Abstract

Serbia made the first step in constituting a framework for sustainable local development in order to increase the (national) territorial cohesion by adopting the National strategy for sustainable development, Spatial Plan of Republic of Serbia 2010-2020, a number of territorial and sectoral strategies, including the obligation to make the Local spatial plans by the end of 2013. However nothing has been done regarding the implementation plan or on innovation in accordance with the causes and consequences of the spillover of first and second wave of the global financial and economic crisis. A key orientation in this paper is that the problem of constituting a framework for sustainable strategy of local development should be done on the basis of coordination and integration of key sectoral and territorial policies, plans and strategies in line with the creative analysis of the goals and achievements of local development in the EU Member States. The main finding is that the framework for a strategy for sustainable local development needs to establish a clear, precise and transparent relationship between the spatial, urbanistic and environmental local policies, plans and strategies in relation to sectoral plans and strategies, in particular, the strategy of national re-industrialization and transition to the regime of sustainable macroeconomic development. In this context, it is necessary to: (1) Enter the territorial dimension in general sectoral and planning basis, (2) Introduce the clearly defined procedures for coordination in the process of integration of general plans and strategies with local spatial, urbanistic and environmental policies, plans and strategies, and (3) Establish and coordinate the sets of key indicators and criteria for monitoring the implementation of plans and strategies on sustainable development of functional urban areas, municipalities and rural areas.

Keywords: Serbia, Territorial cohesion, Sustainable local development, Planning and institutional framework, Coordination and integration.

Introduction

In this paper, the role of local governments in economic and infrastructural development of Serbia is discussed in the context of creating in-site conditions for balanced territorial development. In the terminology of the European Union, the acronym
terrestrial cohesion is used for its marking. In *Third report on economic and social cohesion, A new partnership for cohesion convergence competitiveness cooperation* (2004 : 27) the *territorial cohesion* as the third goal of development of European integrations, which was accepted in the *Constitution of the European Union* (2010), was introduced. The term has no single meaning, but it can be determined as a synthesis of seven phenomena: (1) **Socio-economic or regional convergence** (where more in the forefront comes the problem of convergence at the level of NUTS 3 region, whose role in Serbia is not defined, nor is in the focus of political and professional public), (2) **Improving the economic competitiveness**, (3) **Intensification of polycentric urban development**, (4) **Coordination of policies at different levels of territorial and sectoral organization**, (5) **Activation of rural resources**, (6) **Support to the creation of general added value within the EU Cohesion Policy** and (7) **Territorial dimension for development sustainability** (primarily, improving the spatial planning in accordance with the concept of sustainable economic, social, cultural and environmental development). The implementation is associated with: (8) **The concept of polycentric development**, (9) **Improvement of conditions for endogenous growth** (greater activation and use of in-site factors of development and production in relation to external), and (10) **Improvement of conditions for developmental convergence**. In this context, three main dimensions of territorial cohesion can be determined: (11) **the quality of the territory** (in terms of high values of all indicators of standards of living in its broadest sense), (12) **The effectiveness of the territory** (as the synthesis of the efficiency of use of in-site natural resources, competition of in-site economic structure, attractiveness of the territory for life and work, especially in terms of conditions for attracting the external capital and labour with internationally competitive knowledge and skills, transport and telecommunication connections within specific geographical areas, as well as the immediate and distant environment) and (13) **Recognition of identity (image) of the territory** (as the synthesis of the availability of social capital, entrepreneurial abilities, knowledge, and skills of in-site population, cultural values, climatic and geographical characteristics, etc.). Two things should be noted. The presented concept is the ideal-standard model of (territorial) development management, which is in many ways conflicted with the real model of European Union functioning and its attempts for structural adjustment to the challenges: (1) Globalization, (2) Transition of (global) production system, (3) Current technological and cultural development, and (4) Hyper-competition. The second is that this concept operationalizes very difficult and partially, and only within a small number of the most developed member states. This indicates that the problem of increasing the efficiency of local economic and infrastructural development in Serbia, after all, as in all other countries in the area of South-Eastern Europe (including the Member States of the European Union in this area), is very difficult and challenging, and can be realized only in evolutionary process of transition of the development management system, where these listed elements with appropriate indicators are the set of criteria for evaluation of reforms and policies results to overcome the long-term and chronic developmental crisis and more efficient use of opportunities that opens up the process of European integrations.
Serbia adopted the National strategies of development (Study 2002, 2006, 2010, 2011), National strategy for sustainable development (Study 2008), Spatial Plan of Republic of Serbia 2010-2020 (Zakon 2010) and a number of territorial and sectoral strategies, including the obligation to make the Local spatial plans by the end of 2013, and so made an initial step towards the constitution of institutional component framework for sustainable local development in order to increase the (national) territorial cohesion according to the above-mentioned concept. But, it appears that nothing has been done regarding the implementation plan or on their innovation according to the causes and consequences of the spillover of first and second wave of the global financial and economic crisis. The presented matter is based on three hypotheses.

The first is that for Serbia as a small and undeveloped country, affected by radical de-industrialization, the key socio-economic problem is overcoming the developmental entropy in the (former) poles of (balanced) territorial development: industrial districts (which in the European statistical territorial classification, generally coincide with the NUTS-3 regions, for which in the national terminology is used the acronym governing (administrative) district or in the economic sense sub-region) and local industrial centres (which in the European statistical territorial classification overlap with LAU-1 and LAU-2 territorial units, for which in the national terminology is used the term local (city) government) (Adžić 2012 : 180). In reviewing it should be taken into consideration the fact that globalization and de-industrialization, as a first stage and re-industrialization as the second stage of the formation of a new global production system, reduce their role in territorial development of modern market economies. Without going into a broader elaboration, the predominant form of (territorial) structure of production-organizational system in modern market economies are clusters in the form of so-called spatial innovation systems because they allow, by networking and self-organization, more efficient organization of business activities in a globalized economic space (Collection of Works 2008, 2009, 2011). The withdrawals from traditional industries and jobs led to the reduction in the number and size of industrial districts and local industrial centres in all modern market economies. Severe socio-economic consequences (chronic sub-regional and local depression associated with high unemployment and demographic regression, even in areas of high and propulsive agglomerations of economy and population), set up to the territorial, especially local politics a task – by the revitalization of their developmental functions, enable the revitalization of the goals in the domain of: (1) Overcome the problem of high unemployment, (2) Increase the comfort of infrastructure for private investment in new industries and jobs, and in the case of the European Union also (3) Implementation of concept of sustainable economic, social and environmental development, and (4) Creating conditions for internal and external inter-regional and cross-border cooperation. The initial idea was to connect the clustering and problem of industrial districts revitalization, that is, their observation as an element of modern industry structure, which has two faces, one that allows business on the global market, and the second improvement of living and working
conditions in a limited geographical area. In the operational level, the public regulation got a task to encourage the establishment of one or two (sub-regional) clusters in the domain of medium and high technologies industries, with the expectation that in this way will start the development of industrial districts from a standstill, and in the next step, by the spillover of effects of production cooperation, human resources, technologies and capital, and associated local industrial centres. However, practice has shown that it is not easy and that the time dimension of expression of developmental effects is longer than expected.

