



MOGUĆNOSTI I OGRANIČENJA LOKALNOG EKONOMSKOG RAZVOJA U SRBIJI

POSSIBILITIES AND LIMITATIONS OF LOCAL ECONOMIC DEVELOPMENT IN SERBIA

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Sažetak

Praksa u razvijenim zemljama je pokazala neophodnost za jačim uključivanjem lokalne samouprave u lokalne probleme ekonomskog razvoja. Ekonomski sistem u Srbiji ima odlike visoke stope nezaposlenosti i nizak životni standard stanovništva, i zato se uključivanje lokalne samouprave u većem obimu u lokalne probleme ekonomskog razvoja vidi kao realna mogućnost smanjivanja ovih problema. Iako većina instrumenata ekonomske politike leži u centralnoj nadležnosti vlade, što u velikoj meri ograničava mogućnosti lokalne samouprave, još uvek postoji značajan prostor za uticaj lokalne samouprave na ekonomski razvoj. Postoje brojne prepreke za uspešnu primenu koncepta lokalnog ekonomskog razvoja u Srbiji, što utiče na znatno manje korišćenje opštinskih i regionalnih potencijala nego što mogućnosti dozvoljavaju, i to se negativno odražava naročito na ruralne i nerazvijene oblasti.

Abstract

The practice in developed countries has shown a necessity for local government's stronger inclusion in local economic development issues. The economic system in Serbia has features of high unemployment rate and low living standard among the population, and therefore local government taking a larger part in local economic development issues is seen as a real possibility for reducing these problems. Although most of the economic policy instruments lie within the central government jurisdiction, which largely restricts local government possibilities, there is still an important area for local government influence on economic development. There are numerous obstacles for a successful application of the local economic development concept in Serbia, which causes the municipality and regional potentials to be used much less than the possibilities allow, and it has a negative reflection, especially in rural and undeveloped areas.

Ključne reči: Srbija, lokalni ekonomski razvoj, ekonomska politika, strategija razvoja

Keywords: Serbia, local economic development, economic policy, development strategy

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1. Introduction

Local economic development (LED) is most often considered as local economy growth capacity to create wealth for its population, improve the quality of life through the increase of employment, real earnings, personal property value, scope and quality of local government services, etc. The key contribution to local economic development comes from the creation policy of optimal infrastructure and regulatory environment in economic development, with the possibility of selective attraction of certain economic branches and activities, often through public-private partnerships. These tendencies are the result of the change in the structure of the world economy where industry loses its previous role in favour of service and high technology sectors. Local governments want to improve the quality of life for the whole local community, and strives for the planned, sustainable development which takes into account both social and ecological factors. The task of LED should be the creation of the acceptable workplaces and life quality improvement for the whole population, the poor and marginalised groups included.

In Serbia, there is a specially important question of local and central government relations concerning economic development issues. Most of the instruments of the economic policy are in central government jurisdiction, and some of them are economic regulation, monetary policy, tax and customs policies, borrowing abroad policy, education and health policies, etc. The government substantially influences the position of the complete economy with these measures, which greatly limits the local government possibilities. Also, the influence of state and local authorities on economic trends is increasingly reduced by the strong influence of globalization and market economy system. Despite the above mentioned, there is still an important area for local government influence on the economic development. Primarily, local governments possess important instruments for local development encouragement, for example in urban planning area, building land management, infrastructure quality, local fees and taxes, etc.

The objective of this paper is to point out the need for stronger local government engagement in local economic development issues, possibilities and elements influencing and encouraging this process, obstacles in the way of successful application of this concept in the economic environment in Serbia, which primarily shows a high unemployment rate and low standard of living among the population.

