, equipment, services, or other necessary goods. It may also consist of development aid support or emergency, relief or humanitarian aid items.

Director of the IMF's Research Department Raghuram Rajan (2005) assumed that "The debate about aid effectiveness is one where little is settled". Mekasha and Tarp (2013) points to an overall positive impact of aid on growth. In contrast, some have argued that aid has historically been ineffective in promoting growth (Easterly, 2007 and 2012).

Donation implies development which creates better living conditions for the majority of the population within an acceptable timeframe. The improvement encompasses social, economic, political and cultural aspects. Most of economic problems have a long-term character and there is no possibility of improving the economic structure in the short period of time, especially without substantial and direct foreign investments and donations. Donation might also create greater optimism amongst business people and, subsequently, encourage new investments, entrepreneurship and creation of new jobs.

Major sources of grant organizations and development programs are the quotas of member states and grants from the world's wealthiest countries. Biggest sums come from the most developed countries therefore, they are practically in charge of managing the works and allocating the funds.

Assistance was focused on the areas defined by donor or national government. In response to the national priorities of the Republic of Serbia, and in cooperation with the Government of the Republic of Serbia, civil society and other stakeholders, international donors identified strategic areas of priority for investments. The following areas were mainly in focus:

- Economic growth – to help increase production of goods and improve services, thus achieving social equality.
- Economic and political independence – to help facilitate conditions for countries to independently make decisions related to their respective economies and policies.
- Another goal is to close the gap between the rich and the poor and to make sure all needs of the population are met.
- Environment protection – to stimulate sustainable use of natural resources and environment protection.
- Gender equality – to promote equality between men and women.

## **Development assistance to Serbia as a means of achieving sustainable growth of enterprises and national economy**

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In certain cases, grants are allocated to promote economic development of areas with extremely low standard of living or with high unemployment rate. A whole set of economic, social and demographic conditions in respective regions are the reason why certain grants are allocated to improve economy in a specific region.

### **3. Development Assistance to the Republic of Serbia**

The last decade of the XX century was marked by isolation and decay of economy, infrastructure, which led Serbia to a state of an impoverished nation. After political changes, the International Community started providing a comprehensive support which has been helping the country in establishing a healthy economy since 2000.

In the beginning, the grants were allocated to basic infrastructure and energy needs of the population. Between 2001 and 2004, the proportion of humanitarian aid decreased and funding was allocated to support structural reforms, promote economy efficiency and legal reforms. With macro-economic stability and a more powerful economy, structural reforms and socio-economic development have become top priorities; the grants have been allocated to help meet the challenges of European integrations.

In early phases of planning and implementation of international aid programs in Serbia, the support was initiated by the donors. The projects, initiatives and mechanisms for coordination of donors were mostly based on proposals from the donors. There are numerous reasons for that, namely a lack of a clear plan for implementing donor programs by the aid recipients, and a lack of trust from the donors in terms of misuse of funds. Therefore, funding programs were mostly implemented through foreign partners. For example, USAID implemented one of its biggest programs (CRDA – Community Revitalization through Democratic Action) in the six-year period (July 2001 – July 2007), with the help from five implementing partners from the USA. From then on, the Government of Serbia and local partners have shown commitment to a more efficient use of international help in order to enhance reforms. The issue of coordinating activities of international donors was solved through regular meetings with donors and establishment of national sector-oriented working groups which deals with consultations with the donor community, local governments and civil society. Later on, the international donors hand over the implementation to the Serbian Government, national agencies and local governments, encouraged by tangible progress already achieved. USAID last big project, Support to Private Sector Development in South and Southwest Serbia, was implemented entirely by The Development Agency of Serbia (DAS).