The second and basic hypothesis is that the problem of constituting a framework for sustainable local development strategy should be carried out on the basis of coordination and integration of key sectoral and spatial plans and strategies in accordance with the creative analysis of goals and achievements of local development in the Member States of the European Union, especially those which accepted the concept of New Public Management (NPM) and higher direct participation of citizens in creating and implementation of local strategies and policies and their subsequent modification.

The third hypothesis is the basic task of the framework for a sustainable strategy of local economic and infrastructural development – to establish a clear, precise and transparent relationship between the spatial, urbanistic and environmental local plans and strategies in relation to sectoral plans and strategies, especially the strategy of national re-industrialization and transition to a sustainable macroeconomic development regime (according to the model: Saving = Investment). To establish a coordinated and integrated strategies of local sustainable development, it is necessary to: (1) Enter the territorial dimension in general and sectoral planning basis, (2) Introduce clearly defined procedures of coordination in the process of integration of general plans and strategies with local spatial, urbanistic and environmental strategies, and (3) Establish and coordinate the sets of key indicators and criteria for monitoring the implementation of plans and strategies on sustainable development of functioning cities, municipalities and urban and rural areas.

In this context, the processed matter is, in addition to an introduction and a conclusion, divided into four parts. The focus of the first part is on results of a research of restructuring the territorial component of the inherited production-organizational structure of the national industry in the period of (post)socialist transition. The analysis ends with the overview of reason: Why the current concept of territorial policy has not been successful in the revitalization of its developmental functions? In the second part the focus is on the problems of determining the methodological basis for the improvement of public regulation of local economic and infrastructural development. The focus is on the problem of improving the territorial capital, as the basis to which the concept of sustainable local economic and infrastructural development must be upgraded. In the third part the focus is on the challenges and controversies
of determining the determinants of framework for sustainable strategy of local economic and infrastructural development. The fourth section, based on the synthesis of the results from first, second and third part of this paper, analyzes the role of mechanism of public-private partnerships in the preparation, realization and exploitation of local territorial capital improvement projects. The basic criterion is that its application should increase the quality of the local business and developmental environment without additional indebtedness of public and commercial factors.

Why territorial policies have failed to revitalize the industrial districts and local industrial centres?

Analysis of the failure of public regulation in creating the conditions for overcoming the causes and consequences of the developmental entropy of industrial districts and local industrial centres as the basis for evaluation of coordination between territorial and sectoral policies, from which in the second step the constitution of framework for successful local economic and infrastructure development should be performed, was carried out in the context of historical heritage, more precisely, the existing state of the territorial structure of production-organizational system with which Serbia has joined the realization of project of restoring the capitalism and the (post) socialist transition. My researches (Adžić 2013 : 311-314) indicates that by the end of the 80s of the last century 24 industrial districts were formed, in which were 4 medium sized industrial centres (with more than 10,000 employees) and 138 small industrial centres (with less than 10,000 employees):

*Table 1: Industrial districts, large and medium sized industrial centres in Serbia in year 1990*

<table>
<thead>
<tr>
<th>Industrial district (NUTS-3 region):</th>
<th>Cities (LAU-1) – Municipalities (LAU-2) on day 1/7/2011:</th>
<th>Large and medium industrial centres on day 31/12/1990:</th>
</tr>
</thead>
<tbody>
<tr>
<td>NUTS-2 Region: AP Vojvodina</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Novi Sad</td>
<td>Bač, Bačka Palanka, Bački Petrovac, Bečej, Beočin, City – Novi Sad, Odžaci, Temerin, Titel*, Žabalj</td>
<td>Novi Sad</td>
</tr>
<tr>
<td>Pančevo</td>
<td>Alibunar, Bela Crkva, Kovin, Kovačica, Opovo*, Pančevo – City, Plandište, Vršac</td>
<td>Pančevo</td>
</tr>
<tr>
<td>Sombor</td>
<td>Apatin, Sombor – City</td>
<td>Sombor</td>
</tr>
<tr>
<td>Sremska Mitrovica</td>
<td>Indija, Irig*, Pećinci, Ruma, Sremska Mitrovica, Stara Pazova, Šid</td>
<td>Sremska Mitrovica</td>
</tr>
<tr>
<td>Subotica</td>
<td>Ada, Bačka Topola, Čoka, Kanjiža, Novi Kneževac, Senta, Subotica – City</td>
<td>Subotica</td>
</tr>
<tr>
<td>Vrbas</td>
<td>Kula, Mali Idoš, Srbobran, Vrbas</td>
<td>Agglomeration: Vrbas – Kula – Crvenka</td>
</tr>
</tbody>
</table>
## Economic and Infrastructural Aspect of Local Development

<table>
<thead>
<tr>
<th>Industrial district (NUTS-3 region):</th>
<th>Cities (LAU-1) – Municipalities (LAU-2) on day 1/7/2011:</th>
<th>Large and medium industrial centres on day 31/12/1990:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zrenjanin</td>
<td>Kikinda, Nova Crnja, Novi Bečej, Sečanj, Zrenjanin – City, Žitište</td>
<td>Zrenjanin, Kikinda</td>
</tr>
</tbody>
</table>

### NUTS-2 Region: City of Belgrade

Beograd
- Barajevo, Čukarica, Grocak, Lazarevac, Mladenovac, Novi Beograd, Obrenovac, Palilula, Rakovica, Savski Venac, Sopot, Stari grad, Surčin, Voždovac, Vračar, Zemun, Zvezdara
- Beograd, Agglomeration: Lazarevac – Obrenovac

### NUTS-2 Region: Šumadija and Western Serbia

Čačak
- Čačak – City, Gornji Milanovac, Ivanjica, Lučani
- Čačak

Jagodina
- Despotovac, Ćuprija, Jagodina – City, Paračin, Rekovac*, Svilajnac
- Agglomeration: Jagodina – Ćuprija – Paračin

