REGIONAL TRANSFORMATION PROCESSES IN THE WESTERN BALKAN COUNTRIES

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CONTENT

LIST OF FIGURES / 7
LIST OF TABLES / 10

INTRODUCTION / 13

I. EFFECTS OF THE CHANGE OF REGIME / 15

The Balkans in Europe / 17
Zoltán Hajdú

State building processes after 1990 / 44
Zoltán Hajdú

The internal structure of Western Balkan countries / 73
Iván Illés

The Western Balkans and European Union accession / 103
Iván Illés

II. DEMOGRAPHIC PROCESSES AND LABOUR FORCE / 121

Peculiarities and conflicts of ethnic composition / 123
Zoltán Hajdú

Demographic transition / 149
Roberto Chizzali

Migration / 178
Andrea-Rosalinde Hofer

Employment and labour markets / 197
Elisa Campestrin – Emma Clarence

III. ENVIRONMENT AND SETTLEMENT NETWORK / 227

Natural resources and state of the environment / 229
Imre Nagy

Urban network / 256
László Faragó – Szilárd Rácz

Village network and rural areas / 289
Tamás Hardi

IV. POLITICAL SYSTEM, PUBLIC SERVICES / 305

Specifics of the governmental systems / 307
Ilona Pálné Kovács – Zoltán Grünhut

Social infrastructure and social services / 350
Emma Clarence

V. ECONOMY / 377

The disintegration and reorganisation of industry in the Western Balkans / 379
Gábor Lux

Agriculture in the Balkans / 400
Teréz Kovács

Transport in the Balkans / 427
Ferenc Erdősi

Tourism / 447
Zoltán Raffay

The banking sector of the Western Balkans / 470
Zoltán Gál

Higher education, research and development / 488
Patrick Dubarle – Gyula Horváth

Small and medium-sized enterprises, and private entrepreneurship / 511
Patrick Dubarle – Alessandra Proto

Local economic development / 547
Andrea-Rosalinde Hofer

Regional development programmes / 570
Patrick Dubarle – Cecília Mezei – Zoltán Pámer

BIBLIOGRAPHY / 602

AUTHORS OF THE BOOK / 639

LIST OF FIGURES

1 Geographical delimitation of Southeastern-Europe, the Balkan Peninsula and the Western Balkans 22
2 South-east European Transnational Programme of the EU 38
3 Programme area of the EU's Danube Strategy 39
4 The periods of the stable of national borders in Europe in the 16th–20th centuries 47
5 The transformation of former Yugoslavia into seven sovereign nation states, 1991–2008 51
6 Integration structures of Southeast-Europe, 2008 57
7 Banovinas of Yugoslavia, 1931 74
8 Member republics of Yugoslavia, 1946 76
9 Counties of Croatia at the end of the 1800s 84
10 Sites of war crimes on the territory of former Yugoslavia according to ICTY 146
11 Population growth rates in the EU27 and the Western Balkan region, 1960–2050 152
12 Total fertility rate in the EU and the Western Balkan region, 1960–2050, number of children per woman 154
13 Life-expectancy at birth in EU27 and the Balkan region, 1960–2050 156
14 Share of population 0–14 years in the EU27 and the Western Balkan region, 1960–2050 157
15 Share of 65 years and older population in EU27 and the Western Balkan region 158
16 Age pyramids, EU27 and the Balkan region, 1960 159
17 Age pyramids, EU27 and the Balkan region, 2010 160
18 Total fertility rates in the Balkan countries, 1960–2010 161
19 Male life-expectancy at birth in the Balkan countries, 1960–2010 162
20 Female life-expectancy at birth in the Balkan countries, 1960–2010 162
21 Percentage of urban population in the Balkan countries, 1960–2010 163
22 Mean age in the Balkan countries, 1960–2010 164
23 Population age pyramids in the Balkan countries, 2010 175
24 GDP Growth: actual and future estimates, annual % 200
25 Unemployment rate for group age 15–24 (% of unemployed) 208
26 Percentage of Roma and the majority between 15 and 55 years of age who are unemployed 210
27 Unemployment rate (%) by region in Serbia (October 2009) 212
28 Unemployment (%) by region in Montenegro – Fourth Quarter 2009 213
29 Unemployment rate (%) by entity in Bosnia and Herzegovina, 2007–2009 213
30 Protected areas in the Western Balkan region 236
31 Protected areas of the region 239
32 Geothermal energy potential of the Western Balkan region 242

33 Sea water quality in the coastal areas of the region in 2005 (the percentage of survey and measuring sites meeting national standards) 248
34 Spatial characteristics of the state of the environment in the Western Balkan 251
35 Urban population 1990–2015 262
36 Population change of the capital cities 1990–2010 263
37 Towns of the Western Balkans, 2008 264
38 Spatial structure and urban hierarchy of the Western Balkans 266
39 Share of capital cities in the total urban population 1990–2010 286
40 Proportion of inhabitants in predominantly rural areas in the Western Balkan states 290
41 Breakdown of municipalities by average settlement size – in Croatia and certain areas of post-1992 Yugoslavia 295
42 Prefectures (qarks) of Albania 326
43 Regions (kantons) of Bosnia and Herzegovina 328
44 Counties (županijes) of Croatia 331
45 Statistical regions of Macedonia 335
46 Districts (okrugs) of Serbia 336
47 Local governments of Montenegro 341
48 Statistical regions of Slovenia 343
49 Absolute poverty rates in Albania 2002–2005, as a percentage 357
50 Poverty rates in Bosnia and Herzegovina (%), 2001–2004 by entity 357
51 Kosovo poverty head count 358
52 World Bank poverty forecast: Western Balkans $PPP 5.00 a day 359
53 Per capita total expenditure on health at average exchange rates (US$), 2003–2007 368
54 Total expenditure on health as % of GDP, 2003–2007 369
55 Sources of health care finance 370
56 Out-of-pocket expenditure as % of private expenditure on health, 2003–2007 371
57 NGO sustainability index (USAID) 374
58 Employment changes in industry and construction, 1990–2008 381
59 The share of employment in industry and construction in Central Europe, 1990 and 2008 387
60 The regional differences and internal structure of industrial Gross Value Added (GVA) in Serbia, 2005 391
61 Entrepreneurship zones and industrial parks in Croatia and Serbia 396
62 The contribution of agriculture to GDP in 2005 403
63 Employees in agriculture as percentage of total employment, 2003 405
64 Meadows and pasture-land, livestock, fishing and fish processing 409
65 Structure of agricultural land in Serbia, Central Serbia and the Vojvodina, 2008 410
66 Percentage of meadows and pasture-land in the total land area 411
67 Structure of agricultural holdings 412
68 Plant cultivation/yields, 2005 418
69 Cultivated land, arable land, cereal and maize production, 1981–1983 average 419

70 Production of animal products, 2004 421
71 Agricultural exports and imports, and the balance of agricultural trade by country (2004/2005) 424
72 Pan–European/Trans–European corridors 431
73 Rail routes between Köln and Halkali (Istanbul) 437
74 Transit options Ljubljana–Halkali (Istanbul) 438
75 Number of motor–vehicles crossing frontiers daily in 2000 441
76 Frontier crossing points between Romania and Bulgaria 442
77 Spatial concentration of tourism in Croatia, 2008 449
78 Number of tourists and guest nights in the Western Balkans countries, 2008 456
79 Total assets to GDP in %, 2006 482
80 Central and Eastern Europe: loans, deposits, loan/deposit, 2006 483
81 Evolution of the number of students in higher education institutions in Yugoslavia, 1959–1984 491
82 Spatial location of the higher education institutions of Western Balkan countries student numbers 494
83 The number of full-time students enrolled in Albanian higher education institutions, 1995–2008 495
84 Evolution of student numbers in the Croatian system of higher education, 1999–2008 495
85 Evolution of student numbers in Serbian higher education, 1990–2007 497
86 Evolution of the number of higher education students in Bosnia and Herzegovina, 2000–2008 498
87 Evolution of the number of R&D employees, 1996–2007 500
88 Regional distribution of research units in countries of the Balkans 507
89 Target areas of the Adriatic IPA CBC-programme 580
90 Assisted areas in Croatia 591
91 Underdeveloped regions of Serbia with independent regional development strategies 594
92 The least developed Northern region of Montenegro 598

LIST OF TABLES

1	Different delimitations of Southeast-Europe and the Balkans post-1990	34
2	The evolution of European integration relations of Balkan countries	106
3	National composition of Yugoslavia, 1961–1991	130
4	National composition of Bosnia and Herzegovina, 1961–1991	132
5	National composition of Croatia, 1961–1991	133
6	National composition of Macedonia, 1961–1991	134
7	National composition of Montenegro, 1961–1991	135
8	National composition of Serbia, 1961–1991	136
9	National composition of Slovenia, 1961–1991	138
10	Estimate of the number of persons concerned by HCR activities at the end of 1999	145
11	Population size (thousands) and change (%) in 1960 and 2010 in the Western Balkans	166
12	Net migration rates in the Balkan countries, 1960–2010 (net number of migrants per 1000 population)	166
13	Population Cohorts in the Western Balkans, 1960–2010	168
14	Dependency ratios in the Western Balkans, 1960–2010	170
15	Stock of emigrants and immigrants as percentage of population, 2005	180
16	Remittances as share of GDP, in percentages	181
17	Top 10 destination countries for emigrants from the Western Balkans in 2005 and distances between capital cities in kms	192
18	GDP and employment trends, 1995–2004	198
19	Unemployment rates in the Western Balkans 2007–2009 aged 15–64	205
20	Incidence of long-term unemployment (% of unemployed)	206
21	Male and female unemployment rate 2007–2009	211
22	EPL index as per OECD methodology	222
23	Fixed term contracts and redundancy in the Western Balkans	223
24	Survey of some important mineral water resources	233
25	Agriculture and Forestry	237
26	Energy from biomass products and waste, % of total	243
27	Air pollution	244
28	Water supply and wastewater infrastructure	246
29	The cross-border impact of environmental pollution from mining in the Western Balkan region	249
30	Environmental ministries in countries of the Western Balkans	253
31	Spatial structure and urban features of Bosnia and Herzegovina	269
32	Spatial structure and urban features of Croatia	272
33	Spatial structure and urban features of Montenegro	278
34	Spatial structure and urban features of Serbia	281
35	Breakdown of villages by population in some areas of the post-1992 Yugoslavia	295

36 Change in the proportion of the poor in rural Serbia, 2003 301
37 Incomes of the families in Yugoslavia, in percent of the national average, 1983 302
38 Territorial Organisation of the Western Balkan Countries, 2010 348
39 Estimated Roma population 354
40 Roma disadvantage in the Western Balkans 355
41 Workers' remittances in the Balkans in 2007 and 2008 360
42 The sectoral structure of Gross Value Added (GVA), 2007–2008 390
43 Foreign Direct Investment (FDI) per capita (USD) 393
44 Knowledge economy indices in Central Europe 394
45 The economically active % of the total agricultural population of Serbia 406
46 A few indices of land use, 2005 407
47 Proportion of subsistence and near-subsistence farms (%) within the total of farms in the Balkan countries 413
48 Households (holdings) by sources of income and the size of land in Serbia, according to the population census of 2002 414
49 The sectoral proportion of agricultural output 415
50 Plant cultivation, area and yields, 2005 (2004) 417
51 Livestock numbers and production of animal products, 2004 420
52 Data on fishing in coastal countries 422
53 Main indicators of foreign trade of the Balkans countries 430
54 Trends in maritime ferry–traffic between Croatia and Italy 433
55 Number of railway frontier crossing points of Serbia and Yugoslavia between the two World Wars 435
56 Motor–vehicle traffic crossing different frontiers in the Balkans in 2000 439
57 The rankings of the Balkans countries in international tourism 448
58 Positions of the Mediterranean and the Balkans regions in world tourism 450
59 Rankings of Mediterranean and Balkans regions in world tourism (in relation to population) 451
60 Tourism portals of the Balkans countries 452
61 World Heritage sites in the Western Balkan countries 453
62 Number of tourist arrivals and guest nights in Croatia, 1985–2008 455
63 The share of foreign banks (as % of banking assets) 479
64 The structural characteristics of the banking systems in the Western Balkans 481
65 Territorial breakdown of the Croatian banking system 485
66 Periods of university foundation in countries of the Balkans 490
67 Some important indices of higher education in Balkan countries, 2007 493
68 Some important R&D indices in Western Balkan countries, 2007 501
69 The spatial structure of research institutions, 2005 505
70 Number of SMEs in South East Europe 517
71 Private sector share of GDP 517
72 Structure of SMEs by sector, 2001 518
73 Facility in doing business, global positioning (WB ranking in 178 countries) 519

74 Accountable institutions 534
75 Indicative overview of business support services 536
76 Starting a business: procedures and duration comparison 538
77 Associations of Municipalities 552
78 Key barriers to more participation in cross-border co-operation programmes 553
79 Number of firms per 1,000 population 554
80 Innovation capacity indicators 556
81 Buyer sophistication in the Balkans 557
82 Global Entrepreneurship Week activities 561
83 Pro-Credit and Raiffeisen branches, 2008 562
84 Performance in selected business-financing indicators 563
85 Local participation in the Enterprise Network Europe 568
86 CARDS Programme Allocation for, 2000–2006 575
87 Financial allocation of the IPA programme for the period 2007–2012 578
88 Financial allocations for CBC-programmes for Western Balkan countries, 2007–2009 579
89 Financial allocation of the IPA programme, 2007–2012 581
90 Financial allocation by the IPA programme in the period 2007–2012 582
91 Allocation of resources in Slovenia in the programming period 2004–2006 584
92 The financial frameworks of the NSFR programme in Slovenia in the period 2007–2013 585
93 Background to regional development 586

INTRODUCTION

The Balkans have been a major focus for the interest of Hungarian political activity and scientific research for centuries, and historically changing Hungarian ambitions long preceded the development of modern social sciences.

Faced by the increasing speed of modernisation, the Ottoman Empire became an 'area of traditionalism'. The region, excluded for centuries from the mainstream of European development, became a buffer zone for the Great Powers from the 1870s. This resulted in the outbreak of World War I, following which a totally new state structure was formed.

Post-World War II, the maverick politics of Yugoslavia was the centre of international political interest for a number of years. Tito's regime, manoeuvring effectively with the power techniques of the self-administrative system, produced substantial results in the transformation of the country's spatial structure. The results achieved in moderating the remarkably high level of spatial disparities (by European standards) and progress in the internal cohesion of the federation, attracted the attention of regional political experts. Spatial development programmes were implemented in the most underdeveloped member states of the federation to promote the industrialisation of underdeveloped areas, the establishment of an institutional systems of human resources, the development of modern infrastructure and services. Despite this maverick communist economic policy, there was only a modest decrease in the large disparities within the region.

The economic performance of individual member republics also showed large disparities in the mid-1970s. The GDP of Slovenia, the most developed part of the country, was twice the average value characterising Yugoslavia as a whole, whilst GDP per capita in the least developed part, Kosovo, was only one-third of the national average. The populations of Croatia (exceeding the national average by 125%) and the Vojvodina (119%), were very reluctant to support the redistributive burdens stemming from the high degree of public support granted to underdeveloped areas. This development policy paradigm, and the permanent debates surrounding it, have all contributed to the collapse of the Socialist Federal Republic of Yugoslavia.

The death of Yugoslavia added a new dimension to the problem of regional inequalities. The nationalisation of former regions resulted in territorial changes. The disparities between smaller areas within the new countries became

more apparent. Serious problems were posed by the new state organisation also. During the initial phases of the organisation of the new state formations, spatial aspects were obviously neglected. The transformation of regions into a state can certainly not be regarded as traditional spatial organisation, and the consequences of social practice lacking experience were clearly visible in the various development paths of the new states of the Western Balkans. The requirement for decreasing spatial disparities is among the priorities of state organisation in the new countries, while state policy focusing on the system of institutions and instruments guaranteeing the creation of new national identities placed less emphasis on this.

The questions of the stabilisation of the Balkans region are very much in the limelight of international political thought, planning and action. During the previous decade and a half, a great number of political documents focused on the objectives, instruments and institutions of the peaceful development of the West Balkans. The significant financial resources show the weight of this policy. The EU membership of several Western Balkan states has been promoted by several current member-states, and EU accession is counted among the priorities of the development strategies of these new states.

The present volume analyses the spatial structure of the countries of the Western Balkans as well as the factors contributing to this. A notable feature of recent decades has been an increase in spatial disparities. The earlier (tenfold) differences in income between regions continue to grow, but, more favourably, in addition to the relatively peaceful political conditions, other key factors in the development of the Balkans may be the strengthening of cohesion and the effective implementation of structural policy. A detailed study of spatial disparities is invariably needed before the implementation of modern spatial policy. We must be aware of the factors contributing to regional inequalities, the ideas voiced concerning their moderation, and whether the institutional system of state administration is sufficient to undertake these tasks.

The ideas concerning the spatial development of countries of the Western Balkans – Albania, Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Montenegro and Serbia – will, hopefully, be in the limelight of political action, and we can likewise hope that this volume will help to achieve this.

The volume presents the spatial specifics of Western Balkan countries. It gives an overview of the more typical features of different eras in the transformation of the area, undertakes an evaluation of the effects of regional disparities and outlines the development perspectives for the region.

The book is a result of the joint cooperation of the OECD LEED Trento (Centre for Local Development) and the Centre for Regional Studies of the Hungarian Academy of Sciences.

I.

EFFECTS OF THE CHANGE OF REGIME

THE BALKANS IN EUROPE

ZOLTÁN HAJDÚ

1 Introduction

The designation, specification and the definition of the inner content of spatial categories or units of different character and content have always been a fundamental issue for geographical sciences. It is a constant question whether the respective designated larger geographical units (continents, countries, macro-regions etc.) can be further divided and if so, on what basic and systemic principles. The relationship between the historical whole and its parts has appeared in many forms and in connection with designations of different content in the spatial complexes whose designations have changed during history.

The definition of the content of Europe itself can be linked to a positioning according to the cardinal directions: "West (Ereb)". Herodotus already differentiated among three continents of the contemporary world (Europe, Asia, Libya/Africa). Of course Herodotus could not know the whole of the old world, but he tried to "separate" the continents along their interfaces.

The spatial designation of Europe was problematic in later historical times too (especially towards the East), even if the simplest division on the basis of cardinal directions was used. (Especially contradictory concepts and borders were used in connection with the "adjacent and overlapping territory", the Balkan Peninsula and Central Europe.)

The cardinal directions, topographical designation of a given territory are usually accepted in spatial analyses, since the position by cardinal direction is the most "neutral" solution possible. Nevertheless the division "east" and "west" became problematic, because both topographical definitions bore value and quality content, openly said or hidden, even before modernisation – and especially in the time of modernisation.

Within the slowly shaping topographical division of Europe, the concept of Southern Europe (the Mediterranean region) was among the first, and it was given partly different spatial frameworks – a situation still visible in the different regional geography works. The division of the Mediterranean Sea into an east and a west basin led to the spatial category called the East Mediterranean, which in most cases embraced a part of the Balkan Peninsula also.

Southeast Europe as a separate region appeared on the maps as early as the mid-13th century. It developed with varying spatial contents, but became a very delicate and debated issue when the Germans reconsidered its basic characteristics after the middle of the 19th century and then filled this category with direct political content in the second half of the century.

Efforts to study the physical geographical macro-regions, and their designations appeared in the early 19th century. The German geographer, Zeune, designated in 1808 "peninsulas of the Peninsula Europe", including the Balkan Peninsula. The physical geographical designation of the Balkan Peninsula was a problem already for Zeune, the "naming father". In 2008 in Sofia a conference was organised in order to celebrate the 200th anniversary of the birth of the physical geographical concept (which conference also stated that physical geography had been struggling for two centuries to make a spatial designation acceptable for most of the academics). Within the physical geographical concept of "peninsula", the designation of the Balkan Peninsula proved to be the most debated, since this peninsula is linked to the main body of the continent with a wide "neck".

The Serb academic Jovan Cvijić, who strove for the most detailed human geography designation, also struggled with drawing the "boundaries of the neck". The exploration of the relationship between the peninsula and the changing South Slav states had already been given a political content in the work of Cvijić, the founder of modern Serb social geography.

The designation of a region and the definition of its inner content are not the privilege and sole competence of cartography and geography. Societies and the existing states of the times also try to define their place and position. In this respect it is very important how the given society relates to its environment and neighbours – that is, if they accept local, spatial, interest and value community or maybe even joint strategies and objectives with them. Formalised alliances have traditionally played an outstanding role in the formation of political spatial communities.

In the periods of great economic, social and political transformations in the world and Europe, the contemporary political structures on the territory of the Balkan Peninsula were also transformed very frequently and substantially. On the other hand, there was a time when a power emerging in the Balkan Peninsula (Alexander the Great of Macedonia) tried to transform the whole world according to its own value system.

The Balkan Peninsula can be seen, in respect of its basic historical features, as a "space waiting for an empire". After the "internal" empire of Alexander the Great, the Roman Empire involved the Balkan Peninsula in a larger, externally defined framework (the whole of the Mediterranean). After the partition of the Empire, Byzantium created the East Roman Empire with an inner Balkans cen-

tre (Constantinople). The power of Byzantium was broken by the Turks who (also) ruled the Balkan Peninsula for centuries. Istanbul became the dominant state centre of the whole Eastern Mediterranean for several centuries.

The creation of the political spatial category called "states of the Balkan Peninsula" in the period of modernisation took place taking either the spatial units of the states or the respective states themselves into consideration. In the period after World War I, Yugoslavia, Romania and Turkey were these states. The acceptance of the results was just as relative as were the physical geographical divisions. (In these an important factor was the fact that the states of the region and their boundaries changed fundamentally on some occasions.)
The "Balkans" appeared as a spatial category of basically negative content in the experiences of the European travellers of the 18th century, and this view became widespread after the 2nd half of the 19th century, enriched with broader spatial and political values. This category became the least attractive community-shaping category for the "insiders" or the "categorised", although there were areas that consciously accepted their belonging to the Balkans. By the late 20th century the Balkans had, more or less, rid themselves of this negative content (although in the period of the Yugoslav conflict, the "Balkans" was very frequently used as an attribute, in fact, as an element of stigmatisation), and so now it is part of the official terminology and documentation of e.g. the European Union.

There has always been a specific historical view competition in the region, formerly manifesting itself on the pages of historical maps and school textbooks, but by now this competition has been "socialised", has become part of the daily politics. "Primacy", "ancientness" and "holy places" are important for almost all peoples, and mostly these symbolic spaces have "overlaps", because of the historical development and changes of the region and the ethnic movements in that space. (We do not find any territory in the peninsula which belonged permanently to the same state formation.)

The historically changing external connections and the system of specific relations to the super-powers (oppressors, conquerors, liberators, allies etc.) have made the external and internal relationships of the states existing in the Balkan Peninsula more complicated than in any other region. The interventions of the super-powers have been almost constant in the region, but they became most intensive and massive, and most conflict-laden after the 19th century. (The super-powers which in a way "despised" the Balkans had a considerable role in the fact that the "Balkan Peninsula has become Balkans".)

The term "balkanisation", which has long been used to generalise the internal structures of the Balkan Peninsula and, even more so, its state-formation processes (e.g., the disintegration of the empires into smaller units and the ready

collapse of the new state formations), essentially belongs to the region, but it has already appeared in other parts of the world also.

Within the European regional view, several spatial categories appeared in the 20th century besides Southeast Europe, the Balkan Peninsula and the Balkans. With some territorial overlaps, but also with different meanings, were defined the concepts of Carpathian-Balkans Europe, Danubian Europe etc., involving considerable territories in the Balkan Peninsula.

The macro-regional co-operation spaces – "tendering spaces" – of the European Union are interesting inasmuch as development and co-operation relations were formed partly around and partly within the Balkan Peninsula. The tendering and co-operation spaces are only made for certain periods of time in most cases, and so they do not influence the long-term development of the structures.

The action space of the Danube strategy of the European Union, under construction, covers the larger part of the Balkan Peninsula. This may also mean (at the levels of spatial view and spatial policy) that the dominant physical geographical and political element of the Balkan Peninsula is not the seas around it (usually six seas are listed as frontiers) but the Danube River.

The above-mentioned spatial categories themselves are components in and results of a historically conflict-laden process and the designated spatial categories have specific meanings for almost everyone. The inner acceptance of the specific territorial categories by the population, group, nation, country etc. living there was, and remains, problematic in most cases. In political communication, in fact, and even in the sciences, new definitions and new spatial categories were born after the system changes. The category "post-communist" covered the major part of the Balkan Peninsula after the systemic change (only Greece and European Turkey were excluded). This meant the group of the former socialist countries. The category "post-Yugoslav" was meant to comprise the countries gaining sovereignty in the territory of the "Former Yugoslavia".

The "Former Yugoslavia" (in several different spatial structures and political constellations) meant a political challenge, a security risk and, partly, a direct threat for the European Union. The definitions and names of the territorial units (see the dispute of the Macedons and the Greek over the name "Macedonia") are not only semantic issues but also have historical, emotional meanings and evoke fear in most stakeholders. (This is why Macedonia could not be invited in April 2008 to join NATO.)

The Western Balkans had already appeared in geographical literature as a topographical category, but it is also a new formation as a category of politics and political geography. It was, in fact, created by the European Union in 1998 to designate those territories that had not joined the enlargement process. The spatial category and its content have been modified several times since then and long-term stability is also unlikely.

2 Characteristics of the historical changes of western and eastern orientation in the Balkan Peninsula

Because of its topographical position, its inter-continental location (among Europe, Asia and Africa), the Balkan Peninsula has always been at the cross-roads of maritime and continental, eastern and western, northern and southern etc. peoples and cultures and their power ambitions. The Balkan Peninsula was continuously integrating, sometimes mediating, and occasionally it also had considerable emissions.

The Balkan Peninsula is most respects (geography, spatial history, ethnic history, religious history, political history, national identity, national mission, security policy etc.) can be defined as a space "according to…" In practice, there is no feature, important or less important structural characteristic of the area in connection with which no competing national science schools questioning the very basic results of each other were born (from the origin of the name of the region through the demarcation of geographical boundaries to the evaluation of the changes and the present structure of the ethnic composition). The phrase "according to…" means that neither academic nor public agreement (by the population of the region) was achieved in connection with the region, – and so relative values and results are confronted in almost all respects – not to mention any sense of a collective spatial community.

The Balkan Peninsula – irrespective of spatial configuration – is bordered by inland seas on three sides (east, south and west), whilst its connection to the main areas of the continent to the north is specific in many respects, since the neck connecting the Balkans to mainland Europe is very wide. The neck does not separate the peninsula from the continent; in fact, it opens it up to the Alpine lands, the Carpathian areas and the eastern plains.

The Balkan Peninsula is one of the largest physical geographical units in Europe and its northern borders are defined in somewhat different ways (the Trieste–Odessa line, the Sava and Danube Rivers etc.), but there is a consensus on the "existence" of the peninsula (*Figure 1*). The region is heterogeneous from a physical geographical aspect; all geographical features of Europe appearing here in a relatively limited area: the Balkans is a combination of Mediterranean and continental elements, plains, basins, hills and high mountains – but its main characteristic features are linked to orography. A basic, critical characteristic of the Balkan Peninsula is division – fragmentation in almost all respects – which almost inevitably offered at certain historical points the possibility of political fragmentation (balkanisation).

Nevertheless it is not physical geography which gives the region its complexity. On the "approximately" 500 thousand square kilometres of the penin-

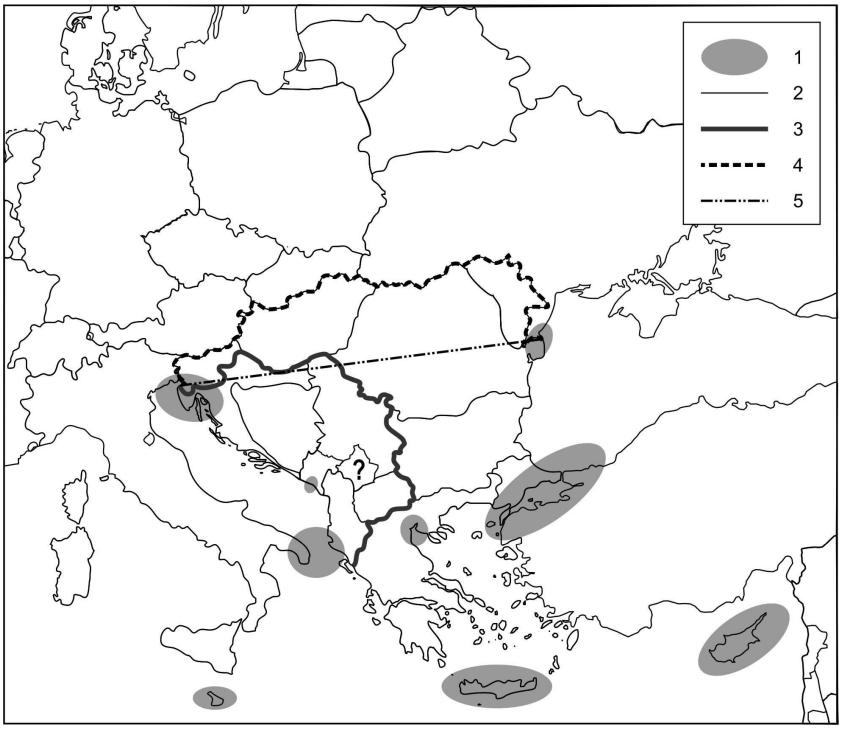
sula there has always been a complicated mosaic of peoples, cultures, religions etc. The intensity of historical events has always been high in this region.

Coming from its topographical location, the region has always had a definite strategic importance in history, and, although its strategic values and components have always changed as a function of the contemporary technical endowments, the Balkan Peninsula has always been aware of its significance.

The social, economic, political, power etc. issues of the region have always appeared in the relative proportion of internal and external processes during history, the combination of these factors enhancing the significance of the Balkans for European or world politics, and this is also what determines its present situation.

Figure 1

Geographical delimitation of Southeastern-Europe, the Balkan Peninsula and the Western Balkans



Key: 1 – Historically delicate geostrategic area; 2 – Present state borders; 3 – Western Balkans in EU political terminology; 4 – „Consensual" Southeast-European state borders; 5 – Trieste–Danube-Delta line.

The peoples of the peninsula have always acted "irrationally" from an external viewpoint in the period of modernisation. The continuously appearing image of "irrationality" actually meant that the external actors and the political factors neither understood what was going on in the territory, nor the underlying reasons including the main elements of what was happening. (The internal and external values rarely coincided in history.)

There is consensus on the major turning points and on the definition of the periods of the long-term history of the Balkan Peninsula (*Hupchick–Cox,* 2001). Greek and Roman history is not termed "Balkanic" but considered only as European. Many historical and cartographical works open their historical and geographical analysis of the Balkans from Byzantine times, continue with the Turks whilst the territory is finally "integrated" into the universal European chronology and history after liberation from Turkish rule.

2.1 From empire to empire, with periods of fragmentation

If we take a look at the transitions of the macro-region and the turning points of the coordinated spatial processes and spatial views, there are certain points which need to be emphasised.

The dominant and most celebrated culture of the early historical times of the Balkan Peninsula is the Hellenic (Greek) culture. The classic Greek civilisation defined the basic internal features of the Balkans region – not in a west-east relation but as an area of maritime and continental areas, and of the civilised Greek nation and Barbarians. Greek culture and civilisation was predominantly of maritime interest and linkages, although within the Greek ethnic area itself there were differences among the poleis in respect of maritime and continental interests.

Macedons or Macedonians appeared as direct neighbours to the northern part of the Greek ethnic areas and developed relationships with the Greeks. The opposition between the poleis and the empire emerged as an issue during the reign of Alexander the Great (336–323 B. C.). The penetration of the Macedons (considered crude and barbarian in the Greek eyes) started from the northern, inner Balkan areas and, within a short time, had integrated a large part of the Greek poleis, although it should also be remembered that the Macedonians did not only conquer ethnic Greek areas but also considerable areas of the inner Balkans. Alexander the Great made an attempt to create a world empire. He placed the centre of his empire more or less in the middle of its east–west axis, locating the empire not only outside the Balkans but also outside Europe.

Emerging Rome first secured the territory of Italy before gradually expanding its rule to the western basin of the Mediterranean Sea, finally, within a few decades, conquering most of the ethnic Greek areas, including Greece itself (in 150 BC.).

Expanding Rome was a continental power formation from its very beginning, and only then did it become a maritime power also. At the peak of its power the Roman Empire was primarily a maritime empire based on the Mediterranean but which also integrated huge continental territories.

The Empire was for long a centralised, single unit, although the strong impact of Greek cultural and economic influence was visible in the eastern territories. Christianity spread in the Empire from the East, mostly across the Balkans. In 313 the persecution of the Christians ended, and in 330 A. D. Constantine made Byzantium (Constantinople) the capital of the Empire, pushing in this way the centre of gravity – not only of politics but also of power – eastwards. In 394 Christianity became the official state religion over the whole territory of the Empire.

Taking the long-term historical processes into consideration and also the dominant structures of the European historical policy thinking, it is the split of the Roman Empire (in 395) that offers the most suitable turning point for the separate "West" and "East" in the political sense in the Mediterranean basin. (The new inter-empire border also split the Balkan Peninsula into two.) The two parts of the empire had different development paths in many respects, and this had a significant impact on the development of their deeper structures. This is true even if we know that only a small proportion of the present ethnic groups of the Balkan Peninsula was were there at that time. The western area was first and foremost shaped by the impact and influence of Rome, whilst Greek impact and influence were stronger in the eastern part. These two parts – apart from later, continuous changes and adjustments to territories – actually became the bases of religious development in the future (Roman and Byzantine Christianity).

The West Roman Empire ceased to exist in 476. The Germanic chieftain conquering Rome sent the symbols of power of the Empire and the Emperor to Constantinople, expressing and acknowledging in this way that the historical rights of Rome had been transferred to Byzantium.

For the East Roman Empire, handling the huge migrations starting from the East was an enormous challenge. They were able to "westernise" the Huns to some extent by taxation, but they had conflicts with the peoples coming later. The Slavic tribes flowing in from the 500s, with their great migrations, basically rearranged ethnic relations. It was probably the Slovenes who were the first to arrive, followed by the Croats and the Serbs (with some delay) and finally by the Bulgarians. However, this latter nation was not of Slavic, but of Turkish

origin. These different immigrating, integrated, conquering etc. ethnic groups were in the gravitational field of different Christian cultic centres (Rome and Byzantium). The Croats and the Slovenes were integrated into the intellectual influence of the Roman Church, whilst the Bulgarians and Serbs gravitated into the Byzantine. The orientation of the different ethnic groups within Christianity (western and eastern) was a new factor of differentiation in the territory of the peninsula.

The split of the Church (the Great Schism) in 1054 had a profound impact on the territory of the Balkans, and the order of areas under dominantly western and eastern Christianity influence gradually appeared. (Actually in the Balkans it was only the Slovenes and the Croats who insisted on Rome; Bosnia was home to church competition and frequent conflict. The largest part of the Balkan Peninsula was under the rule of the Eastern Church.)

In order to understand the historical views of the present structures we have to know that each of the ethnic groups presently living in the region had their "period of glory", times when they made a large state, maybe an empire. The early historical situations have deep roots in the historical memories of the respective communities (which are much more alive in the Balkan Peninsula even now than in other parts of Europe) and became the foundations of sovereign power efforts at the time of the awakening of nations.

2.2 Impact of Turkish rule on the structure of the Balkans

The five centuries of Turkish rule had a great impact on the development of the inner structure of the region. The Turks occupied Gallipoli in 1352 and settled down in the Balkans. In 1362, Adrianople (Edirne) was also in Ottoman hands, in fact, in the "back" of Constantinople this city became the power centre of the empire.

The Turks used specific "macro-regional surrounding" strategy against Constantinople, in 1389 they beat the Serbs in Kosovo Polje and in 1396 Bulgaria was occupied by the Turks. In 1453 the city of Constantinople itself fell to the Ottomans, and became the Turkish capital. It is a twist of fate that the Turkish sultans considered themselves as heirs to the Eastern Roman Emperor and to the Byzantine Empire, and their rulers title was defined accordingly.

The issue of "westernness" and "easternness" continuously changed during the progress of the Turks, the territories under stable Turkish occupation can be taken as "East", and not simply because the Turkish power penetrated into the area from the east, but because the dominant structural changes still palpable in the region today can be connected to this period. The largest territorial expan-

sion of Turkish rule delineates those areas where transformation processes were, in the broadest sense, the deepest.

The religious division (Roman Catholic, Orthodox, Islamic) had a special territorial and ethnic manifestation, and, besides these three dominant religions, there were smaller groups of Jews and then Protestants.

The military-feudal Turkish Empire had its deepest impact on the structures by significantly (although not totally by far) isolating the Balkans areas under its rule, separating them from European processes and from the modernisation movements becoming more and more intensive in Europe at that time. On the other hand, the conservation effect in some cases also "defended" the conservative inner relations of the Balkans societies.

The spatial concepts "Turkish Europe", "Turkish Empire in Europe", "European Turkey" defined the contemporary European spatial rule of the Turks in different maps and in the political science and state statistics works written after the 18th century.

In its long-term political spatial view and spatial development the Balkan Peninsula experienced the impacts of fragmentation and of frequent reorganisations and changes of empire. In respect of transitions in the peninsula, the Balkans can perhaps be best defined as an "empire-changing" space.

2.3 The period of belated modernisation

As an effect of the French revolution and Napoleon, the intellectual elite (clerical and secular intelligentsia, merchants, financial entrepreneurs) of the different Balkans peoples and ethnic groups could obtain – and actually did obtain – more and more information on the new European intellectual trends and nationalism. National awakening reached the different communities of the Balkan Peninsula, although with some delay.

The truly new element was brought by anti-Turkish efforts, and the competition of the European super-powers (especially Russia and the Habsburg Empire). These empires necessarily saw the Turkish Empire, including its Balkans territories, from the outside. In 1744 the Russians achieved, by means of the Kucuk-Kainardji peace treaty Turkish recognition of them as the protectors of the Christian people of the Balkans, and they were, in fact, given the right of intervention.

The start of modernisation for the current Western Balkans meant that one part (at the beginning a small part) of these territories were located in the Habsburg Empire, and then western influence gradually expanded by virtue of the Austrian–Turkish conflicts.

Greece was the first to achieve (by multilateral international support) its sovereignty (1821–1827–1832). The Greek political elite defined their long-term objectives on the basis of their historical past. In 1844 the Greek prime minister in power said that the objective of the Greek state was to unite the historical Greek areas and to integrate the Greek nation in one single state (Megali Idea). Greek success seemed to be unstoppable. In 1864 the Ionian Islands, in 1881 the larger part of Thessaly and Arta, and in 1897 the remainder of Thessaly was integrated into the territory of the new state. This also meant that Greece seceded from Turkish Europe, depicted in a different colour on the map – and also in political thinking and action. Greece became something other than a region ruled by the Turks.

From this time on the "Eastern issue" meant for how long and in what way would the Turkish Empire (the "sick man of Europe") be able to slow down independence movements, and what support the efforts of the respective small nations would receive from the superpowers. (Each European superpower tried to find a "local ally" in the peninsula.)

The process of the political sovereignty of Serbia was a "connected element" of the Austro–Turkish (1788–1791) and, to some extent, the Russo–Turkish wars. The Serbs gradually reached independence, starting with the first Serb rebellion in 1804 and then expanded by means of several more rebellions. By their second rebellion in 1815 the Serbs achieved a kind of autonomy. The Peace Treaty of Adrianople concluding the war of 1828–1829 already guaranteed that the Turks gave some degree of autonomy to the Serbs in 1830 and 1833. The Turkish army remained in the country, but the Serb principality started to act more and more as a near-sovereign state in international political processes. The major political effort of the principality was to achieve sovereignty, and then, following the Greek example, they immediately asserted that their long-term objective was to regain the territories owned by the medieval Serb state, the unification of (possibly all) Serb ethnic areas in one single state – actually the creation of a Greater Serbia.

Turkish troops were withdrawn from the major settlements of the country, including Belgrade, in 1867. A few elements of dependence still remained, but these were eliminated by the international community in the framework of the compromise made in Berlin in 1878. The capitalist economy could only slowly develop in the country laden, as it was, with internal political tensions.

The beginning of the modern state development of Montenegro started in 1851–1860, when the formerly theocratic formation considered as a Turk vassal state was transformed into a secular principality. At the Berlin Congress the superpowers acknowledged the sovereignty of the principality and gave it access to the sea.

The development of the modern Bulgarian state started in connection with the Russo-Turkish wars of 1877–1878. Following the victory of Russia, the Peace Treaty of San Stefano created a Bulgaria with a large territory and population, under Russian influence. It almost redrew a large part of the East Balkans, and was not accepted by the superpowers, except for Russia.

The Berlin Congress of 1878 redrew again, in many respects, the political map of the Balkans. The short-lived Greater Bulgaria was divided into three parts: an autonomous principality was made in the north, with Sofia as the centre, in the central part, Eastern Rumelia was given semi-autonomous status (these two Bulgarian territories were united in 1885), whilst the southern part remained under Turkish rule, because these areas were also claimed by the Serbs and the Greeks. The fact was that it was no longer the protection of Christians (but the interests of the superpowers) that mattered is best demonstrated by the return of some of the liberated areas to Turkish administration. It was evident for the Bulgarians too that they were interested in the restoration of the historical "Greater" state. The unification in 1885 almost led to a conflict between the Bulgarians and the Serbs, which was calmed down by the superpowers, making all parties accept the borders drawn in Berlin again.

In the modernisation of the Balkan states, a dominant role was played by the – somewhat belated – construction of the railway system. This, of course, matched the interests of the superpowers and was, at the same time, a result of internal, inter-state compromises. In international and internal transport, making the Danube River an international waterway was a factor of modernisation, together with the creation of conditions for free maritime navigation.

After pushing the Turks out of the Balkans the countries now making up the Western Balkans followed partly different development paths. Croatia joined the Habsburg Empire through the Kingdom of Hungary, keeping the Roman Catholic faith, western relations and culture. Bosnia and Herzegovina, as a multi-ethnic and multi-religious area at the time of the great European rearrangements, was occupied in 1878 by the Austro–Hungarian Empire, and it was also formally annexed by the Empire in 1908. In some respect thus Croatia and Bosnia and Herzegovina became part of the "West", while the other countries showed marks of the "East".

The "seething peninsula" not only behaved more and more as a "gunpowder barrel", but the new states with their short history actually started wars first against Turkey (1912, 1st Balkans War) and then against the biggest winner, Bulgaria (1913, 2nd Balkans War). Following this war, immediately before World War I, a short-lived political map of the Balkans was born which, nevertheless, had a great impact on history. In 1912 – actually as a decision of the superpowers – sovereign Albania was born as a new actor in politics. This

made the Albanian-Serbian relationship complicated, but the creation of the new state also had an impact on the other neighbour states.

In 1912 Serbia liberated – at least in their own view – Kosovo from the Turkish rule (according to the Albanians, Serbia occupied Kosovo). The indigenous Serbs and Albanians living in Kosovo had a relationship that was far from being conflict-free, even under Turkish occupation, due to the different religious and social positions. The Muslim Albanians had more positions of power, whilst the Serbs were the oppressed religious and ethnic minority compared not only to the Turks but also to the Albanians. Within the framework of the new state, the Serbs held power, with negative consequences also to the Albanians.

Before World War I, the number of sovereign Balkan states significantly increased. The Turks were, in fact driven out of the Balkans, and from this point on, Turkey was rarely considered as a European country with its tiny remaining Balkans and European territory, despite the fact that Istanbul remained the largest city in the Balkans and still had a considerable economic impact on the processes of the "successor states".

2.4 Internal alliances of the Balkan states in the period between the two world wars

World War I broke out in the Balkans (between Serbia and the Austro–Hungarian Empire), but it was not primarily a Balkans war; it was about the re-distribution of territory and power in the world and not in the Balkans. The would-be relations of the Balkan states were strongly influenced by their confrontation and struggles during the war. (Images of each other became personal and popular during the war as a result of the experiences of prisoners of war.)

The "winners" (Greece, Romania and Serbia) and the "losers" (Bulgaria, Austro–Hungary and Turkey) wee in very different situations when signing the peace treaties closing the war. After WWI, the politico-geographic relations of the region basically changed. On December 1st 1918, the Kingdom of the Serbs, Croats and Slovenes was proclaimed (re-named Yugoslavia in 1929), which integrated the northern parts of the Balkan Peninsula and also occupied large areas in the Carpathian Basin. Not only Yugoslavia became a large state in the Balkans but so did Romania. In fact, these two, medium-size powers ruled the larger part of the Balkans territories and controlled political activities there.

As a loser in WWI, Bulgaria could not expect any good intention and respect from the others, and both Yugoslavia and Romania paid more attention to

Central Europe, since they had to defend their new acquisitions – first and foremost against Hungary. Even after the formal birth of the "Little Entente", the attention of these new Balkan powers turned towards Europe.

Turkey was in a complicated situation in many respects when World War I broke out: both in defining its own objectives (whether it wanted to regain certain territories) and the choice of allies (what could Turkey expect from each side in case of victory) was problematic for Turkey. Finally the country entered the war as an ally of the Central Powers and left the war as a loser.

The Greco-Turkish war of 1919–1922 was actually the continuation of the 1st and 2nd Balkans wars and of World War I. Turkey was unwilling to accept the humiliating conditions of the peace treaty, although the issue was no longer the conquered territories but those which the majority of Turks considered as their essential heartland.

The period between the two world wars was the time of bourgeois development over the whole of the Balkan Peninsula, but the long historical traditions and ambitions were sources of differences and conflict – partly within Yugoslavia and partly among the other countries of the region.

The Slovene and Croatian territories had more developed economies and also, to a great extent, more advanced political cultures than the other territories of the new kingdom. The centralising efforts of Serbia necessarily confronted the efforts of the two more advanced territories and ethnic groups (especially those of the politically much more sensitive and conscious Croats). In Yugoslavia, between the two world wars, the Slovene and Croat areas were the "West", whilst the major part of the country could consider itself as part of the "East".

Ethnic cleansing during the war and the population exchanges undertaken as a consequence of the peace treaties concluding the war ruined the relationships of not only countries (the political elites) but also of the common people. Practically each ethnic group had to suffer forced (often violent) migration, but the main victims were the Greeks and the Turks. After the war approximately 1.5 million Greeks left Turkey and some 400 thousand Turks left the territory of Greece.