The transfer from emergency to developmental aid required structural planning and coordinated aid programming. With this goal, Development and Aid Coordination Unit – DACU was established in November 2000. Its purpose was to coordinate developmental aid within the Ministry of Foreign Economic Affairs with the goal of promoting national priorities through close cooperation with developmental partners. From May 2007 to July 2010, the DACU was a part of the Ministry of Finance, and as of July 2010, it has been with the European Integrations Office (Канцеларија за европске интеграције р.4.). Paris/Accra agenda strongly advocates for the use of recipients' own systems and processes for planning, managing and controlling the use of aid resources (Leiderer, S.). With the

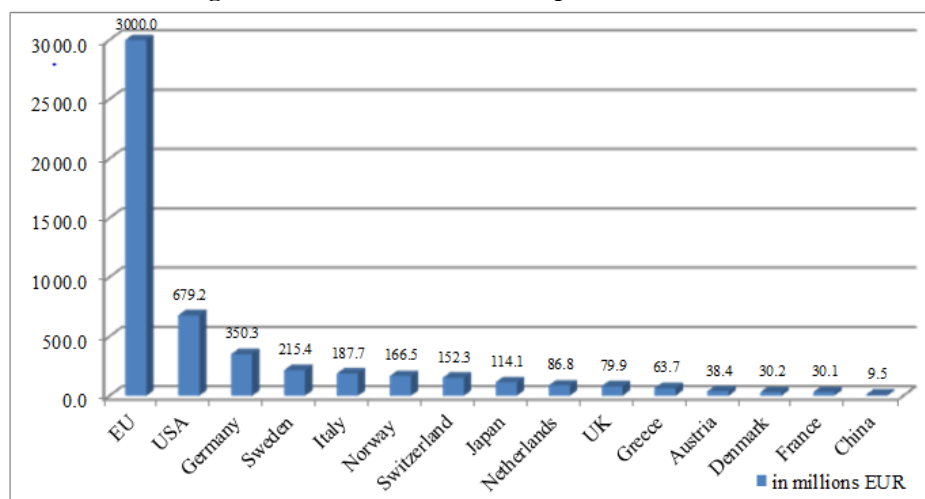
opening of the Office, an official mechanism of consultations with all partners has been established.

The use of funds from regional aid sources, pursuant to the EU rules on national aid control, required building a legislative and institutional framework for control. Improved coordination and cooperation of all parties interested led to establishment of efficient mechanisms for aid implementation, such as pool funding. Specific administrative procedures and donor rules, in combination with lack of national capacities for project implementation, were key factors that caused timing issues and limited response. Donor aid was therefore allocated to developing national capacities and systems, including technical support, expertise, equipment and other components for public institutions at all levels. Transfer of knowledge, expertise and experience in Serbia is one of the most valuable outcomes of developmental aid.

When a beneficiary state shows significant socio-economic development and progress in EU integrations, donors start decreasing the amount of aid. Thus, from 2010 to 2015, several significant donors (USAID, DFID and others) decreased their activities in Serbia. At the same time, beneficiary state prepares itself for managing the EU funds that will increase tenfold once the country enters the EU. Preparations for introducing System for decentralized management of EU funds have taken huge steps forward.

The country that contributed the most bilaterally is the United States, through the United States Agency for International Development (USAID) and other agencies. From 2001 to 2015, US government has helped with 670 million Euros. While the European Union is the largest donor to Serbia, with more than 3 billion Euros in the last 15 years invested in all areas, from rule of law, reform of government, to environment protection.

Figure 1. Donations to Serbia in period 2000-2015



Source: EU INFO [http://euinfo.rs/files/Growing\\_Together\\_2.pdf](http://euinfo.rs/files/Growing_Together_2.pdf)

## **Development assistance to Serbia as a means of achieving sustainable growth of enterprises and national economy**

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Serbia, with 200 million Euros of annual aid, is the biggest recipient of EU grants in the Western Balkans. The EU has implemented projects in infrastructure, healthcare, air and water quality, waste management, legal and administrative reforms, with the goal of providing better service to the citizens. In the recent years, the aid has mostly been directed to preparations for the EU membership.