Kragujevac
- Arandelovac, Batočina, Knići*, Kragujevac – City, Lapovo, Rača, Topola
- Kragujevac

Kraljevo
- Kraljevo – City, Vrnjačka Banja
- Kraljevo

Kruševac
- Aleksandrovac, Brus, Čićevac, Kruševac – City, Trstenik, Varvarin
- Kruševac, Trstenik

Novi Pazar
- Novi Pazar – City, Raška, Sjenica, Tutin*
- Novi Pazar

Šabac
- Bogatić*, Koceljeva, Krupanj, Loznica – City, Ljubovija, Mali Zvornik, Šabac – City, Vladimirci*
- Šabac, Loznica

Užice
- Arilje, Bajina Bašta, Čajetina, Kosjerić, Nova Varoš, Požega, Priboj, Prijeplje, Užice – City
- Užice

Valjevo
- Lajkovac, Ljig, Mionica, Osečina, Ub, Valjevo – City
- Valjevo

### NUTS-2 Region: Southern and Eastern Serbia

Bor
- Boljevac, Bor, Kladovo, Knjaževac, Majdanpek, Negotin, Sokobanja, Zaječar – City
- Bor, Zaječar

Niš
- Aleksinac, Blace, Doljevac*, Gadžin Han, Kuršumlija, Merošina*, Niš – City, Prokuplje, Ražanj*, Srnljig, Žitorađa
- Niš

Leskovac
- Bojnik*, Crna Trava*, Lebane, Leskovac – City, Medveđa, Vlasotince
- Leskovac

Pirot
- Babušnica, Bela Palanka, Dimitrovgrad, Pirot
- Pirot

Požarevac
- Golubac*, Kučević, Malo Crniće*, Petrovac na Mlavi, Požarevac – City, Veliko Gradište, Žabari*, Žagubica*
- Agglomeration: Požarevac – Kostolac

Smederevo
- Smederevo – City, Smederevska Palanka, Velika Plana
- Smederevo

Vranje
- Bosilegrad, Bujanovac, Preševo, Surdulica, Trgovište, Vladičin Han, Vranje
- Vranje

*Local governments within which a local industrial centre had not been constituted till year 1990

The formation of industrial districts and local industrial centres, in addition to (logically) rounded structure of production capacities was followed by the development of adequate in-site production infrastructure, primarily logistical facilities (roads,
railway, river and canal network, ports, warehouses, retail and wholesale trading companies and foreign trade companies) and educational facilities (primarily, vocational education for occupations aligned with the structure of production of concrete industrial districts or local industrial centre)

Over the past twenty-two years de-industrialization radically destroyed this spatial structure of industry (Table 2).

Table 2: Change in dynamics in the number of industrial centres in Serbia 1990–2012

<table>
<thead>
<tr>
<th>Size of industrial centres by the number of employees in the industry:</th>
<th>Number of industrial centres in year 1990</th>
<th>Number of industrial centres in year 2012</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>with more than 100,000 employees</td>
<td>1</td>
<td>0</td>
<td>-1</td>
</tr>
<tr>
<td>with 50,000 to 100,000 employees</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>with 20,000 to 50,000 employees</td>
<td>8</td>
<td>1</td>
<td>-7</td>
</tr>
<tr>
<td>with 10,000 to 20,000 employees</td>
<td>19</td>
<td>4</td>
<td>-15</td>
</tr>
<tr>
<td>with 5,000 to 10,000 employees</td>
<td>24</td>
<td>18</td>
<td>-6</td>
</tr>
<tr>
<td>with 1,000 to 5,000 employees</td>
<td>114</td>
<td>55</td>
<td>-59</td>
</tr>
</tbody>
</table>

Source: Author’s assessment based on available statistical data and cities’ and local governments’ publications

There are different views of the causes of this phenomenon. From the standpoint of determining the relationship between the coordination of sectoral and spatial policies and balanced spatial development, it is essential that the results of replacing the old industries and jobs in the industrial districts and local industrial centres with new are low. From the aspect of the preparation and implementation of sub-regional and local developmental policies, its task was to provide a framework for a successful or- ganization, preparation and monitoring of sub-regional and local strategies of re-industrialization (in the sense of treating the revitalization project of specific industrial districts or local industrial centre, as a mixture of strategies of infrastructure comfort improvement for private investment in new industries and businesses and support to in-site and external efforts to transform the existing industries and jobs into export, with a combination of goals and mechanisms of local economic policy and policy of partnership development of public and private sectors – note by author), and by training to strengthen the sub-regional and local facilities for their proper preparation, monitoring, and evaluation and correction.

But that does not mean that in Serbia there was no attempt for coordination between sectoral and territorial policies and attempts that the local governments define and implement a more active version of strategies and policies to overcome the state of developmental entropy. After 2000, three instruments were used, at first
spontaneously and later socially organized. The first was based on the local initiatives for the establishment of Industrial and Technological parks and cession of the prepared sites to (primarily, foreign) private investors at no charge. The second was based on a system of subsidies to foreign capital from the central budget for each newly created job in the depressed industrial centres. The third and the most ambitious is the revitalization project of the national automobile industry FIAT SERBIA – whose main idea is, based on public-private partnership with one of the key actors of the global automobile industry, to revitalize the (regional) development pole in Kragujevac and build new and activate the existing facilities for supporting industry.

The data about the initiatives for the establishment of Industrial and Technological parks as the basic form of sub-regional and local strategies and policies to overcome the developmental entropy and their results are very different, but a rough picture can be acquired from the review of (more or less) realized initiatives by the end of year 2012 by regions (Table 3).

Table 3: Number of realized local initiatives for the establishment of Industrial and Technological parks by the end of year 2012

<table>
<thead>
<tr>
<th>NUTS-2 Region</th>
<th>Industrial parks</th>
<th>Technological parks</th>
<th>Number of Industrial centres with implemented initiative</th>
<th>Number of Industrial centres without initiative</th>
</tr>
</thead>
<tbody>
<tr>
<td>AP Vojvodina</td>
<td>67</td>
<td>1</td>
<td>46</td>
<td>2</td>
</tr>
<tr>
<td>City of Belgrade</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Šumadija and Western Serbia</td>
<td>35</td>
<td>0</td>
<td>20</td>
<td>53</td>
</tr>
<tr>
<td>Southern and Eastern Serbia</td>
<td>14</td>
<td>0</td>
<td>12</td>
<td>36</td>
</tr>
<tr>
<td>Serbia – in total</td>
<td>115</td>
<td>1</td>
<td>78</td>
<td>82</td>
</tr>
</tbody>
</table>

Source: Author’s assessment based on internal materials of the Association of the founders of Industrial and Technological parks, Regional chambers of commerce and cities’ and local governments’ publications

In AP Vojvodina, only in two industrial centres (Vrbas and Srbobran) there were no initiatives for the establishment of Industrial parks. In Novi Sad, the development of the only (actually existing) Technological Park in Serbia is dynamically progressing. In small industrial centres: Indjija, Stara and Nova Pazova and Pećinci, significant new capacities were built, mainly for various forms of finishing and assembling production for the domestic market. In the centres of industrial districts Subotica and Zrenjanin under commissioning or in the final stages of building are the new capacities for the export industries of low technological complexity.