In February 1934, after several years of preparatory negotiations, Greece, Yugoslavia, Romania and Turkey signed the "Balkans Pact" in Athens, which was a political and military alliance for the maintenance of the status quo ante stabilised after the war. The alliance was more directed towards settling issues among the parties than anti-Bulgaria, although the signatories covered the greater part of the Balkan Peninsula and excluded Bulgaria.

The changes in European macro-politics overwrote some of the alliance initiatives made among the Balkan states. Fascist Italy wished to impose both its old and new wills on Albania and Greece, and Nazi Germany on Yugoslavia.

During WWII not only were territorial structures revisited – one of the biggest winners of which was the Sovereign State of Croatia – but tragic demographic processes also started over the entire Balkans, especially in Yugoslavia. Yugoslavia was a country of armed conflict against external aggressors (Germans, Italians, some Hungarians) and suffering a "multi-actor" civil war at the same time (Partisans, Cetniks, Ustashas). In 1941–1945 the number of casualties in the former Yugoslav territory was approximately 1.7 million, but besides the losses due directly to the war, a significant number of lives were taken in post-war ethnic retribution (against Hungarians, Italians and Germans) and political conflicts (by Cetniks and Ustashi).

2.5 The Balkans in the Cold War period

The period following World War II did not simply develop on the basis of "winners and losers" logic (neither Stalin nor Churchill intended to keep the deal noted on the "dirty slip of paper", relating to zones of influence, including fixed percentages); the unfurling bipolar world had already had a considerable impact on the development of external relations, whilst internal social, economic and political struggles also had an effect on the development of external relations and foreign policy action.

As Soviet-American relations became more and more tense, various consequences appeared in the Balkans. After 1946 the USA thought in terms of a kind of "Mediterranean Sea Pact" or "Mediterranean Pact" – both expressions had a definite anti-Soviet content.

Dimitrov and Tito planned a Balkans federation in 1946, until Stalin sharply rejected the very thought of the organisation. Stalin said that the Balkans countries had to build relationships not with each other but with the Soviet Union.

The Greek civil war was only to a lesser extent about the method of internal transformation and re-organisation; it was more about defining the foreign policy orientation of the country. The defeat of the Communists did not only mean the western orientation of Greece but also the inflow of tens of thousands of Greek refugees into the new socialist countries.

Tito's Yugoslavia was, in many respects, the first to break away from the system defined in Yalta, by gradually "swimming out" of the embrace of the Stalinist Soviet Union. The excommunication of Yugoslavia by the "decent socialist countries" resulted in the naturally intensifying western orientation of the country.

When COMECON was founded in 1949, the "decent socialist countries of the Balkans" naturally joined the economic organisation whose basic feature

was that these countries established deep economic relations with the Soviet Union, whilst their relationships with each other weakened.

In 1952 Greece and Turkey joined NATO together. This accession initiated not only economic but also military and political bloc formation on the Balkan Peninsula. (Contemporary political terminology frequently dubbed NATO the "western military bloc", which of course had a specific meaning for the two Balkans countries. The southern and easternmost areas of the Balkans became "West", part of the free world in the political sense.)

In 1953 the Balkans League was established (by Greece, Yugoslavia and Turkey), with the primary objective of providing a kind of joint military protection for Yugoslavia against a potential Soviet attack. After the death of Stalin, with the growing acceptance of the Soviet leadership of the development of Yugoslavia and with the preparation processes of the movement of non-aligned countries, the League became unnecessary for Tito.

With the exception of Yugoslavia, all small socialist Balkan states joined the Warsaw Pact founded in 1955. The "southern front line" was a form of clear dividing line between NATO and the Warsaw Pact.

In the cold war period, therefore, the Balkans was divided into two camps (socialist and capitalist). Both groups had specific, unique statuses and conflicts:

- Yugoslavia was a non-aligned socialist country which, from the mid-1960s, opened up towards the west in many respects (economic and financial relations, relatively free travel for the inhabitants, foreign employment possibilities etc.);
- Albania broke off relations with the Soviet Union and seceded from COMECON;
- Romania went on its own path indulging in nationalist politics;
- Bulgaria was the most faithful ally of the Soviet Union.

The relationship between Greece and Turkey can be divided into several different periods in the cold war years, in which both internal events (military dictatorships, political turns) and the conflicts relating to Cyprus played a part. The formally allied states were rather keen on keeping their relative positions against each other.

The easement processes of the 1970s appeared in the Balkans also but did not bring about a real breakthrough in the relationships of the alliances and among the respective countries. Hiding the inner problems, however, became more and more difficult for each country.

Tito's death in 1980 brought about new uncertainties. The real issue was whether the internal Yugoslav processes would promote the stability of the whole of the Balkans or would merely increase the uncertainties.

The accession of Greece to the EEC (in 1981) brought a new element and new aspects into the region inasmuch as the Western European countries made considerable economic sacrifices for the modernisation of the Greek economy and infrastructure. Social modernisation processes unfurled more slowly in Greece than did economic ones. (From this point Greece has been considered not as a Balkans, but as a Western European country in the political sense, on all maps and in statistical databases.)

2.6 Systemic changes and orientation shifts, 1988–1998

In the late 1980s, fundamental changes occurred in global and European politics. This great reordering did not start in the Balkan countries (in fact, we may even say that the majority of them reacted to the changes rather late), but they had deep impacts on the peoples and states of the Balkans also, primarily, but not exclusively, in the socialist countries. Internal movements and political reconstruction started in both allied systems, and especially in the socialist countries.

On 26th of February 1988, "Interbalkan Cooperation" was launched. Albania, Bulgaria, Greece, Yugoslavia, Romania, and Turkey saw that in this region, apart from military, political, economic and social concerns, they needed a consultation and co-operation forum that allowed them to prevent the potential conflicts among each other in a rapidly changing world. (The organisation was of great importance inasmuch as the participating countries, accepting each others Balkan character, covered the whole geographical territory (*Table 1*). Inter-Balkan Cooperation, due to the rapid transitions, became totally formal within a short time, although some high-level international summits were still organised.)

The dominant element of the transformation process was the weakening of the Soviet Union, followed by the collapse of the bipolar world and the rise of the USA as the only superpower. Each country necessarily had to face new challenges of adaptation after the fundamental transition of external circumstances, but the internal compromises on the direction and content of the adaptations were hard to achieve.

Internal democratisation and the economic, social and political systemic change took place at different times and in different ways in the respective countries. We are inclined to forget now that the option of peaceful or revolutionary, civil war laden-systemic changes was a real issue not only in Yugoslavia but also in Albania, Bulgaria, and Romania.

Table 1

Different delimitations of Southeast-Europe and the Balkans post-1990

	Countries involved	Area, '000 km^2	Population, '000
Balkan states 1990	Albania	28.7	3,200
	Bulgaria	110.9	9,000
	Greece	131.9	10,000
	Romania	237.5	23,200
	Yugoslavia	255.8	23,670
Total		764.8	69,070
Balkan states 1993	Albania	28.7	3,300
	Bulgaria	110.9	9,000
	Bosnia-Herzegovina	51.1	4,516
	Croatia	56.5	4,685
	Macedonia	25.7	2,132
	Romania	237.5	23,320
	Serbia-Montenegro	102.1	9,886
	Slovenia	20.2	1,953
Total		632.7	55,492
Balkan states 1995	Albania	28.7	3,300
	Bulgaria	111.0	9,000
	Bosnia-Herzegovina	51.1	4,400
	Greece	132.0	10,000
	Croatia	39.5	4,400
	Macedonia	25.7	2,100
	Romania	237.5	23,300
	Slovenia	20.3	2,000
	Serb Krajina Republic	17.0	400
	Yugoslavia	102.3	10,500
	European Turkey	23.7	4,900
Total		788.8	74,300
SEE/Balkans 1996	Albania	28.7	3,300
	Bulgaria	10.9	9,000
	Bosnia-Herzegovina	51.1	4,400
	Croatia	56.5	4,400
	Macedonia	25.7	2,100
	Romania	237.5	23,300
	Slovenia	20.2	2,000
	Yugoslavia	102.1	10,500
Total		532.7	59,000

Source: Atlaseco de poche, 1990; L'etat du monde 1993; Hadži-Jovančić, 1995; Hall–Danta, 1996.

In the South Slav area the real structural issue was the future and the way of the transformation of Yugoslavia. The Yugoslav transition became a lengthy process and in many respect it had "Balkan turns". During the time of the transformation, the systemic change and sovereignty ambitions of the nation-states appeared simultaneously, together with the autonomy needs of the territorial majorities and the issue of the state heritage of Yugoslavia.

New political spatial categories were born in the transition and separate groups of states were the ex-socialist and the ex-Yugoslav countries. Both were often designated as transition states.

US foreign policy made efforts to legitimise, within broad regional frameworks, the Yugoslav civil wars and the inner structure of Bosnia and Herzegovina as of 1995, and accordingly, in December, the Southeast European Cooperation Initiative (SECI) was founded. A fairly large "Southeast Europe" was presented by the 12 participating countries (Albania, Bosnia and Herzegovina, Bulgaria, Greece, Croatia, Yugoslavia, Macedonia, Hungary, Moldova, Romania, Slovenia and Turkey). The organisational framework and the actually externally defined co-operation strain was "welcomed" least by Croatia and Slovenia.

3 Western Balkans as a new spatial category of political geography

"Western Balkans" in regional geography as a "unit of cardinal directions and topography" has appeared since the late 19th century with various spatial contents and in different versions. From schoolbooks through the thinking of the society to politics, it was a frequently emerging issue where a given country was to be found and with what larger spatial unit did they identify themselves. In the internal delimitations of the peninsula, the topical situation of the political space was just as important as in pan-European divisions.

Not only Western Balkans is featured today as a topographical space concept; for example, according to a complete international lexicon of countries published in Hungary in 2007, Bosnia and Herzegovina was located in the territory of the "Northwest Balkans". Apart from Bosnia and Herzegovina, no other country could be found in the northwest part of the Balkans.

The discussion of the concept "inner political Southeast Europe" started again in 1996 in Sofia, after the settling of the Bosnia and Herzegovina issue. On the initiative of Bulgaria, the South-East European Cooperation Process (SEECP) was created, with the objective that the founding countries should decrease regional tensions by reinforcing mutual trust and deepening co-operation amongst themselves. (The founding countries were: Albania, Bosnia and

Herzegovina, Bulgaria, Greece, Macedonia, Romania, Serbia and Montenegro, Turkey (initially), Croatia (from 2005), Moldova (from 2006 and Montenegro in its own right as a newly sovereign state (from 2007). The regular multilateral meetings had some results, but could not prevent the Kosovo conflict and external intervention into the conflict in 1999. The loose consultation forum, still operating today, is interesting because it is an internal initiative and behind it there is a voluntary acceptance of the spatial community. It is as if the countries have said: 'Here is the self-defined Southeast Europe'.

"Western Balkans" as a political spatial concept of new content is quite new. It first appeared in December 1998, but only in the regional policy terminology of the European Union, in the Vienna Declaration of the Council of Europe. The starting point of the CE declaration was the fact that the EU had vested interests in the stability and security of Southeast Europe.

A decisive element in the birth of this political spatial category was the need to differentiate these countries from Bulgaria and Romania (the Eastern Balkans), the two states granted accession in 2004. The Council of Europe made separate statements on each of the states then listed as "Western Balkans" – the Federal Republic of Yugoslavia, Bosnia and Herzegovina, FYR Macedonia, Croatia and Albania, and defined separate expectations of each of them. (On the basis of the categories used in the minutes a clear spatial hierarchy can be defined: Southeast Europe – the Balkans – Western Balkans, and their respective states. The content of each category was not detailed, but it was actually made clear that the Balkans in this approach meant two categories: the Western Balkans, Bulgaria and Romania.)

The political communication of the international media did not include Yugoslavia (Serbia and Montenegro) in this political spatial concept in 1998 (expressed by the terms Western Balkans and Serbia and Montenegro), but, following the start of the transformation after the war in 1999, Serbia and Montenegro, and after its disintegration the two successor states, were more and more often mentioned in the Western Balkans category.

Before 2004 Slovenia was considered as part of this spatial category (after accession to the EU it was only rarely mentioned as a country of the Western Balkans). It became more widely understood that that this category had been created for extra-EU countries – that is to say, Albania, Bosnia and Herzegovina, Croatia, Serbia, Montenegro and Macedonia were the Western Balkans. The situation of Kosovo became even more complicated after the proclamation of its sovereignty, since, whilst most EU members acknowledge its sovereignty, five member states were unwilling to do so.

After the NATO intervention in Serbia and Kosovo in the spring of 1999, the idea of creating a regional organisation which would be able to guarantee peace for the whole of the region was raised. On June 10th, 1999 the Ministers of

Foreign Affairs of the EU in their Cologne Declaration offered for the whole of Southeast Europe the possibility to sign a stability pact. The states appearing as the Southeast European region were: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Romania and FYR Macedonia. On July 30th, 1999, at a summit meeting of these countries, the initiative was given the form of an operating organisation. (The Federal Republic of Yugoslavia joined the initiative on October 26th, 2000 and Moldova on June 28th, 2001.)

In the various analyses of population history, the demographic macro-regions of Europe have had very different spatial scales. In the historical population distribution by Martinsson, Ö., the Eastern Balkans included Bulgaria, Greece, Romania and Turkey, while the successor states of the former Yugoslavia comprised the countries of the Western Balkans (http://www.tacitus.nu/historical-atlas/population/balkans.htm).

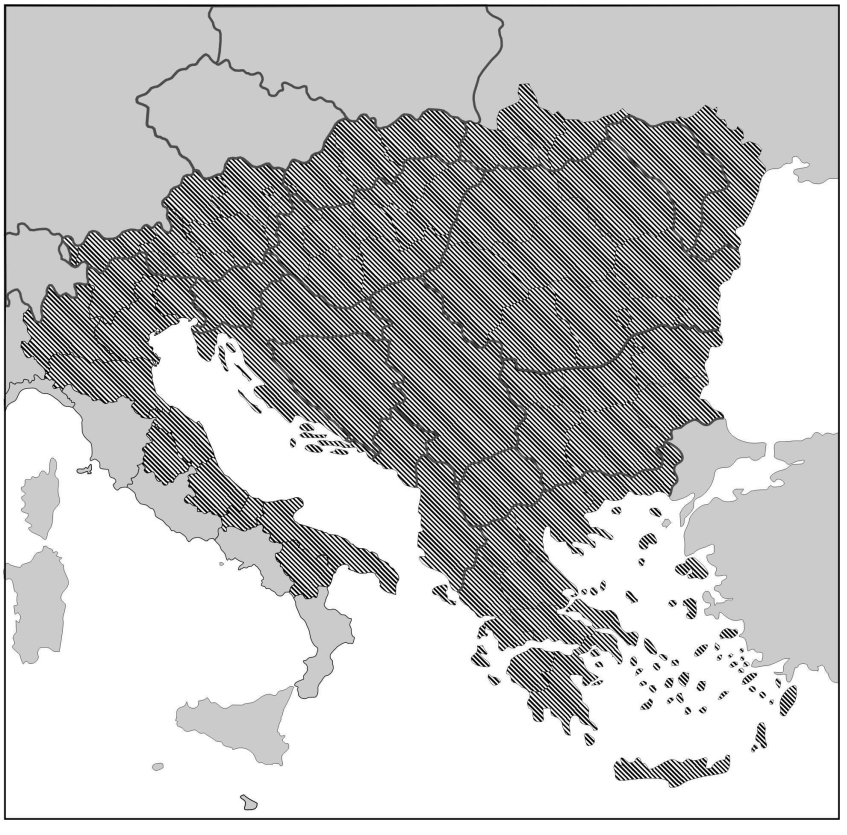
As regards formalised structures, one part of the countries of the Balkan Peninsula has reached a "resting point", their integration paths having been clear for a longer time:

- It is important for both the internal and the external processes that, by 2000, the major part of the political elite of each country had realised – and politically declared – that they saw the long-term future of their respective states in the Euro-Atlantic integration.
- By the enlargement of NATO of late-March 2004, Bulgaria, Romania and Slovenia became members of the Euro-Atlantic alliance system, whose value system will determine the necessary future path of their internal democratic development; the "rules of the game" defined by the alliance limit the possibilities of generating conflict with any neighbour.
- With enlargement, NATO has actually surrounded the "rest of the gunpowder barrel" and bears any security risks. Rationally, countries and peoples outside the alliance have, for the time being, no other choice but to "voluntarily follow the rules of the game of the alliance". (Forecasts of possible accession dates of these countries differ greatly.)
- By the enlargement of the European Union in May 2004 (Cyprus, Hungary and Slovenia) and the new member states integrated in 2007 (Bulgaria and Romania), the EU did not only come closer to the Balkan Peninsula but actually found itself in the "depths of the Balkans" and has now a vested interest in consolidating the processes of the Balkans, limiting migration movements and drastically reducing security risks.
- Montenegro seceded in 2006 from the alliance with Serbia. This secession did not only result in the birth of a new country; new tensions also emerged.

– Albania and Croatia were invited to join NATO in 2008 and both became members.
– On the basis of their progress in the European Union accession process, the countries of the Western Balkans can now be divided into three categories: Croatia and Macedonia are official accession candidates; Albania, Bosnia and Herzegovina, Montenegro and Serbia became potential accession candidates after a shift in EU policy towards "enlargement"; and finally Kosovo is a partner whose status is unclear as yet in many respects (*Figures 2–3*).

Figure 2

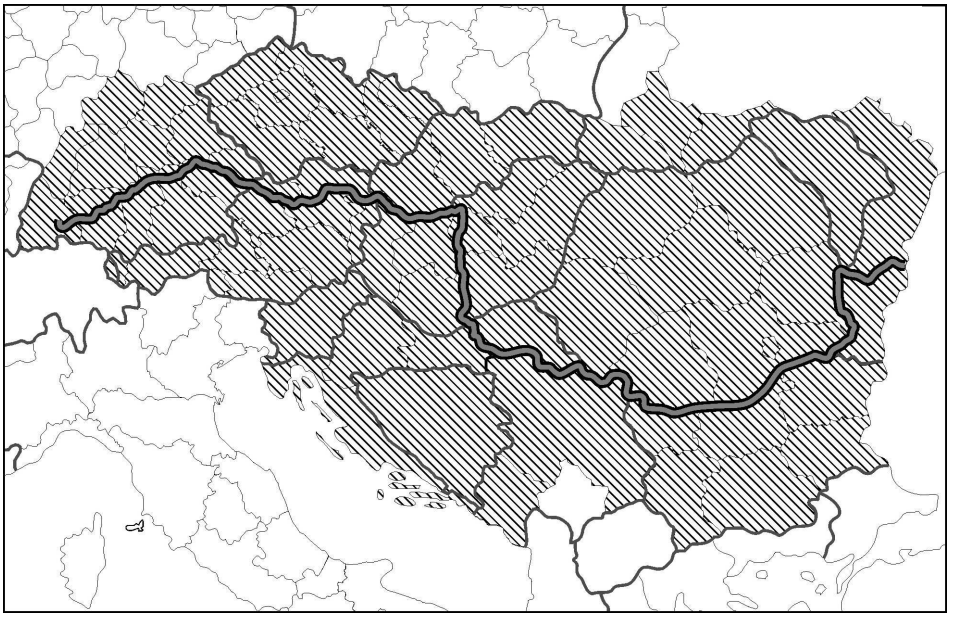
South-east European Transnational Programme of the EU



Source: Designed by the author.

Figure 3

Programme area of the EU's Danube Strategy



Source: Designed by the author.

In the spring of 2010 Slovenia was only able to organise an incomplete Balkans summit, the president of the Republic of Serbia being unwilling to appear at the discussions, due to the invitation to Kosovo as a sovereign state, but in that same summer the Spanish EU presidency was able to organise a pan-Western Balkans conference in Sarajevo – but the price was that the names of the participating countries would not be used – only those of their representatives.

4 Conclusions

For the dominant structure of the political spatial processes taking place in the Balkan Peninsula, the region can historically be defined as a "region of changing empires". Starting from the Greek "colonisation" and the empire of Alexander the Great, the major part of the Balkan Peninsula was always a part of some empire: an internal empire (Byzantium), an external empire (Rome) or an external empire that later turned to be an internal one (the Turkish Empire).

Below the level of the empire, however, there were always different groups, ethnic minorities, and peoples etc. who were able to follow their own specific development paths, which may even have been autonomous development paths on the edges of the empires.

The shifts of empires, the elimination of the imperial structures and the disintegration process of the empires were named "balkanisation" in the terminology of political geography. It is a general process and not a specific one valid only in the Balkan Peninsula. The connotation of this category was negative both in political geography and in politics.

After the brief overview of the spatial view and political spatial organisation of the Balkan Peninsula we have to say that the historical development of the Balkan countries is actually part of the European (Greek, Roman, Byzantine) processes, and in our view the Turkish period should also be mentioned in this context, since five hundred years of presence and territorial dominance cannot be called "accidental" or "temporary". The Ottoman Empire, which in many respects founded – or if you like, distorted, deformed and delayed – the Balkans processes can and should also be looked at as part of European history.

In the periods of modernisation it was not only the Balkans where a multi-ethnic historical empire disintegrated; almost simultaneously, the decay of the Russian Empire with its Orthodox majority started, and in 1918 the Austro–Hungarian Empire, a Central European empire belonging to Western Christianity, also disintegrated.

Nation ethnic area political-power space (state): these are concepts which were long separate from each other in the Balkans. After the fragmentation of the imperial structures (balkanisation), smaller scale, but also multi-ethnic states were born, whose inner stability and consolidation was not much stronger than that of the former empire.

Following World War I and then World War II, basic rearrangements occurred in the territory of the Balkan Peninsula also. The processes were mainly determined by the decisions of the external superpowers, but the processes of Turkey after 1918, and of Yugoslavia after 1948 demonstrated that the countries themselves could also have some self-defining roles.

The "West" and "East" syndrome continuously appeared during history in the territory of the Balkan Peninsula, and at certain times it may even have been dominant. The "organisational frameworks" after 1945 – and of the NATO, COMECON, the Warsaw Pact and the EEC (EU) – considerably impacted and divided the internal processes.

The transition processes of the Balkan Peninsula have not yet come to an end. As the events unfurling in 2004 showed, the "extreme self-fulfillers" still have significant possibilities to implement their own efforts which are the "only truth". Both the peoples of the region and the international community will pre-

sumably have to be prepared that major "frontal conflicts" of the population groups can be avoided in the future, but extremist emotions and actions may well appear in broad terms in the future also.

The international community has a difficult situation in the territory of the Balkan Peninsula because each of their "final" decisions in each issue will not only be valid in the area of the peninsula but will also be taken and referred to as precedents – or maybe vilified in almost all countries, cultures, religious communities etc. concerned in the broader region.

It is only now that many in the international community are coming to realise what they have actually "intervened" into: the management of the issues of the Balkan Peninsula, the solutions at any level and of any character will serve as examples for regions similar in the world (multi-ethnic regions with similar endowments, character, with complicated ethnic area compositions and having experienced the rules of different powers).

Since practically every important institution of the international community is present in the region (UNO, NATO, EU, Organisation for Security and Cooperation in Europe, OSCE), each will have to take responsibility for the decisions that they make.

The Balkans version of the Gordian knot (partly created by the community itself) is there for both the internal and external actors; the question is of how the knot can be undone "without a sword", without cutting it and causing further damage, and how the respective actors will be impacted by the further development of the threads when undone.

The international community has used a wide array of diplomatic and economic threats and pressure against the activity of the Serb political elite, without major success. In March 1999, NATO embarked on a war (from the air) on Serbia without UNO authorisation – without international legitimacy. During the war, primary military targets were bombed, but civil casualties were also caused by bombing the infrastructure and defence plants.

The NATO attacks launched specific processes in Serb society. The majority was aware of the fact that the attacks violated international law and condemned the war, but fewer and fewer people thought that Milošević's regime was the real solution for Serbia.

After accepting the military defeat (the Serb police and military forces had to be withdrawn from Kosovo, but Serbia was not occupied by foreign troops), movements started in Serb society which led to the defeat of Milošević at the elections – despite widespread fraud – and he was forced to abandon his position, despite all his efforts. The process of democratisation became complicated and contradictory, and the Serb prime minister who was the main actor in the transition was assassinated.

In the territory of the Balkan Peninsula, the images of neighbours, usually of them as enemies, are more deeply rooted than in any other region. There were times when the "universal enemy image" (i.e. that all other states were enemies) was the dominant political experience and practical activity for the respective countries.

These enemy images have not only been born at national or ethnic level, but also innate fear at settlement (even family) level has emerged, with the struggle for defence and security. We only have to look at a traditional mountain village or a house there to understand at once what the structure consciously designed or defence means.

The 20th century ended and the 21st started with a situation where the Balkan Peninsula was a region receiving selected attention, and, partly also, a region of special action not only by Europe but also by the world community. The Yugoslav civil war, followed by the intervention of the international community in the entire South Slav area and its presence in different fields, had the consequence that the international community has played such a role in the whole of the region that it must inevitably be a significant actor in the future internal and external processes of the region. The longer-term settling of the future of the territory with uncertain status (Kosovo), and of the states struggling with permanent internal uncertainties (Bosnia and Herzegovina and, in part, Macedonia) in the Balkans depends to a large extent on the public agreement of the whole international community.

The basic dilemma for the international community is what can be "restored" in the region and to what extent, and what should be completely "reconstructed". Reconstruction is an idea primarily only for the economy; political and territorial reconstructions concerning the whole of the region, naturally, should not even be mentioned, and a precondition of political reconstruction is the promotion and building of structures in the Balkan Peninsula which may have no historical precedent and whose acceptance now and in the future is anything but unequivocal.

Within the foreseeable future, therefore, there is actually only one scenario for the Balkan Peninsula: how long and within what framework will the relative unity of the tasks taken by the international community remain, and how will the Balkans actors adapt to, or move away from, the situation created by the international community. This practically means that it is the will of the international community and the possibilities created by it which will primarily determine the major processes (military and economic). On the other hand, the presence of the international community also means in all fields of life that the local elites will not be able to continue their "self-fulfilment activities" in every aspect.

In several areas of the Balkan Peninsula (Bosnia and Herzegovina, Kosovo, Macedonia), the "frozen conditions", "finished wars, unfinished peaces" (there are many statements in international politics and publications) mean that these territories are a permanent challenge both to the external and the internal stakeholders.

With the Stability Pact for Southeast Europe, the conditions and processes were given a direction defined primarily in an international interest and value system, but the willingness to co-operate of the internal actors is not always unconditional. The unsettled nature of internal relations, the temporary neglect of ethnic minority issues, the relatively unsettled issue of refugees, the limited chances of masses of people to return to their homes, the disputed issues of properties etc. all bear social and political uncertainties not only in the long but also in the shorter run.

It is especially the (frequently linked) issues of Bosnia and Herzegovina, Kosovo and Macedonia that await a solution. The state of "frozen conflict, floating peace" is a condition that cannot be kept for long. The international community, and partly also the EU on its own, intervened into the processes of the Balkans to such an extent that they have become basic elements in the system. The solution of the problems of the spatial community cannot be limited to words; we need a structural solution acceptable as a structure of connection – for the long term also, for all communities and state formations which took part in the old conflicts. (We do not believe that a feasible solution was raised by the Greeks who suggested that all Western Balkans countries should become EU members in 2014, but some sort of external membership would be a solution.)

The international community and the EU can do much, but their previous participation in the process prevents them from being passive viewers of the struggles of this narrow crisis centre.

STATE BUILDING PROCESSES AFTER 1990

ZOLTÁN HAJDÚ

1 Introduction

The external environment of the systemic changes taking place in the Balkan Peninsula and of the transformation of the national-territorial structures was the transition of different value systems: global, inter-systemic (socialist–capitalism), superpowers (American–Soviet) and European value systems (NATO, Warsaw Pact, European Union). Parallel to the collapse of the socialist and the elimination of the bipolar world system, fundamental transitions had started in the state systems of all ex-socialist countries. The integration of the GDR into the FRG, the state structure crisis of the Soviet Union and its disintegration at Christmas 1991, the peaceful partition of Czechoslovakia on 1st of January 1993 demonstrated these fundamental rearrangements.

The initial positions were, of course, much different for the further development processes in the respective countries. The internal structures created and experienced formerly, and the way of the transition had a considerable impact on the later progress of the processes. The internal process of the transition determined, to a large extent, how the respective countries were able to integrate into the new international and European order. The inner structures of the individual states were significantly influenced by the system of relations built by the European Union (preparation, and then the accession of some countries in 2004). The need for a harmonisation of the different structures naturally emerged.

The systemic changes of the socialist states of the Balkan Peninsula actually match the main trends. Rearrangements in 1989–1991 took place in at least three different ways (negotiations; varying levels of opposition, social conflict; and finally in the tragic framework of civil war).

The countries of the Balkans (the "decent" socialist countries, non-aligned socialist Yugoslavia, socialist Albania with its own ways and the two capitalist countries) experienced historical development processes which were similar in several respects, but also complicated and very much different in others. By the end of the cold war period it was rather heterogeneity than homogeneity which had become a typical development characteristic of the countries of the Balkans. The countries of the region arrived at the starting-line of the "new world-order"

with varied historical heritage and specific economic, social and political experiences.

The large-scale rearrangement of national territories taking place in the region was, therefore, not a "Balkans feature", not a peculiar and unique phenomenon in this period, but in the circumstances of civil war, it had individual and unique characteristics also.

The social, economic and political systemic changes occurring in the Balkan Peninsula necessarily and basically concerned the issue of Yugoslavia, and related to almost all of Yugoslavia's neighbouring countries in some way. The crisis of Yugoslavia, a country with large territory and population, a country that was actually a regional power with a leading role amongst non-aligned countries, generated spill-over effects.

There were considerable differences across the respective states depending on whether the radical transformation took place within the old national frameworks (Albania, Bulgaria, Romania) or whether new states were born. In the newly-created states (which comprise the majority in the region in question) the issues emerging from the disintegration of the old structures and the problems of the new, had to be handled simultaneously. As states were founded, new nation and state concepts were proclaimed, new capital cities were designated and the relations of the new elites to the territory of the state also changed.

The historical, political etc. literature on the transition of the respective countries is huge and diverse. Research carried out within national frameworks explored almost all aspects of the processes of the given states, and, in addition to national surveys, transition processes were also analysed in a comparative way. The issues of the development of the macro-region were monitored by a large number of internal and external institutions and networks. The correlations of state-building and administrative systemic changes, democratisation, decentralisation and regionalisation, among other things, continuously appeared in the analyses.

The categories "post-Communist", "post-Socialist", "transition countries" and "post-Yugoslav" by and large described the essence of the transition process. The circumstances formerly considered as socialist ceased to exist and the transition to some form of constitutional state, democratic political institutional system, privatisation and market economy started. The economic, social and political transformation brought to the surface problems of a new type also well, but the basic issue was the breaking down of the former socialist structures.

In the Yugoslav area systemic change coincided with the strengthening of nationalism, and, as both the old and the new political elites expected to find their "real" roots in this, nationalism became, at least for a while, a political "call". The handling of the issue of multi-ethnicity appeared during the elabora-

tion of the new constitutional arrangement, and also at the creation of the new administrative system and spatial division. The new state majority was usually unwilling to offer territorial autonomy to the ethnic minority areas, and the approach to these areas became a significant and peculiar issue of decentralisation and regionalisation.

The internal processes were influenced by the deepening of economic difficulties, and then by the social movements and rearrangements following the unfolding and omnipresent economic crisis. The Yugoslav State Presidency created by Tito, consisting of eight persons (representatives of the six member republics and the two autonomous provinces of Serbia), and the rotational process worked in a transparent way at the beginning, but continuous debate emerged on the further development path to be followed.

The comprehensive analysis of the Serbian Academy of Sciences entitled ”Memorandum”, issued in 1986, would have remained an academic national policy statement in itself if the Serb political elite had not discovered the opportunities that they were able to use in the document. The Memorandum became an excuse for reviving Serb nationalism and the efforts for the creation of a Greater Serbia, a “historical” basis for these efforts, but neither their cause nor their direct reason.

The debate that emerged by the late 1980s within the Socialist Federal Republic of Yugoslavia can be considered as a debate on centralisation vs. decentralisation. The processes first appeared in the constitutional secession of the member states and then the “rebellion” of Kosovo.

2 Dominant external factors and internal characteristics of the territorial transformation in the Balkans

State-building processes in the Balkans are historically complicated, but they have never been isolated from the European ones. The basic processes can be grasped as the contradiction of the change of empire and the birth of smaller nation states. Over the last four hundred years, the state territories and state borders were often and radically rearranged (*Figure 4*).

2.1 Dominant external structural changes

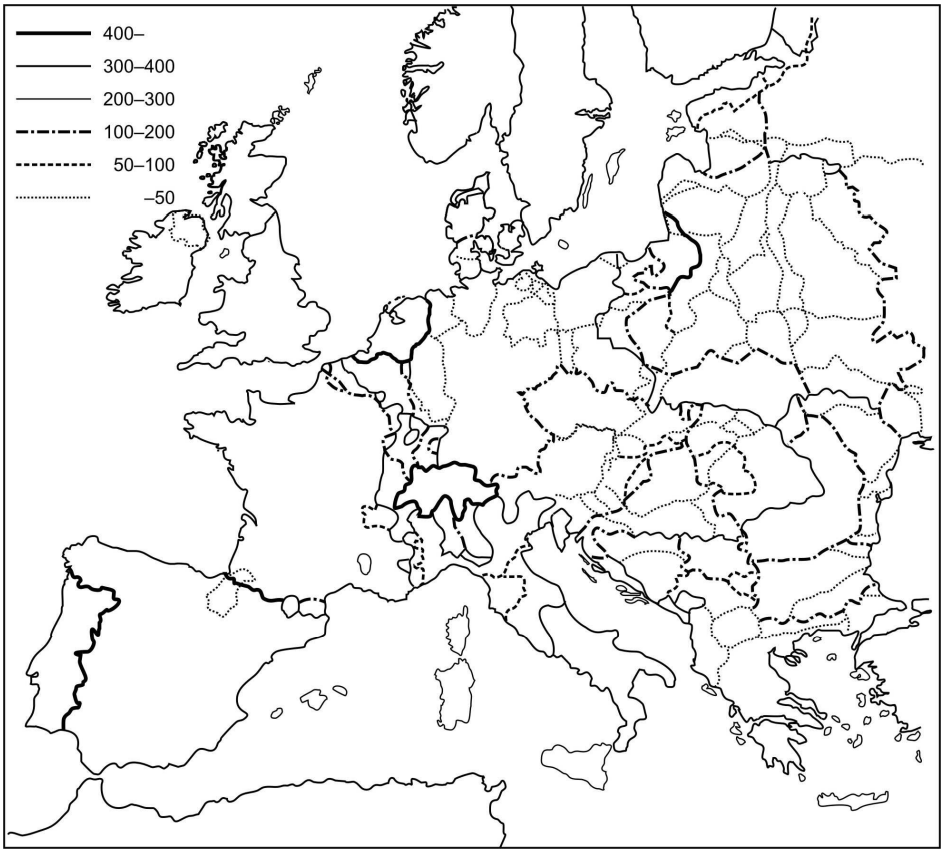
From 1985 onwards, new types of political reform processes unfolded in the Soviet Union. The objective was to modernise the socialist system and increase its competitiveness; however, “glasnost” and “perestroika” first led to aware-

ness of the crisis in the country, then to the deepening of the crisis and finally to the collapse of the Soviet imperial structure.

The relationships between the two world systems first became more peaceful, and then cold war hostility actually ceased to exist. Under the new circumstances, new opportunities appeared for the smaller countries of the "in-between space" as well (*Pándi,* 1991). For the smaller states, new possibilities to assert their national interests reappeared.

Figure 4

The periods of the stable of national borders in Europe in the 16th–20th centuries, years



Source: Pándi, 1997; Rónai, 1945.

Not only did the Soviet Union disappear from the political map of the region; so did Czechoslovakia and the German Democratic Republic. The annexation of the GDR basically altered the situation of the Federal Republic of Germany. The newly created Czech Republic and Slovakia separated from each other in an totally peaceful way. The separation processes of the post-Soviet states were occasionally marked by serious conflict. The successor states inherited the internal structures of the former states, and both common features and differences could be seen in their transition processes.

The previous characteristics of the socialist conditions, the way of the systemic change, the transitions of the nation states, the situation of the former political, economic, social elite etc. broadly show some similarities across the countries of the region, but we can also see individual features in the political systems of new countries – or even in countries with unchanged territory (*Kardos–Simándi,* 2002).

The constitutional definition of the political systemic changes took place in most of the countries at the beginning of the systemic change, and it was often followed by amendments to the constitutions after the internal changes and rearrangements (*Tóth,* 1997). The written constitutions of the states in the region meet the expectations of European constitutionality, but national features also appear in the state systems and regulations.

Another, quite common, feature of the transition processes is a demand which appeared in each and every country and territorial reform process, although not at the same time: this was the demand for accession to the Euro-Atlantic alliance system, the "EU adaptation" process, i.e. the preparation for EU membership (*Gorzelak–Ehrlich–Faltan–Illner,* 2001). Accordingly, a number of European values can be seen in the details of almost all segments in these countries. We have to recognise, however, that the states of the core area of Europe also bear unique historical features in their own structures.

The problem of decentralisation and regionalism raises specific issues in the macro-region, since in multi-ethnic areas, both decentralisation and regionalism seem, for the majority, to be an issue and represent the danger of disintegration. In these countries we will only see post-EU accession if the integrative, autonomist, or the disintegrative processes of regionalism dominate.

In terms of the different countries, the dominant content and process of change can best be defined by means of a comparison with the past. Functional, financial and territorial decentralisation gradually gained ground from the second half of the 1990s, although not free from conflict, in Central and Eastern Europe (*Illner,* 1998).

In 1990–1991, both the Soviet Union and the USA seemed to be interested in the peaceful management of the Yugoslav crisis and maintaining the unity of the country. James Baker, the US Secretary of State, clearly supported – in his

speech in Belgrade – on 21st June 1991 the maintenance of the unity of Yugoslavia and the democratisation of the country. (Within a very few days, however, different interests emerged in the foreign policy of the USA and Europe.) The Soviet Union made constant declarations supporting the maintenance of the country's unity, but in its weakened position it was unable to have any real impact on the process.

2.2 Internal transition processes

The volatile spatial, political and geographical content of the region was mentioned in the previous chapter, and at this point we shall are only summarise the state-building processes in Albania and the former Yugoslavia, since these are the most organically related.

2.2.1 Albania: from international quarantine to NATO

In the cold war years Albania pursued a deliberate isolationist policy, apart from the somewhat broader relationships with the favoured allies of the time (the Soviet Union and China in turn). The brutally oppressive Communist political system, pursuing an autarchic economic policy, first became less rigid after 1985 (with the death of Enver Hoxha), and finally, as a result of the processes starting in November 1989 (demonstrations, mass emigration, famine rebellion), it had failed by April 1991. The collapse of the system was achieved by broad popular movements, but one contributory factor was the impact of the various tensions and strife within the Communist Party.

The territory of Albania remained unchanged, but its neighbourhood environment changed fundamentally. During the transition period the issues of Albanians living outside the borders and the relationship to the whole Albanian ethnic area became issues of primary importance.

At the free multi-party elections held in Albania in March 1991, under international control, the Albanian Workers' Party won with over 60% of the votes, but internal relationships collapsed.

In April 1991, a temporary constitution came into force to replace the socialist constitution of 1976. The elaboration and approval of the constitution was not free from difficulties, and in 1994 a referendum rejected a constitutional proposal for stronger presidential powers.

Before the systemic change, Albania was the poorest country in Europe with a GDP per capita of some $340 in 1993, taking many uncertain factors into account.

In January 1997 serious internal conflict emerged in Albania, which could only be handled – and gradually controlled – by some 7,000 international troops. Civil war was avoided (but, nevertheless, some 2,000 people died in the fighting) and the international troops were able to leave the country in August.

In spite of a boycott by the political centre-right of participation in a referendum on a new constitution, this was approved in 1998 and, in the spirit of European constitutions, laid down the institutional system of a parliamentary republic.

The country declared its Euro-Atlantic integration efforts and its wishes to become a member of both NATO and the EU. NATO membership, due to unequivocal American support, became a reality in 2009.

Albania is a relatively homogeneous country of the region ethnically; approximately 95% of the population is Albanian by ethnicity. The individual, and in part the collective rights, of the tiny minorities (Greek, Serb, Vlach, Roma, Bulgarian) are secured by a separate paragraph of the constitution.

The most important element in the transition, fundamental for Albanian transformation and nation development and concerning all neighbouring countries, was the foreign policy relationship with the Albanians living outside the state borders (especially in the Serbian province of Kosovo). The Albanian political elite did not openly demand the creation of a nation state identical with Albanian ethnic territory, but there were political forces both at home and abroad who did.

The approval of the Deed of Foundation of NATO and membership of the organisation meant that the Albanian political elite had clearly abandoned the idea of "Greater Albania", but it tries its best to establish strong ties to the newly independent Kosovo and other regions where Albanians live.

2.2.2 Yugoslavia: a bloody collapse and separate development paths of the successor states

The Socialist Federal Republic of Yugoslavia was a federal state after the approval of the constitution of 1974, even showing elements of confederation in some respects (*Figure 5*). Yugoslavia was divided into six federal republics, with one, Serbia, incorporating a further two autonomous provinces (Kosovo and the Vojvodina). The system of balance created by Tito started to vanish rapidly after his death in 1980. An essential element of this system was the

acknowledgement of the Muslims as being an independent nation, which was of vital importance especially for Bosnia and Herzegovina.

In the late 1980s the basic issues of the internal political development of Yugoslavia were the handling of the economic crisis, the development of centralisation or decentralisation, in the state system the issue of federation or confederation, the fragmentation of national-ethnic territories and the debate on the transformation of the internal spatial division of the country (member states, borders of provinces and the possible establishment of a system of territorial autonomies).

Figure 5

The transformation of former Yugoslavia into seven sovereign nation states, 1991–2008



Source: Designed by the author.

In 1987, Slobodan Milošević became leader of the Serb Communists, and he, besides maintaining communist ideology at least superficially, basically became a representative of Greater Serbian nationalism. The national communists gradually gained strong positions in the other federal republics, and, after the multi-party democratic elections of 1990, the openly nationalist forces also strengthened.

Debates on the systemic change and on the state system and constitution were carried out simultaneously at the level of the League of Communists of Yugoslavia (LCY) and at federal state level, within the communist parties and the political elites of the member states and among the inhabitants of the different, partly separate, ethnic areas (especially by the Albanians and the Serbs). The issue of stability or transformation created basically new conflicts of interest not only at the level of the political elites but, practically, also at individual level. The political message of the discussions was, in fact, that each community considered themselves as "losers" regarding their positions in the state system created by Tito.

The Serb political leadership tried to limit the autonomy of the provinces within Serbia, whilst, on 12 February 1988, several members of the Serbian Academy of Sciences urged (in fact, demanded) the setting up of autonomous oblasts for Serbs in the territory of Bosnia and Herzegovina (BiH) and Croatia. They thought that only such a system of autonomy was suitable to defend the interests of the Serbs in the other member republics. (The leaders of both republics rejected the demand.) Perhaps also as a response to this, the Serb leadership considerably limited the autonomy of the two provinces in Serbia on the 28th of March 1989.

The primary objective of the Serb political elite within the frameworks of the starting and long-lasting crisis was the increase of centralisation both at federal level and within Serbia. In January 1989, mass demonstrations started in the capital of Montenegro, with the participation of hundreds of thousands, and finally the political allies of the Serb president, Milošević seized power. Within the Yugoslav State Presidency, Serbian political leadership actually had four votes after this change.

In his speech at Kosovo Polje on 28 June 1989, in front of 2 million Serbs, Milošević, the Serb President talked of potential armed conflict within the country. It had already occurred, but it now became clear to everyone that the specific interpretations of historical processes, the issue of real or alleged national and ethnic grievances had become a dominant and organic element in the political struggles at different (local, regional, member state and federal) levels.

In January 1990, at the extraordinary congress of the LCY, the political tension within the party state heightened. The Slovenes proposed the deepening of

democracy; the Croats were in favour of the fundamental transformation of the state, they demanded movement towards confederation. The congress actually started the preparation of a shift to a multi-party system.

The congress failed to complete its agenda successfully and it was postponed after the Slovenes and the Croats left the building. The congress, when re-started, actually meant the elimination of the League of Communists of Yugoslavia, and so the state party ceased to exist earlier than the federal state itself. The disintegration of the LCY killed the party myth in Yugoslavia, and one element of Tito's heritage disappeared from the political arena.

On 8 August 1990, the Federal Parliament introduced a multi-party system by an Amendment to the Constitution, and from that time on the internal political rearrangements and the changes of the state system were in the crossfire of different political forces and efforts. Parties were organised partly on political and value system grounds, but more typically on ethnic bases.

In January 1991, the basic question at federal level was still whether the strengthening of the federation was the common objective, or only a move towards confederation was an issue where agreement could be achieved (*Mesic,* 2003). The majority of the federal republics would have accepted the confederation solution, but Croatia and Slovenia became interested in gaining independence in the short term. The Serbs, with the most heterogeneous ethnic area reaching into the territories of several member republics, and partly also the Bosnians, were more dedicated to keeping the country together. In the debate on confederation, the issue of regionality gained extreme importance.

The decision of the European Parliament in March 1991 had already said that "… the member republics and autonomous provinces making Yugoslavia should be given the right to freely decide on their future, in a peaceful and democratic manner, within recognised international and internal boundaries". This also meant that the possibility for internal transformation was open, but with an effort to exclude the possibility of changing the external borders.

The disintegration of Yugoslavia must be seen in its several stages:

- the independence of Slovenia and Croatia,
- the secession of Macedonia, and Bosnia and Herzegovina,
- the secession of Montenegro from the Serbia and Montenegro Federation,
- the declaration of independence of Kosovo – and its consequences.