2. The concept of local economic development

Local government is an important segment in the state when it comes to supporting the economy. The citizens expect the state authorities to use all capacities for reducing unemployment and life standard improvement, but they also expect the same from the local government. The treatment of the economic development as the priority for local governments is a characteristic in the most developed countries. Thus, for example, according to Furdell [1], the most important objective within local economic development is the increase in the number of employed people in the local government territory whereby comparative advantages such as location, workforce quality, ethnic composition, existing economic potentials, infrastructure connection and other should be maximally used. (Blakely and Bradshaw[2] consider that local development and an increase in employment will be more successful if initiated at local level.

The World bank determines the local economic development as a group of activities with the aim of building the local community capacities to improve its economic future as well as the quality of life for all [3]. Our situation is quite different because of the high debt to the World Bank. According to the National bank of Serbia data, at the end of the first quarter of 2015, the banking sector in Serbia has expressed long open foreign exchange position in the amount of 14.1 billion dinars, while the foreign exchange risk at the level of 4.21%. Banks in Serbia do business with net long positions in euros (10.41 billion) have a net short position. The ten largest banks in Serbia by net balance sheet assets category, accounted for 76.2% of the total net assets of the banking sector

in 2015, with 75.5% and 78.0% in terms of total loans and total deposits of the banking sector. Banks criteria in terms of willingness to take risks are extremely high and the lack of quality demand is the main limiting factor for credit growth (especially in the economic sector).

In a similar way, [4] focus on the activities conducted in a certain region with the aim of achieving sustainable socioeconomic development. Bartik [5] defines the local economic development as an increase in local economy capacities for the welfare of the local population. According to Coulson [6] local economic development includes every intervention with the objective of strengthening local and regional cooperation, while for Čapkova [7] local economic development is a wide strategy through which the local actors and institutions try to use the local resources in the best way, with the purpose of keeping the existing and opening new workplaces, as well as increasing the range of activities. Numerous authors, in their papers, have significantly impacted on the encouragement of individuals and organizations which brought entrepreneurial and innovative spirit into the management in public sector [8].

Blakely and Bradshaw [2] put accent onto the management of local resources and partnership with private sector in order to increase the participation of private investments in public jobs' projects. These understandings of local economic development point out that it is one continuous process which requires cooperation of local subjects in order to increase its efficiency and successfulness. Central authorities also actively encourage local economic development [9] because they are aware that local authorities have better information and are familiar with local opportunities, so their development initiatives will be more successful.

Local economic development can be defined as an increase of local economy capacities to create wealth for its citizens, and thus improve their life quality through an increase of employment, real income, personal property value, scope and quality of services of local authorities and similar. Such a development is happening when unemployed local resources, such as workforce and land, start to be used or when already employed resources start to be used in a more productive way, in new sectors with new technologies. Žikić, Mak [10] Local economic development should take care of all elements which should lead to a sustainable development which does not endanger environment and enables participation of all social classes in its implementation.

In the narrow sense, local economic development is understood as the process of strategic planning through the cooperation between local authorities, private sector and non-governmental sector, directed towards investment encouragement which will provide a high and long-term economic growth of the local community. Each strategy of the local economic development is focused on the comparative advantages of the local community, existing or potential markets and weaknesses or obstacles within the local community. It should not influence only certain sectors of the local economy, but also the complete economy in the community and the neighbouring area.

There are two main strategies of encouraging the local development [11]:

The first one, the attraction of the „foreign“ companies to invest in the local community in question, through the encouragement of the local authorities awarded to certain companies, such as cheap land, tax reliefs, etc.;

The second one, the encouragement of the local groups in business development by the local authorities, thus accelerating the economic development of the community; this is often a one-off support because local business continues expansion on its own later.

The World Bank divides the history of the LED into three waves which are not strictly separated in time or space:

The first wave lasted from the 1960s to the beginning of the 1980s, with the focus on production capacity attraction, especially foreign direct investments and the basic infrastructure investments;

The second wave included the 1980s, until the mid-1990s, with the focus on keeping and attracting the existing companies, and selective politics of investment attraction, with the accent on certain branches of the economy;

The third wave from the end of the 1990s until present day, with the following characteristics: investment in high technology infrastructure, public-private partnerships, mobilisation of the private sector in public projects, selective approach to investment attraction according to the LED strategy [12].