In the City of Belgrade, there were no official initiatives for the establishment of Industrial and Technological parks. New gravitational industries are located in the border municipalities in AP Vojvodina (Indjija, Stara and Nova Pazova and Pećinci).
The main reason is the shortage of suitable land and the fact that the privatizations on the existing industrial sites were performed in order to acquire the land rights for other purposes (construction of apartments, shopping centres, etc.).

The region of Šumadija and Western Serbia is characterized by a (too) big expectation of synergistic effects of national project FIAT SERBIA. The exception is a small industrial centre Svilajnac in which the second Industrial park is opened (since the first one is filled) and partly the industrial centre of Jagodina district.

In region of Southern and Eastern Serbia, the situation is similar. The expectations of the central government are dominant (in the sense that the subsidies to foreign capital will lead to the creation of new jobs in industry), even in Niš, which is the second centre of higher education, and till the year 1990 it was the second industrial centre of Serbia, and which is today practically without industry. The exceptions are the city of Leskovac (as the oldest indigenous industrial centre in Serbia, which was at the early twentieth century labelled as the Serbian Manchester) where were launched the ideas that the exit from transitional depression must be sought by own forces and Eastern Serbia sub-region, where in every industrial centre an industrial park was established and (mostly) prepared.

The results of the applied concept of sub-regional and local strategies and policies to overcome the developmental entropy are not in accordance with the broader socio-economic expectations. The reasons are numerous, starting with the fact that most of the projects were launched just before the first wave of the global financial and economic crisis. However, two facts are evident. Number of local actors in the accomplished projects is very small, and the foreign can be divided into two groups. One is formed by those whose expectations are based on the domestic market, which through various forms of the final, finishing and assembling production create space for improving their position. The others base their expectations on cheap labour and unregulated work protection system (in the sense of weak protection of life and health in the workplace, arbitrary determination of working hours and other employment rights, including in some cases the irregular servicing of salaries and benefits) and they see space to achieve their goals in various types of export-oriented intermediate production of low technological complexity. In this sense, it can be concluded that the realized projects have not been in the function of balanced territorial development of Serbia, especially in accordance with the content of the European concept of territorial cohesion.

Another fact is indicative. The analysis indicates that most of the Industrial parks development projects were realized by construction of new infrastructure. Scientifically recommended policy is that the focus of local strategies and policies should be on mechanisms to support public-private projects of revitalizing functions of existing industrial zones (the number of abandoned industrial zones in Serbia can be
estimated at several hundred, while in every industrial centre there is at least one such location). There are two reasons for this approach. The first is a consequence of the decision in the national Privatization law and the second is in local spatial planning policy. Behind these solutions is a constellation of interests of very specific actors who, using this legislation, excluded at least one half of the production capital of Serbia from economic function. However, in the future, the sub-regional and local strategies and policies should incorporate the goals and mechanisms of recovery of destroyed and abandoned industrial zones or their conversion to other uses. In each particular case the time and cost of revitalization or recovery and reuse of space should be determined, as the basis for the promotion of corresponding public-private partnerships projects. The analysis of the causes of the poor results of sub-regional and local strategies and policies of economic and infrastructural development indicates the following:

First, most of the sub-regional and local strategies and policies of economic and infrastructural development superficially analyzed the situation and determined the summary list of project activities with approximate deadlines for their implementation. The emphasis is usually on the part of the program, i.e., the analysis of the current state and the broad definition of vision and mission of the local government in overcoming the developmental entropy and improvement of the existing state (in the industrial district, i.e., local industrial centre), and the demands to increase the efficiency of local production of public goods and public administration services. Usually they do not have a precisely defined sectoral, spatial and budgetary dimension, and cannot be incorporated into spatial and urbanistic plans and sectoral strategies. Therefore, they have almost no practical value, both for potential investors and for the precise, public and transparent control of the execution of local budgets and public trust funds.

Second, in most of sub-regional and local strategies and policies of economic and infrastructural development there is no mention of the authorities, institutions, public enterprises or other direct or indirect budget users – responsible for the implementation of strategic goals. In addition, strategies and policies do not contain a precise and clearly defined network of coordination and subordination between the authorities and other factors responsible for the achievement of goals.

Third, in most of sub-regional and local strategies and policies of economic and infrastructural development there are no standards and indicators for monitoring the implementation (monitoring + evaluation). Therefore, there are no conditions for accurate, clear and transparent evaluation and validation of results of institutions managers responsible for the implementation of goals.

Fourth, most of designers of sub-regional and local strategies and policies of economic and infrastructural development have not recognized the importance of general and specialized public in their preparation, adoption and implementation.
In any case, it appears that the political, economic, and most of the professional elite in the past twenty-two years since the restoration of capitalism were not ready or able to face the challenges of the world economy globalization and increasing competition among nations, regional, sub-regional and local entities. In this light, Serbia, with its regions, sub-regions and local communities, found itself in the paradoxical situation where the structural adjustment of the national production system to the challenges of globalization, transition of (global) production systems, technological development and hyper-competition, is more conditioned by finding solutions for errors in the operationalization of the (post)socialist transition, than by the negative legacy of the last economic model, with which, after all, it started.