The first two phases were directly about the elimination of Tito's Yugoslavia: the LCY practically ceased to exist between June 1991 and April 1992. Croatia and Slovenia declared their sovereignty on 25 June 1991. Macedonia organised a referendum on the issue of sovereignty on 8 September 1991, and a week after this (successful) referendum they declared Independence. The Parliament of Bosnia and Herzegovina decided on the Declaration of the Sover-

eignty of the Country on 15 October 1991. On 4 April 1992 BiH reinforced the declaration of their sovereignty, which was gradually recognised by the international community.

Stipe Mesić himself considered the end of his State President function on 3 December (in some sources, 6 December) 1991 as "the end of the country" ("Yugoslavia is no more"), but the task of completing the official, legal disintegration of the country was left to Branko Kostić. On 27–28 April 1992, Tito's Yugoslavia ceased to exist formally also. All that remained was the liquidation of the federal institutions of the former state.

The last three phases are actually about the further disintegration of the successor state structure, but partly under the name Yugoslavia, due to the succession of the state. The Serbs made efforts to maintain the continuity of the name "Yugoslavia" with some content, basically in order to manage the issues of the succession of the state. (The Federal Republic of Yugoslavia from 27 April 1992 to 3 February 2003 only integrated Serbia and Montenegro.) Between 27–28 February 1992 and February 2003 the "remaining territory" or "Little Yugoslavia" functioned under the name Federal Republic of Yugoslavia. In February 2003 a new constitution was approved, which increased the authority of Montenegro and allowed a referendum on sovereignty. On 23 May 2006, 55% of the votes on the referendum were for sovereignty. On 3 June, the sovereignty of Montenegro was proclaimed.

In February 2008 Kosovo made a unilateral declaration of its sovereignty, which started new processes not only in Serbia, not only in the Western Balkans and in the Balkan Peninsula, but, as we can see from the diplomatic recognition of the new state structure, also in Europe and globally. The sovereignty of international Kosovo divided the international community.

As a result of the accelerated internal rearrangements, the federal member republics proclaimed their sovereignty, one after the other – with a variety of consequences:

On 25 September 1991 the United Nations Security Council ordered an obligatory arms embargo in relation to the region. The international community actually wished to fix the status quo until peaceful solutions were found.

In terms of military power, Serbs were in a better position in October 1991. We can say that practically the major part of Serb ethnic areas were under the control of the Yugoslav People's Army, and in Croatia and Bosnia and Herzegovina Serb territorial autonomies, the own little "republics" of Serbia were established. It could actually be interpreted as the birth of Greater Serbia within Yugoslavia – since that country still existed for many.

Lord Carrington's plan, created with the co-operation of the European Communities (which would actually have maintained the Yugoslav community but would also have allowed the establishment of territorial autonomies), was ap-

proved by the presidents of five of the six republics (although the Croatians were reluctant), but the Serb president, Milošević rejected the plan at the last moment.

The European Community scheduled the international recognition of the sovereignty of Croatia and Slovenia for 15 January 1992, but Germany unilaterally declared its recognition of the two states on 23 December 1991. This clearly indicated that there was no consensus in the foreign political approach of the European Community on the post-Yugoslav processes.

The disintegration of the federation was primarily caused by the lack of a solution to ethnic issues, or, in other words, we can say that "regionalism gained a victory over federalism".

In February 1992 the United Nations Security Council made its decision No. 743, which authorised the mission of peace-keeping forces. UNPROFOR sent some 14 thousand soldiers to Croatia, and its mission was extended to the territory of Bosnia and Herzegovina in June. From this time on the international community was present in the region with military forces.

In Western political geography, the disintegration process of Yugoslavia was called the "new Balkanisation". The Yugoslav war in 1991–1995 had approximately 240–280 thousand victims – although these figures are still far from final. (Approximately four-fifths of the victims were killed in BiH where the war was most violent.) Financial damage in total is estimated to be around $60-100 billion calculated at 1990 prices. The estimates of the number of refugees (both abroad and within the country) are very diverse.

The internal systemic changes were quite different in the respective ex-member states. The process was most rapid in Slovenia; in Croatia it had difficulties and was prolonged by a violent civil war, in Bosnia and Herzegovina it was the most brutal and produced the most complicated result, if we look at these processes from both political and administrative perspectives. Perhaps it was Serbia where the systemic change was the most problematic. In May 1999 the USA and the NATO forced Serbia to evacuate its troops from Kosovo, and then the post-communist regime of Milošević failed. In fact, the real systemic change started in Serbia in 2000.

2.2.2.1 Slovenia

Slovenia was, ethnically, the most homogeneous formation within Yugoslavia, 91% of the inhabitants declaring themselves as Slovene. The biggest ethnic minority are Croats (3% of the population), followed by Serbs (2%). The proportion of Muslims is around 1%. The indigenous Italian and Hungarian

minorities, although they are small in number and proportion, enjoy constitutional protection.

On 23rd December 1990 a referendum was held in the Republic, and 88.5% of those eligible to vote voted for the proclamation of sovereignty. The political leadership of the republic pursued negotiations with the central power on this basis. On 25th June 1991 Slovenia declared its independence, and, taking the institutional system of the former republic as an example, it started to establish its existence as a sovereign state. Slovenia controlled international border crossing stations alone. The Yugoslav People's Army started to retake the border crossing stations on 27th June, which was the start of the ten-day war, ending on 7th July.

In the short war, which did not take many victims, the Slovenes managed to defend their sovereignty. The European Communities achieved a ceasefire on 7 July, in which they argued for a political solution. A three-month moratorium was, agreed, and the different international negotiation processes started. The Serb leadership was not particularly interested in blocking the secession of Slovenia, and, after the expiry of the moratorium Slovenia enacted its decision on sovereignty. By 26 October the troops of the Yugoslav People's Army had left the territory of the new country without problems (via Koper).

The new constitution of Slovenia was approved on 23 December 1991, in which the standards of parliamentary democracy were laid down. The indigenous Italian and Hungarian minorities were granted parliamentary representation. In 1993 the constitution was considerably amended.

The consolidation of Slovenia was fast both economically and in the political sense. The United Nations accepted Slovenia as a member practically without debate, and Slovenia was the first country from the South Slav region to integrate into the Euro-Atlantic allied system: first it became a member of NATO, and then it gained membership of the European Union in May 2004 (*Figure 6*).

As president of the European Union, it made considerable efforts in 2009 to handle the problems in the Western Balkans, but it was unable to achieve very great success. One reason for this is that Slovenia has several bilateral issues to be settled with other countries.

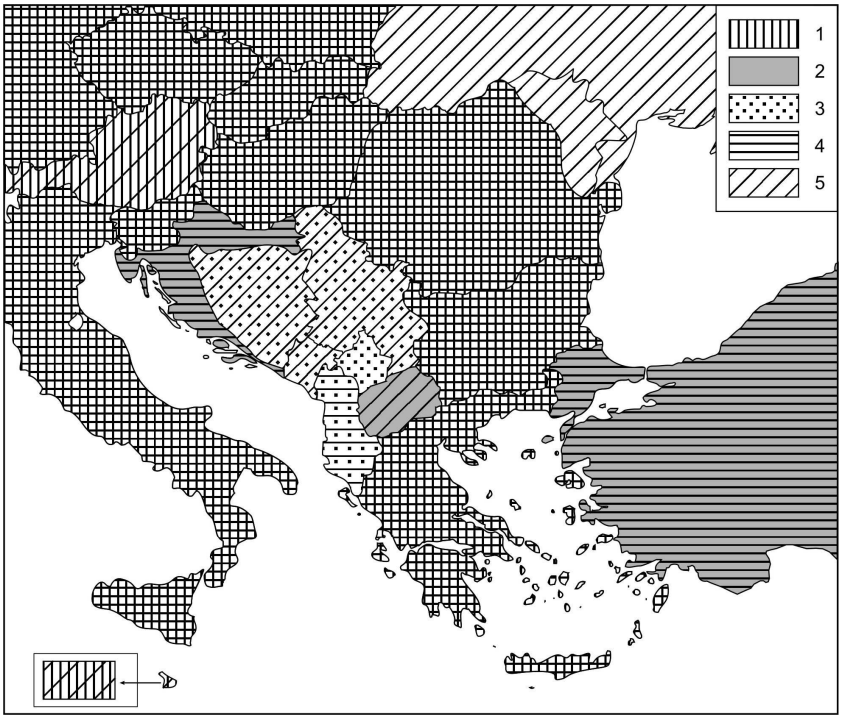
2.2.2.2 Croatia

The historically formed federal member state territory of Croatia is a very specific one in many respects; also, it was a multi-ethnic country at the time of its secession from the federation. The conflicts between the Serbs living in Croatia (approximately 12.1% of the population, at just over 581 thousand, in 1991) and the majority became more serious after 1988. From 1988 on, Serbian national-

ism had a strong influence on the Serbs living in Croatia. After the victory of the Croatian Democratic Community led by Franjo Tudjman (HDZ) in 1990, the opposition between the two communities reached a new level. The biggest Serb party that had positions in the Parliament suspended all relations with the Croatian legislature. In July the Serb National Council was established, which had the opinion that, if Croatia was allowed to leave Yugoslavia, then the Serbs living in Croatia had the right to autonomy just as the Croats did and so they were allowed to leave Croatia.

Figure 6

Integration structures of Southeast-Europe, 2008



Key: 1 – EU member; 2 – EU candidate; 3 – EU potential candidate; 4 – NATO member; 5 – NATO peace partner.
Source: Designed by the author.

In August 1990 the Serb minority in Croatia organised a referendum on the issue of sovereignty and the autonomy of the Serbs within Croatia, and 99.7% of them said Yes to the question. It can be said that the Serbs living in Croatia, a country formally still existing within the framework of Yugoslavia, would have

been satisfied with territorial autonomy. The Croatian leadership, however, considered both the referendum and its outcome as illegal, and from August 1990 the Serbs started to establish their own forces in the area of Knin.

On 21 December 1990 the Serbs formally created the Serbian Autonomous Oblast of Krajina, and on 16 March 1991 a referendum was held on the question of whether the province should join the Republic of Serbia and remain part of a transformed Yugoslavia. Of the total population, 99.8% voted Yes.

The national assembly of the province, on the basis of the referendum, declared on 1 April 1991 its wish to secede from Croatia. On 19 December 1991 the Serbian Province of Krajina was proclaimed as an independent state. (This political formation declared accession to Serbia several times.)

Croatia then officially rejected the provision of any kind of territorial autonomy for the Serbs living in a majority in some areas within the internationally acknowledged borders of Croatia.

On 19 May 1991 a referendum was held in Croatia on the issue of sovereignty, on which 94.2% of the voters decided on the proclamation of Independence (the majority of the Serbs refrained from voting). Croatia proclaimed its sovereignty on 25 June 1991, but also suspended the implementation of sovereignty in the framework of the Brioni Agreement under the political sponsorship of the European Community. In Croatia – unlike in Slovenia – there was armed conflict even during the ceasefire.

In January 1992, the American ex-minister of foreign affairs, Cyrus Vance, achieved an agreement and ceasefire in Croatia. As a result of this, the territories owned by the Serbs were put under the supervision of the UNO forces (UNPROFOR). This situation meant that approximately one-third of the territory of Croatia was under international control.

On the whole, the basic question the transformation in Croatia was whether Croatia would start on its independent development path as a centralised nation state or based on a system of territorial autonomies. This suggests that it would be useful to summarise the autonomy movements and the spatial formations of the Serbs.

The constitution of Croatia passed in December 1990 did not allow the Serbs to have territorial autonomy, but they were entitled to the same minority rights as the other ethnic groups. The Serbs believed that, in the Socialist Federal Republic of Yugoslavia (which formally still existed and of which Croatia was a member, both in respect of international and domestic law) they faced negative discrimination.

On 12 August 1991, the Serbs living in Western Slavonia created their autonomous province covering the area of Okučani and Daruvar. The borders frequently changed during the continuous local conflicts, the Croatian forces occupying Daruvar also in December. The Serb authority shrank to a small area

and at the time of the announcement of the ceasefire it only covered the territory of four villages. It joined the Serbian province of Krajina, forming one part of that. The majority of the indigenous Serbs would have been willing to make some agreement with the Croats (a secret "Daruvar Agreement" was made on 18 February 1993), but Serb nationalists arrested those Serbs who had signed the agreement. In 1995, the Croats eliminated the autonomy of the area in a few days, in the framework of the military operation called "Storm". The majority of the Serb population fled.

The Serb National Council of Croatia decided on the establishment of the autonomous Province of Eastern Slavonia, Baranja and West Syrmia (25 June 1991), at the same time as the proclamation of the sovereignty of Croatia. The population of this region was more heterogeneous than in other parts of Krajina. The majority of the population was Croatian by ethnicity, whilst Serbs made up the second largest minority. The majority of the Hungarians in Croatia also had to live in this political formation for years. The centre was Vukovar, a city which suffered a great deal, the larger part of the city being totally destroyed. (During the "Storm" military operation, the Croatian forces were unable to liberate this area. It was put under the temporary control of the UNO and its peaceful reintegration took place in 1998.)

In the new situation which emerged in 1993, the Croatian political leadership was willing to provide autonomy to those areas which had had a Serb majority before the war, especially for the regions of Knin and Glina. The Serbs now were no longer satisfied with autonomy. The territory of the spatial formation that was actually functioning but not recognised by anyone covered approximately 17 thousand km^2 in 1993 (the territory continuously changing along its borders), the number of its population was estimated to be around 440 thousand. It was almost one-third of the territory of Croatia and more than 10% of its population, and the majority of the Serbs in Croatia lived in this region. The region established its own, almost complete, state administration, it had an army, operated institutions and introduced its own currency.

In 1994, Croatia eliminated the larger part of this Serb state formation in a few days in the military operation "Storm", the only areas which were still controlled by the Serbs until January 1998 being West Slavonia and the Baranja Triangle. From the areas recaptured, the major part of the Serb population fled to Serbia, and a smaller part to BiH.

Internal political development in Croatia is more complex than in Slovenia. The Croatian systemic change and transition took place under difficult internal and external conditions. The long-term political instability (and then the civil war) required the personality of President Tudjman, but his experience gained in the communist movement simply reinforced centralism, and, until his death in

1999, centralist structures – in fact, often totalitarian structures – dominated the operation of the Croatian state.

Croatia became a NATO member in 2009, and EU accession negotiations are coming to an end. Croatia may become a member of the European Union in 2012, although the crisis unfolding after 2008 may affect the enlargement process also.

2.2.2.3 Bosnia and Herzegovina

Bosnia and Herzegovina (BiH) was the most multi-ethnic member republic in Yugoslavia, where the co-operation of the three dominant nations (Bosnians, Serbs and Croats) was not always free from conflict, even in the Tito era.

According to data from the 1991 census, approximately 48% of the population was Bosniak, 34% Serb and 17% Croat, although the accuracy of the figures was continuously debated. BiH was a genuine, multi-ethnic, multi-religious, multi-cultural federal member republic and partly remained so even after the bloody transformations.

The attitude to the transformation of Yugoslavia or the possibility of disintegration divided both the elite and the population of BiH. The Croats had their own mother country after Croatia gained its sovereignty, and the situation was the same for the Serbs. For the Bosniaks, however, a vested interest was the preservation of the unity of BiH and the maintenance of their own positions and of their national and state existence in some form.

The composition of the political elite of BiH slightly differed at the highest level from that of the other ex-member republics. Alia Izetbegović was the only newly elected president in the post-Yugoslav region who had never been a member of the LCY.

On 15 October 1991, the Parliament of Bosnia and Herzegovina proclaimed the sovereignty of the country. The three political elites and the three ethnic communities had different attitudes towards the declaration; the majority of Serbs disagreed with the decision, whilst the Croatians were actually sitting on the fence.

The different communities created spatial political formations in a smaller or larger part of their ethnic areas after the proclamation of the sovereignty of BiH, formations which were independent in many respects.

On 18 November 1991, the Croatian political leadership in Bosnia and Herzegovina founded the Croatian Community of Herzeg-Bosnia on the basis of the right to national autonomy in their own interpretation (which became the Croatian Republic of Herzeg-Bosnia on 28 August 1993), which defined itself as a conscious political, cultural, economic and territorial entity. The territory

under actual control and the demands did not match perfectly; the demand was considerably larger. The official capital of the political spatial formation was Mostar (the western part of the city inhabited by Croats was a strong local base), but due to the war raging there, most of the politic institutions and the leadership of the community worked in Grude.

The creation of this formation was a form of minimum objective for the Croatian leadership, as the ultimate objective was political union with Croatia. The political spatial formation used Croatian kuna as its currency, the official language was exclusively Croatian and the territory enjoyed the support of Croatia in all respects.

Mate Boban, the President of the Community, had a considerable regional and international political role. The Croatian Defence Council organised the military force of the political spatial formation and played an important part in expelling the Bosnian population living in the territory, for which a few leaders had to appear, much later, before The Hague Court investigating Yugoslav war crimes.

The Constitutional Court of BiH, after a lengthy session, on 14 September 1992 declared the Croatian political spatial formation anti-constitutional and illegal. The political spatial formation was not officially recognised by one single state, but the international actors nevertheless negotiated with its leaders. During the 1993 peace talks in Geneva, the Croats proposed the division of BiH into three ethnic republics, granting special status to Sarajevo and international recognition of these structures; however, it failed, due to the resistance of the Bosniaks.

The Serbs in Bosnia thought that they too had the right to autonomy, and so they proclaimed the Serbian Republic of Bosnia on 10 January 1992, from whose name the specific "of Bosnia" was later omitted. The Serbs of Bosnia created their own institutions in the territory of the country under their control. The central state institutions were located in Pale, later in Banja Luka.

From 29 February to 1 March 1992 a referendum was held in Bosnia on the reinforcement of sovereignty. The Serbs boycotted the referendum, but it was supported by the majority (64%). Sovereignty was declared without immediate secession. On 6 April the European Union, later the USA, recognised the sovereignty of Bosnia and Herzegovina, and, simultaneously, civil war broke out. The internal civil war from spring 1992 to autumn 1995 was more violent than anywhere else in the former Yugoslav territories.

BiH became a member of the UN in May 1992, together with Croatia and Slovenia. From that time onward these states were clearly sovereign entities and the subject of international law – also in their relations with one another.

By the autumn of 1992 the Serbs occupied approximately 70% of BiH, and they seemed to be able to retain the territory occupied. The authority of the gov-

ernment in Sarajevo was practically limited to just 10% of the territory of the country, the remaining 20% being ruled by the Croatians. BiH was completely divided in both military and political terms, and the central government existed only in the eyes of the international community.

The conflicts of interest between the Croats and the Muslims and the diverse scenarios of the future of the country led to another war (especially in the city of Mostar and in its vicinity), which lasted, with varied intensity, until the spring of 1994. The relations between the two communities were no better than their relations to the Serbs.

A special, unique historical and political feature is the activity of Fikret Abdić, entrepreneur and politician, who is Bosnian by ethnic origin and Muslim by religion. This politician, who has been sentenced to prison several times for economic offences, was very popular with the Bosniaks in 1990 and became a strong internal rival of Alija Izetbegović.

Abdić established solid regional power in Western Bosnia and he created the "Autonomous Province of Western Bosnia", which he considered as a state (Republic of Western Bosnia). On 14 September 1993 he made an agreement with the local Croats and Croatia, and an agreement with the Serbs on 22 October. All three parties were interested in weakening the central power.

In August 1995 the Bosnian central army marched to Bihać, and eliminated the "sovereign state". Abdić fled to Croatia where Franjo Tudjman gave him refugee status and Croatian citizenship.

From 1992 to 1994 the international community tried to create different constitutional and territorial structures: in 1992 the "Lisbon Proposal" – a single state with ethnic cantons; in 1993 the Vance–Owen plan – a single state with 9 "ethnic majority areas"; also in 1993 – three ethnic states with a formal unity; in 1994 – the Bosniak-Croat Federation (on 51% of the state territory), Bosnian Serb Republic (on 49% of the state territory) – different entities within the frameworks of the formally single country.

In March 1994 the USA managed to persuade the Bosnian central government and the Croatian government in Zagreb that the Bosniaks, and the Croats living in Bosnia, should abandon open hostility to each other, and the Bosniak-Croat Federation was established.

In August and September 1995, the Croat and Muslim forces recaptured one-quarter of the country from the Serbs, which made the Serbs more amenable to a political solution.

In Dayton the peace treaty concluding the war in Bosnia was drawn up and signed in Paris on 14 December 1995. The agreements brought an end to war, but resulted in a very complicated constitutional structure. The almost omnipotent representative of the international community was a keen advocate of the unity of the country during the whole transition period.

Below the "central level", the Bosniak-Croat Federation and the Bosnian Serb Republic made the primary regional structure, and then the "Brčko district" was created in accordance with the special strategic interests; the latter is one of the most peculiar administrative-political formations on the whole of Europe.

The Bosniak-Croat Federation is divided into (10) cantons on ethnic grounds; the cantons are further divided into municipalities. Of the ten cantons, five have a Bosniak and three a Croat majority, two are so-called "mixed cantons". The Bosnian Serb Republic is not divided into cantons: its local governmental system consists of (7) regions and several municipalities.

The Croatian-inhabited areas of the Bosniak-Croat Federation demand strong decentralisation of the Federation, but in fact they would like to become a sovereign political, legal and administrative entity. For them, only total secession from the Bosnians would constitute "decentralisation", "regionalisation" and "democratisation".

In the territory of the Federation, the smallest dispute may have far-reaching consequences. In the spring of 2001 the International High Commissioner dismissed the Croatian leader of a regional bank, which led to street demonstrations and a constitutional crisis.

Consolidation after the war was set back to a large extent by the brutal character of the war. All three parties, but especially the Serbs, indulged in ethnic cleansing. The belligerents expelled, in the worse cases killed, other ethnic groups in newly occupied territories.

The leaders of the Bosnian Serb Republic mentioned the possibility of secession also in 2008–2009. Milorad Dodik, prime minister, frequently talked of holding a referendum on secession. The international community always reacted strongly and rejected the idea.

Catherine Ashton, the new High Representative of Foreign and Security Policy of the Union, made it clear in February 2010, both in Banja Luka and Sarajevo, that the EU will do its best to keep BiH as a single state and prevent its disintegration, because that would bear the threat of a new war. The High Representative offered (a single) BiH the prospect of joining the Union, depending on the settling of internal relations and the elimination of the Protectorate.

Nevertheless we have to be aware that BiH struggles with a permanent internal ethnic, political and economic crisis. The interests of the three communities are basically different and settling the constitutional structures and strengthening central power is mainly that of the Bosniaks.

2.2.2.4 Macedonia

In Macedonia, the referendum on sovereignty was held on 8 September 1991. The Serbs and the Albanians boycotted the referendum (for different reasons), but 95.1% of those who actually did vote were in favour of independence. Macedonia proclaimed its sovereignty on 20 November 1991, and this was recognised by the EU 15 January 1992. Bulgaria was also supportive, but Greece, on the other hand, introduced sanctions against the new state.

The birth of Macedonia raised many issues for its neighbours (Albania, Greece and Serbia). In February 1999, a mass influx of Albanians started from Kosovo, the number reaching almost 300 thousand by the end of the year (in 2000 the government calculated 660 thousand). Internal ethnic, economic, political and social tensions, hard to handle, emerged in the country. In November 2001, with an amendment to the constitution, the autonomy rights of the Albanians were recognised. Macedonia is a multi-ethnic country, the proportion of Macedonians is approximately 66% in the country's population, and Albanians comprise some 23%. Smaller ethnic minority groups are Turks, Roma and Serbs.

Local public administration consists of 123 municipalities – local councils (elected for four years), with a dominant role in the administration of local affairs. Where the proportion of an ethnic minority reaches 20%, the language of that minority is also an official language in addition to Macedonian.

Skopje, a city of about half a million inhabitants, dominates the settlement structure of the country. Compared to Skopje, all other towns and cities are of much less importance. The basis of decentralisation and regionalisation is more ethnic in character and the centre of the western regions inhabited by Albanians is Tetovo.

The relationship between Macedonia and Greece has been constantly tense since independence. Formally it is only a debate about the name of the country, but the real issue is historical legitimacy and identity.

Macedonia has constantly stated its wish for Euro-Atlantic accession and accession talks with the EU are underway; the country is an official candidate country. Its NATO membership, however, was blocked by Greece. The question is whether Greece, much weakened economically in 2010, will become more flexible concerning its small northern neighbour.

2.2.2.5 Federal Republic of Yugoslavia, State Union of Serbia and Montenegro

The majority of the population of Montenegro decided to stay within the frameworks of Yugoslavia on the referendum on 1 May 1992, and with Serbia they formed the Federal Republic of Yugoslavia on 27 April. Formally Montenegro was a member with equal rights, but in reality it had a somewhat subordinate role in the new state union.

The unity of the new state could be maintained, given the problematic conditions of the successor states and war conflicts, as long as the Montenegrin political elite saw that this was the best arena for asserting their own interests.

The constitution of 2003 rearranged the relationship between the two countries, created the State Union of Serbia and Montenegro and allowed Montenegro to decide on its own sovereignty by referendum after a three-year moratorium. In May 2006, the majority of the population of Montenegro decided on secession, and Montenegro left the state union in a peaceful way.

2.2.2.6 Montenegro

The referendum on 21 May 2006 was held with the participation of 86.3% of those eligible to vote, 55.5% of whom voted for independence. On 3 July, Parliament added its approval and so the State Union of Serbia and Montenegro died a peaceful death. On 5 June, Serbia declared its own approval of the sovereignty of Montenegro.

According to data from the 2003 census, in the country of approximately 620 thousand inhabitants, the proportion of those who declared themselves as Montenegrin was approximately 43%, Serbs made up 32%, and the proportion of Bosniaks and Albanians also exceeds 5% (7.8% and 5.03%, respectively).

Montenegro has established a special relationship with the EU; with the consent of the Union, Montenegro started to use the euro within the country as soon as the currency was introduced, and has been a special part of the Euro-zone since then. The basic objective of the country is accession to NATO and the EU.

2.2.2.7 Serbia

Serbia started its fundamental internal transformation after its defeat in the war ending in 1999, the removal of Milošević from power and his transfer to The Hague. This transformation is still ongoing, within serious internal political and economic conditions.

According to Decision No. 1244 of the UNO Security Council, Kosovo is part of Serbia, but the province is under the administration of the United Nations Organisation (UNMIK), and its internal public administration has almost completely been elaborated. The real issue post-1999 was how quickly, and in what form could the province, formally part of Serbia, become independent, how the international community would accept this process, and also what impacts this process will have on the whole world, on the Balkans and on Serbia itself.

The autonomy of the Vojvodina was formally restored in 2010, but the new processes are nevertheless unfolding very slowly and with difficulty – for economic reasons. The competence of the province formally covers economic and financial developments, agriculture, health care, public education and culture.

The Vojvodina is, in fact, entitled to create its own international relations, and within the framework of the Danube–Kris–Mureş–Tisa Euroregion, the province has been very active; it is actually the engine of the EU accession of Serbia.

In December 2009 the EU abolished the visa regime applying to Serbia Ns on 22 December 2009 Serbia submitted its request for accession to the EU, although the president of Serbia did not participate in the Western Balkans summit organised on 20 March 2010, since Kosovo had been invited as a sovereign state.

2.2.2.8 Kosovo

The territory of the Province of Kosovo amounts to 10,908 km2, but its size of population has been uncertain since 1981 (ranging from 1.9 to 2.1 million), since the Albanians did not participate in either the Yugoslav or Serb censuses. Slightly over 90% of the population are Albanian, and their share has continuously increased, it is seriously considered.

In accordance with the constitution of 1974, Kosovo and the Vojvodina were granted provincial status within Serbia. This legal status allowed relatively broad internal competence, but the Alban community was not very satisfied since, for them, member-republic status would have been the most acceptable solution even at that time.

From 11 March to 3 April 1981 there were mass demonstrations in the province for the acquisition of member-republic status, and Kosovo has had a permanent internal political crisis since then. The State Presidency even declared a state of public emergency for a short time, in order to restore peace to the province. The relationship between the Albanian majority and the Serb

minority became extremely tense in the province, the demonstrations having at least nine fatalities, with hundreds of injured.

In April 1983, several leaders of the Serbian Orthodox Church issued a declaration of protest against the expulsion and murder of Serbs from Kosovo.

The LCY, under the leadership of Slobodan Milošević, decided on centralisation, with the slogan of "anti-bureaucratic revolution", and on 28 March 1989, the Serbian constitution was revised and Kosovo was placed under the direct control of Belgrade.

From 1996, the conflict, previously restrained, gradually became intense, and simultaneously, with the internal collapse of Albania in 1997, a huge quantity of weapons were shipped to Kosovo, to the Kosovo Liberation Army (Ushtria Çlirimtare e Kosovës, UÇK). An armed struggle started in the province between the Serb police and military and the UÇK – regarded both as terrorists and then as liberators.

On 24 March 1999, NATO started (and continued until 10 June) to bomb military (and some civilian) targets in Serbia – in order to force the withdrawal of Serb troops from Kosovo.

On 10 June the United Nations Security Council approved its decision No. 1244, in which it was stated that "Kosovo can enjoy a substantial autonomy within the Federal Republic of Yugoslavia". From 12 June Kosovo was under the control and administration of the KFOR. The circumstances fundamentally changed for the (approximately) 200 thousand Serbs living in Kosovo; their situation became hopeless in the enclave. Serb refugees left Kosovo in numbers not seen since 1995.

On 17 February 2008, the sovereignty of Kosovo was proclaimed in Pristina, although the diplomatic recognition of sovereignty has been a rather complicated process to date:

– The UNO as an organisation does not recognise the sovereignty of the country, it still sees Decision No. 1244 of the UNO Security Council as valid. Until 1 January 2010, a total of 65 countries recognised the sovereignty of Kosovo (approximately one-fourth of all sovereign states); three members of the United Nations Security Council (England, France and USA) recognise the entity as an independent country, but two members of the council do not (China and Russia). Kosovo is not recognised by large states such as India who are worried about their own internal stability if this precedent is used elsewhere. The international organisation, at the same time, has a considerable presence in the province, by maintaining a KFOR mission. The General Assembly of the UN asked the International Court for a statement regarding the legality of the unilateral proclamation of sovereignty, and so did Serbia.

- On 18 February 2008 the European Union acknowledged, but did not institutionally recognise, the unilaterally proclaimed sovereignty of Kosovo. (For the time being, 22 member states recognise the sovereignty of Kosovo and 5 do not.) The European Union, despite the non-recognition of Kosovo, is a dominant actor in the country by the European Union Rule of Law Mission in Kosovo (EULEX).
- NATO does not recognise the sovereignty of Kosovo institutionally, but operates the KFOR mission on the basis of the Decision No. 1244 of the United Nations Security Council.

The internal uncertainties, the contradictions of the international environment and interests will probably cause Kosovo to have a very long, uncertain status. Should the internal uncertainty increase, tensions may also grow.

3 State borders and disputed areas

The new state borders born in the 1991–2008 period basically followed the former member republic borders, or provincial borders in the case of Kosovo, but a few open or hidden disputes have remained among the new states. The areas concerned are not extensive, but they concern the recognition of new state borders. These problematic issues are:

- The issue of Kosovo is basically not a question of state borders but an issue of state structure and sovereignty. Northern Kosovo is formally under the temporary administration of the UN and can be regarded as an independent administrative and political entity. (In fact, it enjoys the significant support of Serbia). Different plans for dividing the territory have appeared but it is unclear as yet as to what international forces are behind the concepts concerning new arrangement for the province.
- Kosovo has a thinly disguised demand for the Albanian-inhabited territory of the Preševo valley in Serbia, perhaps by means of an exchange of territory.
- The conflict of Serbia and Croatia in the Danube area (Sombor region) is local in character, but, as any other dispute on state borders, it has an impact on the development of relations as a whole. The municipal boundaries never followed the channel (the bed) of the Danube but crossed the river in several places. The Hungarian–Croat–Serb triple border is also on the left bank of the river. The issue of Sarengradska Ada is another source of conflict in the border dispute of the two states.

- Between Croatia and Slovenia there are border disputes concerning the Piran Bay and access to the sea, and also disputes of local character concerning the land borders (Sveta Gera). The border disputes of the two countries are a delicate issue for both NATO and the European Union and so every effort is being made to have the two countries sign an agreement.
- Between Croatia and Montenegro, the issue of the Prevlaka Peninsula was the main source of conflict, but the acceptance of a common maritime border was also problematic.
- Between Croatia and BiH there is a problem in the region of Neum (Veliki Skolj, Mali Skolj). It is a serious issue for the Bosniaks as to how the road bypassing Neum is built. The issue of the ownership of Neum – which has been a painful issue for the Croats since 1945 – seems now to be accepted.

The disputes over state borders are dangerous, not because of the size of the disputed areas, but in themselves; they are matters of prestige for all parties. The majority of the communities now existing in the Balkans area had already had larger territories historically, and, in fact, some had had empires. Even if the demand for "Greater States" does not appear in everyday politics, it is still in the mentality of individuals, of societies and in the aims of extremist political groups. It is especially problematic in a region where there are many historical "Greater state" concepts (Greater Albania, Greater Bosnia, Greater Bulgaria, Greater Greece, Greater Croatia, Greater Macedonia, Greater Serbia). Open (and, still more, hidden) territorial demands can be obstacles to co-existence and co-operation (as they clearly are between Greece and Macedonia), and they bear the danger of new conflict.

- The concept and demand of Greater Albania is not based on historical grounds but on the size of the ethnic territories. The number of Albanians presently living in the area is estimated to be just over six million, but only half of these live in Albania proper; if we consider Kosovo as an Albanian state, over five million inhabitants live within Albanian national borders. In addition to these two entities, Albanians live in Macedonia, Serbia, Montenegro and even Greece (although they are not recognised by the Greek state).
- Greater Bosnia is a historical concept in which the short-lived Kingdom of Bosnia of medieval times appears as a historical preliminary – and as a promised future for some.
- Greater Bulgaria has historical foundations (1st and 2nd Bulgarian Empire) and is also, at least, in part, an idea coming from modern times (1878, Treaty of San Stefano). The territorial vision of the Greater Bulgarian

State, living in both approaches, deeply penetrates into the territories of the present-day Western Balkans.
- The Greeks are the bearers of several "Greater State" concepts, from the ancient empire to the smaller-scale Megali notion, although Greater Greece is more historical nostalgia than an actual political programme.
- Greater Croatia was born as an historical and territorial concept and had an ethnic content only to a limited extent. This territorial concept covers the present-day Croatia, Bosnia and Herzegovina and the borderlands of Croat ethnic territories. The "smallest Greater Croatia" is the Sovereign Croatian State born in 1941.
- The concept of Greater Slovenia has only rarely been mentioned, and basically as a concept for the unification of the Slovene ethnic territories. No real political movement was ever built on this concept.

4 Final remarks

In the period of the socialist systemic changes, the expressions most frequently used both in politics and in the everyday discourse were democratisation, regionalisation, privatisation, constitutional state and decentralisation. Because of the complicated nature and diverse character of economic, social and political transformations, the central powers (and partly also the whole of society) were inevitably interested in centralisation.

Important issues are alive in almost all transition countries, both at local and regional level – the duality of state administration and self-governance, and their relation to each other. There are differences, on the other hand, across the countries as regards the division of labour between the two subsystems, but an almost universal feature in these countries is that the clear coexistence of the two tiers can only be seen at regional level or levels. In this case local government usually has broader responsibilities.

A common feature of the development of public administration, present in almost all of the states of the region, is the "anti-hierarchy" feeling within the local government system. This means the lack of hierarchical relationships among the administrations elected at different levels: they are responsible for their own tasks in accordance with the legal regulations and are only subordinate to law during their operation. (The system of control over respect for the law shows considerable disparities across the countries of the region.)

Parallel to the increase of the importance of regional development and European Union accession processes, new structural and territorial elements have emerged – or old ones have been transformed. Regional development partly

adapted to the general territorial division, but separate spatial elements were also created during this.

As a result of accession to the European Union, the system of territorial statistics was also transformed, and the post-socialist countries also introduced the NUTS concept, the basis of which is not the size of the territory but the number of inhabitants.

The different functional and territorial subsystems of the processes have not necessarily become systems which overlap in each country. The territorial divisions of state administration, local government system, regional development and statistics show variations in several countries, and among the different divisions, competition has appeared, and even, in some states, manipulation.

The issue of decentralisation and regionalisation has appeared as an economic, social and political issue in Europe since the period of modernisation, and it is also connected to the spatial issues of public administration. Federalisation, decentralisation and regionalisation were given different content in historical times and by countries and have become especially interesting issues in multi-ethnic countries, including the states of Central and Eastern Europe.

The disintegration of the larger federal states and the birth of smaller or specifically small states (e.g. Slovenia or Macedonia) basically altered a few territorial processes, but did not question the necessity of regionalisation.

The administrative structure of the area in question, including territorial division and its regional level shows a heterogeneous picture also in the early 21st century. In the countries already acceded to the European Union an adaptation process has also occurred in statistics and regional development, although this is far from universal in the sector of public administration.

The constitutional and administrative regulation of the regional (subnational) level in the area in question is not only an issue of the size of the respective countries (although it undeniably plays a role as well, as the territorial dimensions of e.g. Macedonia, Slovenia or Poland and the Ukraine are very different); it is much more connected to the problems of the state concept accepted by the ethnic majority of the individual countries.

In the macro-region we cannot avoid the issue of multi-ethnicity – either historically or looking at the processes taking place after 1990 –; now it is not only a dominant feature of this region but also a major problem of the European Union as a whole. The issue is more and more one of how the ethnic majorities, the majorities within the national borders and the minorities within the Union (since in the EU each nation is a minority compared to the whole) relate to each other.

For Hungary, both the immediate neighbourhood (Austria, Slovakia, the Ukraine, Romania, Serbia, Croatia and Slovenia) and the broader "indirect neighbourhood" are to be treated as objective factors. The relations of Hungary

to the countries in the macro-region examined – partly due to EU membership – show, and will also show in the future, considerable differences, but the necessity of co-existence is a fact and the possibilities of co-operation are given both at inter-state and regional levels.

By the new neighbourhood policy of the EU, Hungary can even involve external resources for the development of cross-border relations, and the better permeability of the state border may result in a better position of the (often mentioned) Hungarian ethnic minorities living in the neighbouring countries.

Hungary can create new sub-structures in the continuously redefined macro-regional co-operation programmes of the EU. These continuously changing macro-regional, planning and co-operation sub-structures mean new challenges, and at the same time offer new possibilities for Hungary.

THE INTERNAL STRUCTURE OF WESTERN BALKAN COUNTRIES

IVÁN ILLÉS

1 Yugoslavia

Yugoslavia was a 'product' of the First World War. All of the states (Greece, Bulgaria, Romania, Albania, Serbia and Montenegro) which were earlier controlled by the Ottoman Empire had achieved independence by the end of the Balkan wars, whilst the remaining areas (entirely or mainly South Slav) which comprised Slovenia, Croatia, Dalmatia, Bosnia and Herzegovina, Bačka and the Banat, were part of the Austro–Hungarian Empire. Serbia was the strongest state in the Balkans in military terms and had for a long period harboured plans to unite most of this South Slav territory under Serbian rule. At the same time, the Empire also wished to rule the Balkan states. This was the basic dispute between the two countries and ultimately sparked the First World War.

It is also true that others (mainly Croatian and other South Slav politicians) had elaborated plans for South Slav unification, but, as the First World War continued, the balance of power changed and it became more obvious that any such union would be formed with Serbia as the dominant power. In fact, after the defeat of the Central Powers in 1918, the new state was established as the Kingdom of the Serbs, Croats and Slovenes. However, the guarantees which a federal structure would have provided were lacking – essentially due to the need for rapid action – and it was assumed that the Constituent Assembly would be responsible for this. In fact, a constitution did not appear for some considerable time, and in 1921, when it finally came into force, the constitution was that of a totally centralised, unitary state. Traditional provinces were abolished and the country was divided into 33 'oblasts', which were governed by officers appointed by the central government.

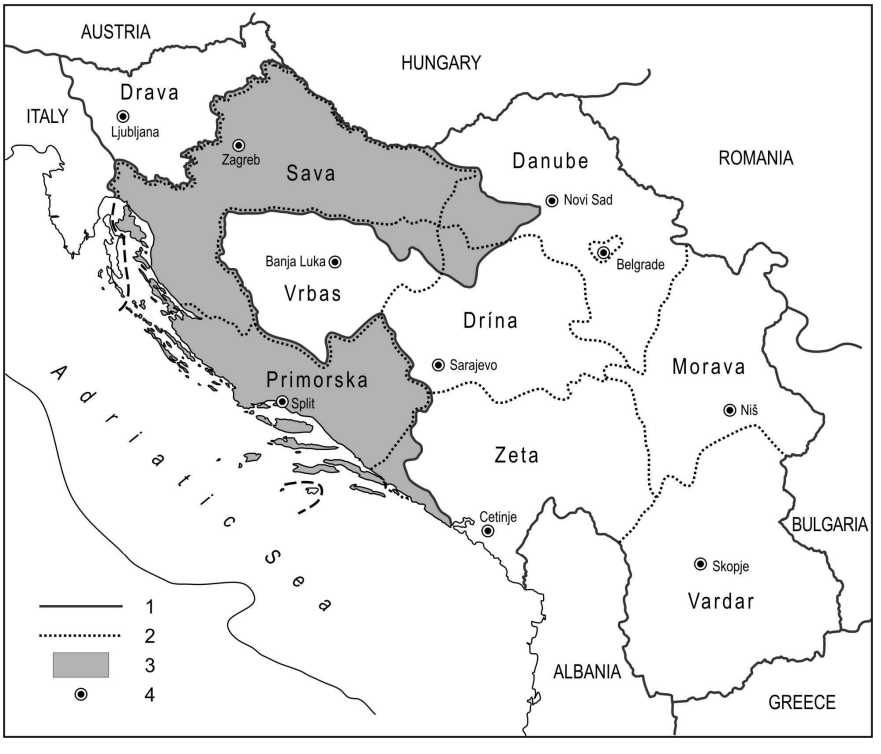
The Croatian opposition to centralisation – headed by Stjepan Radić – became increasingly strong and debates in Parliament more acrimonious and violent. On the 20th of June in 1928 a Serb deputy gunned down five members of the Croatian Peasants Party, including their leader, Stjepan Radić. Following this, the king dissolved Parliament and himself assumed dictatorial powers. He also changed the name of the country to the Kingdom of Yugoslavia. The earlier

constitutional nations – Serbs, Croats and Slovenes – became Yugoslavs and were not registered separately (Macedonians were regarded as Serbs and Bosnians as Muslim Yugoslavs). The 33 oblasts, which had made up the nation's territory (županije) were replaced by nine new banovinas (banats), and most of these were named after rivers – following French practice. Banovinas named Danube, Drava, Drina, Morava, Sava, Vardar, Vrbas, Zeta and Littoral replaced the traditional names (*Figure 7)*.

After the assassination of King Alexander in Marseilles, the Croatian opposition forced the Regent, Prince Paul, to establish the Autonomous Banovina of Croatia (comprising Croatia, Dalmatia and a part of Bosnia and Herzegovina) in August 1939. The Croatian Banovina, with certain constituent powers and its own parliament, existed for just two years.

Figure 7

Banovinas of Yugoslavia, 1931



Key: 1 – State borders; 2 – Banovina borders, 1931; 3 – Autonomous Croatia, 1939; 4 – Banovina centres.

During World War II Yugoslavia was fully restructured in accordance with the wishes of the occupying forces. Croatia was renamed the Kingdom of Croatia, annexing Bosnia-Herzegovina and Syrmia. One part of Slovenia was occupied by Italy and the other by Germany. Bačka became part of Hungary and German public administration was introduced in the Banat (although it remained a Serb area). Macedonia was annexed to Bulgaria and Kosovo (and Western Macedonia) to Albania. A large part of Dalmatia was taken over by Italy and Italian public administration was introduced in Montenegro. In the remaining area of Serbia a puppet government was established but its territory remained under German occupation.

After World War II, Yugoslavia had some territory restored (Istria, Goerz [Görz, Gorizia]), Gradiska, Fiume (Rijeka), Zadar and a number of Dalmatian islands). In the internal conflict during the wartime period the communist Partisans led by Tito prevailed over the whole country, and on January 31st, 1946, the new constitution of the Federal People's Republic of Yugoslavia established six People's Republics: those of Bosnia-Herzegovina, Croatia, Macedonia, Montenegro, Serbia and Slovenia. Serbia included the Autonomous Province of the Vojvodina and the Autonomous District of Kosovo (later an autonomous province also) (*Figure 8*).

Beneath the surface of the Federal Republic, however, the atmosphere was explosive. During the period of World War II there were so many bloody conflicts and mass murders involving individual ethnic groups, and so much hatred had accumulated that a strict dictatorship with Tito's authority, together with his great ability to manoeuvre and manipulate, were needed behind the democratic scene to keep the country together. In order to maintain a relatively high standard of living in the region, Yugoslavia also needed the circumstances created by the Cold War to be able to manoeuvre between the two systems under the flag of non-alignment, together with Western support and loans – which enhanced the overall international reputation of the country.

Post-1945, the political and public administration system was as centralised as in other countries controlled by the Soviet Union. However, after the break with Stalin and the Soviet Union, Yugoslavia searched for a path that distinguished her from other socialist countries. This new way was "self-governing socialism". This system also embraced industrial companies (with more serious consequences), but from the point of view of our subject, the public administration of local communities is the most relevant. This system was also based on Balkan tradition. The Turkish authorities had not interfered in the life of local Christian communities, who were allowed to organise their lives for themselves, only their leaders being in contact with the Turkish authorities. People relied only on the village community and had no contact with higher administrative levels. The "self-governing communities" (obćine) system was based on this

tradition. Their official definition was: 'self-governing social and political communities based on the power and self-management of the working-class and all working people'. Circa 500 "občinas" existed in Yugoslavia in the '70s and '80s and so each općina embraced other settlements. These local authorities were competent to deal with all matters which the law did not assign directly to national or federal organs. The management of economic planning and all public utilities and public services lay within the scope of local government, as did the supervision of industrial firms in their area. Companies were required to file their returns with their local authority so that the latter could decide whether wages had been set at an appropriate level. Naturally, these local authorities were completely controlled and directed by the Communist Party, but, since the local "factional-functionaries" also had a degree of autonomy, these increasingly became the representatives of (and lobbyists for) the republics and local communities. This also contributed to the continuous disintegration of the Yugoslav system and, finally, to its breakdown.