Modern approach to LED does not imply the tendency towards uncontrolled local community economic growth. On the contrary, local authorities that want to improve the quality of life of the whole local community show a tendency for a planned and sustainable development, whereby their efforts to achieve a self-sustainable community take into account both social and ecological factors. LED's assignment should be the creation of acceptable workplaces, and life quality improvement for all citizens, the poor and marginalised groups included. In contrast to that, LED planning and implementation take into account both the condition and the protection of the environment [13].

3. Methodology and hypotheses

The research for the needs of this paper was conducted in the period between March and June 2018. Employees in local economic development offices, managers in the private sector and managers in the public sector have been included in this research. The answers of 74 respondents from 22 local governments in Serbia have been processed.

This paper uses the following methods: dialectic, inductive, deductive, historical, analysis and synthesis method, statistical and comparative methods. The data acquired from the questionnaire in the form of directed interview have been analysed with the help of a chi-squared test (χ^2). Where (x_1, x_2, x_3) is the representative of the class $[x]$. If in formulas $\phi_1([x_1, x_2, x_3])$ we replace argument x with an argument tx , then they do not change, which means that mappings of ϕ_i are properly defined [14]. Chi-squared test is used in processing two-dimensional contingency tables. In the contingency table analysis, Pearson contingency coefficient (C) has been used.

The following working hypotheses were set up for the needs of this research:

H1: Greater participation of the local government in the economic policy creation and implementation at regional and municipal levels leads to more efficient economic development of the country;

H2: Local economic development shows better results if based on the comparative advantages of the local government.

4. Business environment and LED possibilities in Serbia

Based on the developed countries in the world, local authorities in Serbia are also more included in the programmes of economic development. Those in power in the local authorities come to understand that this is one of their basic services, and on the other hand, the population expects the improvement of the complete economic situation, especially unemployment decrease. Also, the increase in local income is an important incentive because it provides a more successful budget policy and the satisfaction of the local needs.

For successful local economic development the partnership of local authorities, private commercial sector and non-governmental sector is often necessary for investment incentive that will provide a high and long-term economic growth in the local community. A successful strategy of local economic development should be based on the comparative advantages of the local community, the existing and potential markets considering the weaknesses and obstacles in the way of success. The incentive strategies of local development are most often based on foreign and local investor attraction through incentive measures (tax relief, regulated land, etc.), that is by more favourable investment climate creation.

The specific measures for competition strengthening in local communities are helpful in starting new companies, support for the existing Small and medium-sized enterprises and certain economic sectors of interest to the local development. The investments coming out of the local limits should be attracted through a favourable investment climate so as to develop both heavy and light infrastructure leading to the faster development in certain areas of local government, employment of the young and vulnerable categories of population, and stop the migrations to the big city centres and abroad from many local governments.

The question of local and central authority relations concerning the issues of economic development is especially important in Serbia. Most of the instruments of economic policy are under the jurisdiction of central authorities, such as economic regulation, monetary policy, tax and customs policy, policy of borrowing abroad, educational and health policies, etc. The state influences the position of the complete economy with these measures, which largely limits the opportunities for local governments. Also, the influence of local and state authorities on economic trends is being reduced under the strong influence of globalisation and market economic system. Despite this, there is still a significant space for local government influence on economic development. First of all, local governments are in possession of important instruments for local development encouragement, in the area of urban planning, building land management, infrastructure quality, local taxes and fees, etc.

In the transitional period in Serbia regional and local economies encountered rising challenges. The globalisation process changes the economic status quo fast, and brings new possibilities as well as larger risks. Successful local governments adjusting to the new circumstances achieve positive effects for their companies and citizens, others lag and lose previously acquired positions. Therefore, both local authorities and companies located there should constantly review their development strategies in order to deal with the new chances and dangers in a successful way.