Methodological approach to the problem of improving the public regulation of local economic and infrastructural development

In considering the ways to overcome the current situation and constitution of a framework for the implementation of the (theoretical) elements of the European concept of territorial cohesion at the local level, three phenomena should be taken into account. The first and crucial to the structure of this paper is that the increase of local competitiveness and development success depends primarily on the types and relationships of integrations of different public and private actors within the respective territorial management, production and social networks. Key types of integration for the local production system are: (1) Technological integration (the ability to develop and improve the production of knowledge, promotion of the role of learning and knowledge in the improvement of company performances, quality and availability of the system for continuous education of entrepreneurs, managers, experts and workers in order to obtain a globally competitive knowledge and skills, capabilities to invest and research and development of local enterprises and the development of cooperation in the development of products and processes to external companies), (2) Local labour market integration (productive cooperation between employees and management in local companies, high level of labour and management mobility between local companies in the same sector, high ability to attract labour from other sectors), (3) Production integration (primarily, the ability to improve the division of labour between the local/sub-regional producers, but accompanied by diversification of production programs and cooperation with external companies to reduce the risks of unilateral business orientation), (4) Territorial integration (improvement of local infrastructure networks, good spatial planning and environmental protection), (5) Social and cultural integration (development of consensus and timely involvement of local communities in the preparation and implementation of developmental projects), and (6) Integration with close and distant environment (primarily, integration of the so-called “soft” components, such as: openness to inter-local, inter-regional and trans-border cooperation, promotion of internationalization of local companies, measures to improve mechanisms of so-called “market area/location”).
Directly from these groups of factors one can specify the area of sub-regional and local authorities’ actions to improve competitiveness as the basis for establishing a framework for sustainable local economic and infrastructural development. These are: (1) Skills improvement of sub-regional and local (public and commercial) actors to accumulate and attract capital, (2) Seeking solutions to the inclusion in the sub-regional, regional, national, European and global institutions networks for co-financing of investments and development, (3) Reducing the risk coming from the social and environmental tensions and conflicts, particularly those caused by the wrong investments, (4) Activities to improve the institutional environment for export business, investment and promotion of financing the local “small” businesses, small and medium sized enterprises (this activity primarily relates to the efforts to remove and neutralize the appropriate barriers on the higher levels of the executive and legislative power organization in a way that encourages cooperation rather than resistance from those who have the authority to make decisions – note by author), (5) Improving the relationship between business and the community (primarily directing the individual activities for economic growth and development in a way that large groups (“all”, “above average majority”) benefit from it), (6) Application of principles of subsidiary rather than jurisdiction overlapping, (7) Improvement of local and sub-regional system of public, especially secondary education, (8) Measures to increase the efficiency of the local and sub-regional economic policies (primarily in the direction of better exploiting of endogenous factors of production and development, stimulation of the mutual economic dependence of economic activities, especially in the export-oriented productions, equation of conditions for business and investment for domestic and foreign actors), (9) Limitation of territorial, group and individual disparities in income, especially those which do not have support in the development of export business and improving of living and working conditions for the entire population, and (10) Improvement of conditions for public, transparency and accuracy of information about the activities of public and private sector to improve conditions for economic and infrastructural development.

Both groups of factors in mutual interactions lead to the increase of territorial capital. The term “territorial capital” and the term “territorial cohesion” were created in an attempt to predefine the terms “regional (sub-regional, local) potential” or “reduction of regional (sub-regional, local) differences”, which were used for a very long time in the vocabulary of a balanced spatial development. The current “neo-liberal” tone which is prevalent in the appearance and programming of the actions of European Commission and executive power of the key EU member states believe that in the old terms prevail the social sides of economic and infrastructural development, and it is advisable to use the new vocabulary which will indicate more the: (1) needs to improve competitiveness in the global economic, political and cultural competition, (2) orientation to activities aimed at creating comparative advantages by development of the entrepreneurship and improving the performance of human capital and the like. This approach has been accepted by the OECD, and the international economic
institution which is considered in the financial and business circles and in some parts of professional public as one of the promoting bastions of competition policy as a universal solution for overcoming the negative consequences of these four listed current developmental trends: globalization, global production systems transition, technological progress and hyper-competition. According to the OECD definition (2001), the territorial capital is a separate set of factors of a given geographical area which makes that incomes on some investments are higher than in any other area. This definition has the emphasis on so-called “tangible (objective)” factors of production and development, which can be presented with a specific indicators set, which define: (1) The geostrategic location of the local community or the sub-region or region, (2) Climate, (3) Size, (4) Natural resources, (5) Economic structure, (6) Human capital (entrepreneurship, intellectual capital, human capital of so-called “ordinary” people – due to the underdevelopment of the system for accurate measure, this factor is often classified in so-called “soft (subjective)” components of territorial capital), (7) Quality of life and environment, (8) Development of physical infrastructure, (9) Cultural heritage. Contemporary intentions in the territorial capital also classify the qualitative indicators for which there are no appropriate indicators to measure, but are the products of subjective judgment. These are: (10) Ability to innovate, (11) Ability to reduce transaction costs, (12) Ability for cooperation, assistance, participation and achieving the consensus, (13) Development of strategic thinking, research and management, (14) Ability to prepare, make and achieve democratic and informed decisions about the development, (15) Development of networks for communication and interaction, and the like. This second group of elements of territorial capital is actually an ability of (sub-regional, local) leadership to replace the authoritative decision-making and partisanship with negotiations and democratic and participatory decision-making, leading to a compromise, consensus-making and making good decisions.

Improvement of the territorial capital and its putting into operation of the local economic and infrastructural development should be considered in the context of needs to promote and implement new (national) developmental paradigm with which Serbia should face in order to come out of the chronic developmental crisis. Not going into a more detailed scientific elaboration of its content at this point (for details see Adzic 2009), only two elements will be given, which are derived from the essence of the European concept of endogenous, auto-propulsive and sustainable development, and which are relevant to the conception of this paper. These are: (1) Progressively creating conditions so that savings on all territorial levels (national, regional, sub-regional, local) exceed the investment \(S > I\) and (2) Creating conditions for the activation of the third factor in the development of endogenous definition of the production function.

How to reach greater savings than investments \(S > I\)? In Serbia and its regions, sub-regions and local communities for more than six decades there is dominant opinion
and action – additional (external, primarily foreign) accumulation is necessary to finance the development, i.e., the key relation is in the model of (national, regional, sub-regional, local, urban and rural) development \( S < I \). In principle, the external debt is not a problem, if a bigger part is invested into financing of investment in export industries and jobs. However, in the case of Serbia, as well as all other states of the South-East Europe region, most of the imported accumulation was aimed at: the revitalization and new construction of infrastructure, the development of the non-tradable goods sector (real estate, construction industry and retail) and the financing of the current public spending. In the operationalisation level, in order to come to \( S > I \) it is necessary to develop new sectoral relations, in which the public sector would lead the \( S < I \) policy, and sector of the population and enterprises the \( S > I \), with the fact that the overall result is \( S > I \). The best solution is in the coordination of the goals and mechanisms of the relevant sectoral and territorial strategies and policies. But, How to (gradually) raise the savings \( S = I \) in the present circumstances? Scientifically recommended solution is that using the global capital markets should (must?) be restricted to investment in export industries and jobs, and in parallel conditions should be created for activating the third factor in the endogenous production function (based on the criteria that investments should participate with 40%, work with 10% and the third factor with 50% in generating the (in this case, local) developmental thrust). To activate the third factor of development in the endogenous definition of the production function, the theory and European practice recommend three tools: (1) 3T model (Technology, Talent, Tolerance), (2) Triple Helix Model (linking the university, industry and state), and (3) strengthening the inter-regional and cross-border cooperation, particularly by linking the innovation systems.