The history of partnership with EU has started in March 2001 through the CARDS or Community Assistance for Reconstruction, Development and Stabilization programme. In 2006, CARDS was replaced by the Instrument for Pre-Accession Assistance (IPA) programme which ran until 2013. Its successor, IPA II programme, will bring €1.5 billion for Serbia over 2014-2020 (around 200 million annually); it focuses on most important sectors in order to facilitate Serbia's preparations for membership in the EU.

Financial aid is provided through IPA, the goal of which is to prepare Serbia to efficiently fulfill its future membership in the EU. In addition, member states provide significant bilateral aid to the EU.

In the meantime, the European Commission passed the IPARD (Instrument for Pre-Accession Assistance for Rural Development) on 20 January 2015 thus creating basis for supporting rural sector in Serbia in the following six years. Main goals of the IPARD are improvement of food security in Serbia and development of competitiveness of agricultural and food sector, along with alignment with EU standards.

Apart from development programs, in the wake of natural disasters many donors (UNCT - United Nations Country Team for example) had to rapidly switch from the development modality to immediate disaster response and recovery. In May 2014, heavy torrential rain hit Serbia, exceeding 200mm in Western Serbia in a week's time. The heavy rains and rising water levels resulted in flash floods of high intensity causing total destruction of houses, bridges and sections of roads in affected areas, widespread flooding of urban and rural areas and landslides. Directly or indirectly, the disaster affected a total of 1.6 million people living in 38 municipalities and cities, mostly located in central and western Serbia. Two cities and 17 municipalities were severely impacted. A total of 31,879 people were evacuated and transferred to collective centers. During the first three weeks, UNCT was engaged in a range of direct support and relief interventions in order to alleviate effects and impact of one of the biggest disasters in Serbia. UNCT immediately responded by activating UN Humanitarian Response Depots (UNHRDs) in Brindisi (Italy) and Dubai, which provided the major part of the rapid response stocks and equipment to the Serbian Government. Four consignments of the most necessary equipment, food assistance and other non-food articles were delivered within the first 36 hours upon reception of assistance request.

Although this is humanitarian aid, we cannot but mention the fact this aid significantly affected Serbian economy. Without it, Serbia would have had difficulties in electricity supply from Obrenovac Electricity Plant and the Kolubara coalmine and the whole economy would have been in jeopardy.

#### **4. Donations as measures for reduction of regional development disparities**

Regions are primarily formed and identified as administrative-territorial units. Regionalization has recently become a primary consequence of economic flows. Economic regionalization started because of the necessity for rational organization and management of the national economic space (Karaman Aksentijević, Ježić, 2011). Belgrade, the capital of Serbia, was more developed than the rest of the country, attracting both new inhabitants and investments. Certain parts of Serbia fall behind in socio-economic development and are facing great difficulties. The most significant difficulties are: high unemployment, underdeveloped infrastructure, high level of grey economy, a small number of active business entities and their insufficient activities; low technological production and low level of use of the new technologies; low population density and depopulation; aging of the population; high share of the population living in social and economic poverty; low income level of local self-government units; dependence on government grants for basic public services; insufficient capacities of regional and local self-government units for planning and managing its own development.

Due to reduced ability of central authorities to recognize regional development problems, international donor organizations invest in deprived regions in order to mobilize and co-ordinate development resources and to create adequate entrepreneurial climate.

EU development programmes were created in line with the EU requirements because of the possibility to use the resources from the structural funds. They mainly target the EU accession process and funds on achieving competitive advantages. Pursuant to European Commission regulations, regional help is one of the three basic categories allocated to stimulate growth in undeveloped regions. (Stojanović, 2011).

The EU has supported numerous programs directed to local government developing units. The EXCHANGE program, funded by the EU, is one of grant programs that support them through European Agency for Reconstruction. Basic goal of this program is to contribute efforts from Serbia for a faster integration into Europe by strengthening capacities of local governments in line with the EU standards. The program provides an opportunity for local governments in Serbia to get acquainted with existing practice and innovations at local levels in the EU.