According to economic development, Serbia is at 35% of the European average (according to GDP/ purchasing power of population); the most developed is Belgrade region at 60%, and the least developed the region of South and East Serbia, which is the least developed region in the EU (22%). From the information in Table 1, we can see that the complete area of south-eastern Europe is below EU average, but have different inter-regional disparities – in Serbia they range from 2,9:1. The largest economic regional differences are in Romania (3,8:1). (The Ministry of Economy, 2014).

Table 1: GDP per capita, EU = 100

Country	National level	The richest region (1)	The poorest region (2)	Ratio (1 : 2)
Bulgaria	45	75	27	2,8
The Czech Republic	80	175	66	2,7
Hungary	66	109	40	2,7
Poland	65	97	41	2,4
Romania	49	111	29	3,8
Slovenia	84	105	72	1,5
Croatia	61	78	44	1,8
Serbia	35	60	22	2,7

The source: [15]

Successful local development strategy implementation can work if there is one or more local leaders at the local community level who are reform-oriented, prepared and determined to do business with the private sector and others on development strategy formulation and implementation. The appropriate ability of the local administration is also necessary, as well as the institutional structure based on the combination of private and public activity. Also, a development strategy is not possible to either formulate or implement successfully without a cooperative local business elite.

The key prerequisite for the best strategy and the local economic development programme choice is the knowledge of the local economy and complete local community features. The evaluation and analysis of the local economy should start from the business environment, that is, the improvement of administrative procedures concerning business. There is a great deal of legislative and executive procedures in Serbia that are decided on the state level, where the appropriate activities of the local government have no influence. What local governments should do at that level are joint suggestions and initiatives in order to change the solutions that prove to be the limiting factors for local economic development in practice. Relevant information gathered from the entrepreneurs as the main actors of the local economic development is of paramount importance when it comes to this question.

All the information gathered represent a basis for local economic evaluation that can be conducted by the external consultants, but the key role should be given to all relevant actors of local economic development. There are various means of analysis, but one of the most efficient is so called SWOT analysis, that is the analysis of strength, weaknesses, opportunities and threats, with the definition of the factors that can or cannot be influenced on by the local governments. The strategy of local economic development should be based on the resources that could be available for its implementation, as well as to respect the role of the local government in both regional and national contexts.

Furthermore, the strategy of local economic development should be consistent with the other plans of the local community, but also easy to understand to the population. LED strategy connection with the other plans of the local community has its good points: it avoids doing the same business twice, uses limited resources in a rational way and increases the effect of the local programmes. At the same time, it enables the establishment of the global strategic priorities and solves important dilemmas that exist at the level of the local community [10].

The strategic plan of the municipality is the planned document containing a certain number of strategic objectives. It directs the activities in the development of the municipality in the term stated (usually 3-5 years), and determines the direction, priorities, actions and responsibilities for implementation [16]. A good strategy should be based on the understanding of the actual situation in the municipality and its needs for development, it should be clearly defined, feasible and realistic. An important element of a good strategy is to be based on the partnership that includes personnel and organisations outside the municipality as well, to be understandable for a wider public, and to be flexible-that is includes the changes necessary in the meantime.

However, strategic planning is at its essence a choice among a few possible options, according to the resources available and the adopted vision of the development [17]. There is no municipality with sufficient resources to treat all the above mentioned options as priorities. As the opposite of this type of practice in Serbia, the strategies of local economic development are defined more specifically, and therefore in a more realistic way in the developed countries.

There is a trend in the whole world that the local communities are the basis of the economic development. This tendency is beyond doubt in Serbia as well, but LED concept cannot be implemented successfully due to the slow process of decentralisation. The ideas about the development that exist locally are difficult to develop and put into action because of insufficiently clear jurisdictions and responsibilities between the local and the higher level. All these facts cause the potential of municipalities and regions to be used much less than the possibilities allow. This is why rural areas still remain undeveloped, with a higher level of lagging behind the developed local governments.

The most important fundamental dominants of the local economic development are location and natural resources, education and demography, business environment, physical infrastructure, the management of the local community and socio-cultural condition (state of mind, entrepreneurship, etc.).