Figure 8

Member republics of Yugoslavia, 1946



A new Yugoslav constitution was prepared in 1974, and this further strengthened decentralisation tendencies. The competences of the republics and autonomous provinces were expanded at the expense of the federation. This meant that the representatives of the two Serb Autonomous Provinces (Kosovo and the Vojvodina) could participate (with full voting rights) in the National State Council. The Serbs objected to this, since the opportunities of the Serb government to interfere in the affairs of the provinces decreased, and since the provinces, in collusion with different republics, were even able to block Serbian policy. Tito, however, strove to maintain a balance between the nationalities, using a variety of tactics.

He broke the ambitions of Serbian power but at the same time allowed a disproportionate number of Serbs into the government "apparat" and into the army. Tito also acted against nationalist political trends quite mercilessly in different republics – notably in the early '70s in Croatia.

Tito died in 1980, after having held the country together by sheer force of personality. After his death, Yugoslavia was governed by a collective Presidency, the Head of the Presidency being elected annually – in rotation from the representatives of the six republics and the two autonomous provinces. The economy of Yugoslavia started to decline dramatically – partly due to the high degree of foreign debt and also to the dysfunctional operation of the self-governing system. The more developed republics were increasingly frustrated that their income was transferred to less-developed republics and spent, usually for political reasons, on economically ineffective development. In Kosovo, not long after Tito's death, disturbances broke out, with ethnic Albanian students demanding full republican status for their province.

The situation was further exacerbated in 1987 when Slobodan Milošević became the leader of the Serbian Socialist Alliance and used nationalist sentiment mainly to gain support for strengthening his own power. In 1989 he was elected President of Serbia and started a campaign to withdraw the rights of the autonomous provinces (Kosovo and Vojvodina). He was able, by intimidation, to have his men appointed President's Representatives in both the provinces and in Montenegro, and so the Yugoslav Presidency with a 4-4 voting split was unable to make decisions. At the Yugoslav Communist Party Congress held in January 1990 the Serbian communists broke with the communists of other republics and the Alliance of Yugoslav Communists was abandoned, with only individual republic-level parties remaining.

Slovenia and Croatia declared their independence from Yugoslavia in June 1991. The Yugoslav Peoples Army received orders from Belgrade to reoccupy border crossing points into Austria and Italy, which had earlier been taken by the Slovene territorial defence forces (a form of militia). The inadequately equipped and unmotivated soldiers of the Yugoslav Army did not succeed and

were withdrawn from Slovenia in ten days, after which Slovenian independence was agreed to by 'the rest of Yugoslavia' in Brioni.

The situation in Croatia was more critical. Slovenia was ethnically homogeneous, whilst six hundred thousand ethnic Serbs lived in Croatia – a significant part along the border of Croatia with Bosnia, in the so-called 'Krajina', where the Habsburg Empire had located them as a border police force. Milošević had earlier announced that, in case Croatia should declare independence, the Croat areas inhabited by Serbs would join Serbia. Serbs living in Croatia attacked and drove out the non-Serb inhabitants of villages in Knin and Eastern and Western Slavonia and declared the Republic of Serbian Krajina. After Croatia's declaration of independence, the Yugoslav Peoples Army, supposedly a peacekeeping force but to all intents and purposes, a Serbian force, also intervened. The fighting produced many victims on both sides, a marked proportion of them civilian – and terrible atrocities and acts of cruelty were committed. The heaviest fighting took place in the surroundings of Vukovar. In February 1992 the United Nations Organisation located peacekeeping forces in Croatia, specifically near Krajina, but intensive military conflict continued until June, 1994, when the Croatian Government signed an armistice with the Krajina forces.

In September 1991 a third republic – Macedonia – also declared independence, but with no armed conflict.

In April 1992, however, a new war began – this time in Bosnia and Herzegovina. Bosnia and Herzegovina was inhabited by three nationalities: Serbs (37%), Croats (15%) and South-Slav Muslims, "Bosnians" (48%). The 1990 parliamentary elections had led to a coalition government dominated by the three ethnically based nationalist parties. After Slovenia, Croatia and Macedonia had declared independence, Bosnia and Herzegovina faced three choices: 1. to stay in a Yugoslav state dominated by Serbs and the Serbs of Montenegro (neither the Croats in Bosnia nor the majority of Bosnians favoured that option); 2. to divide the country between Serbia and Croatia (the majority Bosnians would not accept that under any circumstances); 3. to declare independence (an alternative rejected by Bosnian Serbs since they wished to join their Serbian compatriots). Before a referendum was called by the chairman (Alija Izetbegović), the Serbs had held their own referendum in which 99% of the Serbs voted to stay in Yugoslavia. At that point the Serbs boycotted the referendum called by the chairman, in which 99% of the Bosnians and Croats voted for independence. Immediately after declaring independence (in April 1992) Serbs proclaimed the Serbian Republic of Bosnia as their own state and started a war in order to occupy the largest possible area for the state.

The Bosnian war was even more cruel than the earlier Croatian. The main aim of the parties was 'ethnic cleansing' – expelling the other ethnic groups from the territory wanted or simply butchering them. At first, the Serbs had the

upper hand, due to their superior armoured equipment and vehicles, and even Serbian officers and soldiers of Bosnian origin were left by the Yugoslav People's Army in Bosnia. They, constituting 37% of the population, occupied more than 70% of the country. Sarajevo was blockaded for years and was targeted by artillery and snipers from the mountains. Although the peacekeeping mandate of UN troops was extended to cover Bosnia and Herzegovina in 1992, the mandate was not clear and the troops were poorly equipped. Consequently, the UN presence was disregarded by the combatant parties and UN soldiers were kidnapped and chained to military establishments so that they would not be bombarded from the air. The Srebrenica massacre effectively took place almost in the presence of UN troops. Bosnians and Croats were, first of all, allies, but, as their land occupation interests diverged, they began to fight each other viciously. Their alliance was more or less restored only by February 1994. Numerous plans were prepared for the re-establishment of a state (for example, the plans of Carrington–Cutileiro and Vance–Owen), but Bosnian Serbs accepted neither. At last, seeing the UN peacekeepers' ineffectiveness, NATO and the USA undertook the dominant role on Bosnian territory from the middle of 1994. NATO aircraft bombed Bosnian Serb military bases many times, and they provided not weapons but logistical aid for the strengthening of the Croat and Bosnian armed forces. In August 1995, in the four-day long "Operation Storm', the Croat Army took over the Croatian territory previously occupied by the Serbs. In the autumn of 1995 the Bosnian army reoccupied the whole of Western Bosnia from the Serbs in the course of a few days. At this point Serbia and Milošević also abandoned the Bosnian Serbs. The international community – and especially the USA – forced Tudjman (the Croatian President) and Izetbegović (his Bosnian opposite number) to the conference table. In December 1995, the signing of the Dayton Agreement in the USA by the presidents brought a halt to the fighting, roughly establishing the basic structure of the present-day state. In the Bosnian war approximately one hundred thousand people were killed and an estimated 1.4 million became refugees.

The Bosnian war had barely ended at the end of 1995, when new conflicts broke out – this time in Kosovo. In 1990, Milošević had ended Kosovo's autonomy and imprisoned the leader of the province, replacing the heads and managers of all institutions and companies. Ethnic Albanians were made redundant and their positions were filled by Serbs. The university in Priština was closed, the use of the Albanian language in public offices was forbidden, newspapers printed in Albanian were closed and all broadcasting in Albanian simply ceased. Ethnic Albanian inhabitants – led by the Democratic League headed by Ibrahim Rugova – responded with a boycott of Serb institutions.

Albanian children did not attend official schools, but those schools sponsored by the community; they did not participate in the elections, did not

respond to call-up papers and – most significantly, did not pay taxes. This non-violent resistance lasted until 1996. The situation in Kosovo significantly changed after the Dayton Agreement. Many Albanians concluded that the West would not intervene until guns were fired and blood was shed. Before this happened, they would do nothing for ethnic Albanians. The circumstances were also altered by the collapse of the government of Albania in 1997. The people attacked public institutions, including barracks and arsenals, and pillaged them, most of the weapons then being smuggled over the border and into Kosovo. In 1996, skirmishes between the Serb police and a little-known organism called the 'Relief Forces of Kosovo – UÇK' could be heard around many villages. These increased in 1997 and Serb reprisals became ever more violent. In 1998, the Yugoslav Army entered Kosovo and commenced operations in which whole villages were evacuated, to deny guerrillas any base. Europe and NATO did not let this pass without reaction and in fact asked the Yugoslav leadership for an armistice, for a termination of activities against the inhabitants and for permission for NATO peacekeepers to enter Kosovo. Yugoslavia rejected the last as amounting to intervention into its home affairs. They allowed only unarmed observers to enter, although these were totally powerless in such a situation. The Great Powers then invited the combatant parties to negotiate in Paris (Rambouillet). The condition which again caused the negotiations to fail, was to send NATO peacekeeping forces into Kosovo. The Serbs refused and so a bombardment by NATO began on the 24th of March 1999 and lasted for two and a half months (until the 11th of June). The Yugoslav response to the bombardment was to expel great numbers of the Albanian population from Kosovo – achieving this by means of threats, the destruction of houses and many cases of murder. In one month, 850 thousand people, the majority of the ethnic Albanian inhabitants, were driven out of their homes into Albania or Macedonia. On the 11th of June, however, after serious losses, Yugoslavia agreed to the entry of NATO troops and placed Kosovo under UN supervision.

Albanian inhabitants returned to their homes, and the Yugoslav troops evacuated the occupied territory. The United Nations was given formal control of Kosovo by NATO and the European Union became responsible for reconstruction.

In 2003, Yugoslavia was renamed Serbia and Montenegro, since only these two republics remained in the Federation.

On the 21st of May 2006, a referendum was held in Montenegro on whether the population wanted to achieve independence by leaving the federation. The international community had laid down the condition that at least 55% of the electorate had to vote for independence. This requirement just fulfilled, and so Montenegro became an independent state on June 3rd, 2006.

With this, Yugoslavia had totally disintegrated. Of the republics and autonomous provinces of the original Federation, only the Vojvodina and Serbia remained together, and so, from this point on, we shall describe the development and transformation of the regional administrative system of each member state and autonomous territory of the Former Yugoslavia.

2 Slovenia

Slovenia was the most developed and wealthiest republic of Yugoslavia with a GDP per capita twice as high as the Yugoslav average, and consequently, they were greatly affected by the transfer of income from the wealthier republics to the poorer ones. It is true that the exclusive market of 22 million Yugoslavs for the 2 million Slovenians more or less compensated for the Slovenian contributions to the poorer Yugoslav regions, but Slovenes found the policy and the economic ethics and style – used over most of Yugoslavia – more unacceptable than the loss of income.

In terms of ethnicity, Slovenia is a homogeneous country: 92% of the inhabitants of the country are of Slovenian nationality, whilst the number of Slovenes living in other Yugoslav republics is insignificant. This fact considerably eased the process of gaining independence by Slovenia – in contrast to Croatia.

Nationalities could be divided into two groups: the first contains the small number of Italians (0.1%) and Hungarians (0.3%) native to the territory. Parliamentary representation and bilingual language usage in their own settlements are provided for them automatically. The second, and largest group comprises Serbs, Croats, Bosnians, Albanians and Roma (Gypsies) who together account for some 8% of the population – and who are considered as immigrants (as, in reality, they are). These do not have collective rights as natives, although they, naturally, enjoy equal rights of citizenship.

In spite of the fact that the country is homogeneous and small, there was an atmosphere of fear, and regionalisation played a limited role until recently. All moves in this direction caused anxiety not only among the Slovene leadership, but among the inhabitants also. The explanation for this distress is buried in history.

In the 19th century, the Karantanians, who were the predecessors of the Slovenians, lived in a large territory including the entire area of present-day Slovenia plus the whole of Styria, Carinthia and South Austria as well as Zala County in Hungary and a significant area surrounding Lake Balaton. Since then, however, the areas where Slovenian people lived shrank continuously. Re-

arrangements of the provinces and administrative regions contributed to this, since Slovenes were in the minority in most areas and strongly subject to assimilation.

Serving as an example, at the time of the Austro–Hungarian Empire, Slovenians lived in seven Austrian crown lands as well as in the border regions of Italy and Hungary. They were in the majority only in one of these nine regions, in Kraina (Carniola). In 1910, 35.5% of Slovenes inhabited Kraina, 29.6% Styria, 6% Carinthia, 11.2% Gorizia Gradisca, 4% Istria, 4.1% Trieste, 6.8% Hungary and 2.8% Italy. The Slovene population in the areas where they were in the minority decreased continuously, and, after the First World War, territories with a significant number of Slovene inhabitants joined Italy – where their population again diminished. During the Second World War, Slovenia was divided between the German and Italian allies: its south-western part was given to Italy, and the north-eastern part, ex-Styrian and Carinthian territories, to Germany. It is not surprising that every regionalisation concept reminded the tiny state of division and separation. On the other hand, a remarkable number of German and Italian inhabitants were forced to leave the territory of Slovenia after the Second World War, and deprived of their houses and land. Slovenians were afraid that a regionalised country could less resist German and Italian claims for restitution.

In the course of time, however, these fears disappeared and in the second half of the ‘90s, partly at the request of the European Union, Slovenia designated so called statistical regions, which, in some respects follow the boundaries of historical provinces. They selected 12 regions, originally with a statistical goal. Later, however, these were, of necessity, transformed into units of regional development and planning in some respects. The government has not yet finally decided on the administrative regions, although their number will be between 12 and 14. If 12, this will be the same as the current statistical regions. These correspond to NUTS3 regions, whilst the country itself, with a population of 2 million, forms (two) NUTS2 regions.

When Slovenia was a part of Yugoslavia, a social and economic self-governing system of communities was established (občinas). These were, in some ways, tiny states within the state and they had to perform a wide range of governmental tasks – which meant that they had little time, energy and money for their real local administrative tasks. In Slovenia there were 62 občinas grouped into 8 districts. These survived for three years following independence.

During reorganisation in 1994, a European-type administrative system was established in Slovenia. Until that time more than two-thirds of the 6,520 local authority employees (4,680 people) were involved in essentially central governmental tasks devolved by the state organs. These tasks, and the employees

dealing with them, were separated from local government functions and regrouped into 58 bureaus – or so-called public administration units.

These are de-concentrated organs, whose headquarters more or less coincide with those of the earlier občinas. The remaining staff (1,840) stayed with the municipality, although their numbers were increased to 2,900 – in proportion to the increase in local government responsibilities following increased decentralisation. In 1995, 146 administrative districts were created from 62 občinas and, following the referendum of 1998, their number was increased to 192 by subdivision. Today Slovenia has 210 local authorities, 11 of them with full town or municipal borough status.

Following independence, Slovenia had a border dispute with Croatia. Earlier, of course, the Slovenian-Croatian border did not function as a full international border, and, for this reason, its accuracy was not especially important. (It was an internal border within the Habsburg Empire between 1526 and 1918 and an internal border within Yugoslavia between 1918 and 1991.) This question was resolved by the two countries in a relatively short time.

3 Croatia

During the Habsburg Empire Croatia was called a triune kingdom: a kingdom of three provinces: Croatia, Dalmatia and Slavonia. This covered only 'Civil Croatia' – that part of (Central) Croatia not incorporated into the Habsburg Military Frontier Area. The Habsburg Empire had wanted to build a buffer-zone against the Turks since the 16th century and to locate Serb, Croat and Romanian 'peasant-soldiers' there. These, in return for border guard service, were given land, relief from feudal restrictions and other privileges. The specifically military frontiers were controlled directly from Vienna, and, although they were formally a part of Hungary and Croatia, they did not lie within the competence of the Hungarian and Croat administration and jurisdiction. In 1850, after the Hungarian uprising of 1848–1849, the frontier area was separated formally from Hungary and Croatia and became crown territory. This obviously struck a nerve in Croatia, where more than half of the country's territory belonged to the frontier area. At this time, Croatia-Slavonia comprised eight counties (Belovár, Körös, Pozsega, Rijeka, Szerém, Varasd, Verőce and Zagreb) and five border-regiment districts (Bán, Brod, Gradiska, Lika-Otocsác and Ogulin-Szlunj). Some 50% of the border population was Croat but, very significantly, 33% was Serb, which was much higher than in "Civil Croatia".

After the Hungarian–Croatian Compromise of 1868, the border area was gradually incorporated into the framework of the civil administration of Croatia.

The eight Croat counties were established at this time and existed until the disintegration of the monarchy (Lika-Krbava, Modrus-Fiume, Zagreb, Varasd, Belovár-Körös, Pozsega, Verőce, Szerém). The city of Fiume (Rijeka) – a separate entity or 'corpus separatus' – belonged to Hungary (*Figure 9*).

Dalmatia was, in the Monarchy, a part of Cisleithania (Austria). Previously, the Venetians had also created here a defended frontier region: its heritage was the significant number of Serb inhabitants around Knin – the so called Krajina of Knin. Dalmatia in the Monarchy was divided into 13 districts.

Figure 9

Counties of Croatia at the end of the 1800s



After 1918, when the Serb–Croat–Slovene Kingdom was proclaimed, the system of counties was terminated and the kingdom was divided into 33 oblasts. Seven of them were in the territory of Croatia (the oblasts of Zagreb, Primorsko-krajina, Karlovac, Kruševac, Osijek, Dubrovnik and Split). The coup d'état in 1929 eliminated the traditional provinces and created banovinas in their place. However, in the course of their formation, traditional borders were hardly taken into consideration. Most of the territory of Croatia belonged to the Banovina of Sava and the Littoral, but certain parts were added to the Banovinas of Danube and Zeta.

At the time when Yugoslavia was led by Tito, Croatia was divided into 115 občinas and there were no mid-level administrative units between the republic and the občinas. The operation of občinas was identical over the whole of Yugoslavia.

Before her proclamation of independence, Croatia had already laid down the basic constitutional rules relating to local government in her new constitution (in December, 1990); the war only began afterwards. During this period, Croatia attempted to give specific democratic guarantees to the Serbian minority (unfortunately, not providing them before the proclamation). These included autonomy, an independent police force and guaranteed participation in the courts etc. for local authorities with a Serb majority population. Later, they offered autonomy to two larger regions with Serb inhabitants, although at that point the Serbs refused everything except complete separation.

The first municipal law was prepared in December 1992. Its main provisions:

- to establish 420 townships with municipal characteristics in place of 115 občinas;
- to form 20 counties (županijes) (a 21st was the city of Zagreb which was given the rights of a county). According to the constitution, counties should carry out central and local government tasks alike, although, it has to be added, the first of these dominated initially;
- to establish a two-chamber system for Parliament in which the second chamber – the House of the Counties – would be responsible for territorial policy and its implementation. Each county (and Zagreb) elected three representatives and the President of the Republic appointed a further five delegates to the House of the Counties, so producing a total of 68.

The new regulation was prepared very soon after the war ended – which left its mark:

- the division into counties was decided quite quickly, occasioning certain problems. Two counties (Zagreb and Dubrovnik) did not have a cohesive area. They did not fully match the historical Croatian provinces (Little Croatia, Slavonia and Dalmatia), and, consequently, amendments had to be introduced.
- the larger problem is related to the characteristics of the counties. In the beginning, these organs were managed almost exclusively by central government. Their leaders – the governors (župans) – were approved by the President of the Republic and their main task was to carry out the instructions of the government, and, if the government was not satisfied, it could force their resignation. At the same time, the governor had to take into

account the viewpoints and interests both of central government and of his own municipality. (This sample came from Yugoslavia). Under the circumstances, this was to some extent understandable, as the country was at war and a group of its citizens (Krajina Serbs) were fighting against this state and government.

– at the same time, it was strange to form this second chamber (the House of the Counties) of Parliament under these circumstances. Such a chamber is normally established in a liberalised or regionalised country where regions have a wide range of autonomy and are intent upon intervening in the decisions of central government. In Croatia where the counties were as yet unable to decide on their own affairs, the formation of this chamber was irrational.

After this period, however, changes were necessary to be made in Croatia. In the second period of the war, during "Operation Storm", Croatia reoccupied its entire territory, with the result that more than two hundred thousand Serb inhabitants fled the country which – in consequence – became ethnically more homogeneous.

The situation of Croatia stabilised. She applied for EU membership and accession negotiations began. Regulatory amendments concerning both the local authorities and the counties were introduced, which strengthened their democratic and autonomous character.

Representatives of both the local and the county authorities are elected at regular elections. The governors continue to exercise a dual function (for central and local government), but they are elected exclusively by the local county assembly.

The 'House of the Counties' was abolished, and a single-chamber system was introduced in Parliament. County functions now include territorial and economic development as well as international relationships.

4 Bosnia and Herzegovina

The new state of Bosnia and Herzegovina was created by the Dayton Agreement. Accordingly, the state consists of two formations forming genuine state units. They have governments and state machineries with significant legislative competences. They levy taxes and practise government in most respects. One of the two formations is the Federation of Bosnia and Herzegovina (the State of Croats and Bosniaks, who have neither Croat nor Serb identity and the majority of whom practise the Muslim faith); the other is the Serb Republic with a ma-

jority of ethnic Serb inhabitants. The Treaty of Dayton divided the territory of the country so that the Bosnian Serb Republic had 49% and the Federation the remaining 51% of the territory.

Bosnia and Herzegovina has had a third component since 2000. This is the town of Brčko and its immediate surroundings. Here is a narrow corridor connecting the northern and southern parts of the Serb Republic. The territory of Brčko consists of tiny areas separated from the Federation and the Serb Republic, but it belongs to neither entity and is governed by them collectively.

Besides the federal government and its offices, there are ten cantons in the Federation. Their inhabitants are mostly Bosniaks or Croats or Bosniak-Croats with an insignificant minority of Serbs. Each canton has its own constitution, its own laws, its own government and its own ministries.

The state delegates most functions to the two entities. The central state's activities cover only foreign policy, customs duties and border control, monetary policy and refugee affairs but, as we will see later, it cannot handle all. The two entities (the Federation and the Serb Republic) have armies, whilst the constitution does not allow the central government to maintain an army. Customs duties are theoretically added to the income of the central government, but organs of the two entities collect them as well as taxes.

Bosnia and Herzegovina has a Parliament with a two-chamber system, one of which is the House of Representatives elected by the party-lists and consisting of 42 members; two-thirds of whom (28) are elected from the Federation and one-third from the Serb Republic. The other Chamber is the House of Nationalities and its members are delegated by the Parliaments of the individual entities: five members from the Bosniak, five from the Serb and five from the Croat Parliament. The state has a presidency consisting of one Bosniak, one Serb and one Croat. Any dispute between the three nations would, in practice, paralyse the central state, since it is not able to take any decision. Currently, the main decisions are made, not by this institutional system, but the High Representative.

The post of High Representative was created under the Dayton Treaty, and it represents both the international community (the United Nations Organisation) and the European Union specifically. The present High Representative is Valentin Inzko, an Austrian diplomat, in post since March 2009. The High Representative has extremely wide-ranging powers. He can invalidate laws and dismiss ministers or even whole governments (as has happened on several occasions over the last 10 years). Conversely, the High Representative is appointed by the Peace Implementation Council in which 55 countries and international organisations, amongst them Hungary and the Western Balkan countries, are represented.

There is no intermediate level between the state and the local authorities in the Serb Republic, although in the Federation there are cantons at this level.

These cantons base their activities on their own laws, taxes and legislation, so act as mini-states. The system of public administration, the structure of the government, health and social care, education and national culture – despite their evident similarities – differ in each canton, which is why we can say that there are 13 governments and 13 prime ministers in Bosnia and Herzegovina (with a population of four million).

At the lowest level of government we find the local authorities – the občinas. Bosnia and Herzegovina retained the previous Yugoslav system, although its content has inevitably changed. Before the war the Republic had 105 občinas, whilst now the number is 141:78 in the Federation and 63 in the Serb Republic. The reason for this is not the conscious decentralisation but the border drawn in Dayton. This divided many občinas and each part of these formed an independent municipality. The občinas have a wide range of competence. According to the law, if a township does not have the same ethnic majority as the canton, than the canton must transfer all finance, in proportion, to the municipality, so that all decisions can be made there.

Inevitably, ethnic diversity determines the whole of the public administration sphere. The mayor customarily has three deputies, who do not fulfil any special duties but simply represent the three ethnic groups. Usually, however, the "apparat" needs to be doubled, or even trebled, since each nation has to be given the opportunity to intervene in decision-making (even in the administrative decision-making process).

In most cases the local authorities have two budgets: one is formal and legitimate (and submitted to higher bodies) whilst the other is informal, but agreed on by all local ethnic groups. The latter is usually the one which is applied. Financing such a bureaucracy and operating system in an extremely poor country can obviously lead only to economic breakdown – something which can be avoided only by means of support from the international community.

During the war, 60% of the technical and economic infrastructure of Bosnia and Herzegovina was destroyed. A large part of industrial activity simply died or was totally useless. In the '50s and '60s, when Tito's Yugoslavia was surrounded by enemies who were the allies of the USSR, much of the defence industry and most of the country's military bases were relocated far from the external land-borders and into Bosnia and Herzegovina. This industry disappeared totally. In the case of other industries, the problem often lies in separation from old (ex-Yugoslav) supply sources or from the markets. In fact, this is sometimes true within the country also. For example, there are bauxite mines in the Bos-

nian Serb Republic, whilst the smelters are on the territory of the Federation. Currently, there is no commercial connection between the two parties.

The unemployment rate is more than 40%. During the war, GDP decreased by 80%, and it will require a great deal of time to reach the old level – even given a high rate of growth based on consumption supported by foreign aid. Those central state revenues which are actually collected by the 'sub-states' have disappeared. These sub-states (mini-states) have full authority over their Customs Authority, their Police force and the entire "apparat" – which are obviously not interested in transferring revenue to the central government.

The great majority, perhaps even all, of the damage to housing, other buildings and the general infrastructure caused by the war occurred on the territory of the Bosnian-Croat Federation, as the fighting mostly took place there and with the Serbs on the offensive. Circa 85% of the civilian victims were also Muslim Bosniaks, and so the Serb Republic survived the war in a relatively better state. It is true that it received a relatively small proportion of post-war international aid due to the fact that she did not comply with the requirements demanded by the international community, but, nevertheless, more aid hardly compensates the Federation for its losses and victims.

The Dayton Pact is already more than ten years old. Originally, its main purpose was to bring an end to the war and to the fighting, and so less attention was paid to the conditions needed to create a viable state. Somewhat later, however, this problem and the related shortcomings of the Pact came under the spotlight.

How can a state with no army operate if its sub-states – who are hostile to each other – have their own? This situation was parallel by that with the Police and the Customs Police, although, in recent years, pressure from the EU and EU member-states brought about the creation (at least formally) of uniformed Police and Customs Police forces.

How might one of the Chambers in Parliament (the House of Nationalities) operate, without which no law can be enacted, but where all three parties have the right of veto and their interests differ? How can high-level diplomacy be practised by a country with three simultaneous Presidents? Perhaps the main point is: what will happen, if, at any time, the international forces (the SFOR) leave the country?

It is, therefore, vital to make certain changes to the Dayton system, although the individual nations cannot agree on the main direction of those changes:

Bosniaks, with no other home-land, would like a more viable, stronger and centralised state with wider central governmental competences. They are the strongest group economically and their contribution is the largest.

Croats consider themselves as the losers in the process. In contrast to Bosniaks and Serbs, they have no separate sub-state. The Federation is not considered

to be such and yet they are still pushed into the background. They would like three sub-states instead of the present two – or to join Croatia.

On the other hand, Serbs do not want any kind of change. With their 35% proportion of the population, they obtained 49% of the country. They formed their sub-state into an ethnically homogeneous territory, and so they enjoy complete sovereignty on their own territory and can block the work of the central government. Any change can only be unfavourable for them. The situation could be changed only if they were entitled to join Serbia (with their territory of course).

5 Serbia and the Vojvodina

Three phases of the territorial development of the Serb state can be distinguished since the beginning of the 19th century. The first one extends from the formation of the 'modern' Serb state to 1939. This period is marked by the continuous development of a unitary centralised Serb state with the attachment of newer and newer territories. The first Serb state between 1817 and 1832 – as territory within the Ottoman Empire with restricted autonomy – included the region of Sumadija (the core territory of Serbia) which is hardly 25 thousand square kilometres and with 700 thousand inhabitants. New lands were added between 1832 and 1833 and also between 1877 and 1878. In 1913, after the Second Balkan War, the northern part of the Sandžak, Kosovo and Vardar-Macedonia were annexed to Serbia, by which it nearly doubled its territory.

The second phase is Federal Yugoslavia. The federal system was formulated after the Second World War. In the beginning, the autonomous provinces of Serbia had strictly limited rights and the complete evolution of Yugoslav federalism occurred after 1974. The third phase – the collapse of the Yugoslav state – started in 1990.

The present Serb state's administrative and management system radically changed without altering its territorial units, and the mainstream process has been the post-1988 centralisation. Unfortunately the majority of the inhabitants supported centralisation as it was thought to be the instrument of national unity.

There are three core elements:

- changing the characteristics and functions of občinás and townships;
- forming districts;
- restricting the authority of autonomous provinces.

We have already mentioned that townships in the Yugoslav system acted not only as administrative units, but also undertook all tasks related to the economy

and social organisation. In addition, there were no hierarchical relationships between the republics and the townships, and their common interests could only be harmonised by bargaining and not by command. To be more precise, the Communist Party – the Union of Yugoslav Communists – was the organisation by which any bargaining process was arranged and carried out. This decentralised structure was supposed to be one of the reasons for the weakening and collapse of the Yugoslav state, and, starting in 1988–1989, strictly hierarchical structures were enforced. At first, all of the functions which did not come within the orbit of public administration were taken away. These included the supervision of companies, an important issue for the Serbian government, since many companies were to be privatised. Initially, these companies had to be brought under Serbian central state control before they could be privatised. Additionally, many administrative and other functions formerly carried out by the townships (občinas) were transferred to the de-concentrated organs. Finally, government by state decrees was introduced in most areas in respect of the remaining functions of townships. Currently there are 160 townships (občinas) in Serbia, 115 in Serbia proper, and 45 in the Vojvodina.

Earlier there was no intermediate level between the townships and the republic. Currently, however, as so many functions were transferred from the townships to the state, the establishment of some form of intermediate de-concentrated level became necessary, and so, at the beginning of the '90s, districts (okrugs) were created in Serbia. To translate this as "county" would not be accurate since the districts serve only as the de-concentrated organs of central government and carry out governmental functions within a territorial unit. In fact, they consist of de-concentrated units of several different ministries coordinated by a civil servant, and so the only autonomous level is that of the township. District offices are also important since the central regime transfers both material resources and government tasks through these offices to the townships. Serbia is divided into 24 districts: seven of them are in the Vojvodina and 17 in Serbia proper.

The third – and most critical – issue relates to the situation in the newest autonomous territory: that is the Vojvodina. In the Milošević era – following demonstrations and intimidation – provincial managers were replaced by Milošević's followers and its autonomy was to all intents and purposes abolished.

In 2002, certain specific tasks were formally returned, although they cannot be undertaken without financial resources. The new constitution of Serbia – accepted in 2006 – made no change to the status of the Vojvodina. The key to the real problem lies in the operation of districts (okrugs) formed in the '90s. As mentioned above, these districts are sub-offices of central government, located on a particular, and acting as intermediaries between central government and

towns. The resources and tasks involved are transferred to the municipalities or towns through these district offices. (They were also created in the Vojvodina autonomous province). The district offices are under central government authority, and, as long as this system lasts, provincial autonomy is little more than a fiction, as all significant decisions and transactions go through the district offices. It is especially relevant in connection with financial resources. The Vojvodina contributes almost 50% of the taxes paid in Serbia but in exchange receives a much smaller proportion of government support.

In the 2008 elections, the advocates of 'moderate' autonomy gained most votes and redrafting the autonomy of the Vojvodina once more became possible. This autonomy, however, was very moderate in reality – wider than in 2006 but narrower than in 1974.

In the last few years, Hungarians in the Vojvodina have elaborated a so called three-step autonomy programme. Its first step is the personal autonomy of minorities, which enables everyone to learn in their native language, to manage their official affairs also in their native tongue and not to be subject to insults or discrimination because of theirs ethnic identity. This is guaranteed by the constitution, although there are problems in realising it. The second step is community autonomy (at least partial) in areas where a Hungarian majority lives. At present not only Serbia, but Central and Southeast European countries, refuse to grant collective national rights, and so the chance of implementing this step is small. The third step is autonomy for the whole territory of the Vojvodina. This is formally included in the constitution, but there is no machinery for implementing it.

Currently, the principal issue for inhabitants of Hungarian nationality is not their legal status as mentioned above, but the dramatic change in the composition of the population. The proportion of Hungarians in the Vojvodina was only 14.8% in 2002 and has been decreasing continuously. This decline – in addition to the negative natural trend in birth rates (death rates are higher than birth rates) – is due to two factors: the emigration of Hungarians and the immigration or forced immigration from other territories of the country or of the Former Yugoslavia. 428 thousand Hungarians lived in the Vojvodina in 1948 and they constituted 25.8% of the whole population. Their number decreased to 290 thousand (and their proportion to 14.8%) in 2002. The decline accelerated between 1981 and 2002, with the Hungarian population decreasing by 25% (equivalent to 100 thousand people). It is remarkable that between 1991 and 2002, whilst population numbers decreased in almost all regions of Serbia, the population actually increased in some districts of the Vojvodina, although the natural decrease of population was the highest there. Obviously, the explanation lies in the resettlement of the greatest number of Serb refugees (from Kosovo, Bosnia and Croatia) in this region. Besides this alteration to the ethnic balance,

disturbing in itself, there is another consequence of this re-settlement process. The refugees settled in the Vojvodina will display xenophobia and chauvinism – feelings they have for fairly obvious reason – towards the minority whom they meet daily, i.e. Hungarians, although Hungarians have had no part to play in forcing them to leave their original homes.

There is one more territory in Serbia, which in terms of history, religion and ethnic composition, differs from other Serb territories. This is Sandžak, where the need for autonomy has also emerged. The name Sandžak derives from the Sanjak of Novi Pazar, a former Ottoman administrative district. Currently, this is the only part of Serbia with a Muslim majority. Most of its inhabitants are Bosniaks, who are Muslims with a Slav mother tongue. The 1878 Congress of Berlin allowed Austro–Hungarian military garrisons to be positioned in Sandžak, where they remained until 1909. Sandžak was captured by Serbian and Montenegrin troops in 1912 in the First Balkan War, and its territory was divided between the Kingdoms of Serbia and Montenegro. Many Muslim inhabitants of Sandžak emigrated, as a direct result of oppression by the new Serbo-Montenegrin authorities. The territory did not gain autonomy in the second Yugoslavia and did not join Bosnia in order to keep the ethnic balance there.

During the Bosnian war, the Serb authorities, worrying about Bosnian events possibly affecting Sandžak, adopted oppressive measures once more. Developments in Bosnia, Croatia and Slovenia also set politics in Sandžak in motion. The Bosniak National Council of Serbia-Montenegro was established and demanded autonomy. The radicals required the transformation of the Confederation of Serbia-Montenegro into a Confederation with three members, in which the third member would have been Sandžak. However, in June 2006, Serbia and Montenegro separated and the two Sandžak areas were annexed to two different sovereign states and the opportunity of becoming a union faded away.

6 Kosovo

Currently, Kosovo and its future as a territory is the issue causing the most tension and uncertainty in Europe. The accepted norms of international law are opposed to the wishes and requirements of the majority of the inhabitants of the territory and choosing either solution will have major consequences not only for this region but for the whole of Europe also.

In 1999, after the Kosovo War, according to UN Security Council Resolution 1244, the territory came under the interim administration of the United

Nations Mission in Kosovo (UNMIK), whilst its future status was not determined. Resolution 1244 provided that Kosovo should have autonomy within the Federal Republic of Yugoslavia, and affirmed the territorial integrity of Yugoslavia. In practice, however, the Serb authorities have no right to intervene in the affairs of Kosovo. In May 2001, the UNMIK elaborated a Constitutional Frame and created an interim self-government of Kosovo on this basis. They formed and elected a Parliament with 120 members (in which twenty seats were reserved for representatives of ethnic minorities, although these currently boycott the sessions), established the government and the position of the President (first, Ibrahim Rugova, and then, after his death, Fatmir Sejdiu). Police and Customs Police forces of Kosovo were established under international supervision and local authorities were also elected.

The economic situation is still difficult. The reconstruction of houses was finished relatively quickly, but industry has not yet recovered. Investments are directed towards construction, commerce and services and originate from Albanians living abroad. Since unemployment is extremely high and demand is low, a significant part of these investments represents money laundering rather than investment satisfying genuine demand. The trade deficit of the territory amounts to almost 70% of GDP, one part of which is balanced by the transfers by Albanians living abroad and the other by international aid. Real foreign investment is lacking as the status of the territory is uncertain. Relations between ethnic groups are still strained.

Discussions on the future status of Kosovo – due to the initiative of the UN Security Council – began at the end of 2005, and negotiations have continued between the two parties: the Serb government and the leaders of Kosovo, also in parallel with the negotiations of the so-called Contact Group which included the USA, Russia, Great Britain, France, Germany and Italy. The UNO entrusted Martti Ahtisaari, the Finnish ex-president with the leadership of the process. The first talks between Serb and Kosovan parties took place in Vienna on July 24th, 2006, but no real solution was devised there (nor was any expected). The views of the two parties cannot be harmonised.

Serbia would accept a wide autonomy for Kosovo but not complete independence. In Serb terms, they offer more than autonomy but less than independence. Only full independence, however, can be accepted by the Kosovar party who argue that the policy of Milošević and the punitive expedition against Albanian inhabitants has made coexistence impossible.

Finally, the Declaration of Independence of Kosovo put an end to the extended debate on February 17th, 2007. Since then, 65 member states of the UN have accepted the independence of Kosovo whilst 93 have not. Greece, Cyprus, Spain, Romania and Slovakia from the EU member states have refused. Greece and Cyprus clearly refused due to their historical, political and religious

linkages to Serbia and the reason for rejection of Spain, Romania and Slovakia lies in the fact that they do not want to set a precedent for separating minorities in general.

At the beginning of the 1990's, when the system of districts was formulated, Serbia established five districts in Kosovo (Kosovo, Kosovo-Pomotavlje, Kosovska Mitrovica, Peć and Prizren). UNMIK, the administrative organ of the UN in Kosovo had already laid down new administrative units in 2000 and actual administration has been based on these. This system includes seven districts for Kosovo: Đakovica (Gjakova), Gnjilane (Gjilani), Kosovska Mitrovica (Mitrovicës), Priština (Prishtinës), Peć (Peja), Prizren (Prizreni) and Uroševac (Ferizaji) (the first in the above is the Serb name, and the brackets contain the Albanian name of the district).

7 Montenegro

Montenegro is the oldest independent state in the Balkans and simultaneously it is the newest independent state in Europe. In fact, it first gained independence during the Ottoman Empire, whilst all other countries were under Turkish supremacy. On the other hand, after 1918, it became independent once again only on June 3rd, 2006, after the successful referendum on independence of May 21st. This small country, however, home to only 620 thousand inhabitants, shows major regional differences. Three types of society with completely different traditions, structures and orientations live in the country:

- The part of Montenegro where the original Montenegrin inhabitants live lies in the central highland zone of the country. In this area, to some extent, society is organised according to the customs and practice of ancient clans who make decisions and regard themselves as the real 'crnagoracs' or owners of the country.
- The northern side of the country is the southern part of ex-Sandžak and was annexed by Montenegro only in 1913. One part of the inhabitants are Serbs, whereas the majority are Muslim Bosniaks. The structure of society is less archaic, but, at the same time, sharply differentiated in terms of religion.

The third part is the littoral – the coastal area. The greater part was attached to Montenegro (from Dalmatia) after World War II, and the transfer of the area to Montenegro was a so-called 'reward' for Montenegro and a 'penalty' for Croatia by Tito. The inhabitants of the littoral are totally mixed, mixed marriages were most common here, and the proportion of the inhabitants consider-

ing themselves as 'Yugoslavs' was the highest compared to other areas of Yugoslavia. In contrast to the previous two areas, a more extrovert and modern society developed here, which mainly lived on tourism and was affected seriously by the decline of this sector during the war.

Until late in the 19th century Montenegro was a tiny clerical or theocratic sovereign-state ruled by (an Orthodox) Prince-Bishop (later becoming a kingdom) but it played a more important role in European politics than its size might suggest, partly due to marriage alliances or sometimes to its role of advance base or agent of the (Serbian) Tsar. In 1918, Parliament announced its accession to Serbia (or Yugoslavia) although this was not accepted unanimously. At Christmas, 1919, a separatist uprising demanding independence broke out in the country, which was finally stifled only in 1924. In 1945, Montenegro gained economically and strategically important territories and became the smallest republic of the Yugoslav federation. Throughout the Croatian and Bosnian wars it remained loyal to Serbia, and Montenegrin troops even fought on Serbia's side.

In the non-binding referendum organised in 1992 by the Serbian-allied government, 96% of the votes were cast for remaining in the federation with Serbia. In 1996, however, a new government led by Milo Đukanović was elected in Montenegro, who tried to improve relations with Serbia. Montenegro did not participate in the campaign against Kosovo, but NATO had had to bombard Montenegro, since the Yugoslav Army had used the Montenegrin bases for military expeditions into Kosovo.

In 2002, they agreed on a looser union with the Serbian government and the Federal Republic of Yugoslavia renamed itself Serbia and Montenegro. At the request of NATO and the EU, the planned referendum on independence was postponed for three years and the referendum was finally held on May 21st, 2006, resulting in a 55.5% majority for the supporters of independence – just above the 55% mark set by the EU.

Montenegro is the only one of the ex-Yugoslavian republics where the territorial administration system has remained the same as introduced in Tito's Yugoslavia.

8 Macedonia

Macedonia is the country whose name alone has raised regional debates concerning where Macedonia is and who the Macedonians are. The ongoing dispute between the Republic of Macedonia and Greece is not about territory but simply about the name.

The Federal Republic of Macedonia was established by Tito. Before World War II in Serbia, and then in Yugoslavia, the area was called South Serbia and the majority of its inhabitants regarded themselves as Bulgarians – if, that is, they felt any kind of national identity at all. However, Tito wished to provide some identity other than Bulgarian to the territory and the name 'Macedon' (after Alexander III of Macedon, popularly known as Alexander the Great) was suitable for the purpose. The northern boundaries of ancient Macedonia extended as far as the present territory of the Republic of Macedonia, but scholars cannot say, even today, precisely where and how. Tito wished to use the name Macedonia for the area – not with Greece in mind, but, rather, Bulgaria. Bulgaria argued for the existence of a separate Macedonian nation and language until the beginning of the 1990s. Greece, the closest friend of Serbia and Yugoslavia, raised no complaint against the use of the name for 45 years – until, that is, the Declaration of Independence of the Republic of Macedonia. From 1989 to 1991, the Greek leadership carried out a campaign nothing short of hysterical against the name. One complaint was that Macedonia was exclusively Greek and that no-one else could use this name; a second was that the use of the name threatened the integrity and safety of Greece (which is more than five times bigger than Macedonia, and whilst Greece is also a member of NATO!) – a rather comical, even absurd, campaign! They demanded that the country be renamed and that the word 'Macedon' (or any derivation) should not be used. They closed roads and railways in the direction of Macedonia. Even had the Greeks been right to some degree historically, a nation which was known as Macedonia for 45 years cannot be forced to rename at the whim of an outsider. The blockade could not, of course, be maintained, but Greece went so far as to veto Macedonia's membership of NATO. Macedonia's situation in respect of EU membership will probably be the same, unless a solution is found to satisfy both parties to this dispute over a name.

Meanwhile, Macedonia succeeded in settling its disputes with Bulgaria, Serbia and Albania, but this was not possible with its own nationalities. Circa 25% of the republic's inhabitants are officially Albanian – and, in addition, there are Turks, Vlachs and Gypsies who also inhabit the country. Only 64% of the inhabitants are "Macedonian Slavs". During the Tito era, financial support provided by the developed countries and the more prosperous republics of Yugoslavia were used to set up factories and provide jobs, mainly for this Macedonian Slav population, but neither competitiveness nor efficiency could be guaranteed.

New housing blocks were built (especially after the earthquake in Skopje) – again, mainly for the Macedonian Slav population. These inhabitants were heavily favoured in terms of finding work. The Albanian inhabitants in particu-

lar, who constitute a quarter of the population, were discriminated against – perhaps not overtly, since this was not allowed under the Tito regime.

The situation changed for the worse in many respects after the proclamation of independence. The more developed republics ceased subsidising Macedonia; the so-called "Political factories" proved uncompetitive and their products could not be sold. They were, in consequence, closed, and Macedonian Slavs were unemployed. Bulgaria did not wish to acknowledge their nationality, nor Greece their name – and at the same time the self-awareness of the Albanian minority also grew. The myth of 'four wolves' threatening Macedonia (the four neighbours of Macedonia: Albania, Bulgaria, Greece and Serbia) both grew and spread. This could partly explain the further discrimination against Albanians by the majority of Macedonians (perhaps more than in Yugoslavia). Education in Albanian was restricted and they were excluded from public employment and abused by the police. They sought legal justice in vain and received much less from the budget than they should have – based on their demographic proportion. Albanian inhabitants accepted this for a time (as in Kosovo), but they learned from the example of Kosovo that "only the rattling of guns will bring their problems to Europe's attention". The Albanian guerrilla war against the Macedonian military and police lasted from March to June, 2001. However the Macedonian government had learnt something from the example of Kosovo. NATO also intervened more quickly than in Yugoslavia and the conflict ended in June with an armistice. A framework agreement was signed in Ohrid on the 13th of August, 2001 and the pact ensured both the integrity of Macedonia and the institutionalisation of minority rights. The agreement contains the following:

To give the greater proportion of financial support to local authorities in a more normative way and to change the system of local government in order to reflect the nationalities more realistically.

Local authorities can select the chief of police from a list drawn up by the Minister of the Interior.

The ethnic proportions of civil servants and policemen shall reflect the ethnic proportion of the inhabitants.

One third of the Constitutional Court judges will be selected from the minorities.

Amendments to basic laws cannot be enacted without a qualified majority of two-thirds, within which there must be a majority of the votes of Representatives who belong to the minorities.