#### **5. Development assistance for sustainable growth of local economy and enterprises**

The economic structure of Serbian industry at the beginning of transition was two decades old (Jakopin and Bajec p.507). As a response to economy challenges after 2000, characterized by a large number of unregistered businesses, a lot of state-owned businesses operating with loss, inappropriate financial, legal and political framework for development of medium and small enterprises, international donors have developed series of similar programs for support in solving these issues. The aid was mostly two-fold: support for structural reforms and direct aid to businesses. One of the biggest challenges was putting Serbia on the investors' and creditors' map, so it was necessary to develop appropriate legal infrastructure for needs of a modern, market-oriented and open economy, in accord with businesses and legal systems of the EU member states. In the beginning, the donors'

## **Development assistance to Serbia as a means of achieving sustainable growth of enterprises and national economy**

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attention was focused on establishing legal framework, privatization and helping state-owned businesses restructure themselves through help from donors from the EU, Germany, Great Britain, USA and others.

At the same time, for the purposes of online administration, Business Registers Agency was established with the help from The World Bank, Swedish International Development Agency and USAID MEGA (Municipal economic growth activity project) which contributed to creating the environment that stimulates businesses and an efficient development of private businesses in Serbia. This enabled a faster and cheaper registering of businesses. Development partners also dealt with challenges in establishing efficient national infrastructure for exporting.

USAID also supported establishment of the National Alliance for Local Economic Development (NALED) that had a difficult task of following legal reforms as a measure of state intervention in preparing the EU accession process. In order to support capacities of Serbia in adjusting to the demands of the EU market, the EU supported structures for assessing Serbian conformity through further development of appropriate legal framework and institutions, protection of customers in Serbia, and application of EU legal framework in market supervision.

The EU aid within the IPA program (after 2007) has been allocated to providing assistance for priorities defined within European Partnership and speeding reforms directly related to preparations of Serbia for meeting obligations from Stabilization and Association Agreement. The major donors in this sector are EC, USA, Germany, Italy etc. Also, this sector received significant aid from international financial institutions: The World Bank and The European Investment Bank (Канцеларија за европске интеграције р.19.)

At the same time, through numerous development programs, support has been provided to small and medium enterprises in Serbia: in creating business plans, improving production through procurement and donating equipment, improving staff capacities for exporters, visiting international trade fairs, promoting quality of Serbian businesses through developing technical, design, packaging standards etc.(USAID programs: CRDA-E, SCOPES, PPES, Agribusines etc.)

Other bilateral donors have been active in this sector, especially Holland and USA. Through Competitiveness Project, USAID has identified sectors with biggest competitiveness potential in international markets and supported reform of policies, development of labor force and communications in these sectors. Holland implemented Program for cooperation with emerging markets, which stimulated investment in private sector and promoted long-term trade relationships between Serbian and Dutch medium and small enterprises.

The EU has provided support for implementing European Charter for Small and Medium Enterprises and for development of local and regional structures in supporting businesses and improving competitiveness of Serbian businesses through clusters, improving quality and diversification.

The problem of crediting economy, due to dysfunctional banking sector, has been addressed by the EU, in cooperation with other international financial institutions (EBRD,

EIB, KFW), through establishment of Fund for revolving loans and allocating them to financially and technically feasible investment projects of small and medium enterprises.

## **6. Problems of development assistance effectiveness**

Besides the aforementioned advantages, there are certain disadvantages of donor programs. The grant is a form of selective intervention used to promote an economic activity, through which certain businesses, sectors or regions are favored to others, thus threatening to disturb competition since it leads to unequal conditions between market players that receive or do not receive funding.