The submitted elements indicate that the preparation and implementation of sectoral and territorial strategies and policies complex, which should be implemented by the local government and higher levels of executive power to achieve these conditions, should be organized by networking the public and corporative policies and strategies, vertical and horizontal linking of different actors and power holders on, mostly, the informal basis. A large number of networks of public and corporative policies and strategies relevant to this topic can be identified, for example: (1) Export industries and business (these should be de-aggregated to the networks of public and business policies and strategies by the reproduction units depending on the structure of local industry), (2) Agriculture (this should be also de-aggregated by the reproduction, especially export-oriented units, depending on the structure of local agriculture), (3) Energetic (in particular: electricity and natural gas, as a complementary and cross-competing suppliers), (4) Transportation infrastructure (especially: road, rail, possibly water, etc), (5) Communal infrastructure, (6) IT infrastructure, (7) Innovation infrastructure, (8) Environment, (9) Corruption etc. The unifying factor that links them is the good public governance. Ideal-standard model of good public governance has eight basic characteristics: (1) Participation, (2) Rule of law, (3) Transparency, (4) Reliability, (5) Orientation to achieve results, (6) Equality and
inclusion, (7) Efficiency and cost-effectiveness, and (8) Responsibility. But it is not enough to define the role of local government in this concept of economic and infrastructural development.

The modern concept of public governance at the local level requires also replacing of the hierarchical with the holistic approach. The holistic approach is marked by two characteristics. The first is that defining the key (may be called ultimate) goals of economic and infrastructural development should be lowered on the executive level. Second, the individual goals are harmonized starting from the different perspectives of observation. In fact, the initiatives to connect the strategies are interrelated. For example, the connection between the local industry and agriculture can be seen in the simple example of sugar. Continuity in production requires the removal of sugar production from parcel to parcel since it cannot be sown every year. By defining the crop rotation on a larger number of parcels, the local industrial strategy for export security and the agricultural strategy for food raw materials security are connected. The implementation of the holistic approach to this problem relies on a network of public and corporate policies and strategy composed of four nodes, which in fact represent the four different views of this problem. The first node is the so-called New public management. Its ultimate goals are: (1) Reduction of unemployment by increasing the productive employment, (2) Increase of newly created value p/c, (3) Increase of local fiscal revenues. The second node is the macroeconomic management. Its ultimate goals are: (4) Increase of accumulation and income, (5) Promotion of investment capacities, (6) Reduce of conflicts caused by the market power disproportion between the primary agricultural producers and processors. The third node includes institutions and regulation. The selection of ultimate goals depends on the model of monitoring and control. In this case, its structure is formed by commercial and public part. The top of the commercial part of the institutional system and regulation is formed by: (a) a set of local banks, ultimate goals of which are: (6) Short-dated investments, (7) High interest rates, and (8) Low risks. The public part is composed of: (b) Control of monopolies, (c) Settlement of disputes, (d) Set of local, regional, national and European norms and standards. Its ultimate goal is: (9) Compliance with consumers and environmental standards. The fourth node is formed by a local system of values. Its ultimate goals are: (10) Corruption control and (11) Respect for economic freedoms. For the implementation of holistic approaches two things are needed. The first is the so-called Strategic map, and the second is Balanced scorecard. The first should provide the information about the causal-chronological relationships between the basic causes (in the given example from (1) to (11)) and the second the review of performance indicators, tasks and initiatives.

The presented methodological approach suggests that the framework for a sustainable strategy of local economic and infrastructural development should establish a clear, precise and transparent relationship between the spatial, urbanistic and environmental local plans and strategies in relation to sectoral plans and strategies,
especially the strategy of national re-industrialization and the strategy of transition to regime of sustainable macroeconomic development (according to the model: \( \text{Savings} = \text{Investments} \) and transferring the emphasis of public and corporate regulation to the activation of the third factor in the endogenous production function). To establish a coordinated and integrated strategy of local sustainable economic and infrastructural development, it is necessary to: (1) enter the territorial dimension in general sectoral and planning basis, (2) introduce clearly defined procedures of coordination in the process of integration of general plans and strategies with local spatial, urban and environmental strategies and (3) establish and coordinate sets of key performance indicators and criteria for monitoring the implementation of plans and strategies on sustainable development of functional urban areas, municipalities and rural areas.

**Challenges and controversies to determine the framework determinants for sustainable local economic and infrastructural development strategy**

The above suggests that the framework for sustainable local economic and infrastructural development, within the exogenously determined parameters of the concept of public regulation whose implementation faces Serbia and its local governments in European integration preparation process, should be set in the sign of the concept of management of public affairs and production of public goods, which is called the New public management (NPM). The essence of this concept is the separation of the political, legal and management sector in the system of public regulation. Within this division, the political influence is limited to a determination of general values and providing the basic consensus. The task of the legal sector is to transfuse the general values and basic consensus into legal norms that represent the institutional framework for the effective functioning of (in this case) local government and the relevant part of the production of public goods and public services. Thereby, the legal norms should leave free space to management sector in a way which provides the solving of specific problems on the management principles. Thus, the new public management is in fact an attempt to transplant into the public sector the private sector management techniques developed for the case when the right to manage is separated from the ownership (corporate governance). From the beginning of the eighties of the last century this concept is very widely used within the modern market economies. In accordance with the neo-liberal paradigms, the control of key management holders under this concept is related to the improvement of mechanisms for monitoring and controlling the effectiveness of their activities and results. Initial activities to introduce this concept in Serbia started after year 2000. In fact, the current legal regulation does not prevent or limit the local governments to use this concept of public governance. However, since the political elite usurped the rights to dispose of all public activities and resources based on the division of the spoils defined in
the coalition agreement – releasing the old and bringing in the new management in the public sector is a task which most often has nothing to do with the efficiency of management. Situation is similar with the use of techniques to create incentive schemes for managers in the public sector. There is very little relevant data about this, but it is common that the top management in the production of public goods and public administration in Serbia have higher incomes than those who set them at these positions!!!