Primary and secondary education will be provided in the relevant native languages, and the principle of positive discrimination will be applied in the enrolment in State universities of candidates belonging to minorities until enrolment reflects equitably the composition of the population of Macedonia.

Besides Macedonian, the Albanian language will also be an official language, although Macedonian will be used for the purposes of international affairs. In any settlement where a minority constitutes at least 20% of the population, the inhabitants can use their native language in local public offices.

A minority can use its own symbols (flags, blazons etc.) on civic buildings and symbols with Macedonian symbols in offices.

Fifteen constitutional laws were modified on the basis of the Ohrid Agreement, but it should be noted that, before the Ohrid Agreement, the Macedonian Government stated that the rights of minorities were fully satisfied. The later paragraphs of the Agreement, however, show that this was not the case. It must also be added that these modifications were made only after armed conflict and the intervention of the international community. Moreover, as experience indicates, most of the paragraphs have still not been implemented.

Macedonia inherited 30 townships (občinas) from Yugoslavia (or, to be more precise, 34, since the city of Skopje comprises five such districts). In 1996, townships comprising more than a single settlement were divided into 123 smaller units. In 2004, a further change was made and the number of townships was reduced to 84. Theoretically their boundaries should have been changed according to the distribution of nationalities during this period. This cannot be seen, since they ought to have been separated rather than joined. There are, in fact, 84 townships precisely following the boundaries of the earlier 30.

Macedonia has been a candidate for EU membership since 2005, although accession negotiations have not yet begun. Macedonia as a candidate needs to determine its NUTS structure. According to this system, the whole country constitutes one single NUTS1 and one NUTS2 region. There are eight NUTS3 regions (statistical regions): Vardarski, Istocen, Jugozapaden, Jugoistocen, Pelagoniski, Poloski, Severoistocen and Skopski, and there are 34 township-groups at NUTS4 (LA1) level, and 85 townships at the NUTS5 (LA2) level.

9 Albania

In the ‘70s and ‘80s, Albania was artificially isolated from the rest of Europe, and for this reason we know little of its development and changes. The leaders in the era of Enver Hoxha rewrote or destroyed Albanian history. All religions playing an important role in history were banned and people were resettled or deported to prevent historical, local regional organisation. After the change of regime, these traditional structures were revived in parallel with a huge modernisation process which introduced specific regional and social processes in Albania.

It is generally known that the Albanian nation contains two large ethnic groups with somewhat different languages: Tosk and Gheg. The Ghegs live in the North, and include the Albanians of Kosovo, Macedonia and Montenegro. The Tosks live in the South and include the Albanians living in Greece. The boundary between the two groups is the (normally seasonal) Shkumbin River. Tosk and Gheg are also the two basic dialects of the Albanian language, although, as dialects, they differ greatly. Tosk is the official language and the standard language of literature. Ghegs are partly Muslim and partly Catholic, the latter living mainly in Shkodra town and its surroundings. Tosks are also partly Muslim and partly Orthodox Christian living in the southern border areas. The centre of the country is dominated by Albanian Muslims.

The differences in the historical traditions and social structure of the two groups are, perhaps, more important than the differences in language:

Northern Ghegs preserved their clan structure until the 20th century, and this serves as the basis of social organisation. Multi-generation families lived together and a number of such large families formed a clan. This extended family owned territory, although this was more in the way of areas of pasture-land in the northern mountains. Strangers were unable (or hardly ever able) to join such a society organised on the basis of blood or origin, and so the society was unusually closed and hardly in touch with the outside world. This isolation made the survival of archaic structures possible – for example, the tradition of the vendetta remained. It is reputed that, at the beginning of 20th century, one man in five died an unnatural death.

Southern Tosks lived by the sea and on the plains. Most of the peasantry worked for their landlords as tenants or as day-labourers – under very poor circumstances. Financial and social status differences were much higher than with the Ghegs. The larger part of Tosk society lived in a subordinate position, whilst Gheg society was rather more equal, although authoritarian principles often prevailed. At the same time, Tosk society was less closed and in touch more with the outside world due to their geographical location. Most Albanians who emigrated to the Albanian diaspora were also Tosk. Modernisation, with all of its advantages and disadvantages, was more advanced among Tosks than Ghegs.

During different periods, the two groups held the leading position alternately. After the proclamation of the independence of Albania, the Northern Gheg clans acquired power, and the first king of Albania, Ahmed Zogu, was elected from among them. Ahmed Zogu also appointed the government and administration from Gheg clans. Enver Hoxha, the communist leader who rose to power in 1945 was Tosk, and the majority of Albanian communist leaders during that whole period were also Tosk.

The non-communist Democratic Party of Albania came to power in 1992 after winning the first free election and under the leadership of Sali Berisha. The party's main base was in Gheg territory, and Berisha himself is of the same origin. Whilst this government introduced numerous reform measures, simultaneously, they also prevented the extension of land reform to Northern Gheg territory. In 1996, the Democratic Party was re-elected, but, after a year, when public disturbances arose following the collapse of nationwide "pyramid" investment schemes, Albania descended into anarchy and violence in which some 2,000 people were killed and the government, including the president, were also toppled.

From 1997 to 2005, various Socialist governments held power. Their base was mainly on Tosk territory. In fact, the North-South divide is not the only one in the country, and the towns tend to vote Socialist whilst the rural areas vote Democrat. The Democratic Party had Islam in common with the majority of the population, whilst the leader of the Socialists, Fatos Nano, was an Orthodox Christian. Finally, in 2005, the Democratic Party of Berisha was returned to power.

The Albanian nation in Europe has the largest proportion living outside the motherland: in Kosovo, Serbia, Montenegro, Macedonia and Greece. However, the majority of the inhabitants of Kosovo do not wish to join Albania due to the lower level of economic development and living standards. In spite of the fact that it is a small country, Albania has a three-level local government system, which obviously increases bureaucracy. To a certain extent, the geographical characteristics of the country justify this, in that Albania is a country with high sierras, where to attempt to merge many valleys into a single administrative unit may cause serious difficulties in accessibility. Roads are in very poor condition or do not exist at all and telecommunications are also undeveloped. Numerous settlements are accessible only on foot, and so the formation of larger administrative units is often not possible.

There were ten prefectures (counties) and fifty-seven districts between the two World Wars. Neither had genuine, local government and both could be considered as de-concentrated organs of the central government. In the '50s, in the period of the "People's Democracy" and Socialism, the prefectures were abolished and only districts (rreths) remained. Their number was reduced to 26, and Soviet-type councils were set up in every district. Councils were established also in the towns and villages. In 1991, the number of districts was increased from 26 to 36 by dividing ten larger districts into smaller. The districts performed a dual function: on the one hand, they were local authorities with elected councils, whilst, on the other hand, the same district was a de-concentrated organ of central government, with the task of overseeing the implementation of orders from the centre.

In 1993, prefectures (qarqs) were reinstated. Their re-establishment had a fundamentally political goal: since the opposition had gained the majority in most of elected bodies of the districts at the municipal elections of 1992, the districts had to be under tighter government control. At the beginning, the functions of prefectures were quite confused: they were limited mainly to the direction and control of militias, the armed forces and the police. In 1995, these functions were extended to economic, territorial developmental and infra-structural functions, but the tendency is clearly one of centralisation.

A new Constitution was enacted in 1998, according to which the district as a territorial unit was to be abolished. However, this element of the Constitution has not been implemented during the intervening twelve years.

THE WESTERN BALKANS AND EUROPEAN UNION ACCESSION

IVÁN ILLÉS

1 General questions

At present, there are two "holes" on the map of Europe – "holes", that is since they are not situated in the peripheries, on the edges, but inside the continent. One such "hole" is Switzerland whilst the other is the Western Balkans, which, despite its stretch of coastline, its littoral, is still considered as a "hole" when compared to the surrounding territory of the European Union. Without counting Russia, the Ukraine, Belarus and Moldova, the EU constitutes 85.5 percent of the area and 92.8 percent of the population of Europe. The group of countries outside the Western Balkans is also about to decline: Iceland has already submitted its application for EU membership and both Switzerland and Norway cooperate with the EU in several matters or undertake joint actions. The principle declared during the signature of the Treaty of Rome, namely that all European countries may participate in the process of European integration and that their participation is desirable is on its way to becoming reality. This means that further enlargement has become an issue primarily related to the Western Balkans.

The Western Balkans region constitutes 5.3 percent of the European area defined and 4.9 percent of its population, and so, compared to overall EU measures, it is a relatively small "problem area". However, if we consider that this small area is divided among seven countries, and that not very long ago a war broke out in this relatively small area after fifty years of peace in Europe, producing serious, long-lasting consequences, then the integration of this area into the EU provides a great challenge.

Which political, historical and economic conditions influence European accession? Yugoslavia and Albania constituted a different, yet specific, case in Europe in the 1960s and 1970s. Both were allies of the former Soviet Union in a geographical situation where the U.S.S.R. was unable – or judged it unnecessary – to intervene directly into the lives of countries by the use of force. The two countries made use of this relative freedom in totally different ways: Albania almost erased itself from the map of Europe by its inward orientation and

the conservation of orthodox Stalinist ideology, whilst Yugoslavia, though maintaining socialist ideology within the framework of a self-administrative system, established wide relationships with almost all countries of the world. This policy was honoured by the West in the form of commercial advantage, employment opportunities in the West and favourable loans. This meant that relatively dynamic growth and modernisation of the economy could be perceived in a somewhat backward country. In the more developed republics of Slovenia and Croatia living standards and GDP per capita reached the Spanish level in the sixties and seventies.

Towards the end of the 1970s and the beginning of the 1980s, integration with Europe and adhesion to the European Economic Community was a realistic possibility for Yugoslavia. Its situation was by no means worse – and in some aspects better – than that of Spain (recently freed from dictatorship), Portugal or Greece. Had they been able to profit from this opportunity, the development and situation of the country would have showed a different picture in the next 30 years. The GDP per capita values of Spain and Croatia show a 200% difference.

This opportunity for adhesion was neglected largely because Tito, the president of the country, was striving for the leading position among countries of the Third World, i.e. the Non-Aligned countries. This role was not compatible with joining the EEC, which was a symbol of commitment to the West. Shortly after the death of Tito, strong nationalist passions made it impossible to opt for the European alternative.

The decade marked by war, the dissolution of the country, the suspension of earlier relationships both inside and outside the national borders held back development for several decades in those regions mostly affected by the war (Croatia, Serbia, Bosnia and Herzegovina, Kosovo). Armed conflict might have ceased following the war, but trust, co-operation and good relations between former enemies were not restored.

Soon after the war, the European Union was taking part in reconstruction works in the area. The main objectives were two-fold: the restoration of the old relations between countries of the area and, at the same time, the democratic and European-style transformation of the administrative and legal systems of each individual country – including the implementation of the Dayton and Paris Agreements.

The European Union quickly realised that, if it wished to coordinate this process dynamically and achieve success, than it had to set attractive and motivating objectives for the individual countries, since, otherwise, the reforms would vanish in the labyrinth of bureaucracy and interest groups. Experience of Central and Eastern European countries showed clearly that this attractive goal could only mean one thing: joining the European Union.

Naturally, immediate or rapid accession was not a realistic objective in view of the state of readiness of the individual countries, and so the EU launched the Stability and Accession Process.

This process meant that the countries involved had, gradually, to meet the Copenhagen criteria prescribed in the Basic Treaty of the EU and in that of 1993 relating to human rights and liberties. In return, the EU provided support and commercial advantages to these countries and guaranteed the opportunity for accession to the EU, always provided that they fulfilled the criteria. The EU made this proposal to what was at that time five countries: Albania, Bosnia and Herzegovina, Croatia, Macedonia and Serbia-Montenegro (the two last being a single entity at that point. With countries that agreed to fulfil these criteria and testified to their serious commitment, the EU established Stability and Adhesion Pacts.

These proposals were elaborated during different summits and have been modified in some aspects.

The Council of Europe held its meeting in Feira, Portugal in June 2000. During this session, each country was permitted to advance on its road to integration according to its own circumstances and ability. In its proposal, however, the Council presented what the EU considered to be the most urgent tasks to be implemented by each country.

Initiated by France, a session was organised in Zagreb with the participation of countries of the area, representatives of member countries, and representatives of the European Commission. This session adopted the differentiated approach declared in Feira, adding the principle of differentiated evaluation also. "To each according to its merits" i.e. countries advancing more quickly could become members of the European Union sooner, while those slower to adopt EU regulations, institutions and processes would have to wait longer. An important element of the Conference of Zagreb was the declaration of the new package of support for the Western Balkans for the programming period between 2000 and 2006. This was called CARDS, an acronym for Community Assistance for Reconstruction, Democratisation and Stabilisation.

The third conference was organised within the framework of the session of the Council of Europe in Thessaloniki, Greece in June 2003. Much was expected of this conference, due to the fact that Greece had always promoted countries of the Western Balkans. In consequence, the Greek presidency was seen as being very advantageous to the countries of the Balkans. A further reason for high expectations was the fact that the USA had become increasingly involved in the war with Iraq in 2003 and was devoting less attention to Balkan affairs. The time was ripe for the EU to assume the leading role in these.

Expectations, however, were not fulfilled, and almost no progress was achieved during the Conference – rather the opposite, in fact. First of all, the

process of Stabilisation advanced at a slow pace, only two countries establishing agreements with the EU in respect of this programme: Macedonia and Croatia, i.e. countries which had already signed these agreements in 2001. In parallel to this process, the EU proposed a new agreement to each country, 'EU partnership', a bilateral agreement complementing or replacing the Stability and Accession Agreement.

An important result of the Conference of Thessaloniki was that the former differentiated approach was replaced with a regional approach and conditionality. The regional approach meant that each country had to fulfil the same requirements and that countries were dealt with as one homogenous group. Conditionality meant that there were no pre-established deadlines; progress was envisaged only if the EU declared that countries had fulfilled all of the prescribed requirements.

The countries' roads towards integration differed greatly. The following *Table 2* demonstrates the phase reached by today (April 3, 2010).

Table 2

The evolution of European integration relations of Balkan countries

Country	The year of signing the Stability and Accession Agreement with the EU	The year of submitting the official application for EU membership	The year of recognition as EU candidate country	The year of launching negotiations	The year of closing negotiations
Albania	2006	2009	–	–	–
Bosnia and Herzegovina	2008	–	–	–	–
Croatia	2001	2003	2004	2005	–
Kosovo	–	–	–	–	–
Macedonia	2001	2004	2005	–	–
Montenegro	2007	2008	–	–	–
Serbia	2008	2008	–	–	–
Turkey	1963	1987	1999	2005	–

Source: Edited by the author.

The principle of equal treatment is difficult to fulfil, since obstacles to EU accession varied greatly in case of different countries and the strategies to eliminate them also vary:

– *Croatia* is the only country from the group whose EU accession is likely in the near future. There are still, however, considerable obstacles. The first is the lack of co-operation with the court in The Hague, and especially

the obstinate behaviour of the Netherlands in this issue, which is blocking the accession of the countries involved, (Serbia, Croatia, Bosnia and Herzegovina). The question of the maritime border with Slovenia is still not resolved, and disputes of various intensities between Croatia and all of its neighbours, with the exception of Hungary, mean a violation of the requirements of good neighbourhood policy.

- The most serious obstacle for *Serbia* is also the Hague and the fact that Ratko Mladić is still not in the Hague until the present day. The fact that Kosovo is still not recognised as an independent state, despite being recognised by the majority of EU member states, is also a major obstacle. It is true that there are certain member states of the EU which do not recognise Kosovo, but they cannot be excluded from the EU for this reason. In the meantime, it is a realistic possibility to block the accession of a country for this same reason.
- The most serious problem with *Macedonia* is posed by its name. The solution is apparently quite simple, but in two countries brought to the edge of hysteria by nationalist slogans, such as is the case here, it is a very difficult task.
- The major problem with *Bosnia and Herzegovina* is that it is still not an entirely sovereign country. Even though the country has 13 prime ministers, state power is controlled by the UNO-EU Chief Administrative Officer, and he has the power to force ministers to resign and annul laws. The biggest problem, though, is that he is still a necessary figure. Until this situation persists, Bosnia and Herzegovina can hardly become a member of the EU.
- *Kosovo* faces a similar situation, the only difference being that two-thirds of the world's countries do not recognize her as a sovereign state including certain EU countries.
- *Montenegro* is fortunate if we consider that there are no external obstacles to accession. Its internal relations, however, are quite tense and so fulfilling EU requirements may require considerable time and effort.
- This applies also to *Albania*.
- The main official reason behind the prolonged process of accession of *Turkey* is the conflict in Cyprus. In reality, the main reason might be the excessive size of the country, and the fact that most of its population is Muslim.

The first conference of the Western Balkans which was not organised by the EU or external powers, but by the countries of the area took place on March 27, 2010 in the Slovenian settlement of Brdo Kod Kranja. The conference was organised by the Croatian, Slovenian Prime Ministers and the Serbian President,

but the Serbian President Boris Tadić was not present at the conference. He would have tolerated the presence of Kosovo, had it participated with the name of "Kosovo UNMIKK" in accordance with the UN decree, but the name "Republic of Kosovo" was not acceptable to him. As a result, the EU was also represented at a lower level: Stefan Füle, the Commissioner for Enlargement, was present instead of President Herman van Rompij. The conference deliberately avoided any discussion of bilateral problems, and instead put the EU integration of the entire area on the agenda, although the absence of prominent figures somewhat devaluated the conference.

The present Spanish EU presidency is planning to organise the next Western Balkans summit conference in May or June 2010 in Sarajevo. The circle of participants is still not clarified (Spain has not recognised the independence of Kosovo) and the success of this initiative is a question for the future.

2 Croatia

Croatia will probably be the first country after Slovenia from among former member states of Yugoslavia to gain EU membership. However, the path has been already much more rocky and longer than that of Slovenia, and Croatia has not yet reached its destination. The policies of the country are partly to blame for this rockiness and length, but external circumstances have played an influential role also. At times, external and internal reasons can scarcely be distinguished. The main milestones on the road to membership and the difficulties and conflicts experienced are the following:

Croatia signed the Stability and Accession Agreement with the European Union in October 2001. The Accession Agreement meant that Croatia had to adopt certain EU regulations in its national legal system, customs duties between the European Union and Croatia were gradually decreased and the acquisition of real estate became easier for EU citizens in Croatia. Croatia submitted its official request for EU accession on February 21, 2003 and on July 18, 2004, two and a half months after the accession of the ten Central European countries, it was granted official status as a candidate country. The European Commission set March 17, 2005, as the date for the start of accession negotiations, and it seemed that, compared to other candidate countries, the process would be much faster with Croatia.

The first difficulties were experienced through the intervention of the ICTY (International Criminal Tribunal for the former Yugoslavia). Croatia had already extradited several of its incriminated citizens to the Hague, but, nevertheless, EU officials frequently claimed that Croatia was not fully co-operating

with the Court. For this reason, the ratification of the Stability and Accession Agreement with Croatia was postponed by the EU several times. On March 16, 2005, one day before the scheduled start of accession negotiations, they were cancelled since the Hague did not find Croatian efforts to capture Lieutenant-General Ante Gotovina (sentenced by the Court in 2001 for war crimes and crimes against humanity) satisfactory. On December 7, 2005, the Spanish police – with the assistance of the Croatian government – arrested Gotovina in Tenerife (Canary Islands) and transferred him to the Hague. Carla del Ponte, then Chief Prosecutor of the ICTY (International Criminal Tribunal for the Former Yugoslavia) declared that Croatia would fully co-operate with them after these events. It seemed that the obstacles had been removed and negotiations were launched in October 2005. The problem of co-operation with the Hague still overhangs negotiations, and is a considerable factor behind their slow pace. Most recently, the case of Croatian Major-General Branimir Glavas came into focus. He had been sentenced by the Croatian courts to ten years imprisonment for war crimes, but Bosnia-Herzegovina would not extradite him, and, according to Glavas, he cannot be extradited due to the Bosnian half of his dual citizenship. There is a blocking group in the EU Commission discussing Croatia's accession, which, no matter what topic is on the agenda, always mentions the lack of co-operation with the Hague, slowing down the pace of negotiations considerably. The leader of the group is the Netherlands (which has no tendency to leniency after the tragic events of Srebrenica and is, in consequence, tough in this respect). When the Presidency and the Commission asked why this question emerged during every trial, the Dutch response was that co-operation with the Hague was a 'horizontal priority' related to every topic. Other members of the blocking group – mostly in accord with the Netherlands – are Belgium, the UK and Finland.

Nevertheless, negotiations did begin and progressed slowly but gradually. The required EU accession negotiations comprise 33 chapters of the 'Acquis Communautaire' (a possible further two do not apply to Croatia) and three years after the start of the negotiations, by April 23, 2009, 22 chapters of the 33 had been opened, although only seven had been concluded. That day marked the suspension of the negotiations, since one EU member state, Slovenia, was engaged in a debate on border issues with Croatia, and Slovenia wished to force a response to its demands by this stratagem. What makes this situation more delicate is that Slovenia took this step during the six-month period of its own EU presidency. The full boycott lasted for six months, until October, but did not produce a final conclusion. A partial boycott lasted for another six months. At present, 30 chapters have been opened of the 33 but only 17 have, as yet, been concluded. Croatia recently opened the last chapters – specifically, in April, 2010.

The land border between Slovenia and Croatia had never been considered an international border before 1992, since the entire territory belonged to the Austro–Hungarian Empire, and, later, to Yugoslavia. It was drawn on the map only temporarily at the time of the Declaration of Independence in the context of a later discussion of the issue. This "generosity" gave rise to several further disputes. The largest concerned the Gulf of Piran and territorial waters. This mainly affected Slovenia, since for her there was a small, but critical, distance involved in either having or not having full access to the open sea (international waters). In October, 2009, following strong intervention from Brussels, the two parties were urged to renounce their initial positions. This, however, did not mark the end of the dispute: the one positive outcome was that the agreement signed in the autumn of 2009 between the Croatian Prime Minister, Jadranka Kosor, and the Slovenian Prime Minister, Borut Pahor, did not violate the basic principles of the Slovenian Constitution. The possibility of a future amicable settlement is envisaged – but with the help of an international court comprising members selected by the parties. A similar dispute involving Croatia and the now Republic of Montenegro relating to the Prevlaka Peninsula on the two countries' common border has been referred to the International Court of Justice in The Hague.

The uncertainty of further enlargement of the EU was another factor behind the decreasing speed of Croatia's accession negotiations. After earlier suggested accession dates of 2007, 2008 and 2009, the dates became increasingly uncertain, and a total suspension of the process of enlargement was declared after the rejection of the new EU Constitution by France and the Netherlands and until a consensus among EU member states is established concerning the future of the EU. The situation was further aggravated by the negative results of the first Irish national referendum. Nevertheless, the Treaty of Lisbon was ratified and the process of enlargement has continued, without dates being revealed to the public. According to internal opinion, the EU expects Croatia's accession in 2012, but politicians have not committed themselves to this date. Meanwhile, in March 2009, Croatia joined NATO.

Apart from external issues, the country must also deal with certain internal issues:

A basic condition of EU accession, even though it does not constitute an individual chapter, is observing the ENP (the European Neighbourhood Policy), which applies to all neighbouring states. Croatia has minor or major disputes with all of its neighbours, with the exception of Hungary: the memory of the war with the Serbs is still vivid in both countries, and that relationship can hardly be characterised as neighbourly; the dispute regarding the border with Slovenia is likewise unresolved. There are problems relating to borders, customs, taxation, and migration with Bosnia and Herzegovina and the fact that

the Croats of Bosnia and Herzegovina consider themselves to be the losers of Dayton. There is no apparent relationship with the Bosnian Serb Republic which has a long border with Croatia, and, finally, there is another form of conflict with Italy, with whom the country shares no border: in theory, since the pre-accession arrangements were concluded with Croatia, Italian citizens have been able to purchase real estate in Croatia. This does concern Italian citizens whose parents or grandparents lived in the area before WWII and who were expelled from their then homeland post-1945. Even though they were unable to recover their old property, they wanted to purchase a new one in its proximity. The number of cases where Italian citizens have been refused permission is quite high, much higher than with citizens of other nationalities, a fact much resented by Italy.

Croatia has "indirect enemies" also. For example, Greece and Cyprus are among Serbia's most loyal allies, and since Serbia is not an EU member state, it tries to act against Croatian interests through votes cast by Greece. Greece has delayed accession negotiations between the EU and Croatia, since Croatia recognised – inside its own country! – the Macedonian ethnic minority and the independent Macedonian Orthodox Church.

The introduction of "ZERP" has irritated distant and closer neighbours. ZERP (Zaštićeni ekološko-ribolovni pojas) is an exclusively Croatian fishing zone in the Adriatic proclaimed by the Croatian parliament in 2003, implemented in 2004 and for EU countries on January 1, 2008. Almost all parties in the Croatian parliament supported the creation of the zone.

The size of the zone is 23,870 km^2. Italy suffered its gravest consequences, because one-third of the catch of Italian fishermen originated from this zone. The creation of the zone caused such upheaval among EU fishermen that it posed a threat to EU-Croatia negotiations. Two months after the implementation of this regulation, on March 15, 2008, Croatia suspended its enforcement against EU fishing vessels.

Further problem areas mentioned by the EU during accession negotiations:

- Support for shipbuilding is not fully harmonised with EU regulations;
- Improving the efficiency of public administration;
- Implementing anti-corruption measures (though Croatian corruption is not considered significant);
- Handling minorities;
- Some countries have already called attention to the lack of autonomy of Croatian regions and counties, this objection was disregarded by the Commission saying that Croatia is a small country with a population barely exceeding four million;
- Readmission of illegal refugees;

- Readmission of Serbs expelled during the Balkan war (Croatia has partially fulfilled this requirement);
- The reform of the courts, which means modifying the constitution also;
- Clarifying the status of Bosnian Croatians;
- Examining the anomalies experienced during the elections;
- Freedom of the press; investigation of murder or attempted murder of journalists.

3 Macedonia

If we include Turkey, Macedonia is the third country of the Western Balkans which has obtained the official status of EU Candidate Country, but accession negotiations have not started due to external and internal reasons.

Macedonia started to demonstrate its interest in the European Union relatively early. It initiated the process for signing the Stability and Accession Agreement with the European Union in 2000, and Macedonia was the first country of the Western Balkans actually to sign this agreement with the EU. The reason for this early and successful initiative was that Macedonia was the only member country of Yugoslavia which was not involved in serious conflict with any of its neighbours at the time. Although the conflict with Greece relating to the use of the name of the country was alive, tensions were somewhat low around 2000, and the SAA Agreement was ratified by every member state, including Greece, in April, 2004.

An armed conflict erupted in Macedonia in 2001, not with external forces but with its own Albanian ethnic population. Even though the conflict was resolved with the Ohrid Framework Agreement, it was respected neither by the government, nor the Albanian minority, yet both parties agree that giving up the Agreement would result in a new outbreak of conflict.

On March 22, 2004, Macedonia submitted its formal application to the EU, and on December 7, 2005, it was awarded the official status of Candidate Country. The questionnaires were successfully completed and evaluated, but the opening of negotiations did not follow.

Before the start of the negotiations with the EU there occurred an event which foreshadowed future problems for EU accession. Macedonia applied for admission to NATO (simultaneously with Albania and Croatia). NATO accession was primarily supported by the Americans, and no other member countries objected to it, except Greece. Greece declared that Macedonia being an ancient Greek province, was not authorised to use this name, and that, furthermore, by using this name, it was declaring a territorial claim against Greece. Therefore,

until Macedonia changed its name, Greece could not accept its admission to NATO. On April 3, 2008, during the NATO General Assembly, Greece vetoed Macedonia's NATO membership under this pretext of the name. There is no consensus among members of NATO and the EU on the use of the name: 12 member countries prefer the "Former Yugoslav Republic of Macedonia", whilst 15 (among them Hungary) use the name 'Republic of Macedonia'. Had a vote been called for, the majority of NATO members would have accepted the national name of Macedonia, but now, without calling for a vote, they simply accepted the Greek veto.

A few days after the Greek veto, the Macedonian parliament dissolved itself, demonstrating the humiliation which they felt. The new elections were won by VMRO and not by the former government party (which had governed the country for many years. Macedonia filed a complaint against Greece at the international Court in The Hague, but the decision is not expected until 2013, and so it is highly unlikely that much progress will be made on the issue of Macedonia's accession in the meantime. It should be added, however, that, even if the Greek veto had not occurred, the accession process would still require several years, since the country has much to do to meet EU requirements in areas such as minority policy and the fight against corruption.

Minority problems have recently become a focus of attention. The EU has criticised both Macedonia and Prime Minister Nikola Gruevski for the policies applied to the Albanian minority, for the fact that several public institutions are politicised and the rules of equal treatment are not respected. Gruevski was reminded that this could be a major obstacle to EU accession. Disputes with Bulgaria have become more frequent, primarily in relation to the different interpretation and presentation of their common history. The Bulgarian Prime Minister and President have warned that Bulgarian support for EU membership for Macedonia is not unconditional. This assertion received a harsh and negative response, and it is not by accident that Bulgaria does not support its neighbour, Macedonia, with advice on EU accession but the more distant Republic of Montenegro.

4 Serbia

The dialogue between Serbia and the European Union was launched shortly after the collapse of the Milošević regime, from October 2000. The EU proposed the launching of the Stability and Accession Process to five countries of the Western Balkans, among them Serbia. Serbia also received support from the CARDS programme. Negotiations on the Stability and Accession Agreement

between the EU and Serbia-Montenegro were opened in 2005, but they were suspended in 2006, due to their ineffectiveness and, primarily, to Ratko Mladić. They were reopened in 2007, but only with Serbia, since Montenegro had become an independent state in the meantime. The Netherlands and Belgium announced in January, 2008, that they would not sign the Accession Agreement, since Serbia was still not co-operating fully with the Hague Tribunal. Negotiations ceased once more. Kosovo's Declaration of Independence put a distance between Serbs and Europe again, and negotiations were also blocked by this. Prime Minister Koštunica declared, in April 2008, that the Agreement was still not on the agenda.

President Tadić declared in the meantime that he would sign the Agreement in any case, and Deputy Prime Minister Đelic duly signed the document together with him in Luxembourg. There were opposing opinions on EU integration in Belgrade, with Koštunica declaring on May 1, 2008 that the Agreement should be signed, only to withdraw this remark unambiguously one day later.

Parties opposing the Agreement lost their former positions during the 2008 elections and so could not prevent the Agreement being signed. The Serbian parliament voted in favour of the Agreement in September, 2008, and in the meantime, the Netherlands froze the paragraphs on trade. After this the Serbian parliament decided to ratify the Agreement unilaterally. The European Commission made a decision in October, 2009 – after the enforcement of the Treaty of Lisbon – to apply the trade regulations of the Agreement, and Serbian citizens were granted EU visa liberalisation on December 9, 2009. The country's official request for EU membership was submitted on December 22, 2009.

The European Union emphasises that the only critical issue concerning the EU accession of Serbia is co-operation with the Hague Tribunal and so Ratko Mladić and Goran Hadžić, the last two criminals sentenced for crimes against humanity, must be arrested and extradited to the Hague.

There was a debate between the EU and Serbia about the operation of EULEX. EULEX is a body of lawyers and other professionals from EU member countries, which, in collaboration with officials and professionals of Kosovo promotes the establishment and operation of institutions and the training of locals in Kosovo. Serbia would prefer that the mission of EULEX be approved by the Security Council of the UN. This wish was not fulfilled since the Security Council approved the operation of EULEX.

In respect of the population of Serbia, according to a survey from November, 2009, 71 percent are in favour of EU membership.

5 Albania

Albania is not an official candidate country of the EU, but the general commitment on behalf of the EU towards the entire territory of the Western Balkans also applies to Albania, namely that each country with which it signed the Stability and Accession Agreement is a potential member of the EU. Albania was the first country of the Western Balkans with which the EU opened negotiations about the agreement in January 2003. Due partly to problems and complaints voiced by Greece, negotiations were postponed and the agreement with Albania was signed only in January 2009.

Albania became a member of NATO in April 2008, together with Croatia, but EU accession negotiations depend upon the country's economic and social stability. The country has been the beneficiary of a number of non-reciprocal trade concessions from the European Union, in that a large proportion of its products have been granted duty-free access to the EU market, while Albania has been allowed to maintain its national protectionist policy in the case of the same products. The country submitted its official request for EU membership on April 28, 2009, although acquiring candidate status requires at least one more year.

The greatest problem of Albania with the EU is the difficult and bureaucratic process of obtaining a visa for EU countries. Certain measures and simplifications were applied in 2007–2008, but obtaining a visa is still a major problem, and so, in March 2010, the parties of the Opposition returned to Parliament following a 10-month boycott to vote with all participating parties in favour of the motion requesting the annulment of EU visa requirements.

The 10-month boycott by the Socialist party inevitably halted or slowed down the speed of the reforms required by the EU since a three-fifths majority was required to pass the relevant legislation. The enactment of the laws related to EU accession will probably now become easier following the return of the Socialist MPs.

6 Montenegro

Montenegro has existed as a sovereign state since May 2006. It was a member of the federation of Serbia and Montenegro, and, together with Serbia, participated in negotiations concerning signing a Stability and Accession Agreement with the European Union. Serbia continued negotiations with the EU, whilst separate negotiations were launched with Montenegro in September 2006. The agreement between Montenegro and the EU was signed on October 15, 2007.

Montenegro formally applied for EU membership on December 15, 2008, and the EU sent its questionnaire to Montenegro – which was completed by December 9, 2009. Negotiations have not yet been launched, since Montenegro faces several problems in the area of ecology, jurisdiction and crime which may slow down negotiations. In 2007, therefore, the country signed an agreement with Bulgaria, a country having faced very similar problems a few years before, declaring that it would support Montenegro with its advice during accession negotiations over the next three years.

Montenegro had unilaterally introduced the Deutschmark as its national currency in November 1999, and, when the DM was replaced by the Euro in 2002, Montenegro automatically switched to the Euro at the same time.

7 Bosnia and Herzegovina

Alongside Kosovo, Bosnia and Herzegovina is the country whose EU accession is the most problematic.

The country had already taken the necessary steps and launched negotiations concerning a Stability and Accession Agreement with the European Union in 2005. Negotiations stalled, however, since the EU considered that one single police should be established, whilst the Bosnian negotiating parties insisted that only the individual entities should have a police force and not the central government. Finally, a formal unification of the various police forces was carried out and the Stability and Accession Agreement was signed on June 16, 2008. Afterwards, at a meeting in Prud on November 8, 2008, the representatives of the three ethnic groups agreed to take three further steps towards more effective government functioning. The majority of these measures, however, have not yet been implemented.

According to the original plans, Bosnia and Herzegovina should have submitted its official application for EU accession in June 2009, but this did not happen, although the Ministry of Foreign Affairs is planning to submit it in 2010. Whether or not this will happen is still an open question. EU officials would, in fact, in contrast with their policy towards other countries, rather dissuade Bosnia-Herzegovina from submitting a request for membership, due to the numerous unresolved problems which Bosnia and Herzegovina is faced with.

8 Kosovo

Kosovo constitutes the most difficult case from the viewpoint of EU accession. The greatest problem is, of course, that each member country should support the accession of a new member state. The European Union has, at present, five member countries at present (Cyprus, Greece, Spain, Romania and Slovakia) which do not recognise Kosovo as a sovereign state, and so question of EU membership does not even arise. In respect of future enlargement, Kosovo and Serbia – assuming that their current standpoints are maintained – cannot become EU members at the same time.

On the other hand, the European Union has committed itself to regarding the entire territory of the Western Balkans as potential members of the EU, and this clearly implies that Kosovo was also promised a 'European future'.

At present, the only generally accepted international decision is the UN Security Council Resolution 1244 authorising the UN to place Kosovo under temporary administration and permitting NATO troops to maintain security in Kosovo, assuring the return of refugees and organising the disarmament of armed troops inside Kosovo. It authorises the UN to support the process determining the future status of Kosovo. All this, however, in the light of Resolution 1244, must be carried out without affecting the spatial integrity of Serbia.

Obviously, the UN resolution in itself cannot eliminate internal tensions, and it is also evident that, with the passing of time, the original objectives will be impossible to realise. The only solution is to establish a Serbian government which would renounce its claim to Kosovo as a Serbian province, a step which would immediately solve every problem. Should the opposite prevail, however, the accession of the entire area of the Western Balkans to the European Union will not be possible.

Precisely as with Montenegro, Kosovo introduced the Deutschmark as its internal currency in 1999 and replaced it with the Euro in 2002.

9 Turkey

Even though Turkey is clearly not a state of the Western Balkans, we cannot avoid discussing the issue of its EU accession. The first reason is that, since, apart from Croatia, it is the only state in the area undertaking accession negotiations on the basis of individual chapters, we can gain a clear insight into the difficulties which are emerging during negotiations, and, the second reason is that the accession of Turkey would transform the entire European Union and

would affect the situation of the countries of the Western Balkans quite profoundly.

Turkey had already requested membership in 1959, immediately following the formation of the EEC, the predecessor of the European Union. The 'Agreement establishing an Association between the European Economic Community and Turkey", or the 'Ankara Convention', was established in September 1963. The primary objective was to establish a customs union between Turkey and the EEC, whilst recognising and accepting that the ultimate aim of Turkey was to become a full partner in European integration. Turkey submitted its request for EU membership in April 1987, and the EU affirmed in 1989 that the ultimate objective was the accession of Turkey, but postponed its realisation until "better days", emphasising that Turkey was facing a difficult political and economic situation and was also engaged in a dispute with Greece and Cyprus. In 1997, seven years later, the same standpoint was reaffirmed. In 1999 it was declared that Turkey enjoyed the same rights as all other candidate countries, although this declaration had no direct consequences.

Finally, in 2005, the European Commission announced the launching of accession negotiations with Turkey. The negotiations were, however, cancelled shortly afterwards for both external and internal reasons. Austria and France declared that they would organise a vote on the membership of Turkey, and France modified its constitution to enable the vote on Turkish membership. The situation in Cyprus continues to be a major obstacle to negotiations, and the slow pace of Turkish reform is another. Negotiations did start at the end of 2005 but were frozen by the European Union at the end of 2006. In April 2007 negotiations were reopened but moved very slowly. At the end of 2009, five years after the launch of negotiations, only 14 chapters had been opened of the basic total of 33, and only one had been concluded – and that, which concerned R&D, temporarily. Fourteen chapters were frozen at the request of certain member countries, six by Cyprus.

This slow progress was due to the slow pace speed (or absence) of Turkish reforms. Recently, the situation has changed considerably, and the major reason for continuing slowness is not the lack of reform, but, rather the opposition of present member countries.

The Justice and Development Party (AKP) won the Turkish elections in 2002, and the leader of the party Recep Tayyip Erdogan set up his government. The same party was re-elected five years later with an increased majority, and this support enabled the government to introduce serious reform, although, in fact, the party is making efforts in respect of religion which are hardly compatible with the strictly secular Turkish Constitution.

The other major issue is the role of the army. In reality, power in Turkey has been exercised by the army for decades – sometimes in the background but

mostly overtly. The army has insisted upon maintaining the secular political structures established 85 years ago by President Mustafa Kemal Atatürk. This has served as a reason for maintaining the serious strength of the military. Measures taken by the Erdogan government were focused partly on breaking the power of the army as it extended to civilian sectors, securing the rights of minorities and upholding the rule of law, and partly on relaxing the ban on religious symbols. The government almost failed in this attempt since the government party was held to have violated the Atatürk constitution and was to be banned by the Constitutional Court. Only a single vote of a Constitutional Court judge prevented this from happening. The reformist government, fulfilling EU requirements, is in a somewhat unstable position, and European negotiating parties are doing nothing to improve the situation.

The European Union is satisfied with the greater speed of reform but draws attention to several further outstanding issues: the clarification of civilian and military competences, the further broadening of the linguistic rights of Kurds and more respect for human rights (which would also require certain modifications to the present Turkish Constitution). New questions have emerged: e.g. Turkey gives visa-free access to countries on the EU's blacklist and entry permits or visas are issued immediately at airports and border crossing-points and stamped into passports etc. All these measures make travel between the EU and Turkey more difficult. As regard to the attitude of the current member states, new EU member states rather support Turkey's accession, whilst several of the old member states are against it. Among the prime opponents are France, Austria and Germany (which would prefer a Privileged Federal relationship to accession). The Turkish population of Cyprus is eagerly awaiting Turkish accession – more than the population of Turkey itself – since it would be a remedy for all their problems.

There is, however, one other active promoter of Turkey's EU accession, a country which is not a member of the EU: the United States. The position of the USA on this question is guided by strategic considerations. Turkey's strategic position in the proximity of the Balkans, the Black sea, the Caucasus and the Near East close to the largest oil reserves in the world is of outstanding importance. Turkey has the second largest army in NATO, and the Americans established a close working relationship with Turkish soldiers during the Korean war. It is natural that, if Americans consider it to be of prime importance to position Turkey firmly in the Western system of alliances, than its most powerful instrument would be Turkish accession to the EU. European countries would be affected most of all by its economic, political and demographic effects, and so, whilst fully taking into consideration American lobbying, this is a question which can only be settled by European countries.

II.

DEMOGRAPHIC PROCESSES AND LABOUR FORCE

PECULIARITIES AND CONFLICTS OF ETHNIC COMPOSITION

ZOLTÁN HAJDÚ

1 Introduction

The Balkan Peninsula was a multiethnic, multilingual and multi-religious region during, as well as before, the period of modernization. The historical states and empires of the peninsula bore all the characteristics of multiculturalism developed over a long period of time. The variegation and partial blending of ethnic groups, languages and religions at regional and settlement level have been strongly influenced by individual, family and collective historical consciousness.

Without elaborating in detail on the historical aspects of ethnic conflict, certain issues need to be clarified: the historical cohabitation of the ethnic groups (those sharing a language, religion or culture) has never been peaceful; their relationships have only rarely been characterized by tolerance. At individual and family level the old institution of the family blood feud was practised in most of the region. Power shifts have always polarized ethnic relations still further, as these for the most part resulted in changes of status.

The common dream of the South Slav peoples was realised in December 1918; the name the "Kingdom of the Serbs, Croats and Slovenes" expressed the state-founding roles of the three largest and most widely recognised communities. Theoretically, the South Slavs were state-founders over the whole of the new country: they were in a minority nowhere in a legislative or political sense. For this reason (among others), the administrative structure of the country was not based on the geographical dispersion of the three nation-forming communities. The Croats, Serbs and Slovenes could express their nation-founding roles equally at settlement, region and state level.

Besides the nation-forming communities, the new formation brought a diverse population into the framework of the state. Presenting the findings of the 1921 census on a series of maps, Ivo Banac (1984) rightly pointed out that, besides the internal divided nature of the South Slav majority, an elaborate anthropological complex was created (the ratio of homogenous areas in every possible sense was very low; it was characterised by a mosaic-like dispersion in

all respects) which brought challenges difficult to handle even without the negative political ambitions.

According to the 1921 census, out of the three named nation-forming communities the Serbian was acknowledged as the largest, constituting 38.83% of the population of the country of 12 million inhabitants, followed by the Croats with 23.77% and the Slovenes with 8.53%. Thus, the three nation-founder communities constituted 71.03% of the entire population. From that point, there were heated debates over the correctness of data on ethnic and national composition after each census.

In 1929, the name "The Kingdom of the Serbs, Croats and Slovenes" was replaced by "The Kingdom of Yugoslavia", which was intended to indicate that it was no longer the country of separate Serbs, Croats and Slovenes, but that of South Slavs united. They believed (and have proved to be seriously mistaken) that, within less than a decade, a uniform "Yugoslav" consciousness had been successfully created.

In royal Yugoslavia "peoples of different race" appeared as ethnic and language minorities. Together with the Albanians, Germans, Turkish and Gypsy people, Hungarians were also classified. Among "peoples of different race", ethnic, religious, language and cultural discrimination was alive. There was discrimination not only among South Slavs, but also among other minorities.

In World War II, conflicting interests surfacing over the two decades of cohabitation triggered complex and bloody events: the formation of the Independent State of Croatia (involving the rest of Bosnia and Herzegovina also) elevated the Croatian-Serb conflict to a national and international level. The conflict between the nationalist representatives of the two communities was only partly ideological and political; it had significant ethnic, religious and cultural dimensions also. During the war the former Yugoslavia suffered the loss of 1.7 million people, nearly 10% of its population.

The ethnic struggles of the Croats and Serbs during the war had tragic consequences. Mutual massacres and genocide produced an antagonistic relationship between the communities, with a strongly negative effect post-1945.

The anti-fascist partisan movements led by Tito were not primarily ethnically-based (every community joined in large numbers, albeit to varying degrees compared to the whole population), but were independence- and ideology-based. At the 1943 Congress of AVNOJ, a decision was made to revive a new Yugoslavia as a federal state.

In 1944–1945 the victorious partisan movement exacted a bloody revenge on the former "class enemy", there were victims from every nationality. Massacres in certain communities (German, Hungarian, Italian) were not induced by political or economic differences, but were purely and indiscriminately ethnic.

Within two years the German presence was eliminated completely and the number and ratio of Hungarians and Italians were considerably reduced.

The new Yugoslav administration was established partly on ethnic and geographical-regional grounds in 1945. The foundation and naming of the emerging republics had primarily ethnic connotations and references. In the case of Bosnia and Herzegovina it can be argued that it is not an ethnic group that lent its name and became dominant in the foundation of the member republic, but rather a geographical region and the local communities together.

2 Ethnic coexistence during the Tito regime

The main characteristic of the newly-formed arrangement was centrally managed social leadership and control. The communist party played the determining role in this dictatorial process, together with the new army emerging from the partisan military movement. Oppression and a pressing need to coexist were both alive throughout the country, but especially in the cities.

The break with the Soviet Union resulted in a certain internal cohesion as well as tension within the communist party, which, in turn, had ramifications in internal politics. A time of political purges and showdowns started, often with a national and ethnic orientation.

The main phase of the openly dictatorial and socialist change of regime came to an end in 1963. The language "Brotherhood and unity among the peoples and solidarity among the working people" appeared in the preamble to the constitution of 1963, language that would later, step by step, become the fundamental political principle of constitutional coexistence. The acknowledgement that nationalities and ethnic groups should live together and co-operate with one another was a value that emerged as the primary tenet of Tito's politics. The political leadership realised that it was incumbent on them, if they aimed to bring about consolidation, to support and enforce the pacification of the various nationalities and ethnic groups within the framework of a common state.