Another drawback is that a large portion of budget goes to fees – foreign experts, employees; then there are costs of renting, vehicles, offices etc. depending on size, country of origin and implementation policies of partners, these costs can even exceed 50% of a total budget.

Additional flaw is inflexibility of donor programs, i.e. in the years of economic recession, a huge number of donors did not have understanding for changed circumstances, and required implementation of certain activities that were not appropriate at the time. The biggest flaw is discordance of criteria at evaluation and presentation of end goals of a project. Very often, one can find reports with incredible results in sales increase, new jobs, market breakthroughs, which should be taken with a “pinch of salt”.

In addition, there is the issue of tracking organizations of civil society in order to facilitate their inclusion in decision-making on programming help from the EU and other development funds. Development programs are invariably more effective at addressing local needs and interventions are more often sustained given the engagement of local actors (Matus et al p.623).

One of the major obstacles for quick and efficient grant access is the lack of knowledge of employees in local and national institutions; it is essential to strengthen their capacities and to improve the staff skills. What is noticeable is shortage in staff qualified for project management. Very often, implementing partners hire people qualified for one specific area (finance managers, HR managers, civil engineers, philologists, agro-economists) who then, through practice, acquire know-how in project management and project cycle management. It is a pity that regular education does not include courses in project cycle management with emphasis on PRINCE II methodology (Projects in Controlled Environments), especially desirable for managing EU and UN projects.

## **7. Conclusion**

In the context of financial crisis, global slowdown of capital flows and deterioration of other economic indicators including unemployment, donations were used as a good source of financial and non-financial means to support economic growth. The objective of the donors during the last two decades was to assist Serbia in further development of a modern and democratic state through sustainable and inclusive development, on the path towards European integration. Sustainable and inclusive development comprising social, economic and environmental interests associated with



## **Development assistance to Serbia as a means of achieving sustainable growth of enterprises and national economy**

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health, education, housing and social welfare services, increased human capital, natural resource management, biodiversity, conservation and alternative energy, as well as employment and job creation. Donors placed greater emphasis on reduction of regional disparities through strengthening the local capacities and promotion of employment. All the development assistance created more attractive economic environment in Serbia which was a driving force for increased economic development. Donors were committed to facilitating Serbia's efforts to meet its international obligations as an EU candidate country and to making Serbia a secure regional partner in Southeast Europe by building peace, stability, cooperation and institutions by enhancing inter-ethnic cooperation, cross-cultural dialogue, and protection of natural heritage, crisis preparedness, prevention and response.

Change in territorial development trends in Serbia may be achieved mainly through more rapid implementation of donors programs and economic decentralization. Development approach through direct donations and investments is a precondition for development of deprived regions of Serbia. Such progress can be achieved through the process of investments in different fields and structures: economy, infrastructure, education, health system etc.

In order to improve competitiveness of Serbia, business capacities should also be strengthened through capacity building of employees. Managers should be able to stimulate the necessary activities in order to increase competitiveness, operational capacities for using pre-accession instruments and, later, instruments of the EU funds. Inclusion of local, regional and academic community in this process is crucial for rapid spending of donation funds.

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## **RAZVOJNA POMOĆ SRBIJI KAO SREDSTVO POSTIZANJA ODRŽIVOG RASTA PREDUZEĆA I NACIONALNE EKONOMIJE**

*Apstrakt: Rad analizira zvaničnu razvojnu pomoć namenjenu Srbiji. Cilj donatora tokom poslednje dve decenije bio je pomoć Srbiji u daljem razvoju moderne i demokratske države kroz održivi i inkluzivni razvoj na putu ka evropskim integracijama. Rad prezentuje razvojnu pomoć kao pozitivnu meru za postizanje održivog rasta preduzeća i nacionalne ekonomije. Razvojna pomoć se takođe posmatra kao mera za smanjenje regionalnih razvojnih razlika u Srbiji.*

*Ključne reči: razvojna pomoć, održivi rast, regionalni razvoj.*