In the transitional period the regional companies have disappeared, and they were the holders of the local development and employment, with the result of leaving the undeveloped regions for regional centres, and therefore making it more difficult to implement the future development policy in the local environment [18].

Natural resources can improve the local economy substantially, but also lead the whole community into an unfavourable situation when it relies on one branch of the economy (Bor, Majdanpek, etc.). Most of the municipalities in Serbia that have achieved good results in terms of local economic development can not boast with rich natural resources. On the other hand, it should be mentioned that many of the municipalities have not had the appropriate economic advantages of the natural resources available or the companies using them (mines, hydropower stations, etc.).

It is especially important to strengthen the relations between scientific- research centres and the economy – each region should have a scientific- research centre to support the business that represents the largest development potential of the region. The effects of the technical and technological progress do not spread evenly in the whole territory of Serbia [19]. As a rule, the innovations arise and are applied in the developed, urban regions as well as industrial centres, and only later spread to the other areas. This situation is identical with the one of highly educated personnel division in our country. The highest concentration of personnel with high education is in university centres – Belgrade, Novi Sad, Nis, Kragujevac. Furthermore, workforce mobility among the regions and professions is worryingly low because of one-way migration from the peripheries towards big city centres [20]. It further implies less opportunities of local and regional knowledge application with the aim of solving specific economic problems in the periphery and undeveloped areas.

Many other local and republic institutions and companies deal with tasks important for the local economic development in Serbia: ministries, directorates, development agencies, Chamber of Commerce of Serbia and regional chambers of commerce, standing conference of towns and municipalities (SCTM), and others. The research shows that there are institutions performing the same business activities among the above mentioned because they are not specified or with a clear system of responsibilities. The cooperation is often based on the individual principles because there is no system of communication channels or division of work. Due to the lack of personnel, a part of local governments have no opportunities for independent project preparation, especially the ones financed from the EU funds, so they mainly use the outsourcing services.

The above mentioned circumstances caused Serbia to be in the 43rd place in the world (Table 2) according to the ease of doing business, although some of the indicators give it a much better ranking, such as minor investor protection, contract fulfilment, tax payment, etc.

Table 2: The comparative review of the ranking of Serbia and the countries in the region, according to the basic indicators of the ease of doing business among 183 countries included in the World Bank analysis

Economy	Ease of Doing Business Rank	Starting a Business	Registering Property	Getting Credit	Protecting Minority Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts
Macedonia, FYR	11	22	48	12	4	29	27	35
Romania	45	64	45	20	57	42	1	17
Bulgaria	50	95	67	42	24	90	21	40
Croatia	51	87	59	77	29	95	1	23
Montenegro	42	60	76	12	51	70	44	42
Serbia	43	32	57	55	76	82	23	60
Bosnia and Herzegovina	86	175	97	55	62	137	37	71
Albania	65	45	103	42	20	125	24	120

The source: [21]

5. Discussion and research results

There is a question about the optimal role of the local government in the area of the economy and what influence can local government have taken into account the limitations in front of it? Also, what are the conditions to be met in order to provide the local government the achievement of optimal results in the encouragement of the local development? It is undeniable that the economic development is impossible without acknowledging the other elements of the social development, and some of those are workforce quality, political stability, infrastructure accessibility and quality, the quality of life, simplicity of administrative procedures, etc. The question of market or plan, private initiative or budget incentives are the dilemmas that the creators of the economic policy face both at the republic and local level.

Our research shows that the respondents gave advantage to the entrepreneurial initiative of the local government over the rest of the factors influencing local economic development (Table 3). This way of thinking is encouraging taking into account the economic and social environment that Serbia is in at the moment. Due to the cumbersome administration and excessive number of employees in the public sector, it is necessary to consider entrepreneurial initiatives, self-employment and other types of development based on the personal initiative of the unemployed, especially the young. In addition to that, the year of 2016 has been declared the year of entrepreneurship in Serbia, which means that entrepreneurship development is the priority objective for the competent ministries. The research results also show that the factor of the municipality location has a large influence on the economic development, and in Serbia it has an important influence when big regional differences are taken into account. The respondents also gave advantage to workforce factors, reform implementation, adaptability to environment demands in relation to tax incentives, inherited economic situation, etc.