As a result of the acceleration of industrialisation, people started to migrate from rural areas and settlements to the cities, where the forms of coexistence and various interactions (such as those at the workplace, at the housing estate, during sports and entertainment) became the norm among the different ethnic, linguistic and cultural communities. At the same time, the family remained the scene of one's own identity (for example during religious holidays).

From the mid-1960s, major diasporas appeared, facilitated by the legalisation of foreign employment opportunities. In these diasporas, community

bonding was present both in the so-called Yugoslavism and according to one's own ethnic identity.

A fast-paced national economic development, the realignment of social and regional circumstances, and the relatively high standard of living that was brought about by the money transfers of those working abroad all had an ethnically relevant impact: although they softened the earlier rivalry and conflicts between the ethnic groups, they also made them more serious in new ways. It was those living in the western regions that were highly qualified and business-savvy who could more easily find employment abroad, with the number of such workers occasionally reaching one million. As one result, the economic gap between communities widened significantly.

From the mid-1970s, due to economic difficulties and operational disturbances, and a deep economic crisis that followed, the relationships among the different communities were gradually transformed both at federal level and within the federal republics. Communities started to develop new identities for themselves and for their neighbours, the latter images being characterised by an attempt to encapture each other's shortcomings.

During the change of regime, ethnic, nationalistic tendencies manifested themselves at all levels: the state, the republic, the ethnic community, the region and the town. Conflicts ran especially deep in multi-ethnic regions and in areas of interaction. Communities with a marginal minority status would also be endangered. In the majority of the population, individual interests, old grievances, and nationalistically biased notions reinforced each other in most cases.

Widespread ethnic stereotypes emerged as early as the Tito era, when there was an abundance of stereotypical jokes. Further, literary works and films also produced and carried stereotypes. (Croatian and Serbian psychologists and psychiatrists themselves investigated the issues of ethnic identity, and not always with a positive approach.)

In Tito's Yugoslavia, these historically-based mutual national stereotypes continued to be influential. The various peoples and nationalities all formed their own national identities as well as their value judgments of the communities with whom they coexisted. Although the ranking order of various elements expressed in these stereotypes (such as brave v cowardly, hard-working v lazy, clean v dirty, honest v dishonest, rich v poor, heroic v spineless, adventurous v timid) showed some variety, a relatively stable mutual view could be detected. Overall, in terms of jokes and negative stereotypes, the Roma came off worst and, to some degree, the Bosnians. The positive side was led by the Slovenes, who were viewed with some jealousy because of their high standard of living.

Albanophobia was prevalent as early as in Tito's Yugoslavia. The foundation in 1970 of the University of Priština, and especially its law school, was

greeted with total scepticism and negative criticism. The term "Priština law graduate" became a synonym for someone with no expertise at all.

Serbophobia was prevalent among the Croats, the second largest group of the population, as well as in the smaller communities who feared that an over-powerful Serbian presence might emerge. Tito restricted the nationally oriented opportunities open to Serbs to the fields of the diplomatic service and the military, in almost all other walks of life treating them in accordance with the attitude held toward them by the other communities – which the Serbs regarded as discriminatory. In Yugoslavia, as early as the 1970s, a joke, relating to a remark made by Tito in 1959, was passed on in multiple versions: "Yugoslavia has eight different peoples in six republics, with five languages, three religions, and two alphabets, but only one Yugoslav: Tito."

The way the different peoples and nationalities lived together and next to each other showed considerable variation even before 1990, and this picture only became more diverse during the break-up period in the individual republics and the newly independent states.

The issue of interethnic marriage is a central area of traditional ethnographic as well as political anthropological investigation. The presence, ratio, social acceptance or social peculiarity of interethnic marriage has always been significant in terms of broad ethnic relationships in all historical eras. The status of ethnically mixed marriages and of the offspring of such unions meant special disadvantages at the micro-social level because the different communities made the assumption, and in worst cases, applied coercion, that a choice should be made. In Yugoslavia, research into such unions can be said to be continuously present in ethnographic, sociological and political anthropological studies. After the military conflict, international experts also started to deal with these issues, with the results rendering significant contribution to the interpretation of the conflicts (*Botev,* 1994; *Jović,* 2001; *Smits,* 2009).

Study after study documented the relatively low ratio of interethnic marriages, compared to the ethnic diversity of the population. At the same time, there were marked differences between the various ethnic groups, regions and settlement types. Between 1961 and 1989, interethnic unions accounted for about twelve percent of all marriages. The ratio of such marriages was the smallest in Kosovo (5%), and the highest in the Vojvodina (28%).

Overall, Serbs and Croats were most likely to marry inter-ethnically. However, the ratio of Serb–Croat interethnic marriages remained low, even though these communities shared a common language, the underlying cause of the low ratio seen in the different religions, and especially the social and political reservations of these two communities. In 1981, of married Croats, 8.6% lived in ethnically mixed unions, whereas the ratio of Croat–Serb interethnic marriages was only four percent.

In geographical terms, the primary locations of interethnic marriages were towns and especially larger cities. In these cities one's ethnic identity, ethnic and religious orientation did not play a very important role. Instead, it was one's individual preferences and values that determined how relationships were formed and spouses chosen.

In 1981, a total of 96% of all Muslim marriages were within the community, and only 1.1% of Muslims married a Serb. Albanians also preferred intra-marriage (98%), with only 0.4% of Albanian unions entered into with a Serbian spouse. In other words, of every ninety Muslims marrying in 1981, there was only one who married a Serb, and of every 250 Albanians, there was, again, only one who married a Serb. Montenegrins maintained a closer net of marriage relationships with Serbs: of every seven marriages, one was with a Serb.

During the Yugoslav era, besides national stereotypes and interethnic marriages, there was another aspect that revealed inter-communal relationships: ethnic jokes. It was not considered especially rude to ask "Why is it good to be Serb/etc?" "Because then you are not an Albanian/Croatian/Muslim/etc." As the relationships between the communities worsened and strife deepened, the jokes also took on increasingly offensive overtones.

The majority of ethnic jokes followed a simple format: "A Croat, a Serb and a Muslim are standing/sitting/walking/meeting and…" This common pool of joke material was then continued by each community in its own favour as it told its own variants.

Most nationwide jokes dealt with the Roma, the majority being negative cultural jokes. In terms of the larger communities, most negative value judgments were expressed about Bosnians, with almost all such jokes featuring two Bosnian peasants, Suljo and Mujo. It was the Bosnians who became the representatives of negative roles (silliness, stupidity and laziness) not only in jokes but also in the wider national discourse.

From the mid-1980s, an accelerated build-up in Yugoslav ethnic tensions was discussed publicly in reports and transcripts of various intelligence agencies (such as those revealed in CIA documents), as well as in the special reports of the western press. They claimed that the outbreak of civil war was not impossible. On November 1, 1987, The New York Times, for example, under the headline "In Yugoslavia, Rising Ethnic Strife Brings Fears of Worse Civil Conflict," published an extensive report of the ethnic conflict situation. The article called attention to two issues: first, the quick escalation of Albanian separatism (the paper pointed out that the majority of Albanians published a programme in 1981 for the creation of an ethnically pure Albanian region, the creation of a homogeneous Kosovo in the wake of effectively driving out the Serbian community from the region) and second, the threat that the worsening relations between the Serb and Albanian communities could end in violence. The Alba-

nian communist leadership itself in Priština was quoted as saying that relations between the two communities were cold.

The army was not immune to the Albanian problem either. Speaking at the 1987 party meeting of the Yugoslav National Army (YNA), Admiral Branko Mamula, Defence Secretary, said that, between 1981 and 1987, a total of 216 illegal Albanian plots were exposed within the YNA, with 1,435 Albanian accomplices. After 1981, about a dozen Serbs were murdered within the YNA by Albanians.

The so-called internal investigations after the break-up of Yugoslavia revealed that the sense of being different had had a strong continuous historical presence in the peoples and nationalities of Yugoslavia. These, coupled with the worsening economic difficulties and, later, with the deepening of the social, economic and political crisis, gradually turned into a conflict of the nation and its nationalities and into hatred (*Pajnik–Kuzmanić,* 2005). The investigations further went on to claim that xenophobia continued to be present in all the successor states, including a generally democratic Slovenia. In some cases, it was stated, xenophobia was so strong as to limit people's relations. Even after 2000, the peoples and nationalities of the former Yugoslavia could not come to terms with the internal connections and causes of the collapse or the factors that had destroyed human relationships.

During the civil Tito era the total population of the country grew considerably, even though there was a steady loss due to migration (*Table 3*). In terms of nationality distribution, significant demographic, economic and political transformations were underway in the country's population. These were:

- a significant drop in the ratio of the Serb and Croat populations;
- a rapid increase in the number and ratio of the Albanian population;
- a significantly above-average growth of the Muslim population, with its ratio almost doubling;
- variance in the weighting of Yugoslav demography, strongly favoured at times.

The variance in the demographic processes of the different communities, especially in terms of the differences in natural reproduction, attracted remarkable political and scientific attention; however, the way the various components were quantified and interpreted already differed widely. Even bearing these considerations in mind, the ethnic transformations that were taking place at national level, and the public discussion of their impact, did not fully materialise. Although the issue was not considered taboo, the party and state apparatus was aware of its delicate nature and, what is more, of how easy it was to manipulate it.

Table 3

National composition of Yugoslavia, 1961–1991, %

National group	1961	1971	1981	1991
Total	18,549,291	20,522,972	22,427,585	23,528,230
Serbs	42.0	39.7	36.3	36.2
Croats	23.1	22.1	19.8	19.7
Muslims	5.2	8.4	8.9	10.0
Albanians	5.0	6.4	7.7	9.3
Slovenes	8.5	8.2	7.8	7.5
Macedonians	5.6	5.8	6.0	5.8
Montenegrins	2.8	2.5	2.6	2.3
Yugoslavs	1.7	1.3	5.4	3.0
Other	6.1	5.6	5.5	6.2

Source: Woodward, 1995, p. 32.

Two factors determined how the number and ratio of peoples and nationalities changed: natural reproduction and the various levels of legal external migration. Throughout the era under study, the natural reproduction of the Albanian and Muslim population reached much higher levels than that of the rest of the country, whereas their willingness to migrate was generally lower.

In terms of the regional distribution of peoples and nationalities, a most peculiar pattern emerged. Ethnically, totally homogeneous regions were formed only in a small portion of the country. Overall, the country was multi-ethnic from the regional point of view also. The development of metropolitan areas and of the new industrial cities was largely based on multicultural grounds. As far as demographic groups are concerned, several mix combinations and various ratio structures were formed.

Research into the ethnic processes of Yugoslavia between 1961 and 1991 has unequivocally concluded that "ethnic diversity was increasing, and ethnic segregation decreasing at all census administrative levels 1961–1991, but that there were even these trends some prophetic local reversals between 1981 and 1991" (*Mammel–Mason–Stevanović,* 2010, p. 1098.). Ethnic strife became even more serious by the end of the era.

The Yugoslav ethnic conflict cannot be seen as a linguistic issue because, with the exception of minorities (such as Albanians, Hungarians, Germans and Turks) practically every nationality spoke one Slavic language or another, which were mutually comprehensible. It is clear that, generally, as many as 90% of the population spoke a South Slav language both in private and in public – which they considered natural.

As for their religious statistical stratification in the era, some degree of indecisiveness can be detected. In the 1948 census, 99% of the population reported their faith. In 1964, 70% of the entire population reported the active practice of religion, with marked variation between individual regions: the figure was 91% in Kosovo, 83.8% in Bosnia and Herzegovina, 65.4% in Slovenia, 63.6% in Croatia and 63.7% in Serbia. In everyday life, especially because of the differences in the dates of religious holidays, religious differences were evident, primarily in rural areas. However, these differences did not become the most decisive factors in interpersonal relationships in the communities. To all intents and purposes, Tito's Yugoslavia can be considered anti-religious and anti-church, although not offensively so.

As a result of the deepening crisis and the collapse of atheist ideology, a new religious renaissance emerged within each religious community. Moreover, in all the three most significant communities (Roman Catholic, Orthodox, and Muslim) religious intolerance and religious fundamentalism also emerged.

Among the Yugoslav republics, there was considerable internal migration, a process which modified the regional distribution of the population. Between 1961 and 1981, Serbia gained population to the extent of 145,000 as a result of migration. It had a negative migration balance only with Slovenia. (That is, Serbs were more willing to move to Slovenia than Slovenes to Serbia.) Between 1961 and 1981, Central Serbia increased its population by 87,000 as a result of migration from Kosovo, with Serbs gaining 80.8% and Montenegrins 10% of that migration surplus. Few Albanians chose to move to Serbia. (The extensive migration of Serbs from Kosovo was clearly registered statistically even during Tito's reign, although it was politically taboo at the time. In debunking the taboo, the Memorandum of the Serbian Academy of Sciences, published in 1986, played a special, if unfortunate, role.)

The cartographic representation of the regional nationality structures of the 1981 Yugoslav census (*Hadži-Jovančić,* 1995) shows that there was no fundamental change in the regional distribution of the different nationalities or in the regional patterns and combinations of their coexistence. More noteworthy modifications were recorded, especially in cities and their environs, as well as in places where massive industrialisation had been implemented.

Despite the volatile nature of internal politics, the 1991 census was conducted in a professional way over most of the country (the exception being the territory of Kosovo). One result of the cartographic analysis of the nationality data of the census (*Judah,* 1997) was that the position in the republics of the representative ethnicity varied from one republic to another in terms of their ratio as a majority or regional minority. In addition, the ethnic map of the country was mosaic-like. The report Ethnic Yugoslavia pre-War, 1991 appeared in several publications and editions. The maps represented a wide range of combi-

nations in the way the different communities coexisted over most of the country.

Within the republics there were also processes that in terms of character and content displayed some degree of difference from general tendencies and national ratio changes. Bosnia and Herzegovina itself carried all the demographic and ethic complexities and tendencies of the country (*Table 4*). Despite the rapid industrialisation of the country, there was a marked drop in the ratio of both the Serbian and Croatian nationalities. A completely separate issue was the change in Yugoslav demographics. This category represented an opportunity of total political identification with the political system on the one hand and the least likelihood of conflict with any one nationality on the other, providing a solution to people living in mixed marriages. Nowhere else was the national-nationality configuration as mosaic-like as in the most multi-ethnic republic of multi-ethnic Yugoslavia.

Religious stratification almost completely overlapped with the nationality ratio of the three largest communities since all three communities also formed distinct religious communities. Although religious tensions were present in the communist system, the state enacted equal restrictions against each church and all manner of religious practice. At the outbreak of the conflict, the primary causes were national, political and economic, but religious factors and influences also rapidly came to the surface and partly to the fore.

Table 4

National composition of Bosnia and Herzegovina, 1961–1991, %

National group	1961	1971	1981	1991
Serbs	42.8	37.3	32.2	31.4
Muslims	25.6	39.6	39.5	43.7
Croats	21.7	20.6	18.4	17.3
Yugoslavs	8.4	1.2	7.9	5.5
Montenegrins	0.4	0.3	0.3	
Albanians	0.1	0.1	0.1	
Slovenes	0.1	0.1	0.1	
Macedonians	0.0	0.0	0.0	0.0
Other	0.9	0.8	1.5	2.1

Source: Woodward, 1995, p. 33.

Ethnic and nationality processes in Bosnia and Herzegovina took somewhat different shapes in the rural areas and the towns, especially in large metropolitan areas. In the countryside, competition between the ethnically diverse, sometimes neighbouring, settlements was intensifying. In the cities,

especially in Sarajevo and the new industrial towns, the dominant force was a realisation of the need to coexist and to co-operate. Throughout the Tito regime, urban nationality problems were portrayed in contemporary literature and movies.

In Croatia, the ratio of Croats dipped slightly; that of Serbs decreased even more (*Table 5*). As in other communities, the most delicate issue had to do with the Yugoslav demographic: in no other community was there as much fluctuation as with the Croats. In terms of ethnic ties, the most important and most delicate issue was the nature of the Croatian-Serbian relationship. Linguistic differences were negligible with regard to these two communities, but at the same time, wide differences characterised their religions, cultures and historical identities. The Serbs represented a majority in the former territory of the military border patrol zone, and a Serbian majority was present in other areas also.

Religious stratification basically overlapped with the ethnic distribution ratio. At the collapse of the Tito regime, 77% of the population was Roman Catholic, and 12% Orthodox, other denominations having only marginal representation. Conflicts between the two large communities were triggered not by religious, but by national-interest and political factors, although, as early as the beginning of the transformation, political manipulation of religious differences was practised.

Table 5

National composition of Croatia, 1961–1991, %

National group	1961	1971	1981	1991
Croats	80.2	79.4	75.1	78.1
Serbs	15.0	14.2	11.6	12.2
Yugoslavs	0.4	1.9	8.2	2.2
Slovenes	0.9	0.7	0.5	0.5
Montenegrins	0.2	0.2	0.2	0.2
Muslims	0.1	0.4	0.5	0.9
Albanians	0.0	0.1	0.1	0.3
Macedonians	0.1	0.1	0.1	0.1
Other	3.1	3.0	3.7	5.5

Source: Woodward, 1995, p. 33.

In Yugoslavia there was an adage about the relationship between the two communities: "Croats and Serbs probably hate each other most because they resemble each other."

From the early 1980s, first in the printed press and subsequently on television, people started to portray as well as to manipulate, on a massive scale, their

mutual historical grievances. The two communities began to rethink their common histories, within the framework of a constant economic crisis. At the same time, fundamentally ethnic conflicts came to the surface primarily in the interactional zones of the residential areas, these conflicts initially individual and later communal in nature. From 1989 onward and during the time when the multi-party political organisation and re-organisation took place, the three political movements (that is, the Croatian national, the regional Serbian and the national Serbian) were determined to exploit political grievances. At a later stage, they also exploited the mass demonstrations that would give rise to hatred and sometimes to acts of violence.

The nationality composition of Macedonia was a target of constant heated debate during the Tito regime (*Table 6*). Rather than arguing simply about the origin and identity of the Macedonians, these debates focused on all elements of their self-identification. Almost all concerned parties would express their doubts about the accuracy of each census. Although the number and ratio of Albanians grew continuously, the Albanian community claimed that census data still underrepresented them. In their opinion, the rate of the "other" demographic was always too high, and did, in fact, include a significant number of Albanians. In the territory of the republic, the most influential relationship existed between Albanians and Macedonians, although the historic character of the Serbian-Macedonian relations was also a continuous reality.

Montenegro the smallest republic shows the most radical transformation in the structure of the nation (*Table 7*). The number of Albanians and Muslims considerably increased and, together with elements of uncertainty, the number and ratio of Serbian inhabitants can also be seen as increasing.

Table 6

National composition of Macedonia, 1961–1991, %

National group	1961	1971	1981	1991
Macedonians	71.1	69.3	67.0	64.6
Albanians	13.0	17.0	19.7	21.0
Serbs	3.0	2.8	2.4	2.2
Muslims	0.2	0.1	2.1	–
Yugoslavs	0.1	0.2	0.8	–
Croats	0.3	0.2	0.2	–
Montenegrins	0.2	0.2	0.2	–
Slovenes	0.1	0.1	0.1	–
Other	12.0	10.1	7.5	12.2

Source: Woodward, 1995, p. 33.

Table 7

National composition of Montenegro, 1961–1991, %

National group	1961	1971	1981	1991
Montenegrins	81.3	67.2	68.5	61.8
Muslims	6.5	13.3	13.4	14.6
Albanians	5.5	6.7	6.5	6.6
Serbs	3.0	7.5	3.3	9.3
Yugoslavs	0.3	2.1	5.4	4.0
Croats	2.2	1.7	1.2	–
Slovenes	0.2	0.1	0.2	–
Macedonians	0.1	0.1	0.2	–
Other	0.9	1.3	1.3	3.7

Source: Woorward, 1995, p. 33.

The Socialist Federal Republic of Serbia had the largest territory and population and was the most developed part of Tito's Yugoslavia in terms of its internal public administration system. Extremely complex restructuring processes took place in the regional and national-ethnic composition of the republic as a whole, including the two autonomous provinces and, more specifically, Serbia (*Table 8*). Except for the Vojvodina, the ratio of Serbs decreased in every area, especially in Kosovo, while the ratio of Albanians increased in the old Serbia.

In Tito's Yugoslavia the more or less overt ethnic tensions surfaced in Kosovo in 1968 and gradually deepened during Tito's lifetime. The 1974 constitution broadened the autonomy of Kosovo, in that it basically had the rights of a republic without legally being one, but, unlike the other republics, it did not have the right to leave the federation.

Albanians considered Tito's national policy to be mostly anti-Albanian. The community with the largest population could not form a republic, its territories were shared out among Serbia, Montenegro and Macedonia. In their opinion, although to varying degrees, Albanians were discriminated against, and, to some extent oppressed. (In spite of this, some 5–20 thousand Albanian refugees left Albania for Yugoslavia in the 1980s.)

In the opinion of the Albanian political elite, there is a kind of "albanophobia" alive in neighbouring countries due to the demographic processes. The Albanians do not understand the reservations about them and believe that "albanophobia" unites Slavs against them.

Table 8

National composition of Serbia, 1961–1991, %

National group	1961	1971	1981	1991
Serbia				
Total Republic	100.0	100.0	100.0	100.0
Serbs	74.6	71.2	66.4	65.8
Albanians	9.2	11.7	14.0	17.2
Yugoslavs	0.3	1.5	4.8	3.2
Muslims	1.2	1.8	2.3	2.4
Croats	2.6	2.2	1.6	1.1
Montenegrins	1.4	1.5	1.6	1.4
Macedonians	0.5	0.5	0.5	0.4
Slovenes	0.3	0.2	0.1	0.1
Other	9.9	9.4	8.7	8.4
Serbia “proper”	100.0	100.0	100.0	100.0
Serbs	92.4	89.5	85.4	87.3
Muslims	1.7	2.4	2.7	
Yugoslavs	0.2	1.4	4.3	2.5
Albanians	1.1	1.2	1.3	
Montenegrins	0.7	1.1	1.4	
Croats	0.9	0.7	0.6	
Macedonians	0.4	1.1	0.5	
Slovenes	0.3	0.2	0.1	
Other	2.3	2.4	3.7	10.2
Vojvodina	100.0	100.0	100.0	100.0
Serbs	54.9	55.8	54.4	57.2
Hungarians	23.8	21.7	19.3	16.9
Yugoslavs	0.2	2.4	8.3	8.4
Croats	7.8	7.1	5.4	4.8
Montenegrins	1.8	1.9	2.1	2.2
Slovenes	0.8	0.8	0.9	0.8
Albanians	0.3	0.2	0.1	0.0
Muslims	0.1	0.2	0.2	0.0
Other	10.2	9.7	9.1	9.7
Kosovo	100.0	100.0	100.0	100.0
Albanians	67.0	73.7	77.5	90.0
Serbs	23.5	18.4	13.3	10.0
Montenegrins	3.9	2.5	1.7	
Muslims	0.8	2.1	3.7	
Croats	0.7	0.7	0.6	
Yugoslavs	0.5	0.1	0.2	0.2
Macedonians	0.1	0.1	0.1	
Slovenes	0.0	0.0	0.0	
Other	3.5	2.4	2.9	

Source: Woodward, 1995, p. 34.

It is not only the relationship of Albanians and the political power that deteriorated, but also the ethnic conflicts at workplaces and among the different communities within settlements. The migration of Serbs from the autonomous regions began and gradually accelerated. In the beginning, it was a consequence of a less developed economy, but later the clashes among individuals and communities spread and the prime reason for the mass migration of Serbs was a fear of Albanians.

The emigration of Serbs first began from the scattered lands and settlements. In North Kosovo, where they were in a territorial majority, the migration of Serbs was significantly lower. It was only in the 1980s that masses of Serbs started to leave the industrial towns.

In the processes in Kosovo – similar to all conflict situations – the various factors of the economy, society, ethnicity, language and religion were closely intertwined. Although the political power recognised the conflicts between the state-forming majority of Serbs in both Serbia and Yugoslavia and the Albanians in regional (provincial) majority, it was for a long time marginalised.

From 1981 onwards, street protests by Albanians demanded the status of a republic for the autonomous province. (The protests were put down and many people were murdered or wounded in the conflict.) From the beginning of the Albanian mass protests in the spring of 1981, ethnic relations in Kosovo were clearly becoming destabilised with the segregation of Serbs and Albanians becoming sharper. In the Albanian riots many religious houses monasteries and buildings owned by the church were burnt down, graveyards were damaged or ploughed under. From 1986 onward the attacks against Serbs became frequent and in that year 320 Albanian nationals were taken to court for alleged political murders.

In Kosovo the Serbs had to face the fact that, although they were state-founders in Serbia, the territorial majority could make everyday life impossible for them. Serbian and other Slav families opted for moving in masses. In the period between 1980 and 1987, 20 thousand of the 200 thousand Serbs left, selling or simply leaving their real estate and property behind. They considered their life and safety more important than wealth. Contemporary news reporters in Belgrade (and the CIA) called the process “Serbian Exodus”.

In 1986 Albanian political jokes were becoming brutal. Fadil Hoxha, a member of the Albanian party leadership, made fun of Serbian women in a degrading and humiliating way. The event was followed by the public protest of Serbian women in Kosovo and Hoxha was removed and even expelled from the party.

On 1 November, 1987, the news reporter of The New York Times located in Belgrade was discussing public opinion in the capital concerning a horrific potential civil war in Kosovo (*Binder,* 1987). Due to the ethnic tensions and

sharpening conflicts evolving in Kosovo, war was felt to be a real and short-term prospect.

In 1989, Serbian president Slobodan Milošević basically cancelled the autonomy of Kosovo and at least 20 Albanians were killed in the protests that followed. The Serb demonstration of power did not convince Kosovo Serbs to stay. In 1990, a military government was set up on the territory of the autonomous province. In 1991, the Albanian radicals proclaimed the Republic of Kosovo that was only recognised by Albania in diplomacy.

Slovenia was the most homogenous part of Yugoslavia, but the ratio of Slovenes was gradually decreasing, while ethnic diversity was slowly increasing (*Table 9*). The two native minorities (Hungarian and Italian) formed relatively small communities compared to the entire population during the Tito regime. The two communities used to have distinct territories, Hungarians in the River Mura region, and Italians on the Mediterranean coast and along the Italian-Slovene border. Slovenia could afford a liberal ethnic policy; there were hardly any conflicts between the Slovene majority and any of the minority communities – either in the Yugoslav period or post-independence. The determining process underway in the country was coexistence, with the two minorities featuring in Slovenian legislation based on civic rights.

Table 9

National composition of Slovenia, 1961–1991, %

National group	1961	1971	1981	1991
Slovenes	95.6	94.0	90.5	87.6
Croats	2.0	2.5	3.0	2.7
Serbs	0.8	1.2	2.2	2.4
Muslims	0.0	0.2	0.7	1.4
Yugoslavs	0.2	0.4	1.5	0.6
Macedonians	0.1	0.1	0.2	0.2
Montenegrins	0.1	0.1	0.2	0.2
Albanians	0.0	0.1	0.1	0.2
Other	1.2	1.4	1.6	4.7

Source: Woodward, 1995, p. 35.

The non-native (immigrant) minorities outnumbered the population of the two native minorities, but did not have the same rights. The number and ratio of Serb inhabitants was lower in Slovenia compared with other member republics, and there were no bloody conflicts between the Slovene majority and the Serb minority.

In Slovenia, the dominant religion was Roman Catholicism (nearly 95%), the presence of other religious communities being minimal, and so we cannot talk of significant religious or mass conflict in the country.

The fact that from the 1980s on, besides the external migration going on due to having the right to free emigration, masses of Yugoslav citizens applied for political asylum in Western Europe, implied deepening ethnic problems in Yugoslavia to the western world and Yugoslav politicians. In the period between 1980–1988, 42 thousand Yugoslav citizens applied for political refugee status to the authorities of various Western-European countries. Every nation and nationality was represented among the refugees.

In general, we can say that various levels of ethnic conflict developed: individual conflicts with significant ethnic backgrounds, but other levels also appear

- inter-family conflicts (on historical, economic, territorial grounds),
- intra-settlement conflicts,
- inter-settlement conflicts,
- conflicts at autonomous province level, when deciding upon the frameworks of co-habitation or a mutual acceptance of the directions of change,
- conflicts among member-republics,
- central conflicts, within the framework of the federal state.

From the early 1980s onward, the deepening economic crisis sharpened ethnic conflict in many areas. Living conditions deteriorated for almost every social group, competition for jobs and for maintaining former standards of living grew stronger in everyday life. Ethnic-based political differentiation commenced even within the Communist Party.

The ratio of (previously common) inter-marriages – especially in towns – declined steeply at the end of the 1980s – albeit to varying extents based on the specific district and type of settlement.

Pledging "Yugoslav" nationality meant a certain way out of the ethnic conflict within the frameworks of Yugoslavia for those who were born in a mixed marriage, but it gradually became unpleasant in the tense political situation – and even meaningless after the dissolution of the Socialist Federal Republic of Yugoslavia (SFRY).

The majority of towns were historically multi-ethnic and multi-religious. In the process of Tito's socialist industrialisation, the multi-ethnic workforce became highly mixed, which had not been a particular aim. The interpretation of the terms "Friendship", "Brotherhood" and "Unity" varied along multiple dimensions, from the levels of workplace communities to the relationshipships between member-republics.

3 The demography of Albania during the communist regime

Statistical data covering all aspects of life in the country under the communist regime were highly "confidential", and even demographic data were presented as estimates only to those not in power. At the time of the declaration of the Peoples Republic of Albania on 11 January, 1946, the population of the country was estimated to be 1.5 million, showing a steep increase due to a high rate of live births.

The population of the country could be considered as homogenous, although the number and ratio of Greeks was a constant question of debate. The number and ratio of other nationalities (Armenians, Bulgarians, Italians, Montenegrins, Serbs, etc.) was negligible.

As for dialects, the country was divided into three parts: northern (Ghegs), central transitional, and southern (Tosks), but the speakers of the different dialects understood each other well. The major representatives of the communist era originated from among the Tosks. Mainly for this reason, the Tosk dialect became the basis of the language of literature as well as the official language.

The communist regime first of all forcibly reduced the practice of religion and subsequently declared the country atheist. The majority of the population was Muslim, followed by Orthodox and Roman Catholic (in 1939 the distribution in the population had been 70:20:10 respectively). After the collapse of the communist system a continuous religious renaissance has been taking place in the various denominations. The former religious composition of the population has presumably not altered completely, but there must have been some transformation.

According to estimates for 2010, the total number of Albanians world-wide may be 7–7.8 million people, of which approximately 6.5 million people may live on the Balkan Peninsula today. A little under half of those live within the borders of Albania (3.1–3.2m, although some estimate up to 3.6m). Almost 2.5m Albanians live in the former Yugoslavia including Kosovo. The largest Albanian community outside the mother country is, in fact, found in Kosovo (1.7 million). There are nearly 60 thousand Albanians in Serbia, 30-35 thousand in Montenegro, 15 thousand in Croatia, and 5-6 thousand in Slovenia. The approximately 500 thousand Albanians in Macedonia play an important role. In Italy, due to the historical diaspora and the new immigrants, there are about 700 thousand Albanian inhabitants. In Greece there may be another 270–300 thousand ethnic Albanians, but in the Greek concept they are Greek.

In the transformation post-1990, the discrepancy between the territories inhabited by Albanians and the borders of the Albanian state has generate con-

tinuous tension with the neighbouring countries. It was not simply the fear of a "Greater Albania" which triggered the process, but rather the multitude of everyday conflicts with the neighbouring communities, primarily in Kosovo and Macedonia.

From the 1990s onward, a significant Albanian diaspora has formed in Western Europe (it may even comprise 1.5 million people) and a smaller one outside Europe. According to a US census, there are some 200 thousand Albanians or persons with Albanian roots living in the USA.

4 The victims and refugees of the South Slav wars

The various wars are not elaborated on here in chronological order, and in this chapter we are rather discussing the ethnic conflicts in the 1991-1999 wars – the losses suffered by the communities, how ethnic cleansing affected the various nations and nationalities, and the flows of refugees, together with their life-style during and after the wars

In terms of ethnic composition and ethnic conflicts, one question to be posed might be: "Did Yugoslavia collapse from the bottom up or from top down?" Numerous studies argued that wars in Yugoslavia were "purely ethnic", although it can be seen – significantly – that it was basically communities which were facing each other. It was, in fact, the interests of power which directed the background processes.

4.1 The number of victims

An accurate number of military and civilian victims of the war has not yet been established to the satisfaction of all affected parties, and a precise figure can hardly be expected ever to be determined. During the war both parties consciously overstated the number of victims ("We have many casualties; we are the real victims"; *Leitenberg,* 2006).

In judging the magnitude of casualties we can fairly, even if not absolutely, rely upon the estimates of the United Nations (UN), international statistical data, the data presented by international military journals and websites, humanitarian organisations, external and internal scientific research, or we can examine conflicting data.

On the territory of the former Yugoslavia the number of people killed or dead in the wars between 1991–1992 was estimated in 1993 at 140–150 thousand by the UN, who, at the same time emphasised their uncertainty about the

total number of real victims. Leitenberg (2006) estimated the number of civilian and military casualties at 300 thousand on the territory of the former Yugoslavia in the period 1991–1996 – plus the 10 thousand killed in Kosovo in 1998–1999, while many estimate the casualties to be around 250–280 thousand.

There is considerable uncertainty about the casualties of the particular countries:

- there are only a few cases similar to the 10-day war in Slovenia in which 62 people died, and, even adding those wounded in accidents, the number of victims cannot exceed 100.
- Various sources show the dead in the wars in Croatia (1991–1995) fluctuating from 10,668 to 13,603 (7,500 Croatian military casualties at Vukovar alone).
- Bosnia and Herzegovina suffered the greatest losses in terms of war victims. Both in the military and the civilian population, casualties were highest among the Muslims. Earlier publications concerning Bosnia and Herzegovina only referred to estimates of 200 thousand people. More recently figures of 96-140 thousand are frequently quoted. (In the Srebrenica massacre the murdered Muslim men amounted to 7,500– 8,500).
- From 1996 onward, the Kosovo Liberation Army (KLA) not only assassinated members of the Serbian police but also indiscriminately attacked Serbian civilians. A kind of military confrontation between the KLA and the Serbian police commenced, although then on a small scale. However, from February 1998, military clashes escalated and casualties rose on both sides.

In the period between 24 March and 10 June, 1999, NATO forces conducted a campaign from the airin Serbia and Montenegro, focusing on military targets specifically, although most bridges also suffered in the attacks.

It is most difficult to define accurately the number of real victims in Kosovo. According to data provided by the Serbs, there were 578 victims in the period from 1996 to 1999, whereas Albanians claim this figure to be 13,627.

- The internal crisis and social conflicts in Albania had 2,000 victims.
- In the confrontation between Serbs and Albanians in the South Serbian Preševo valley some 40–50 people were killed.
- In clashes between Macedonians and Albanians in Macedonia some 200 people died.

4.2 Ethnic cleansing

Apart from the aims of the Albanians in Kosovo worded in the 1980s, ethnic cleansing was presumably initiated by the Serbs on the territory of Croatia. They strongly "urged", in fact forced, Croat residents to move or flee from the country. In this process the Serbs acted with brutality and committed war crimes violating international law. During the conflict both parties set up internment camps where people were kept under humiliating circumstances.

In the course of Croatian counter-attacks in 1995, the Croats aimed at expelling the Serbs and broadening the scale of ethnically homogenous Croatian territories. Some 200 thousand Serb refugees left Croatia in 1995–1998. Examining the post-war processes in terms of ethnic composition, the most radical changes took place in Croatia. According to the 2001 census, the number (200 thousand) and ratio (4.5%) of Serb residents in the country is much less than half of the pre-war figures (580 thousand and 12.2%, respectively). The amount and gravity of the conflicts between the two communities significantly decreased after 2000, due to changes in Croatian internal affairs. The return of the expelled inhabitants – refugees – is making only slow progress.

The bloodiest large-scale ethnic cleansing took place in Bosnia and Herzegovina. First, it was the Serbs who worded a "programme of ethnic cleansing" for East Bosnian territories and implemented it not only in rural areas but also in the majority of towns. Muslims and Croats also performed acts of ethnic cleansing, although on a much smaller scale compared to that of the Serbs, resulting in a significant modification, in certain districts – and even a complete transformation – of the ethnic map of Bosnia and Herzegovina by the end of the war. All three parties established a large number of internment camps in some of which they deliberaely "eliminated the enemy".

Researchers studying political geography (*Dahlman–Ó Tuathail,* 2005) raised the question whether the international community de facto recognised the territorial and settlement-level "consequences" of mutual ethnic cleansing and was in fact only formally urging the reconstruction of the original situation. Presumably this is the reason why the return of the displaced or expelled inhabitants is proceeding at such a slow rate.

4.3 The refugees

The most tragic element of the South Slav wars and inter-ethnic conflicts – besides the death of masses of people and the alteration of the native territories of the population – is the appearance of masses of refugees. According to statis-

tical data provided by Western European countries for the period 1989–1994, 700 thousand refugees arrived in Western Europe, as well as in the US (over 65 thousand) and in numerous other countries overseas. During the war (1991–1995) 4.3 million people were forced to leave their places of residence and seek temporary refuge among the ethnic majority. In the Kosovo conflicts some tens of thousands of refugees left for neighbouring countries, mainly Albania and Macedonia.

In August 1995, the UN High Commissioner for Refugees, with the co-operation of local authorities, attempted to survey the number and the situation of refugees and displaced people on the territories of the former Yugoslavia (Refugees and Beneficiaries of UN humanitarian aid in the former Yugoslavia, http://balkansnet.org/refugees.html). Figures of 3,680,300 refugees are quoted in the region, 80.47% located in Bosnia and Herzegovina, 405 thousand in Serbia, 385 thousand in Croatia, and a further 65 thousand in local UN sectors. Montenegro, Slovenia and Macedonia belonged to the countries in a more favourable situation with 44 thousand, 26 thousand and 6,300 refugees, respectively. The ethnic composition of the refugees fluctuated in parallel to military events and, thanks to the elusive nature of war, persecutors can easily be turned into the persecuted and vica versa.

By 1999, the number and regional distribution of refugees had considerably changed (*Table 10*). It was also at that time that the need to settle the situation of the refugees by 2010 at the latest first emerged (allowing a decade to solve the problems), but this has not happened. Fundamentally political, social and economic problems can equally be identified as reasons why the refugees cannot, and may not even be willing to, return to their former homes.

The UN's Refugee Agency repeatedly overviewed the situation of refugees in May 2008, but was still of the opinion that, between 1991 and 2008, due to the partly forcible, and partly voluntary flight of people from the territories of the former Yugoslavia, 3.7–4 million people had to leave their homes and seek temporary residence elsewhere. At the same time, 600–800 thousand former Yugoslavs migrated to other European countries, but, as not all sought asylum officially, the figures are somewhat ambiguous. Some 10–15 thousand former Yugoslavs even left Europe after 1991 and were mainly received by the US and, to a lesser extent, by Australia.

The UN set a deadline of 2010 for the countries involved to settle the situation of the refugees, but this has not been implemented in any of the countries concerned. Neither real political intention, nor sufficient financial resources were available to solve all the problems.

Table 10

Estimate of the number of persons concerned by HCR activities at the end of 1999, %

	Country of residence					
	Albania	Bosnia and Herzegovina	Croatia	Macedonia	Slovenia	Yugoslavia
Refugees	3,900	65,600	28,400	21,200	4,400	500,700
Asylum seekers	20	20	30		610	30
Retumees [1]		161,000	35,500			755,500
Displaced		809,500	52,400			234,900
Displaced retumees [1]		73,000	63,600			168,900
Various					11,300	
Total	3,920	1,109,120	179,930	21,200	16,310	1,660,030
Total population at 01/01/2000	3,401,198	3,695,500[2]	4,527,459[3]	2,012,705[3]	1,987,755	10,613,708

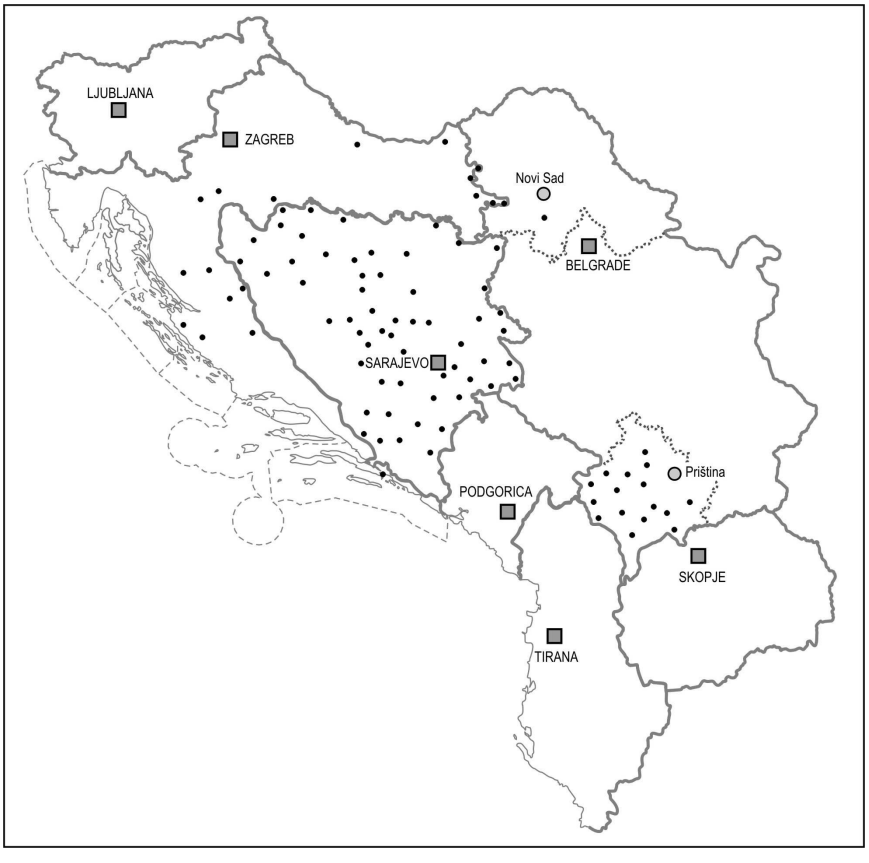
Key: 1 – Given assistance no more than 2 years after their return; 2 – 1998; 3 – 1999.
Source: Sardon, 2001, p. 52.

4.4 Investigating war crimes

Based on the database and the court records of the United Nations International Criminal Tribunal for the former Yugoslavia (ICTY, http://www.icty.org/) we can conclude that no war crimes were committed in Slovenia and there was one case taken to the Tribunal from the Vojvodina, whereas in Kosovo, Bosnia and Herzegovina and Croatia there were a great number of cases to be investigated (*Figure 10*).

Figure 10

Sites of war crimes on the territory of the former Yugoslavia according to ICTY



Source: ICTY: Author's construction based on cases and maps.

It is obvious from the online database of case documents that, although all parties involved in the civil war committed war crimes in Bosnia and Herzegovina, Croatia, Kosovo and Serbia, the number of war crimes committed by the Serbs far exceeds all others. The investigations of the Tribunal as well as the case documents reveal the data and methods of mutual retribution to depths unprecedented in past historical research. However, the court cases per se do not provide comprehensive answers to why and how the gruesome events could take place.

The war was most humiliating for women. In Bosnia and Herzegovina alone, the number of women raped is estimated to fall between 25 and 50 thousand, a figure considered to be an underestimate by most Bosnian NGOs.

The cases of war crimes investigated and the sentences handed down by the Tribunal have made it clear that human life and dignity were of no value to the various political and military factions and parties involved, and massacres, in fact, became part of everyday practice. Not one single person responsible for all that happened can be identified on any side; killing and the elimination of the enemy seem to have reached the stage of self-regulation, which is why it was difficult to settle the relationships of the different communities after the war ended: every community has the right to blame the other, without being willing to exercise simple and honest self-criticism.

5 Conclusions

Looking back on the processes commencing in 1990, the "two bloody decades" brought about fundamental changes throughout the entire Balkan Peninsula, especially on the territory of the former Yugoslavia, restructuring not only the borders of states but also the demographic distribution of the region. The conflicts fundamentally changed the situation of local communities and reformulated their views of others for the longer term.

Neither the winners nor the losers managed to stay out of brutal ethnic strife, ethnic cleansing, the mass rape of women, burning the homes of bad neighbours etc. The real destructive effects of the war influenced the lives and relationships of individuals, families and communities by the loss of faith in each other.

Ethnic conflict did not end with the formation of the new states. Even if not on a large scale but at individual level, conflict continues at work as well as in contacts with minorities in every newly-formed state. In Serbia, three major regions need to be distinguished in this respect: in the Sandžak region ethnic strife still occurs, Muslim nationals demanded the presence of international observers in the Autumn of 2010 as they felt ethnically endangered. In the

Vojvodina, attack on ethnic Hungarians and the posting of hate captions are the primary signs of underlying conflict. Similarly, in the regions of South Serbia inhabited by Albanians (the Preševo Valley) "unsettled cases" of ethnic tension surface at micro-regional level.

In the contact zones of Bosnia and Herzegovina "cold coexistence" has become predominant. The two entities are for practical reasons interested in maintaining the new ethnic situation, although the Bosniaks insist upon the absolute reconstruction of the 1991 situation. There is hardly any chance to achieve this however, as even the majority of the displaced residents are not willing to return.

Kosovska Mitrovica, in the northern part of Kosovo, has constantly been a scene of bloody ethnic strife, even involving murder. The Serbs inhabiting the northern parts of the town live their own lives having minimal contact with the Albanians on the opposite bank of the River Ibar. Even some unclear fatalities, and, moreover, the results of basketball matches can evoke mass confrontation by the parties involved. The town is steadily earning its reputation as the "hot spot" or the "little gun barrel of the Balkans", phrases often used in press headlines. Kosovo seems to be willing to provide regional or settlement-level autonomy, but the Serbs urge accession to Serbia.

Macedonia seems to have successfully settled internal conflict but has not succeeded in solving the problems with Greece.