In this context the approach is selected in which the problem to determine the framework determinants for the sustainable local economic and infrastructural development strategy is defined as a process composed of activities that lead to the set of circumstances which cannot be changed, or competently act on everything which can be controlled. Their classification is performed in two groups.

The first concerns the problem of determining the basic domain of framework for the sustainable local economic and infrastructural development strategy. Its task is to initiate, ensure, encourage or discourage certain forms of evolutionary transition of the scope and structure of the territorial capital from current to future state at each point in its territory. By linking this specified postulate with the brief review of the tasks of local government in providing the conditions for territorial cohesion and inclusion in the global economic flaws, it can be seen that in the foreground are the following phenomena: (1) Socio-economic-political structures and mechanisms that regulate the economic and social order, cooperation and behaviour of (sub-regional and local) community members, and which is formed of: (2) Cultural-cognitive, normative and regulative elements (of market, public regulation, communitarian cooperation and group and individual activities in specific geographical areas), which with in-site activities and resources provide a good meaning to economic and social life, by (3) Acting on several levels, from the world (global) to the highly localized interpersonal relationships.

The second group was made based on the retrospective analysis and prognostic research of links between the structure transition, scope and allocation of territorial capital and their implications for the constitution of the framework determinants for the sustainable local economic and infrastructural development strategy. Let’s start from the identification of the key factors of the territorial capital transition success. These are: production of public goods and public services, personal, public and private capital, entrepreneurship, knowledge and practical experience, and the role of the (local) frame is to allocate them into the specific projects, which must consistently respect the norms and standards of the European concept of a sustainable economy. If it is known what kind of territorial capital is needed and what kind of structural factors will be available, with which dynamics and how should specific development projects be started, the key information would be available, namely what kind of framework is needed. The well known facts are the scope, structure and the
territorial capital allocation which have been abandoned. On the other hand, there are more or less reliable predictions regarding the development projects which should be realized in the near and distant future.

The repercussion of the proposed approach on the concretization of framework determinants for the sustainable local economic and infrastructural development strategy is a choice between three approaches.

The first one is consciously pursued constitution reforms policy of framework determinants for the strategy of sustainable local economic and infrastructural development – based on the ex-ante set solutions (normative or the intended reforms policy). Problems arise when in the future some ex-ante selected solutions prove to be wrong or ineffective.

The second is based on fine-tuning of some solutions to the current state of needs. The basis is in the assumption that the future is in the present developed, more precise set of rules, norms and standards marked as Acquis Communautaire and other recommendations and requirements of the Common Institutions of the European Union, and that, accordingly, their experiences can be adapted in the selection of specific institutional decisions and arrangements. Unintended result is the possibility to constitute an imitative frame for the sustainable local economic and infrastructure development strategy, which in practice acts contrary to the required and possible.

The third may be defined as the process of growing (proactive, reactive) reforms policy, i.e., as a reforms policy that is achieved despite the absence of intents (of its creators – note by author). Mostly relying on this model can lead to chaos in constitution of the framework for the sustainable local economic and infrastructural development strategy. The main advantage is that in the case of rational behaviour of key actors of management and development under uncertainty (which is the behaviour expected from the New public management – note by author) it comes to unintentional state of solution and framework structuring that suits more to the opportunities and demands of (local) economy and population.

These three approaches are extreme, i.e., in real situations can speak about the mix of intended, imitative and escalating reform policy. What are the implications?

First, for the solutions that can be reliably determined or fully managed, their content and implementation mechanisms should be clearly, precisely and transparently defined and, accordingly, the appropriate (sub) structure should be constituted.

Second, for the solution which cannot be determined reliably, the parameters should be defined (for example, the requirements in terms of adaptability, flexibility, rigidity, etc.) and, accordingly, the (sub)structure constituted, which, based on the principle of rationality in search for a solution in unstable and uncertain circumstances,
will develop its characteristics, which in turn in a dynamic context will lead to the transition of strategy realization from the development concept based on a hierarchical approach to the development concept based on a holistic approach.

Third, in both cases, the learning function should be incorporated in the corresponding (sub)structures (in terms of ability to self-learn, in order that the creators of its solutions can promptly take corrective actions).

Fourth, in accordance with (1), (2) and (3), constituting the framework for the sustainable local economic and infrastructural development strategy should be carried out as a combination of the intended (formulated in advance) and growing (responsive, adaptive) reforms policies, which should also incorporate the elements of imitative policies, especially in terms of creative application of European standards in the concretization of some solutions or determination of the moment to approach the reaction.

A key determinant of the presented analysis is that the constitution of the framework for the sustainable local economic and infrastructural development strategy and its determinants in the function of more efficient performance improvements should be defined as a mix of normative and growing reforms policy. Since Serbia is for a very long time in the period of growing uncertainty in respect to the possibility of implementing the scientifically recommended concepts of socio-economic development and the scene of clashes between many special interest groups, the realistic solution is that the development of core follows the concept of the intended reforms policy, and the other parts, the concept of growing reforms policy.

The proposed conception is implicitly based on the approach in which the real world, in which is performed the modelling of reforms’ contents that should support the scientifically correct local economic and infrastructural development, can be described as problematic, while the methodology and the implementation process are systematic. This approach is based on a model of political, economic and professional culture based on participation and broad involvement of those who are in any way involved in the resolution of problem situations. Therefore, at first glance, it appears that the proposed concept is based on the idealistic assumption that cooperation will be achieved without the use of enforcement mechanisms, i.e., its application requires a specific participation culture, which involves a radical change in the values system, limitation of monopolistic behaviour and reducing of party paternalism.

The value of the presented approach in modelling the framework determinants for the sustainable local economic and infrastructural development strategy is the ability to use different corrective actions based on broad participation, with which the partial views and truths are involved in the search for the best solutions to overcome the specific problem. The paradigm learning based on multi-criterion compromise
decision-making in the design of goals and actions of reforms should provide the flexibility and robustness in determining the content and implementation of the structural adjustment process of this framework, particularly in terms of unaddressed encouragement for cooperation of the actors in the chain of reproduction. However, as open questions remain the problems of: (1) development of multi-criterion analysis procedures, and (2) development of multi-attribute benefit analysis, which would respect the fact that decisions are made based on criteria that cannot be directly measured or compared.

Discussion: how realistic are the scopes of public-private partnership (PPP) to promote the territorial capital?

The basic idea of introducing the concept of New Public Management (NPM) in the practice of local self-government management is the constitution of institutional conditions and mechanisms in order for the private sector to take over the part of the costs for forming the required scope, structure and territorial capital allocation, primarily using the public-private partnership (PPP). Preparation and implementation of specific projects should start from the advantages, limitations and cost of implementation of PPP (Table 4).