Table 3: The most important factors influencing local economic development

	Number of answers
Local government location	41
Inherited economic situation	13
Natural resource accessibility	22
Qualified workforce availability	25
Local government entrepreneurial initiative	44
Willingness for reform implementation	19
Adaptability to environment demands	24
Tax and other incentives	17
The size of the local market	8

The source: author's research

The respondents evaluated local government entrepreneurial initiative positively, as well as the attitudes towards the importance of local economic development. The basic problem in development project realisation is the finances, the problem most local governments encounter. The problem is especially clear in undeveloped municipalities with large migrations towards Belgrade, Novi Sad and the regional centres. The transfers from the budget of the republic are insufficient because they are allocated according to the population number, class numbers, number of children, etc., which are not appropriate criteria in the conditions of large migrations. On the other hand, if people are the most important resource of every municipality, then long-term damage is caused to the undeveloped because there is no choice of good quality personnel, and people with university education do not want to return to the undeveloped municipalities. Then, unfortunately, the key places are given to insufficiently skilled people chosen by political affiliations.

Table 4: The respondents' attitudes on the success of the development programmes started at the local level

	Yes (%)	No (%)
Local government leadership understands the importance of LED process	74.33	25.67
Entrepreneurial initiative of the local government is satisfying	64.32	35.68

Municipality develops public-private partnership with the aim of LED strengthening	58.10	41.91
Suggestions for development projects come from the employed in LED business	67.28	32.72
The success of the development programmes is larger if started at the local level	71.53	28.47

The source: author's research

Our research show that most of the suggestions for development programmes come from the people employed in the local economic development business or private and public sector at the local level, and much less from the level of the republic. Also, statistical processing based of the respondents' answers determined that the success of the programme is larger if started at the local level in relation to the level of the republic, which is the opinion of 71.53 % of the respondents ($\chi^2 = 46,914$, $N = 70$, $df = 3$, $p \leq 0,01$). Local leadership understands the importance of the local economic development, which results in the support and encouragement of the entrepreneurial initiatives started at the local level ($\chi^2 = 15,844$, $N = 70$, $df = 6$, $p \leq 0,01$). The respondents gave positive answers to the question whether a local economic development policy is based on the examination of the economy and population attitude, as well as the approach of the local governments on the issues of public-private partnerships as very important means of the local development. The research results based on the respondents' answers confirmed our first hypothesis that the larger role of the local government in the economic policy creation and implementation in both regional and municipal levels leads to the more efficient economic development of the country.

Development programmes started at the local level can be considered successful if they contribute to the local workforce employment and life standard increase, with productivity increase and production (service) cost reduction, import substitution and other economic and social effects on the local government. The research shows that local economic development programmes are more successful if they include the population and local business sector, if based on the strategic development plans, as well as if the programme realisation is followed and if necessary corrections taken in the process of its realisation.

The successful realisation of the local authority interest is contributed by the activities of influencing the authorities that formulate and implement the laws, and manage the system of the state with the aim of realisation of the common interests of the local authorities. This influence is carried out through the cooperation with the institutions and partners of the republic and provinces. Close cooperation, mutual understanding and respect, as well as partnership are the important principles that local governments should promote in the realisation of these activities. One of the factors of success is certainly proactive operations of the local government in relation to the business environment. A local government that recognises a partner in the local community has a much better chance at being successful than the one that leaves everything to chance, believing that the key things are resolved at a higher level, province or republic level.