With Albania's accession to NATO it has entered an international controlling community, and so the forced reunion of the fragmented Albanian territories and the creation of a "Greater Albania" are out of the question.

Croatia, as a new member of NATO and scheduled for early accession to the European Union must take back the Serbs displaced in 1995–1998, but this process is slow. Young generations have been raised in asylum in Serbia and Bosnia and Herzegovina and for these their return and acquisition of Croatian citizenship would be of no benefit.

The responsibility of the international community concerning the ethnic and democratic conditions in the Western Balkans has remained, due not only to their earlier intervention but also to their permanent presence in Bosnia and Herzegovina and Kosovo.

DEMOGRAPHIC TRANSITION

ROBERTO CHIZZALI

1 Introduction

Europe is in the midst of an unprecedented situation in its demographic history, characterised by growing demographic marginalisation of the European area compared to other areas of the world, with sub-replacement fertility rates and increasing life-expectancy. The effects of lower fertility and mortality, in particular, are that most countries are confronting, or expect, a decline in population with only net migration – preventing an actual decline in the population. Furthermore, European populations are ageing rapidly and this process is accompanied by rapid shifts in their age structures (*Campobasso,* 2009).

Such are the consequences of the demographic transition, which is when populations progress from modern regimes, where both mortality and fertility are high, to post-modern regimes, where mortality and fertility are low. The cause of the transition lies in a greater control of illness and disease, which eventually contributes to lower mortality, and the process of modernisation, which brings economic and social development leading to lower levels of fertility. The timing of the demographic transition depends on the degree of economic development present within countries, but there is a common trend towards higher life-expectancy, lower fertility and the resulting ageing of the population distributions.

As is the case for EU countries, those in the Western Balkan region have either completed their demographic transition or are on the path to completion. In fact, rapid population ageing will be experienced in the future because of recent trends towards a noticeable decline in fertility and increasing life-expectancy. Analysing these trends is important as they have far-reaching social and economic consequences, as well as representing policy challenges, across both the EU and the Western Balkan region.

This chapter presents an analysis of the demographic trends in the Western Balkan region and its individual countries, providing a comparison with the trends in EU27, with particular focus on the shifts of the population age structures and the resulting population ageing. The countries under review are: Albania, Bosnia and Herzegovina, Croatia, Montenegro, Serbia and the Former Yugoslav Republic of Macedonia (FYR Macedonia). Kosovo is included in the

group but not as an individual country. In this chapter the demographic data includes Kosovo as a part of Serbia, as the disaggregated data are not available from the United Nations. (A brief discussion of Kosovo is included separately in the chapter.) The demographic data of the Western Balkan region are the aggregate figures of these countries (Balkan7).

The next section presents highlights of the long term demographic trends in EU27 and the Western Balkans as a whole. Total fertility rates, life-expectancy and major changes in population structures will be analysed over the 1960–2050 period so to provide a broader context for understanding the population dynamics in the region.

Those dynamics are examined in the following section for Western Balkan countries specifically, using a shorter time interval that covers the period 1960–2010. The changes in population size, the impact of migration, the ageing of the population and subsequent changes in age structures and dependency ratios are then considered. Finally a country classification according to their current ageing profile and a short population age structure profile will be provided.

EU27 and the Western Balkan region aggregated data is used as term of reference when discussing demographic developments of the individual countries, as it allows for the highlighting of common trends and resulting challenges presented by ageing population and changing demographic structures. Focusing on these problems is also important in the light of the potential role of the Western Balkan countries in the future enlargement of EU.[1]

2 A note on data

The data in this chapter draws on that of the Population Division of the Department of Economic and Social Affairs of the United Nations (UN) Secretariat.[2] Since the 1970s, the UN has been involved in several multi-national survey programmes whose results provide key information about fertility, mortality, maternal and child health. The UN data reflects demographic information and trends produced by other UN agencies or bodies, such as, Economic and Social Commissions, the High Commissioner for Refugees (UNHCR), the United Nations Children's Fund (UNICEF), and the World Health Organisation (WHO).

[1] At present, there are two recognised Balkan candidates for membership: Croatia (applied 2003), and Macedonia, FYR (applied 2004); however FYR. Macedonia has not yet started negotiations to join. Montenegro (December 2008), Albania (April 2009) and Serbia (December 2009) have also applied for membership, but the European Commission has not yet given its opinion on these applications.

[2] http://esa.un.org/unpp.

Data from Eurostat has also been consulted and used when elaborating estimates and forecasts. The data collection made by the UN was revised in 2008.

The preparation of population estimates that cover the 1960–2010 period, and projections covering the 2010–2050 period, by the UN involves two distinct processes: the incorporation of new and relevant information regarding past demographic dynamics; and the formulation of assumptions about the future paths of fertility, mortality and international migration. In fact, population projections are what-if scenarios that aim to provide information about the likely future size and structure of the population for a specific set of assumptions. Because of the inherent uncertainty of demographic behaviour and in order to take into account alternative assumptions, different projection variants are produced.[3] For the purposes of this chapter, the medium variant has been selected. Under this variant, total fertility in all countries is assumed to converge towards 1.85 children per woman. Mortality is projected on the basis of models concerning changes in life-expectancy. These models produce smaller gains the higher the life-expectancy that has already been reached. The selection of a model for each country is based on recent trends in life-expectancy by gender.

3 Why demography matters

Demographic changes have a profound impact on countries and the policy landscape. For example, changes to the age structure of a country are important for not only medium and long-term education planning, but also on a country's economic outcomes. Ageing populations present policy challenges not only for pension provision, but also for healthcare and social services, and housing needs. Thus, demography matters not only for what it can illustrate about a society, and the changes that are taking place in the way that society is structured with regard to population size and structure, but also for what information it can provide about the current and future policy changes which will emerge.

Over the past decade, demographic trends in Europe are clear. People are living longer and longevity will continue to improve in coming decades, while fertility has declined and is likely to remain below reproduction rates in the predictable future (OECD, 2005). As a result, the number of elderly people will rise significantly relatively to the number of people of working age. Tackling the economic consequences of ageing is now, and is expected to continue to be,

[3] The variants produced by UN are: low variant; medium variant; high variant; constant-fertility variant; instant replacement-fertility variant; constant-mortality variant; no change variant (constant-fertility and constant-mortality), and zero-migration variant.

a major challenge for all European countries. These need to adjust to an older and slower-growing population, which in turn represents one of the major structural changes facing European economies.

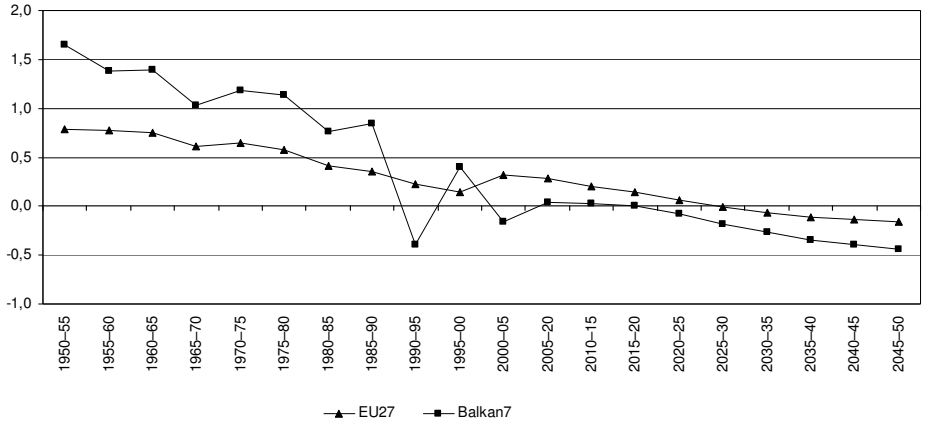
4 Long-term demographic trends in the EU27 and the Western Balkan region, 1960–2010

4.1 Total Population

According to the UN's World Population Prospects 2009, the population of the EU27 has grown consistently from 1960 until today. Positive growth is expected to continue until 2026. After this, the EU27 will experience a gradual decline in its population and a negative population growth rate will appear (*Figure 11*). It is important to note that, without net migration, the EU27 population trend would become negative sometime between 2015 and 2020.

Figure 11

Population growth rates in the EU27 and the Western Balkan region, 1960–2050, %



Source: United Nations, 2009.

Compared to the EU27, the Western Balkan region's population increased at much higher rates of growth over the period 1960 to 1990. In 1992 the population decreased for the first time since 1960 and this is reflected in the fact that population growth rate become negative in the period 1990–1995. This is mainly due to significant migration in the region after 1990, resulting from the internal conflicts that followed the break-up of Yugoslavia, and associated social and economic upheavals.

However, over the long term 1960–2050, the cause of decreasing population growth rates in the EU27 and the Western Balkan region can be identified in the unprecedented drop in total fertility rates (TFR) and improvements in longevity. The key demographic terms used in this chapter are presented:

- Life-expectancy at birth: The average number of years that a newborn is expected to live if mortality conditions at various ages at the time of birth persist throughout the individual's life.
- Total fertility rate (TFR): The average number of children a woman would bear if she survived to the end of her reproductive life-span and experienced in each year the age-specific fertility rates of the given period. The TFR is obtained by adding the age-specific fertility rates from 15 to 49 years.
- Replacement fertility: The level of fertility at which the population is just replacing itself. At this level of fertility (TFR = 2.1) and prevailing mortality rates, the rate of population growth is 0 and Net Reproduction Rate (NRR) equals 1.0.
- Population growth rate: The average exponential rate of growth of the population over a given period. It is the balance between (a) births and (b) deaths and migration.
- Net migration rate (NMR)is the difference between immigrants from and emigrants to an area in a period of time, divided (usually) per 1,000 inhabitants (considered on midterm population). A positive value represents more people entering the country than leaving, whilst a negative value mean more people leaving than entering.
- Young dependency ratio (YDR): The number of people 0 to 14 years per 100 people 15 to 64 years.
- Old dependency ratio (ODR): The number of people 65 years and older per 100 people 15 to 64 years. The elderly dependency rate is also called the old-age dependency rate.
- Total dependency rate (TDR): The number of people younger than 15 plus people 65 or older per 100 people 15 to 64 years.

– Population ageing: The process by which the balance of a country's population shifts such that the proportion of the population that is elderly constitutes a growing proportion when compared with younger ages.

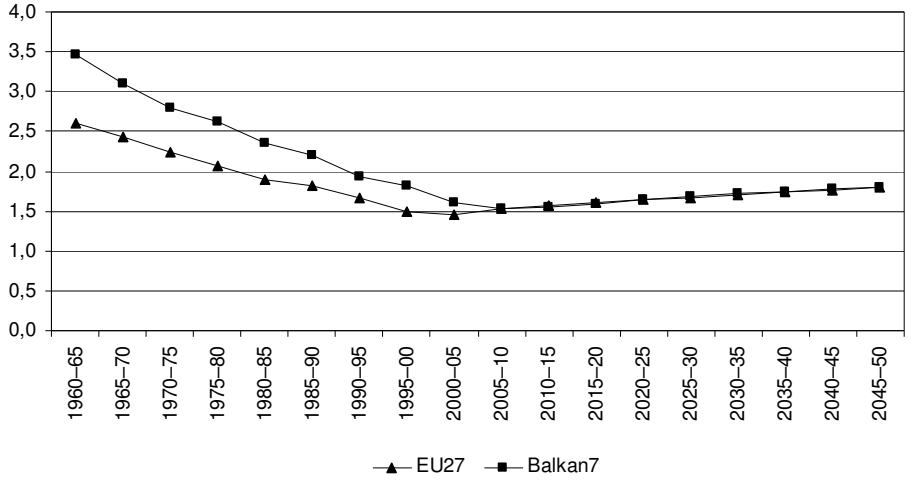
4.2 Fertility rates

In the past 50 years, TFR in the EU27 has almost halved, from 2.6 children per women to 1.5 children. From 2010 onwards, TFR is expected to increase slightly to 1.79 in 2050 (*Figure 12*). It is interesting to note that TFR is higher in the EU15 than in the EU10 starting from 2000–2005 until 2050, whereas it was lower in the time intervals beforehand. This suggests that it is probably migration, notably higher toward most industrialised countries, and the fact that migrants tend to have more children, which is the main contributor to a future increase of TFR in EU27.

However, this is still well below the replacement level of 2.1 children per woman, which is the level needed to maintain a stable population.

Figure 12

Total fertility rate in the EU and the Western Balkan region, 1960–2050, number of children per woman



Source: United Nations, 2009.

Until the period 2005–2010, the TFR in the Western Balkan region had been above that of the EU27. In the period 1985–1990, TFR was still higher than the replacement level. This is reflected in population growth rates that were markedly higher than those of the EU27 until the beginning of the 1990s. Before the wars that characterised the Balkan area between 1991 and 1995 and then the transition towards a market economy that started after the collapse of the communist regimes, it was an accepted social norm that women would marry and have children; being single and/or childless was not a conscious choice but a fate submitted to for biological reasons (*Philipov,* 2003).

A TFR of slightly more than two in the Western Balkan region indicates the prevalence of a two-child model of family life. Furthermore, marriage and the birth of a first child were clustered into narrow age intervals with both events taking place relatively early (*Philipov,* 2003). Even if this pattern was applicable to both Central and South East Europe, significant differences were in evidence in some of the Western Balkans; Bosnia and Herzegovina, Croatia and Montenegro, in fact, had a TFR level below two in the period before the transition (1985–1990), whereas Albania, Serbia and FYR Macedonia still showed TFR above two children per woman.

The beginning of the transition and the consequent deterioration of economic and social conditions, along with the ethnic tensions culminating in the conflicts throughout the 1990s, heavily impacted on TFR in the region. In the period 1990-95 in fact, TFR fell quickly to below replacement levels. The trend is clearly downwards, with TFR in both the EU27 and the Balkan region forecast to reach the same level (1.53) in the 2005–2010 period.

4.3 Life-expectancy

Another important long-term demographic indicator is life-expectancy at birth. In the EU27 it rose consistently by close to eight years in the period between 1960 and 2010 and is expected to continue increasing, with forecasts of 82.9 years in 2050 (*Figure 13*).

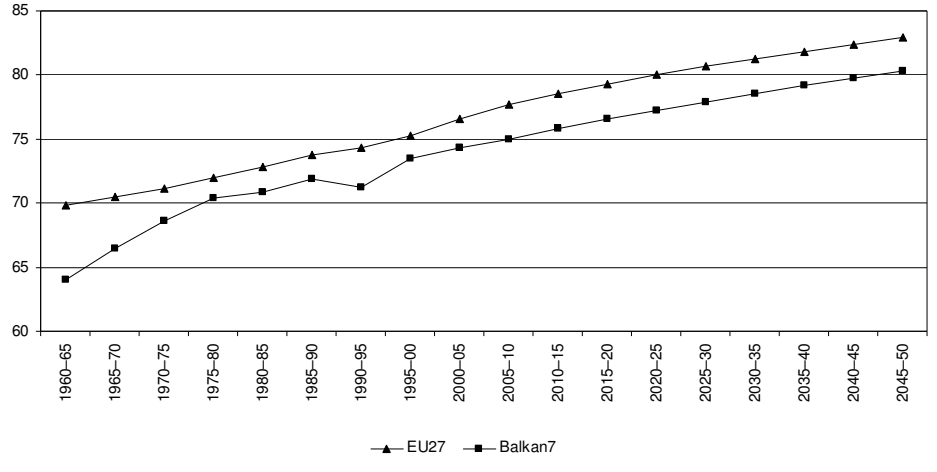
In the Balkan region life-expectancy is noticeably lower than in the EU27 throughout the period 1960–2050. This is due to the fact that the two areas are at different stages of demographic transition and have had different development paths. The higher levels of mortality during early years in the Balkans (in the period 1980–1985 the probability of dying before the age of five was more than double there than in the EU27, and remained more than double up to 2005–2010) combined with weaker economic and social conditions as compared to the EU27, help to explain the different outcomes.

That being said, life-expectancy is increasing in the Balkans and in the present period (2005–2010) is estimated to be 74.9 years compared to 77.7 in the EU27, highlighting a significant increase of more than 10 years in the last five decades. The impact of the conflicts in the region during the first part of the 1990s is, however, clearly evident (*Figure 13*). In the five years from 1990 to 1995 life-expectancy in the Balkan region registered a slight decrease which is to be attributed to the civil war in Bosnia and Herzegovina, given that fact that life-expectancy in the country literally collapsed from 71.1 years in 1985–1990 to 63.7 years in 1990–1995. However, the long term trend is towards increasing life-expectancy in the region.

Declining fertility and increasing longevity are common demographic trends. However, the combination of these elements leads to profound changes in the overall structure of the population: declining fertility means that smaller cohorts are added to the population whilst increasing life-expectancy determines that the old share of the population grows over time. In demographic terms, this means that population structures are shifting from being dominated by young people to one increasingly dominated by older individuals.

Figure 13

Life-expectancy at birth in EU27 and the Balkan region, 1960–2050, years



Source: United Nations, 2009.

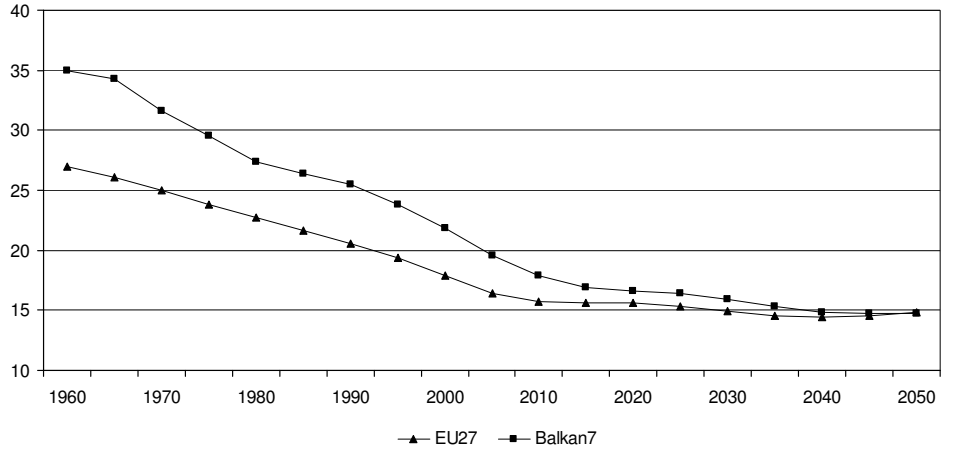
4.4 Young aged population

The young population refers to those aged between 0 and 14 years. From 1960 to 2010, the proportion of the population less then 15 years almost halved both in the EU27, where it fell from 27.0 percent to 15.7 percent and the Western Balkan region where it declined from 35.0 percent to 17.9 percent (*Figure 14*). It is expected to drop to about 15 percent in both by 2050.

The population of young people in the Western Balkans has shrunk rapidly from 1990. It can be argued that this is the result of the on-going impact of a decline in fertility and strong rates of negative net migrations (usually higher in the young and reproductive population age groups) which characterised the decade. Nevertheless, the share of the young population in the Balkan region is consistently higher than in the EU throughout the period 1960–2050. This gap, however, is projected to close to zero by 2045.

Figure 14

Share of population 0–14 years in the EU27 and the Western Balkan region, 1960–2050, %



Source: United Nations, 2009.

4.5 Old aged population

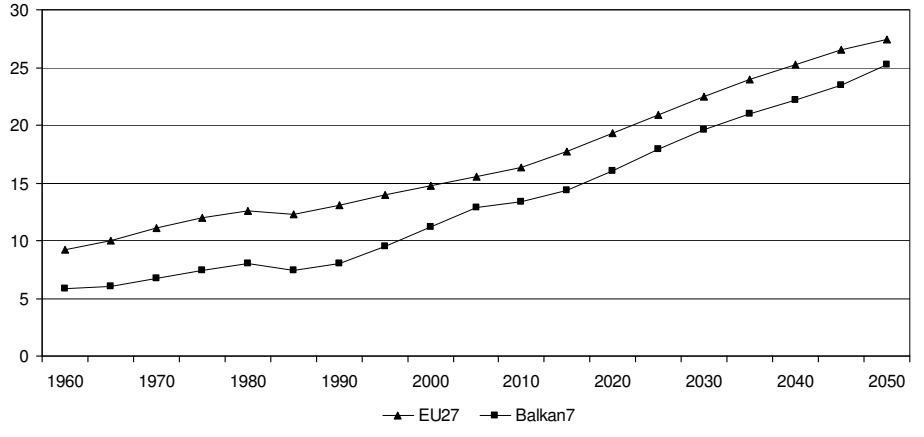
The decline in TFR and the increase in life-expectancy have an effect on population structures both at the bottom (a smaller share of young people) and at the top, producing increasing proportions of older people within the population. The proportion of people aged 65 and older in the EU27 grew from 9.2 percent

in 1960 to 16.3 percent in 2010 while in the Western Balkans it increased from 5.5 percent to 13.3 percent (*Figure 15*), due to positive changes to life-expectancy in recent decades.

Projections to 2050 show how the share of the population at 65 years and older is expected to continue to grow over the next forty years, with this cohort representing 25.3 percent of population in the Western Balkans and 27.4 percent of that in the EU27 in 2050. The continuing difference between the two regions can be explained by the slower decline in the TFR and the greater share of young people in the population in the countries of the region.

Figure 15

Share of 65 years and older population in EU27 and the Western Balkan region



Source: United Nations, 2009.

4.6 Population structures

It is useful to consider the changes which have taken place within the population. *Figure 16* presents the demographic characteristics of the populations of the Western Balkan region and the EU27 in their age-sex structure in 1960 through the use of age pyramids, whilst *Figure 17* displays the same data for 2010. Trends for increasing life-expectancy and decreasing fertility are clearly evident in a comparison of the pyramids. Whilst the differences between the age structure of the EU27 and the Balkan region are demonstrated by the pyramids,

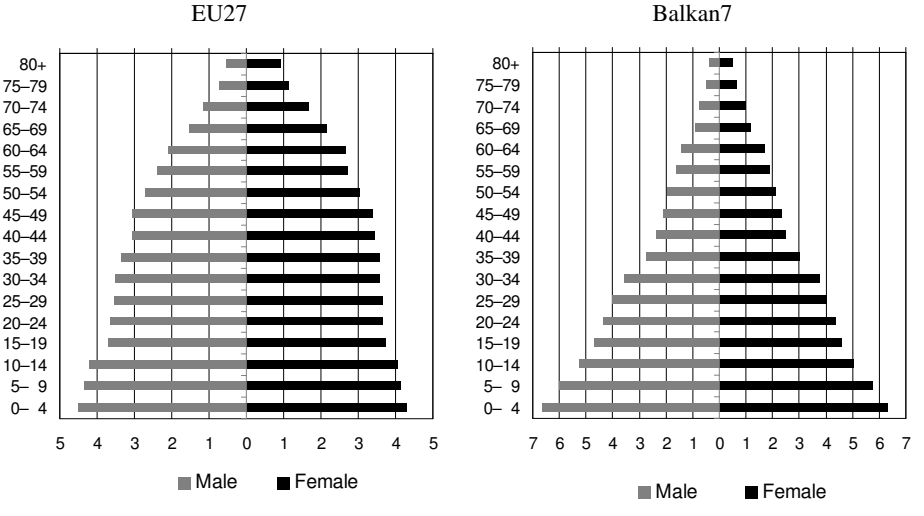
they also highlight the increasing convergence in the trends of longer life-expectancy and a decrease in overall fertility.

The fertility rate of a population is the single most important factor on the shape of a population pyramid. The more children per parent, the broader will be the base of the pyramid. As noticed in *Figure 12*, TFR levels in EU27 in the period 1960–1965 were significantly lower than those in the Western Balkans, and this in turn is reflected in the broader base of the population pyramid of the region. A high TFR determines also the mean age of the population, which is likely to be younger.

In 1960 the population structures of the EU27 and of the Balkan region demonstrate that each was clearly in different stages of the process of demographic transition. The Balkan region had a population with very high fertility rates and significantly lower levels of life-expectancy. The EU27 was, in 1960, moving towards what has been labelled as post-modern that is lower TRF and higher life-expectancy rates. In 2010, both in EU27 and the Balkan region the TFR experienced major declines and life-expectancy increased significantly. These trends have resulted in major shifts in the population structures toward the upper parts of the age pyramids (*Figure 17*).

Figure 16

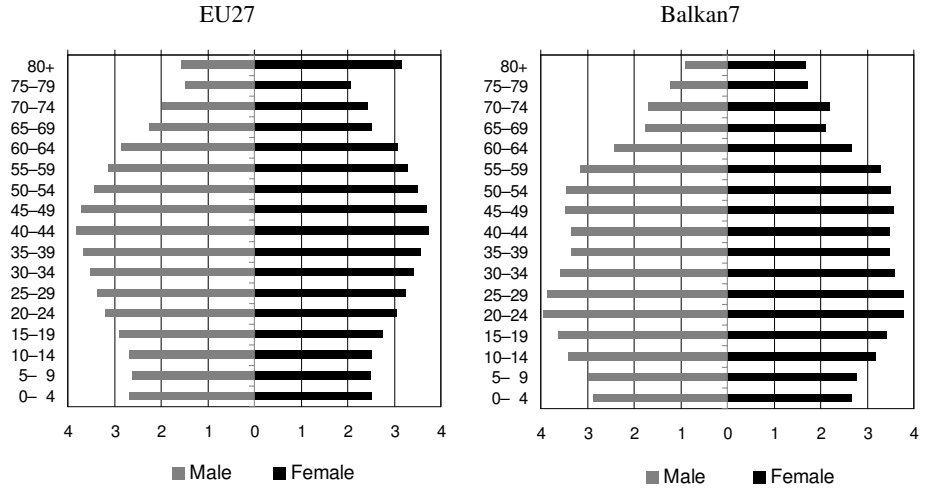
Age pyramids, EU27 and the Balkan region, 1960



Source: Own calculations, based on United Nations, 2009.

Figure 17

Age pyramids, EU27 and the Balkan region, 2010



Source: Own calculations, based on United Nations, 2009.

5 Demographic trends in the Balkan countries, 1960–2010

The ageing of the population in the Balkan region is likely to be the major demographic phenomenon over the coming decades. The two primary contributing factors have been significant declines in fertility and improvements in longevity, resulting from advances in social services and health. As noted in *Figures 14 and 15,* the effect of these changes, on both the size and the age structure of the population in the Balkan region, has been, and will continue to be, substantial.

5.1 Declining fertility rates

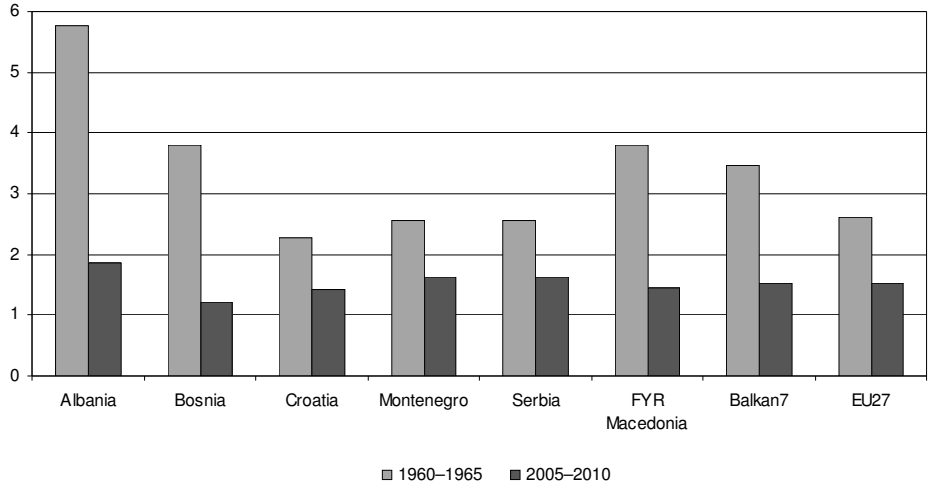
Overall, fertility throughout the Balkan region has declined over the last fifty years, with some variations visible across countries (*Figure 18*). The decrease in fertility rates has tended to be particularly large in countries that had high fertility rates (more than 3.0 children per woman) in 1960–1965.

Albania saw its TFR fall from 5.76 children per woman to 1.87 between 1960–1965 and 2005–2010. The same dynamic has been experienced by FYR

Macedonia where it decreased to 1.44 from 3.79. The decline in Bosnia and Herzegovina is notable given that the TFR dropped from the second highest in the region at 3.81 in 1960–1965 to the lowest, 1.21, in 2005–2010. Serbia, Montenegro and Croatia, whilst also witnessing decreases in their fertility rates over the same period, had less dramatic declines,given their lower starting point.

Figure 18

Total fertility rates in the Balkan countries, 1960–2010



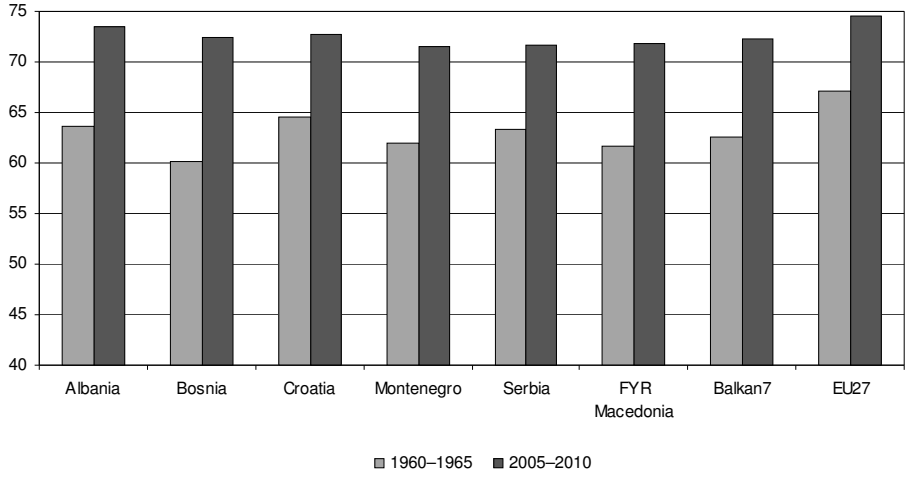
Source: United Nations, 2009.

5.2 Improvements in longevity

Following similar trends across Europe, the Balkan area experienced significant improvements in life-expectancy during the last five decades. On average, longevity has increased by 9.7 years for men and 12.2 years for women (*Figures 19–20,* respectively). This is, in fact, a much higher increase than that registered in the EU27 over the same period (7.3 years for men and 8.5 years for women). However, whilst longevity has increased substantially in the Western Balkan region, notably in Bosnia and Herzegovina, it remains that average life-expectancy across the region remains below the EU27 average. Men in the EU27 can expect to live more than two years longer than those in the Balkans, and women more than three years.

Figure 19

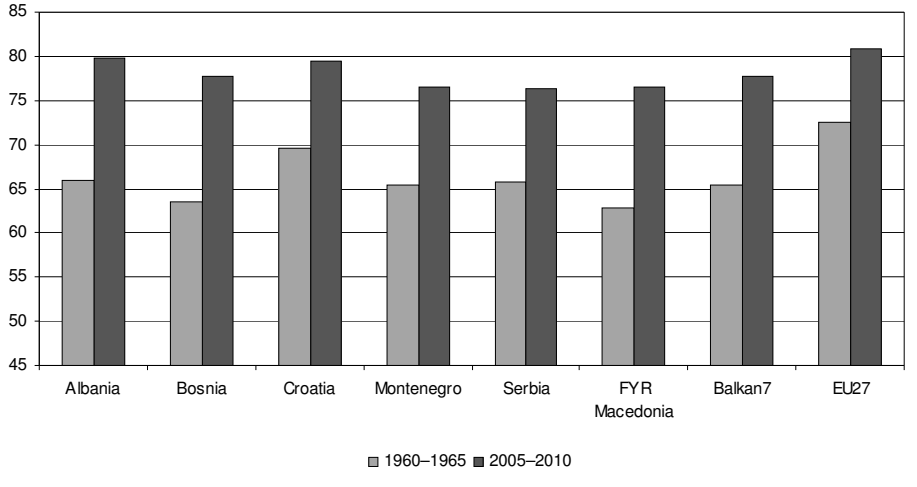
Male life-expectancy at birth in the Balkan countries, 1960–2010



Source: United Nations, 2009.

Figure 20

Female life-expectancy at birth in the Balkan countries, 1960–2010



Source: United Nations, 2009.

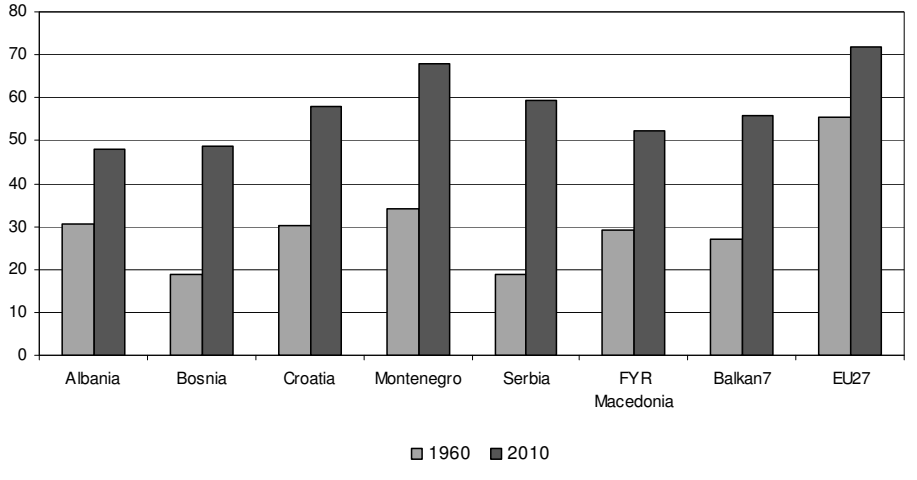
5.3 Urbanisation and demographic transition

Urbanisation and demographic transition are interrelated in the Western Balkan region as declining fertility and reduced death rates coincide with the progressive urbanisation that characterised all of the countries under review (*Sato–Yamamoto,* 2005). The close link between urbanisation and demographic transition is driven by the fact that an advance in urbanisation implies economic development which, over time, reduces mortality and fertility. The shift from rural to urban alters rates of natural population increase as it both reduces death rates, despite living conditions in many cities (which may be sub-standard) and birth rates. The time lag between declining death and birth rates initially means rapid urban population growth; subsequently, fertility rates drop sharply and the rate of growth of urban populations declines.

Figure 21 presents the percentages of urban populations in the Balkan countries in 1960 and 2010.

Figure 21

Percentage of urban population in the Balkan countries, 1960–2010



Source: United Nations, 2007.

Over the analysed period, the Balkan region experienced the progressive urbanisation of their populations – reflected in the decline of fertility and mortality in all countries over the last fifty years. Due to different intensity levels of economic development, the Balkan region still presents a considerably lower portion of inhabitants living in the cities compared to EU27 (55.7 percent versus

71.9 percent), but, since 1960, almost one third of the Balkan region's population (28.7 percent) has moved from rural to urban areas (16.6 percent in the EU27), contributing to the sharp decrease of fertility in the area. At country level, the relation between declining fertility and increasing urbanisation is visible as, for example, Albania presents the lowest percentage of urban population in 2010 and the highest TFR in the region.

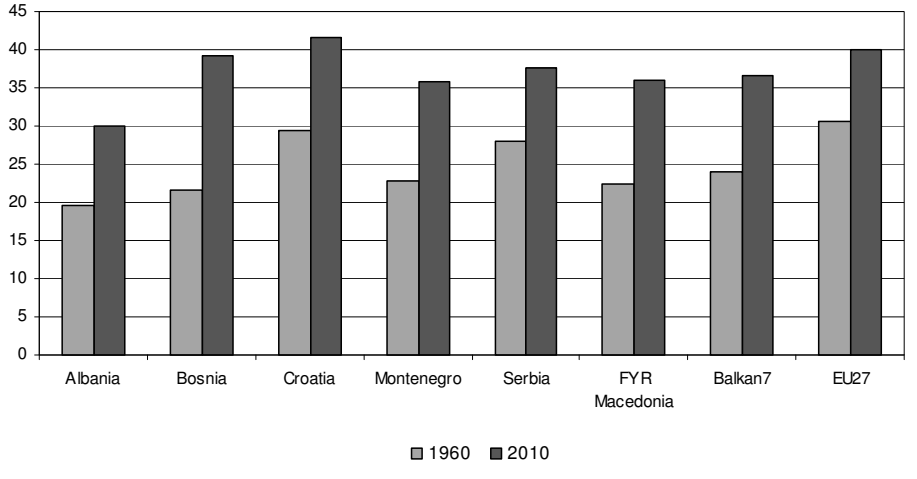
5.4 Ageing population

The drivers of an ageing population, namely increased life-expectancy and a declining TFR, are in evidence in the countries across the Balkans. It is therefore unsurprising to find that the mean age in the countries of the region has also changed significantly. One important sign confirming the ageing process is the increase of the mean age. *Figure 22* shows how this indicator has increased in the countries of the region between 1960 and 2010, at a notably faster pace than in the EU27.

Population mean age registered a dramatic increase in Bosnia and Herzegovina (17.6 years) mainly because significant net migration rates registered over the period considered mostly involved the younger population cohorts (see next section).

Figure 22

Mean age in the Balkan countries, 1960–2010



Source: United Nations 2009.

The same explanation might be valid for FYR Macedonia that had the second largest increase (13.7 years). Albania saw its population mean age increase by 10.3 years, but the country still presents the lowest mean age due to very high TFR levels during the 1960–2010 period. Montenegro has also followed this pattern, with a significant increase (13.0 years) albeit from a low starting level in 1960 (22.9 years). Montenegro is the youngest country in the region after Albania. Croatia is the only country presenting a population mean age higher than that in the EU27.

6 Changes in the population size

As suggested by the increase of the mean age, changes in fertility and life-expectancy have had a clear impact on the population structures of the countries of the Western Balkans. Changes in fertility and life-expectancy, plus the migration dynamics that characterised the region over the past decades, have shaped the current demographic situation in the region, determining population size and growth rates.

Despite the observed decline in fertility rates, the population of the Western Balkan region grew by about 5.5 million people between 1960 and 2010, at a faster rate than EU27 (*Table 11*). The highest increase was registered in Albania, where the population almost doubled over the last five decades, and FYR Macedonia (+46.8 percent). Montenegro and Serbia increased by 34 and 30 percent respectively, while Bosnia and Herzegovina (18.2 percent) and Croatia (9.0 percent) represent the lowest population increases in the region.

The relative changes in the sizes of countries' populations are reflected in the growth rates. From 1960 to 2010, Albania registered the highest growth rate by virtue of the highest TFR over the same period. The lowest population increase was recorded in Croatia where the average TFR is the lowest, even below that of the EU27. FYR Macedonia saw its population growing at a rate of 0.77 percent, registering the second highest increase in the region, reflected by the highest TFR after Albania. Serbia and Montenegro present population growth rates slightly below the regional average.

Only Bosnia and Herzegovina has a lower growth rate than the EU27, whilst presenting an average TFR which is well above that of the EU27 level. The most likely explanation for this trend lies in another determinant component of the population growth, namely migration. Bosnia and Herzegovina has experienced consistent negative migration rates during the period 1960–2000 (*Table 12*). This was particularly marked during the 1990s due to civil war (–18.8).

Table 11

Population size (thousands) and change (%) in 1960 and 2010 in the Western Balkans

Country	1960	2010	Δ (%)	Average growth rate	Average TFR
Albania	1,611	3,169	96.8	1.35	3.53
Bosnia	3,180	3,760	18.2	0.34	2.13
Croatia	4,045	4,410	9.0	0.17	1.80
Montenegro	467	626	34.0	0.59	2.09
Serbia	7,583	9,856	30.0	0.52	2.13
Macedonia, FYR	1,392	2,043	46.8	0.77	2.39
Balkan7	18,278	23,863	30.6	0.62	2.35
EU27	403,508	497,533	23.3	0.43	1.92

Source: Own calculations based on United Nations, 2009.

Table 12

Net migration rates in the Balkan countries, 1960–2010 (net number of migrants per 1000 population)

Country	1960–1970	1970–1980	1980–1990	1990–2000	2000–2010
Albania	0.2	–0.2	0.6	–21.8	–5.6
Bosnia and Herzegovina	–8.5	–4.4	–1.1	–18.8	1.4
Croatia	–3.5	0.2	0.7	–0.2	–0.1
Montenegro	1.8	4.0	–3.5	4.8	–8.8
Serbia	–2.3	–0.2	0.2	3.1	–3.4
Macedonia, FYR	–6.8	–0.9	–5.5	–1.8	–1.0
EU27	–1.0	0.8	0.5	1.0	2.7

Source: Own calculations based on United Nations, 2009.

Negative rates in net migration characterise the Western Balkan region and it is possible to argue that positive migration in one country is mainly due to migration flows from other countries within the region. Among the countries that registered high emigration levels, Albania and FYR Macedonia are noteworthy. Albania experienced strong negative migration rates during the 1990s (–21.8) which continued, albeit with less intensity, into the present decade (–5.6) as a result of the opening of frontiers after the fall of the communist regime. However, the high fertility in the country counterbalanced the effect of negative migration on the rate of population growth. Nevertheless,

it should be noted that population structures were effected, because the young are more likely to emigrate.[4] The same trend of migration offset by population growth can be identified for FYR Macedonia, where negative migration peaked in the 1970s and 1980s but its effect on population growth was offset by high levels of TFR.

7 Changes in the population structure

The rapid decline in fertility, even amongst countries with already low TFR (as in the case of Croatia), has meant that smaller cohorts are being added to national populations. The improvement in life-expectancy has also expanded population numbers in the upper age groups. The negative migration rates have presumably involved more people in the younger cohorts of the population. The net result of these changes has been a slowdown in the growth of rate of populations and an increase in the proportion of the elderly in the total population.

Three main age intervals are conventionally used to provide the general picture of the changes in the age structure of the population in a give time period. These are:

- The age cohort 65 and older, defined as the old or non-productive population;
- The age cohort 0 to 14, defined as the young population; and,
- The age cohort 15 to 64, defined as the working or productive population.

All the countries saw the share of their populations 65 years and older increase significantly between 1960 and 2010 (*Table 13*). At regional level the share is still lower than the EU27, however the increase was of almost the same magnitude over the last fifty years. Countries registering the highest increases are those with low fertility rates and high mean ages (Croatia) or strong rates of negative migration not compensated by a TFR of the same magnitude (Bosnia and Herzegovina). Whilst in the case of Albania and FYR Macedonia, a high TFR has denoted smaller changes in the share of the older population.

Montenegro saw an increase of 5.7 percent from 1960, the lowest after Albania, positioning the country below the regional average. Croatia, Serbia and Bosnia and Herzegovina are the countries with shares of the old aged population above regional level. Croatia (17.3 percent) has the largest old aged population, even larger than the EU27 (16.3 percent).

[4] Between 1990 and 1998 approximately 500,000 people, representing close to 16 percent of the population left Albania. This emigration led to the number of men aged between 20 and 35 being reduced by 50 percent (*Sardon,* 2001).

Table 13

Population Cohorts in the Western Balkans, 1960–2010

Country	1960			2010		
	0–14	15–64	65+	0–14	15–64	65+
Albania	41.1	53.7	5.2	22.9	67.4	9.7
Bosnia and Herzegovina	38.6	57.9	3.5	15.2	70.9	13.9
Croatia	27.2	65.3	7.4	15.0	67.7	17.3
Montenegro	36.4	56.5	7.1	19.2	68.0	12.8
Serbia	29.4	64.2	6.4	17.6	68.1	14.3
Macedonia, FYR	37.2	57.4	5.3	17.6	70.5	11.9
Balkan7	35.0	59.2	5.8	17.9	68.8	13.3
EU27	27.0	63.8	9.2	15.7	68.0	16.3

Source: Own calculations, based on United Nations, 2009.

Whilst over the past fifty years the Western Balkan region has seen the share of its 65 years and older population more than double, the proportion below 15 years of age has declined by almost half in the region, decreasing from 35.0 percent in 1960 to 17.9 percent in 2010.

Major variations have been experienced by those countries with the largest shares of old individuals in 1960 and high TFR. Albania registered a decline of 18.2 percent; Bosnia and Herzegovina, where TFR is lower and migration stronger, declined by 23.4 percent, and FYR Macedonia by 19.7 percent. Montenegro registered a decline in the young aged population of 17.1 percent, while Serbia and Croatia had the smallest losses because of their lower levels in 1960. At present Albania and Montenegro are the only two countries with shares of the young population that are above regional average. Croatia and Bosnia and Herzegovina are those with the smallest groups of young population, with proportions below that of the EU27 average.

With regard to the productive age group of the population, across the Western Balkans its proportions increased albeit with substantial variations in evidence. The major increases are most visible in countries with the largest proportion of young people in 1960, namely Albania, Bosnia and Herzegovina, FYR Macedonia and Montenegro. Small increases were seen in Serbia and Croatia (2.4 and 3.9 percent respectively) where the proportion of young people was well below the regional average in 1960.

At present, the Western Balkan region and the EU27 have similar shares of productive populations (68.8 and 68.0 respectively), with Croatia (67.7 percent), Serbia (68.1 percent) and Montenegro (68.0 percent) below the regional average. With its larger proportion of old people and smaller share of young people,

Croatia is expected to see its productive population shrinking the most quickly. Whilst Croatia and Albania have almost the same proportion of productive aged people, with its significantly larger cohort of young people (22.9 percent as compared to 15 percent), Albania's productive population is expected to increase in the future.

The different distributions of populations in the three age intervals not only indicate a variation in the ageing path among countries, crucially, it also provides important information on what the key policy issues may be in the future, for example pensions, and the demand for health and social services by an expanding old population. Age dependency ratios are also important elements that contribute to an understanding of such challenges.

8 Age dependency ratios

Age dependency ratios are a measure of the age structure of the population. They relate the number of individuals that are likely to be "dependent" on the support of others for their daily living – youth and the elderly – to the number of those individuals who are capable of providing such support. The key indicator of age dependency is the total dependency ratio (TDR), which relates the number of individuals aged less than 15 and of those aged 65 and over to the productive population aged 15 to 64. Two other indicators presented in this section are the young dependency ratio (YDR), which relates the population aged 14 years or less to the share of the productive population, and the old dependency ratio (ODR) that relates the people aged 65 and more to the productive population.