Table 4: Advantages and limitations of public-private partnership (PPP) in improving the performance of the territorial capital in local governments

<table>
<thead>
<tr>
<th>Advantages of PPP application:</th>
<th>Limitations of PPP application:</th>
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<tbody>
<tr>
<td>The introduction of private capital.</td>
<td>Complex legal framework.</td>
</tr>
<tr>
<td>The efficiency of the private sector in management.</td>
<td>Complex projects and documentation structure.</td>
</tr>
<tr>
<td>Competition promotion.</td>
<td>High initial cost of preparation.</td>
</tr>
<tr>
<td></td>
<td>Requires a large number of experienced professionals in the project preparation and monitoring.</td>
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<tr>
<td></td>
<td>Complex and complicated choice of private partner for the project realization.</td>
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<tr>
<td></td>
<td>Temporally long and complex structures of PPP monitoring.</td>
</tr>
<tr>
<td></td>
<td>Risk of making unexpected liabilities for public finance.</td>
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<tr>
<td></td>
<td>Complicated and expensive way of problem solving.</td>
</tr>
</tbody>
</table>

The presented indicates that PPP is not a universal solution for all situations (Begović et al. 2002 : 121-123), but its features and benefits depend on the circumstances and capabilities of both sectors to successfully organize, implement and realize the specific project. Each project requires a detailed consideration and determination of the optimal model of cooperation (type of contracts, Table 5), and precise risk allocation.
Table 5: Potential possibilities of achieving the goals of improving the territorial capital in local governments of public-private partnership (PPP)

<table>
<thead>
<tr>
<th>Type of contract PPP:</th>
<th>Objectives:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Technical expertise</td>
</tr>
<tr>
<td>Project – build</td>
<td>2</td>
</tr>
<tr>
<td>Project – build – finance – use</td>
<td>2</td>
</tr>
<tr>
<td>Build – own – use</td>
<td>1</td>
</tr>
<tr>
<td>Build – own – use – hand over</td>
<td>1</td>
</tr>
<tr>
<td>Buy – build – own</td>
<td>1</td>
</tr>
<tr>
<td>License for use</td>
<td>0</td>
</tr>
<tr>
<td>Just finance</td>
<td>0</td>
</tr>
<tr>
<td>Execution and maintenace contract</td>
<td>20</td>
</tr>
</tbody>
</table>

With this in the centre of the considerations of the territorial capital improving performances, problem using PPP is the risk analysis, both for the public and the private sector. The risk should be considered in terms of a wider range of consequences grouped by similarities: (1) The financial impacts on the cost of living and managed affairs, (2) Social consequences, (3) The impact on saving and investments, and (4) The impact on human life and health. The main features of this approach are: (5) The criteria are partly or completely conflicting, and (6) Subject of analysis are the consequences which cannot be directly compared. The following phenomena should be considered:

First, three basic aspects of human behaviour: (1) Rational behaviour, which relies on strictly scientific and verified economic analysis, (2) Emotional or irrational behaviour, which can be explained by psychological and social sciences, and (3) Favouring the personal interest in the process of decisions forming and implementing. Second, Whether the implementation effects of a specific project using PPP mechanisms are quantitatively verifiable or not? Third, the current small benefits are favoured compared to the larger (potential) benefits that manifest in the longer term. Fourth, existing difference between the risk to the decision maker and the risk to the local socio-economic community. Fifth, Whether the risk is imposed by narrow political and/or economic groups or it is accepted on the basis of a broad consensus?
Sixth, the good and the bad consequences of choice of a particular PPP model manifested with time discrepancy.

Having in mind the overall prior consideration of the role of PPP in the preparation and implementation of a specific territorial capital improvement project, it can be concluded that adequate socio-economic solutions should be found for: First, establishing the multidisciplinary collaboration model on the development of the methodological procedures of multi-criterion analysis and multi-attribute benefit analysis applying PPP instruments in the preparation and implementation of specific projects. Second, increasing the responsibility towards the coming generations and environment. The public awareness of this problem for future generations is present in every case, but for it to come to fore it must be supported by adequate system of (economic) motivation. Third, better communication with the public. Assessment of decision correctness about the specific project and PPP model is a task which, besides the public representatives, officers and official experts, should include a wide range of users and all those who will bear the cost of individual decisions. Thus, in the forefront of the methodology development for determining the particular PPP model, there is a problem of professional ethics of its creators and implementers.

Conclusion

This paper attempts to demonstrate that the hierarchical-deterministic concept, in which the problem of public regulation of local economic and infrastructural development is primarily considered in the context to provide external accumulation (S < I), cannot present the basis for reforms policy in the function to create conditions for territorial cohesion and preparation of Serbia for European integrations. The functioning of the local government as a socio-economic (sub)system within the territorial organization of each state, including Serbia, within the current trends: globalizations, transitions of (global) production system, technological progress and hyper-competition, is at the same time predictable and unpredictable, stochastic and deterministic. In this context, the existential and developmental issues of each specific community can be solved only by a comprehensive consideration of all solutions and by careful selection of the optimal. The key determinant of the presented approach is that a developmental paradigm of radical change (Saving = Investments and transferring the focus of public and corporate regulation to the activation of the third factor in endogenous production function) must be supported at the local level with the measures to improve performance of the territorial capital, as the basis for a sustainable recovery of (local) developmental propulsion by exogenous (global) standards. In line with that, the presented concept is based on the atavistic approach in which the public factor, in accordance with the European approach in the distribution of responsibility for creating the conditions for territorial cohesion, should find good solutions for: (1) Improving the external and internal system of management.
and control of the local economic and infrastructural development, (2) Restructuring the internal organizational structure of the political, legal and administrative sectors for public regulation of local development, (3) Improving the management and improvement of labour quality in all spheres of public management, (4) Withdrawal from all forms of public activities which can be organized on a commercial basis, and (5) Creating the necessary base of financial, personal and private capital for revitalization, modernization and increasing the territorial capital, primarily by applying the mechanism of public-private partnership (PPP) in a manner where the losers will not be the public finances and users of public goods and public services. This provides a high degree of subjectivity to the process of increasing the efficiency of the framework for the sustainable local economic and infrastructural development strategy. In this context, the issue of improving its effectiveness is open and will depend primarily on changes in the perception of political, business and professional elite and progress in the construction of the concept of their economic and social responsibility to the (minimal) European norms.

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