Table 5: Respondents' attitudes about comparative advantage importance and local economic development sustainability

	Yes (%)	No (%)
Local resources are used insufficiently	76.12	23.88
LED plans are based on the comparative advantages of the Municipality	64.33	35.67
LED plans determine certain priority branches of development	61.65	38.35
LED is sustainable in the long run	57.72	42.28
LED will increase employment and life standard in the future	56.61	43.39

The source: author's research

According to the respondents' answers, local economic development plans are based on the comparative advantages of local governments, which provides security that local development will be sustainable in the long run ($\chi^2 = 15,844$, $N = 70$, $df = 6$, $p \leq 0,01$), and lead to employment and standard increase, as the two priority objectives for every local government. Also, local development plans define the priority economic branches, and that cause faster and safer realisation of the above mentioned objectives ($\chi^2 = 20,912$, $N = 58$, $df = 6$, $p \leq 0,01$).

On the other hand, there are local governments with very little used local resources (spas and other types of tourism, agriculture, etc.), as well as those with small share of natural resources left for the needs of local development (hydropower plants, forest and mineral resources, etc.). Likewise, some local governments have crossed a difficult path from the inherited economic structure without further perspective to the development of those branches dictated by the modern economic environment. The undeveloped municipalities encounter a number of obstacles on the way, from the underdeveloped infrastructure to highly qualified personnel „brain drain” in favour of big centres. On the basis of the processing of the research, we confirmed the hypothesis about local economic development better result achievement if based on the comparative advantages of local self-government.

6. Recommendations and conclusions

Neoliberal economic policy on a global level has exposed all countries, as well as local communities, to a competition of powerful international companies from all over the world and many national economies do not have an adequate answer to such circumstances. In that situation, there is a real need for a more significant role of regional and local authorities in solving its development problems and projects. Additional reason for local self-governments in Serbia is the fact that many of them, due to bad results of privatization in transitional period, have very weak economy structure, a huge number of unemployed and a low living standard of its citizens.

The concept of local economic development in Serbia did not get its legal frame and wasn't put under the jurisdiction of cities and municipalities up until 2007 through a Law on local self-government. By that, local self-governments got a possibility to independently create a policy of local economic development in accordance with its opportunities and priorities. The first jobs that municipalities had were attracting of foreign direct investments and encouragement of local economic subjects and individuals to develop businesses of importance for local community development.

The factors from which the concept of local economic development success depends on are: location, developed private sector, proactive and entrepreneurial public sector, natural resources, inherited economy state from pre-transitional period, democratic political culture of municipality's citizens, political affiliation of local self-government authorities and human resources. Vertical coordination between different authority levels and harmonization of public policies are also important for successful planning and implementation of local economic development. The most important elements of local economic development process include public-private partnership, strategic planning of local economic development, local self-government finances' management, creation of local institutional framework, inter-municipal cooperation, territorial marketing.

Success of local economic development depends on the usage of instruments which one local self-government has at its disposal in the implementation of this concept. The questions of defining local development priorities, cooperation between public, private and non-government sectors on promoting local development possibilities, improvement of local administration's work, support to economic subjects, environment protection and similar, are just a few of many tasks and jurisdictions of local communities.

Local authorities together with state institutions have to strengthen the concept of local economic development and, thereby, enable businesses and non-government sector to systemically include

themselves into the questions of development of their surroundings. Local authorities create favourable ambient for economy development and constantly reconsiders citizens' needs and local community's as a whole, which means that municipalities have to become a leader in encouragement of local economic development.

The concept of local economic development implies that local authorities have established a new, partner quality of relationship with central authorities which leads to improvement of scope, efficiency and quality of its services. Also, a relation of healthy competition between local self-governments is developed in order to attract capital and other development resources. Local authorities which adapted, in a better way, to new conditions thanks to work professionalization and modernization of development management, are becoming more competitive and provide various higher-standard services to its citizens.

On the basis of research in this paper, it can unequivocally be conducted that local economic development has its significant role on, both, individual local communities' level and when it is viewed from the national level. This process received a wide application in local self-government in Serbia, without taking into consideration regions' and municipalities' development. Certainly, municipalities which had a better starting position have far better results compared to poor municipalities which have unfavourable location, are distant from road infrastructure or don't have significant natural or other development resources.

Most local self-governments in Serbia have weakly developed local infrastructure which is a big limiting factor to attracting capital and other development factors. As local revenues are not sufficient to solve these basic infrastructure problems, municipalities are forced to finance themselves through borrowing on money and capital market, often under unfavourable conditions. Besides that, a large number of poor municipalities has a small credit potential which is negatively reflected on their development. Mechanisms of local projects' financing through issuing of municipality bonds are in its infancy and are used by only a small number of local self-governments. This way of financing in perspective can be a good alternative source of finance of local development programs, especially in combination with other financing models (public-private partnership and others).

The next big problem which is noticed in the research is unfavourable personnel structure and demographic movements which negatively affect economic development of a large number of poor municipalities. These municipalities are facing a lack of quality personnel structure which would be dealing with these questions due to the fact that young, educated people are moving to bigger city centres or abroad. Municipalities do not have possibilities to keep quality personnel due to their capability to earn more in the private sector, as well as due to a change of political structure on central level of authorities which, as a rule, leads to a change of personnel which is dealing with the questions of local development. Through that, local development policy's continuity is lost, because new political set puts aside old projects and replaces them with new development programs.

Local self-governments, to a large degree, suffer from consequences of unfavourable economic ambient and wrong economic policy on national level, on which they can't influence significantly. Because of that, they have to act proactively and focus all of its energy on solving questions regarding local economic development, by improving cooperation with business and non-government sectors, by creating preconditions for public-private partnerships and other forms of mutual cooperation on realization of development projects. Also, positive effects and possibilities of cross border cooperation should be maximally used through programs of local economic development, especially having in mind similar level of development and compatibility of Serbia's economy with countries of ex-Yugoslavia, as well as wider region.

The development of entrepreneurship and small and medium enterprises is a real development potential of our economy, especially having in mind bad economic-financial state and perspective of big enterprises in Serbia, many of which are in the process of restructuring, bankruptcy or liquidation. In order to achieve that goal, local self-government can, in frames of its jurisdiction,

play an important role in development of this sector, both on financial and education plan, as well as other forms of non-financial support. Because of that, local tax policy, the height of fees and indemnities, as well as local incentives and reliefs must adapt to that goal. On that way municipalities will get sustainable local economic development based on local capacities which will be developing in the long term, without an ambition to move often, as it is done by foreign investors.

The research showed that there is an insufficient level of cooperation in the area of development between municipalities in Serbia, as well as between municipalities and regions to which they belong. Certain elements of business infrastructure, business incubators, free zones, clusters and others were, most often, developing completely independently from one another, and oftentimes in a disharmony with local economic priorities and strategies of development. Institutions that are in charge of development questions have national, regional and local foretoken, and oftentimes, in practice, there is a mutual overlap of jurisdictions and tasks that they do, so in that case it is necessary to precisely delimit their tasks and goals.

The policy of balanced development is exceptionally important for Serbia in the coming period, because this question was neglected for decades, hence there are huge differences in development among certain regions and municipalities. Correct regional policy is in interest of all authorities, from central, through regional to local. Also, inter-municipal cooperation in Serbia is at a low level of development although some joint projects of interest for two or more municipalities could be realized by it. Reasons for that have political and economic background, although there are different models of inter-municipal cooperation, starting from technical support, exchange of experience, institutional support and others, which can lead to realization of economic, cultural and other common interests for all participants in cooperating projects.

The research showed that there are big possibilities for improvement of regulation which deals with questions of development and its adaption to a modern business surroundings. Better and clearer regulation leads to a reduction of administrative procedures which are still a big problem in many areas of significance for local economic development. In relation with that there is also improvement of speed and quality of work of people employed on local economic development tasks in municipalities and an increase of capacity of local self-governments in attracting capital for realization of development projects on its territory.

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