Dependency ratios become a source of economic concern in countries where there is a high old age dependency ratio, namely where there are a large number of dependents above 65 years. High dependency ratios indicate that those who are working have a greater financial responsibility than those in other countries to provide for the dependents. This aid comes in the form of social security, taxes or shared income, and in the case of YDR of parents providing for children.

Due to a different timing in its demographic transition with respect to the EU27, the Western Balkan region had, at the beginning of the 1960s, a larger cohort of young people and smaller shares of productive and old populations. This is reflected in higher TDR and YDR, meaning that the working population had a larger burden of dependants, mainly represented by young people. The very low level of ODR (9.8 percent) compared to the EU27 (14.4 percent) confirms that the share of old dependants was considerably higher in the EU27

(*Table 14*). This was particularly true in Albania, Bosnia and Herzegovina and FYR Macedonia. Montenegro differed slightly in this group as high numbers of young people and a relatively small group of working people co-existed with a significant proportion of old people in 1960 meaning its ODR was the highest in the region.

Table 14

Dependency ratios in the Western Balkans, 1960–2010, %

Country	1960			2010		
	YDR	TDR	ODR	YDR	TDR	ODR
Albania	76.6	86.3	9.7	34.0	48.5	14.4
Bosnia and Herzegovina	66.6	72.6	6.0	21.4	41.0	19.6
Croatia	41.7	53.0	11.3	22.1	47.7	25.6
Montenegro	64.4	77.0	12.6	28.3	47.1	18.8
Serbia	45.8	55.9	10.0	25.9	46.9	21.1
Macedonia, FYR	64.8	74.1	9.3	25.0	41.9	16.9
Balkan7	60.0	69.8	9.8	26.1	45.5	19.4
EU27	42.7	57.1	14.4	23.1	47.3	24.1

Source: Own calculations, based on United Nations, 2009.

The countries with the highest share of ODR in 1960 after Montenegro were Croatia and Serbia, which both had with relatively low shares of young populations and larger proportions of productive people (above the EU27). The low TDR in Croatia and Serbia, lower than in the EU27, is indicative of a transition to an older population.

The speed at which the EU27 is becoming dominated by an older population cohort is evidenced by the increase in the ODR between 1960 and 2010 of just under ten percent. At the same time, changes to the mean age highlights how the productive population is concentrated towards the upper-end of the 15–64 age band, suggesting that in the near future there will be a significant rise in the ODR level.

In the Western Balkan region the ageing process is less dramatic, although the trends are clear with increasing ODRs in all countries. Some increases have been significant – more than doubling between 1960 and 2010 in Croatia and Serbia, and more than trebling in Bosnia and Herzegovina. People are living longer, while fertility has declined and is likely to remain below reproduction rates in the foreseeable future. The decline of TDR to approximately the same level as that of the EU27 suggests that there may be a decreasing burden on the productive part of the population to maintain the upbringing and pensions of the

economically dependent, resulting in direct impacts on financial expenditure on social security, although the corresponding increase in ODR suggests that the working population is ageing, even though not as rapidly as in the EU27.

9 Population structures: country classification and brief profile

Considering the various trends discussed in this chapter, Western Balkan countries can be classified according to their position in the demographic transition. United Nations publications and reports define 'aged populations' as those with at least a ten percent share of people 60 years and older. This criterion has been debated more recently, with arguments put forward that a more appropriate cut-off age for an elderly person would be 65 years (World Bank, 2007). This chapter has adopted the 65 years and older criteria as the threshold for an aged population.

According to this standard, the Western Balkan region as a whole should be defined as an aged population since the cohort 65 years and older accounts for 13.3 percent of the population. In comparison to the EU27 (16.3 percent) the Western Balkans are still younger and the higher TFR experienced by the region in the past decades is likely to mean younger cohorts in the future.

The population age pyramids of the EU27 and the Western Balkan region (*Figure 17*) show how the actual share of the young population is larger in the Western Balkans than in the former, especially in the age interval of 10 to 14 years. The age cohorts within the 15 to 64 years intervals record a predominantly young population in the Balkans, notably in the lower part (up to 30–34 years), meaning that the productive population is relatively younger compared to the EU27, whereas the upper part of the 15–64 cohort has a larger share of the population in the EU27. The workforce is therefore ageing more rapidly and will soon move into the aged portion of the pyramid.

With regard to the top of the pyramids, it is broader in the EU27, particularly in the upper intervals (65 years and more) due to higher life-expectancy at birth, notably within the female population. It can be asserted that the Western Balkan region is ageing but the process is still far below that evident in the EU27. The broader young population and narrower working population shares in the upper half of the Western Balkan region population pyramid confirm the different stages of ageing that are in process.

At individual country level, Albania is the only country in the region with an aged population share below the ten percent threshold (9.7). Despite the high negative levels of net migration experienced by the country over the past twenty years, the high level of TFR throughout the 1960–2010 period determined high

rates of population growth, adding large cohorts of young population. In 2010, Albania not only had the lowest share of an aged population but also the smallest group of elderly citizens. The 2010 population age pyramid of Albania (*Figure 22*) shows that the young population is concentrated mainly in the 10 to 14 years interval (8.98 percent) rather than in the lower ones. This means that the effect of a declining TFR is starting to influence the shape of the pyramid, narrowing its base. The productive population (15–64 years) is strongly concentrated in the 15 to 24 years intervals, whilst in the 30–44 years intervals Albania is below the regional average. An explanation might be the strong migration rates registered in the country during the 1990s. It is calculated that 16 percent of the population left the territory between 1990 and 1998 and 95 percent of emigrants were aged between 14 and 45 and 71 percent were men (*Sardon,* 2001). This is clearly reflected in significantly smaller shares of male population in the interval 30 to 39 years. An expansion in the pyramid is visible in the intervals from 45 to 54 years and a progressive reduction in population proportions is then evidence. The relatively high portion of women aged 80 years and above is worth noting.

FYR Macedonia is the second youngest country in the region and yet, with its share of 65 years and older at 11.9 percent of the total population it can also be described as aged. FYR Macedonia has experienced a strong decline in TFR in the last fifty years, which, when combined with high levels of net migration over the same period, contributed to offsetting the effects of the significant population increase on the age structure. The country, as shown by the age pyramid, is at a more advanced stage of ageing compared to Albania and the shape of its population pyramid suggests that FYR Macedonia is ageing from the bottom, as its declining TFR leads to a reduction in the number of children and of their relative share of the total population. This is reflected in the narrowing of the base of the pyramid where the share of the young population is smaller than at the aggregate regional level in the 5 to 14 years intervals. Concerning its productive population, FYR Macedonia presents larger cohorts compared to the Western Balkan region up to the 40 to 44 years interval, whereas from 45 to 64 years the cohorts are slightly lower, meaning that the workforce is ageing less rapidly. In the upper part of the pyramid, there is a marked prevalence of women as compared to men.

Montenegro presents an aged population share of 12.8 percent, which lies under the regional aggregated share and still significantly below the EU27. In the last five years Montenegro has registered a relatively high TFR (at 1.64, the second highest in the region), but the fact that the starting level in 1960 was under both regional and EU27 levels explains the relatively large proportion of aged people in today's population. Montenegro's age pyramid resembles that of the Western Balkan region as a whole (presented in the first section) although

the base is broader (indicating a more young population) and the top slightly narrower (less aged). Nonetheless, the share of young population is still relatively high, compared to the other countries in the region (19.2 percent, the largest after Albania), suggesting that, despite the clear ageing trend, the speed at which Montenegro's society is ageing is still slower than the EU27 and most of the region's countries.

Bosnia and Herzegovina represents a particular case as this country had the lowest share of 65 and older population in the 1960 (3.5 percent) while it represents a considerable 13.9 percent today. The large migration outflow characterising the country over the whole period, with rates escalating in the early 1990s due to the civil war provoked a consistent shrinking in the young aged population share which in turn increased the proportion of old people in the country. A sharp decline in TFR also characterised the demographic trends of Bosnia and Herzegovina, which passed from having the highest TFR in the region after Albania in 1960 to the lowest at the present time. This led to a rapid ageing of the population as confirmed by the large increase in the mean age which has almost doubled during the last fifty years. The age pyramid clearly shows the country is ageing from the bottom, with narrowing shares of young population, significantly below the Western Balkan regional level and slightly below that of the EU27. The country has the largest population concentration in the 15 to 64 years intervals with a notable 35 percent in the 44 to 64 years intervals, whereas the average regional share is slightly above 32 percent. It is hence arguable that in the future the share of the aged population will expand faster in Bosnia and Herzegovina.

Serbia presents a considerably higher share of aged population in 2010, one percentage point higher than the regional level. The relatively low TFR in 1960, and its decline over the last five decades, has led the share of the aged population to more than double from 6.4 percent to 14.3 percent. Young population shares and TFR in Serbia are higher than those in the Western Balkan region and, as shown in the pyramid, the productive population is mostly concentrated in the lower part of the 15 to 64 age intervals (excluding a large proportion in the 55 to 59 years interval). It can be said that Serbia is ageing from the top of the pyramid, as its young aged population is still presenting figures in line with the regional average. Furthermore, its TRF in the period 2005–2010 is the second highest in the region after Albania. Large shares of aged population, relatively high TFR and a substantial proportion of young people in the country all suggest a contradiction in the demographic behaviour of Serbia. The explanation lies in that Kosovo has not been considered separately (due to data limitations) and that its demographic trends have been calculated as part of Serbia. This is important to be mentioned as Kosovo presents different dynamics to the

countries under review, therefore in assessing the population structure of Serbia it is important to take account of these dynamics.

The Statistical Office of Kosovo[5] estimates that country population is slightly below 2.2 million, representing almost one fifth of Serbian population. All main demographic indicators diverge significantly from those of Serbia, starting from TFR. The United Nations Population Fund (UNFPA), estimated that in 2005 Kosovo's TFR was 2.9 children per woman[6], which is substantially above replacement level and more than one percentage point above that of Serbia (1.62). This implies that the TFR level recorded in Serbia in 2005–2010 largely depends on the booming fertility rates recorded in Kosovo. With regard to age distribution in Kosovo, according to the Statistical Office of Kosovo the share of people aged less than 15 years represents 33 percent of the total population (17.6 in Serbia), while the share of those between 15 and 64 years accounts for 61 percent, compared to 68.1 percent of Serbia. The aged population in Kosovo is estimated to be 6 percent (10 points below Serbia as a whole). Data on Kosovo shows how the ageing process in Serbia would be far more marked if the data on Kosovo were to be disaggregated. Kosovo's population pyramid is likely to present broader proportions in the upper part and a narrower base due to lower TFR.

Using the ten percent threshold, the oldest country in the region is Croatia with a share of old citizens accounting for 17.3 percent on the total population. This value sets today Croatia one point above EU27. Over the analysed period the county shows in fact, not only the lowest TFR in the region (even lower than EU27, both in 1960–1965 and 2005–2010) but also the largest share of old population and the smallest cohort of young people in 1960.

The ageing process in Croatia is by large the most dramatic among the countries in the Western Balkan region. This clearly emerges when comparing the population pyramids of Croatia and that of the Western Balkan region as a whole. Croatia, in fact, presents lower shares of population in all the age intervals from 0 up to 34 years, whereas larger proportions are registered in those from 40 years to 80 and older (*Figure 23*).

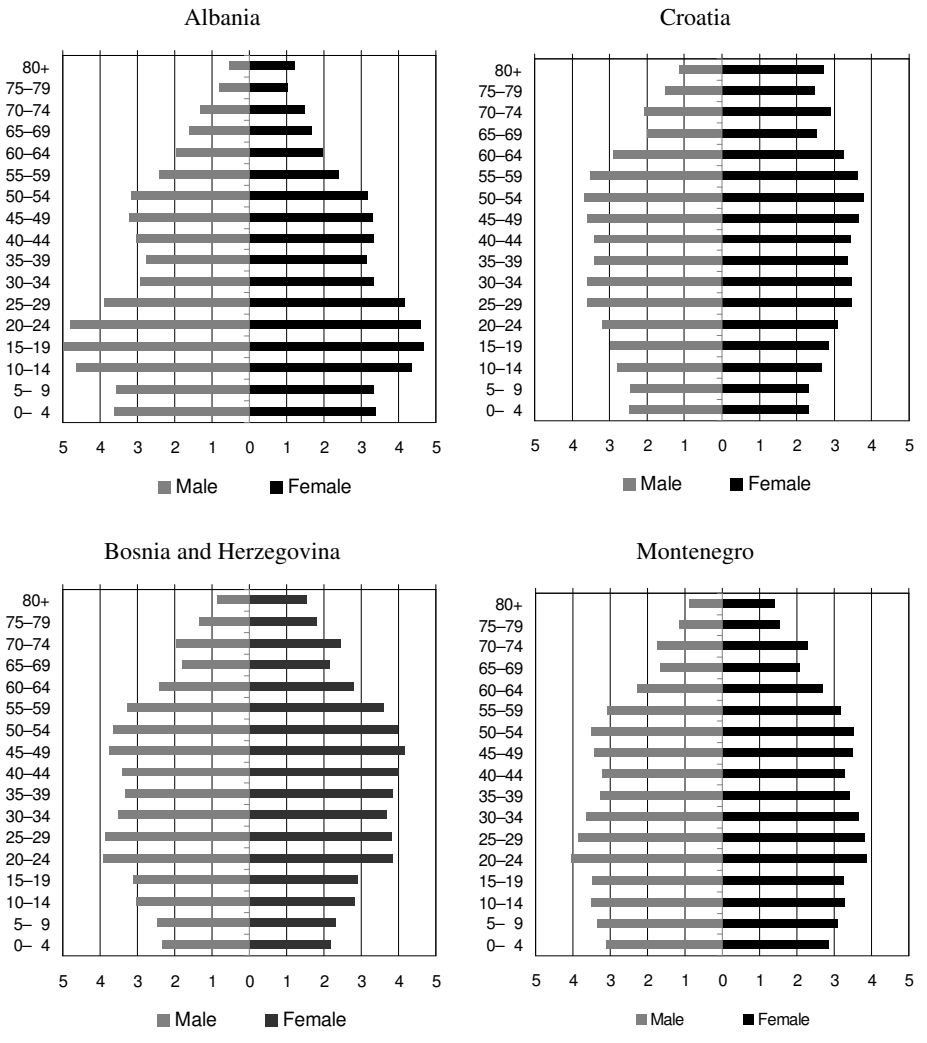
Croatia has also the highest mean age and the smallest population growth rates in the region. A clear sign of the ageing of the population is also the fact that according to UN World Population Prospect data, the population of Croatia started to shrink in 1996 and has consistently diminished to 2010. While population shrinkage has affected other countries in the past (such as Albania's population decrease from 1995 to 2000 due to large-scale migration and Bosnia and Herzegovina's sharp decrease in 1995 and 1996 provoked by the conflict on

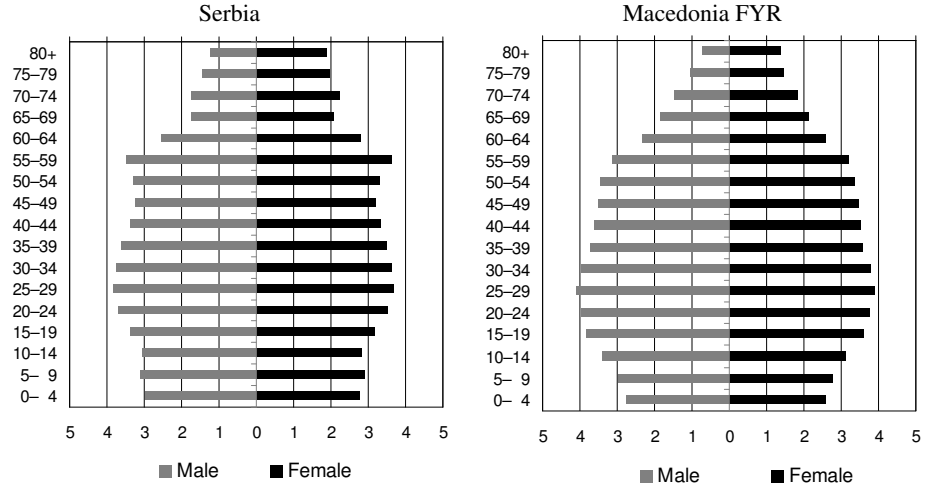
[5] http://www.ks-gov.net/ESK/eng.
[6] http://www.unfpakos.org/demographicProfile.htm.

its territory), Croatia's demographic trends reveal the low rates of fertility of its population, combined with better socio-economic development conditions reflected in longer life-expectancy for both sexes.

Figure 23

Population age pyramids in the Balkan countries, 2010





10 Conclusions

This chapter has considered broad demographic changes in the Western Balkan region, and it is clear that the trends have potentially important economic and social implications. The share of aged people across the region has been rising, and today over one person in every ten is older than 65 years in most countries. Only Albania is not as far into the demographic transition process as its Western Balkan regional counterparts, and has a much younger population structure which is likely to lead to it experiencing positive population growth in the future.

However, in some ways, all the Balkan countries are ageing at a rapid pace as the effects of significant drops in fertility rates, increased longevity and strong net migration flows, presumably involving the younger part of the population, which have characterised the area in past decades, are felt. Nonetheless, throughout the 1960–2010 period, marked differences distinguished the demographic trends across countries.

Some nations, in fact, have proved to be at an advanced stage of the demographic transition process compared to others. Using the EU27 as a term of reference, reveals that countries such as Croatia and Serbia (especially if Kosovo is not considered) show much lower fertility levels and, therefore, older population structures then other countries in the region, broadly following the demographic trends of the European Union. Other countries, such as Montenegro and FYR Macedonia, although presenting clear ageing trends and popula-

tion structures that are progressively shifting toward increasing proportions of elderly citizens, still present relatively large shares of young aged compared to that in the EU27. This suggests that the two countries are less advanced in the demographic transition process. Bosnia and Herzegovina has been marked by strong migration dynamics after the 1990s that affected its demographic structures. Migration was provoked by terrible civil conflict, which was accompanied by a sharp increase in mortality rates and a significant decrease in fertility. It is therefore to be assumed that the demographic transition process has accelerated rapidly over the past two decades.

The Western Balkan region has, over the past two decades, witnessed profound economic and social changes, the repercussions of which continue to echo today. The demographic changes outlined in this chapter are part of those changes, and have also influenced the changes themselves. Ensuring an understanding of the demography of the region and its future directions, is critical to the development of policies and programmes in a wide range of social and economic areas.

MIGRATION[1]

ANDREA-ROSALINDE HOFER

1 Introduction

Countries in the Western Balkans have traditionally been a source of labour migration to destinations in Europe and overseas. Particularly large outflows occurred in the 1990s after the collapse of the Communist regime in Albania and the dissolution of Yugoslavia. Today, emigration from the region is no longer primarily related to war, conflict and human rights abuses, but is a consequence of a deterioration of the economy and a lack of appropriate jobs, especially for medium to highly skilled workers. Most countries in the region are experiencing a gradual transition from unstable migration patterns and large-scale outflows to lower and more stable migration rates. Expecting an increase in return migration appears to be reasonable for governments in these countries, in particular for talented, entrepreneurial youth (IOM [International Organisation for Migration] 2009). This is likely to go beyond the current return movement in the light of the current global economic crisis, which, in the major host (OECD) countries has turned into a jobs crisis putting at risk many migrants' jobs (Human Development Report, 2009). Hence, there is a new momentum for governments to undertake policy approaches to foster local development as one of the principal criteria in the individual's decision-making process of whether to emigrate from or stay in a place. For the Western Balkans, promoting the option to stay is very challenging as most parts of the region – with the exception of coastal areas in Croatia and Montenegro which have been able to revive their previously successful tourist industries – are characterised by unfavourable conditions for either personal or professional development and the absence of sound institutional arrangements able to absorb and exploit the benefits from remittances and skilled labour from abroad.

In this chapter we look at current migration patterns in the countries of the Western Balkans, and we shed light on several approaches already practised in promoting diaspora links and return migration. The remainder is then organised so as to provide a brief overview of commonalities and differences in current

[1] The author gratefully acknowledges research assistance provided by Irena Iatro and Anna Sterzi.

migration patterns and short presentations of key issues in the different countries. This is followed by a discussion of the challenges and ways forward in promoting a migration-development nexus.

2 General overview of key migration issues and brief country presentations[2]

2.1 Commonalities and differences in current migration patterns

Countries in the Western Balkans show both differences and commonalities in their current migration patterns. This can be traced back to the somewhat similar 'migration history' of the entire area that commenced after the Second World War. The prior 1991 Albania is the exception with its extremely restrictive system that regulated population migration by constraining internal migration and banning international migration. Yugoslavia in the late 1970s was one of the major sources of foreign labour input to Germany, Austria and Switzerland, organised through various so-called Gastarbeiter schemes where (mostly) men migrated on a short-term basis to sustain families at home. After the 1990s, the majority of emigrants from the Western Balkans left their homes because of the political and societal disintegration and its consequences, as well as the results of the economic restructuring, which had led to significant shrinking, and in some cases to the elimination of formerly important industries. This wave of migration has been different from earlier ones in terms of the skills levels of emigrants and the fact that it was often entire families who left to make a new life abroad.

Today, in all of the Western Balkan countries, substantial proportions of the population live abroad. For Albania and Bosnia and Herzegovina the stock of emigrants accounts for around one-third of the total population; for Croatia, FYROM, and Serbia and Montenegro (including Kosovo) 16%, 18.2% and 21.9% respectively of the population live abroad (*Table 15*).

As discussed by Chizzali in this book, past migration patterns in these countries caused challenges to their social and health security systems. Large parts of the cohorts born in the 1950s and 1960s are gradually being replaced on the labour market by much smaller cohorts born in the 1980s and 1990s, which will negatively affect the dependency ratio. The young age structure of all of the

[2] This chapter only provides a synthetic summary of the current key issues related to labour migration. For a detailed overview and comprehensive references list, see IOM (2009).

countries in the region is likely to postpone these problems, but, as soon as the baby-boom generation retires, serious budgetary imbalances might be the result of unaddressed deficits in social and healthcare service budgets (IOM, 2009).

Table 15

Stock of emigrants and immigrants as percentage of population, 2005

Country	Stock of emigrants as percentage of population (in %, 2005)	Stock of immigrants as percentage of population (in %, 2005)
Albania	27.5	2.6
Bosnia and Herzegovina	37.7	1.0
Croatia	16.0	14.5
Macedonia	18.2	6.0
Serbia and Montenegro*	21.9	4.9

* The figure for Serbia and Montenegro includes Kosovo.
Source: World Bank (2008), Migration and Remittances Factbook.

There is an "overarching European perspective" (IOM, 2009) in migration policies in the Western Balkans, which is closely related to the Stabilisation and Association Process, whose aim is to enhance co-operation between the European Union and the Western Balkan countries and to strengthen the latter's institutional capacity, also in terms of eventual accession. There is a clear focus on border protection, combating irregular migration, and the smuggling and trafficking of human beings. Less attention is given to labour migration issues, as will be discussed below.[3]

2.1.1 Ambiguous impacts of emigration on the workforce at home

In the Western Balkans, as elsewhere, the impacts of an outward migration of the workforce, skilled or unskilled, are ambiguous. The emigration of the labour force may cause labour market shortages, a severe lack of skills, declining state revenues and reduced returns on prior investment in human resources, but it also can imply relief for tight labour markets and public budgets (*Okólski,* 2009 cited in IOM, 2009) and facilitate the transfer of knowledge, know-how and cultural and behavioural patterns. The departure of human capital can set in motion a process of acquisition of human capital which may lead to economic

[3] This is also reflected in the fact that there is not enough hard data on labour migration available from national statistical offices, which is advanced here as a note to the reader.

betterment (*Fan–Stark*, 2007). Enhanced investment in education and training and in private sector development to absorb locally, as well as to attract, new skills, can turn "brain drain" into "brain gain". Managing migration for skills and economic development at home is not a new phenomenon. Diaspora and home-town associations have long been active in community development. While such activities are rarely driven by public policy, governments are increasingly choosing to support them, understanding "transnational communities"[4] to be key drivers for the reorientation or technological adaptation of local economies on both sides of the sending and receiving relationship. Yet, translating the effects of migration into sustainable and inclusive socio-economic development needs 'good' management of migration processes (OECD, 2009).

2.1.2 Remittances

As with their stocks of emigrants, the Western Balkan countries show significant differences as far as the role played by remittances for the economy as a whole, and for single households in particular is concerned. Formal channels are, at best, used for 20% of remittances. In some countries, mainly Kosovo, Bosnia and Herzegovina and Albania, remittances play a significant role in the balance of payments and provide a major shares of the country's GDP (*Table 16*). A heavy reliance on remittances, however, may imply severe risks for countries, as the current economic crisis and its aftermath are likely to reveal.

Table 16

Remittances as share of GDP, in percentages

Country	Remittances as share of GDP	Remittances in USD per capita (annual basis)
Albania	14.9	434
Bosnia and Herzegovina	17.2	571
Croatia	2.9	426
Macedonia	4.3	62

* The figure for Serbia and Montenegro includes Kosovo.

Source: World Bank (2008), Migration and Remittances Factbook. Population figures from United Nations (2009).

[4] Portes (1996) defined a transnational community as a community spanning borders that offers as its key assets shared information and contacts.

There is need for more research into the relationship between migration, remittances and development both at regional and at individual country level in the Western Balkans. Migration and remittances may trigger chain migration – as argued by Dimova and Wolff (2009), who see the possibility that in current migration patterns a large proportion of remittances is channelled towards the development of skills that are not absorbed by the countries labour market, but are in demand and higher economically and socially rewarded abroad (see also OECD 2009 for a more general discussion).

2.1.3 A new focus on regulating immigration

The regulation of immigration has become, for all countries, part of migration management within EU membership negotiation processes.[5] Currently, however, only Croatia has done this, with, at 14.5%, a notable inflow of foreign labour (*see Table 15*).

It is interesting to note that, whilst there is a low degree of regional co-operation in regulating labour migration through bilateral or multilateral approaches, the countries' labour immigration management mechanisms show, despite differences in terms of approach, clear similarities in following a restrictive approach. Albania and Serbia introduced work permit systems based on labour market testing, whereas Bosnia and Herzegovina, Croatia, FYROM and Montenegro apply an annual quota system to regulate the inflow of foreign labour.

Given the economic and demographic developments in the countries which have been discussed elsewhere in this book this might be counter-productive More policy attention should be directed towards the creation of a regional labour market. Slovenia, and, very soon also, Croatia, could be 'learning models' for new approaches in enhancing regional labour and business mobility.

[5] The so-called Stabilisation and Association Agreements encourage co-operation, also as a condition for further development of relations with the EU. Accession negotiations with Croatia are nearing the final phase and Macedonia has made significant progress in meeting requirements. Serbia signed the Stabilisation and Association Agreement in April 2008. Montenegro applied for membership in December 2008 and Albania in April 2009.

2.2 Country briefs

2.2.1 Albania

Emigration in the modern Albanian state is a phenomenon that started in the early 1990s after the collapse of the Communist regime. The main destinations of the early migration waves were Greece, Italy and Germany. Today, the main host countries are Greece, Italy, Germany, Turkey, France and Belgium. There are different estimates of the Albanian diaspora, ranging from 600,000 (*King–Vullentari,* 2003) to 1,100,000 (*Geiger,* 2007). Italy and Greece are the most important host countries for Albanians. The bilateral relationship with Italy is well developed and dates back to 1997, when the two countries signed an agreement on seasonal labour migration based on entry quotas, mainly for low-skilled workers in agriculture and construction. In recent years the emigration of medical personnel, mainly nurses who have been trained initially in Albania and then in Italy, has gained importance.

Albanian migration patterns are characterised by high volatility and a high degree of circular migration (IOM, 2009). There is some degree of return migration, but robust data is missing. The World Bank's Migration Remittances Factbook estimates the number of migrants entering Albania in 2005 at around 83,000, the majority from Greece. There are current signs of return migration, as reported in the Albanian press, caused primarily by the global economic crisis. It appears that it is more the lower- and medium-skilled cohorts of Albanian emigrants who have integrated well into their host economies and thus show a lower propensity to return.[6] The Albanian government has been trying since 2004 to establish a database with information on Albanian scholars, graduate students and professionals who might be interested in participating in an assisted return programme. The programme would ensure high-skilled emigrants jobs in the civil service or in offering their skills on a temporary basis – either by coming to the country on short-term work assignments or by contributing to distance learning or knowledge and technology transfer efforts. It is the lower- and medium-skilled cohorts of Albanian emigrants who appear to have integrated well into their host economies and thus show a lower propensity to return.[7]

The most recent estimates for the years 2003–2007 by the World Bank and the Bank of Albania, report that remittances provided between 13 and 15% of GDP (IOM, 2008). The use of formal channels has increased over time, but informal channels still prevail (*Hernández-Coss* et al. 2006). A somewhat

[6] See Markova and Black, 2005 for London and Bonifazi et al. 2006 for Italy.
[7] See Markova and Black, 2005 for London and Bonifazi et al. 2006 for Italy.

balanced private utilisation of remittances has emerged: besides consumption, and investment in real estate, investing in business start-ups and existing enterprises is a common practice in the economically more developed parts of the country. In particular, for the tourism industry along the Albanian coast, it can be assumed that much of the investment comes from family members abroad. In rural areas, remittances are still largely used for consumption, the start-up of micro retailing ventures and construction. Miluka et al. (2007), in recent empirical research, found a negative impact of migration on the agricultural sector in terms of structural change. Migration of a rural household member and the numbers of hours worked by remittance recipients were negatively correlated. Remittances provide a substantial, additional non-agricultural income and so reduce the incentives to work.[8]

Albania's labour migration policy is still very much focused on the promotion and regulation of labour emigration. Immigration does not play a significant role (*see Table 15*). The National Migration Strategy outlines three main dimensions of Albanian labour migration policy: promoting economic development and job creation efforts to address the root causes of emigration; fighting irregular emigration and facilitating regulated labour migration; and, finally, protecting Albanian citizens abroad (Government of Albania, 2004).

2.2.2 Croatia

The war was the most important push factor for emigration from Croatia in the first half of the 1990s. Croatia, today, differently from other countries in the region, is gradually moving from a mere emigration country to a country of both immigration and emigration (IOM, 2009). The immigration of a foreign labour force poses a number of challenges to the country, whereas emigration plays only a marginal role in migration issues.

Certain professional groups are, however, showing a high migration propensity. Wiskow (2006) conducted a survey amongst medical students in their final year and found that almost 80 percent were considering emigrating, mostly due to their expectations of higher salaries abroad. Božić (2007) estimates more than 400,000 Croatian labour migrants in Europe, which constitutes a large pool for potential return migration.

Its geographical position makes the country an important transit location for irregular migrants. Furthermore, the growth of certain economic sectors, such as tourism, light industry and agriculture in some parts of the country, as well as

[8] Bislimi (2008) reports a similar relationship between remittances and agricultural production for Kosovo, highlighting that the effect was actually broader and included mainly also younger cohorts of the labour force which had slipped into partial inactivity.

the shipbuilding industry, resulted in a demand for unskilled labour which attracts both regular and irregular labour migrants from the neighbouring countries, and, in the south of the country, mainly from bordering Bosnia and Herzegovina.

2.2.3 Serbia

Estimates for 2000 show that four million Serbs and Montenegrins were living abroad, mainly in Bosnia and Herzegovina (1.4 million), the United States (0.65 million) and Germany (0.45 million) (*Vuković,* 2005). Other countries with relatively large numbers of the Serbian diaspora are Canada and Austria (0.2 million each), Croatia (0.18 million), Australia (0.15 million), France (0.14 million) and Switzerland (0.11 million) and other countries which together host less than 100,000 migrants.

Holmes et al. (2007) estimate that remittances account for 12 percent of Serbian GDP with 20 percent originating from Germany, both in the form of individual remittances and pension payments. Serious government efforts are underway to increase the sending of remittances through formal channels. Remittances in the period 2004–2009 accounted for approximately 9.5 percent of GDP. This is equal to the volume of borrowed capital, and higher than the inflow of capital from other sources. The prevalence of informal remitting is mainly caused by the high cost of official transfers and an underdeveloped securities market, resulting from a lack of trust and inadequate opportunities for investment in pension and investment funds (*Pinkulj,* 2009).

Return migration is highly biased. According to Vuković (2005), the reasons for the return of Serbian migrants are mainly failure, conservatism and retirement, whereas the highly-skilled tend to stay abroad permanently and to change citizenship. Hence, there is an increased importance for governments to establish and nurture connections with the diaspora, especially with the young and highly educated.

The sustainable integration of war refugees and internally displaced persons, mainly from Kosovo, remains a key challenge. Labour market integration and social inclusion policies have resulted in some degree of success, so that the number of 700,000 internally displaced persons in 2002 was significantly reduced (to just over 300,000) by 2009 (IOM, 2009). Yet, as Grecić et al. (2007) report, even though refugees and internally displaced persons have the right to work, their unemployment rates have been – at, respectively, 30.6 percent and 20.8 percent – much higher than amongst the general population, despite the better educational achievement rates of refugees and internally displaced persons.

Increasing numbers of temporary residence permits issued to a labour force originating mainly from Croatia, Bosnia and Herzegovina, Bulgaria, Romania, FYROM and Albania can be seen as a sign of an emerging regional labour market (IOM, 2009).

2.2.4 Montenegro

Montenegro, as part of the former Yugoslavia, has had a history of high emigration, which led to the creation of diaspora communities, mainly in Western Europe and North America. Data on emigration and remittances in Montenegro, as well as current migration patterns, are scarce. Today, the total stock of emigrants is estimated at around 140,000, or around 22 percent. The Central Bank of Montenegro show an increase in the amount of remittances and their contribution to the country's GDP, which almost doubled between 2002 (4.0%) and 2006 (7.3%) (IOM, 2009). Although robust more recent data is absent, it can be assumed that diaspora investment in the tourism industry is an important source of business start-up and growth financing.

There is labour force inflow from other parts of the territory of the former Yugoslavia (*Pavlov* et al. 2008). This concerns both regular and irregular migrant workers and responds to labour market shortages resulting from both a revival and restructuring of the economy. This development is, however, more or less confined to the coastal parts of the country, whereas the northern and central areas are those most lagging behind and with a high correlation between joblessness and poverty.

2.2.5 FYROM

FYROM has an official unemployment rate of above 33 percent, which is the second highest national unemployment rate in the region – behind Kosovo. This, coupled with a weak economy, has led to FYROM being one of the countries in the region where emigration is still an important phenomenon. Government estimates consider that up to 20 percent of the population currently resides abroad. Given its geopolitical position, FYROM is one of the transit countries in the region, mainly for irregular migration. Hence, border security and anti-smuggling and trafficking policies are high on the government agenda.

It is estimated that only 15 percent of remittances reach the country through official channels, whilst accounting for 4.3 percent of the GDP in 2005 (*Table 16*). The Government of Macedonia notes that remittances have been increasing by a factor of 24.5 since 1993, constituting an important source for the state

budget and the country's economy. This is acknowledged by a bundle of policies to facilitate short-term and circular migration and to enhance the productive use of remittances. The country's statistical office conducts regular analyses of short-term migration patterns as a part of their labour force surveys. Substantial differences can be noted for the past years, with an almost six-fold increase in the number of emigrants between 2005 and 2006, as well as increases in the level of educational attainment and age (IOM, 2009). The fact that short-term and circular migration is important is interpreted by some scholars (e.g., *Horvat,* 2004) as return potential on which the government needs to build, even if actual return numbers are not high. An interesting initiative is the diaspora mapping exercise through which the government aims to measure the size and geographical spread of its diaspora, including information on age, educational achievement and current professional occupation (IOM, 2009).

There are some signs of an emerging regional labour market. Even though still low in numbers, the inward migration of Serbian and Montenegrin nationals with completed post-secondary and tertiary education is increasing (IOM, 2009).

2.2.6 Bosnia and Herzegovina

Bosnia and Herzegovina was confronted with two main waves of war-induced migration: firstly in 1992, after the outbreak of the war, and, secondly, after the Srebrenica massacre in 1995. Whereas return migration by refugees and internally displaced persons has been recorded since the late 1990s, today, low income and a lack of economic development prospects in many parts of the country are key factors challenging sustainable return and have become major "push factors" – in particular, for the young and highly skilled (*Dimova–Wolff,* 2009). Bosnia and Herzegovina has, with 37.7 percent (2005), the largest stock of emigrants in the region (*Table 15*). Bosnia and Herzegovina is amongst the largest recipients of remittances per capita in the world – and also in terms of the proportion of remittances in GDP (17.2% in 2006; *Table 16*).

Within the Ministry of Human Rights, a section for the diaspora was established to act in close co-operation with the country's investment promotion agency, as an interface for citizens living abroad.[9] It provides information on

[9] Participatory approaches in sustaining the return of refugees and displaced people: Ensuring for sustainable return of refugees and displaced persons to their pre-war homes is a top priority for the government. To support this challenge, Local Action Groups (LAGs) were established with the participation of civil society organisations, local authorities, local firms and their representative organisations in 23 country-wide localities between 2005 and 2008. The initial support of the United Nations Development Programme initiative SUTRA helped to gain the

citizenship laws and investment opportunities in the country. A 2009 survey confirmed that citizens who reside abroad are predominantly perceived as a potential economic asset to the country. At the same time there appears to be a contradiction between respondents' wishes that the diaspora both return home or stay abroad (IASCO and IOM, 2009).

2.2.7 Kosovo[10]

Kosovo was one of the parts of Yugoslavia where emigration has traditionally been a major contributor to family income with Germany, Austria and Switzerland being key destinations for Gastarbeiter. However, more than half of today's migrant stock emigrated after 1989 when the autonomy of the province was abolished with harsh socio-political consequences for the ethnic Albanian population. According to the IMF, worldwide, 2.4 million people have Kosovar origins, with a ratio of approximately 3:1 between Albanians and Serbs and other minorities. Most live in Germany (39%), Switzerland (23%), Italy, Austria, the UK, Sweden and the US. Key migration challenges are to sustain return migration and to ensure the integration of internally displaced persons. Furthermore, the repatriation of Kosovars without legal status abroad is still a key issue for both the government and the UNMIK administration. Their number is estimated at approximately 100,000 (*Vathi–Black,* 2007). Internally displaced persons and returnees belonging to ethnic minorities are Kosovo's most vulnerable groups (*Vathi–Black,* 2007). There is return migration, mostly driven by patriotic motivation to contribute to the establishment of the new state. To what extent the government can support and sustain this through the creation of investment opportunities and a business-friendly administration, and whether such initiatives will be sufficient to introduce a more prosperous development path, cannot yet be determined.

formal support of the Ministry of Justice of Bosnia and Herzegovina to sustain this participatory policy approach in planning, proposing, financing and implementing projects for local economic development. The three registered LAG, formally non-governmental organisations, provide economic assessments, identify needs, and plan projects for the economic development of rural areas. Each of the three undertakes activities to help localities achieve their economic potential, ensuring in this way that refugees and displaced persons remain in the areas to which they have returned, as well as supporting local communities in the process of adopting European Union practices. (OECD LEED Forum on Partnerships, Annual Brochure 2009.)

[10] Kosovo declared independence in 2008. The fact that it has been recognized by only 63 states renders migration data research difficult, since, as noted already for most of the other development areas discussed in this book, data on Serbia contains figures for Kosovo.

It is the combination of extreme unemployment and, as discussed by Chizzali in this book, a very young population, that makes Kosovo's economy highly dependent upon emigration (*Vathi–Black,* 2007). Remittances and pension payments from abroad account for approximately 15 percent of GDP and form a significant source of income, filling the balance of payments gap in the state budget and providing an informal social safety net for a large part of the population; every third household has at least one household member abroad (ETF, 2009).[11] The inflow of remittances has not changed the structure of the economy, partly because of the limited skills that returnees were able to transfer to the local economy (*Vathi–Black,* 2007). According to Vathi and Black, (2007) remittances are invested in entrepreneurial activities, yet these remain largely at the level of small scale retailing and services. Investment opportunities for the diaspora might, however, be a way of making use of the strong patria-ties of the Albanian Kosovars, also in the light of the prediction of a decrease in the amount of remittances (IOM, 2009). Havolli (2009), who analysed a survey on the remitting behaviour of a sample of 1,055 migrants, suggests that, what is needed is a re-assessment of taxation policies for migrant investments and the improvement of infrastructure, alongside a meaningful attempt to tackle corruption.

3 Challenges and new avenues in promoting the migration-development nexus

The brief highlights of history and current developments in migration patterns, showed several commonalities as well as differences. We will now take a closer look at some of the different initiatives of governments and civil society actors in the Western Balkans in promoting a migration-development nexus that goes beyond the investment of remittances and takes into account skills and knowledge aquired while working abroad.

3.1 Decentralised co-operation

Decentralised co-operation is an important vehicle for better managing migration. Decentralised co-operation – which can be roughly defined as partnership working between cities, towns and regional territories in different countries, as

[11] According to different sources the total amount of remittances varies between EUR 375 million and EUR 540 million of which up to one-third are 'holidays at home' expenditures (IOM, 2009).

opposed to bilateral co-operation at national level – has become common practice in EU countries, with the aim of stimulating and strengthening community and local development in the sending countries, and facilitating the integration of migrants in the receiving localities. Local authorities and non-governmental organisations (NGOs) are key actors in decentralised co-operation activities, which involve agreements between local authorities.

A large number of bilateral agreements within a framework of decentralised co-operation in the Western Balkans are signed with Italian regional, provincial and municipal authorities. Since the late 1990s these agreements have been the basis for co-development activities and also for the internationalisation of Italian local labour markets. Particular attention is paid to localities abroad that host an Italian community or its descendants and send migrants to Italy. Training and employment in Italy are sector-restricted to domiciliary assistance and care, social and health assistance, tourism industry, metal and mechanic industries, construction and building, agriculture, and transportation. The selection of economic sectors suggests that recruitment is focused on short-term employment responding to the structural needs of the receiving local economy and provides, in general, little room for upgrading skills. Although training in starting-up and running a business is offered, most of the initiatives target future dependent workers. This form of approach has been criticised for being a factor in causing severe skills shortages in sending localities and thus hampering economic development (OECD, 2009).

Besides local authorities and non-governmental organisations, who are traditionally key actors in decentralised co-operation activities, universities are becoming more and more involved in these activities (OECD, 2009). Apart from direct collaboration between institutions in sending and receiving countries, internationally operating firms also interact with universities in migration countries. Whereas the former focus on exchange programmes for students and researchers, or the advancement of joint research in specific scientific areas, the latter is often used to channel academics and the highly skilled into labour markets abroad. In Italy, for example, joint university studies and degrees have been developed to address shortages in highly skilled labour. Most activities are focused on the health sector, where joint degrees in nursing have been established between higher education institutions in South Eastern Europe and Italian universities. Teachers and technical instructors are trained in Italy or in their country of origin, and students are offered traineeships in Italy. The recognition of qualifications gained and study periods by Italians authorities offer students greater chances on the Italian and international labour markets. In Tirana four private universities offer graduate degree studies for nurses. Aldent, Medikadent, Universiteti Kristal, and Universiteti Zoja e Këshillit të Mirë have established relationships with health education institutions in Italy and Greece,

both major receiving countries, to provide training for subsequently internationally recruited nurses. This relationship adds only little to research and technological development in the sending region, but is directed to meet the labour demand by recruiting suitably skilled labour.

3.2 Return migration

Attracting and sustaining return migration can be a strategic response which is most likely to result in local development opportunities. Returnees, if relevantly skilled and willing to invest upon return, can become a source for some form of economic "take-off". Highly skilled returnees generally demonstrate risk-taking behaviour. In order to act as agents to facilitate this economic take-off, the local economy needs to be ready to make use of the skills and knowledge acquired abroad. However, in order to make the return economically successful for the migrant, for wider society and for the state, certain framework conditions need to be in place.

There is a clear need in the Western Balkan region to integrate migration policies with policies related to social and economic development. Income, wage differentials, labour market structure and education opportunities are important factors. In terms of wage differentials, the indicators often analysed are average gross earnings in the economic sectors and monthly minimum wages. Wage differentials are important for short-term migration, whereas net wage differentials (that is, adjusted living costs) are an orientation for permanent migration. Unemployment, both total and for the young, can be, alongside employment levels in agriculture and heavy industry, explanatory variables for the propensity towards future migration and return. The degree of openness of university and research institutions in terms of finding a job and career development, as well as the intellectual property and patent regimes and other R&D related indicators, can be important "pull factors" for return migration. There are signs of an emerging regional labour market, as outlined in this chapter and elsewhere in the book, but, when looking at "pull factors" for return in a complex package, perhaps only Croatia might qualify as a candidate for greater return migration in the near future. Since the factors that are affecting migration decisions may also include the lack of personal safety and guarantees of human rights, corruption and few opportunities for civil action, these will need to be taken into account by governments when committing to the sustainable promotion of return.

Policies to promote return migration in the Balkans might have a greater potential for success in two respects. Firstly, people from the Balkans share

strong bonds with their home country and their families, which keeps them connected, also in terms of a sense of responsibility for what is happening at home. Secondly, destination countries within Europe dominate current emigration patterns (*Table 17*).

For the young and highly skilled, migrating for education to the US, Canada and Australia, is also a factor. Increasing efforts to enhance temporary exchange programmes can help emigrants to consider return as a potential option. All this will, however, only work if governments show commitment to establish and sustain the right framework conditions for return and sustainable employment or entrepreneurial activity.

Table 17

Top 10 destination countries for emigrants from the Western Balkans in 2005 and distances between capital cities in kms

Albania	Bosnia and Herzegovina	Croatia	Macedonia	Serbia
Greece (500)	Croatia (286)	Germany (770)	Germany (1,315)	Germany (999)
Italy (612)	Germany (1,031)	Australia (15,948)	Switzerland (1,183)	Austria (490)
Macedonia (153)	Austria (508)	Austria (269)	Australia (15,481)	Switzerland (966)
United States (7,763)	United States (7,510)	United States (7,235)	Italy (739)	United States (7,589)
Germany (1,134)	Slovenia (390)	Canada (6,699)	Turkey (635)	Turkey (810)
Canada (7,247)	Sweden (1,721)	France (1,083)	United States (7,831)	Croatia (365)
Turkey (1,110)	Switzerland (863)	Italy (517)	Austria (796)	Sweden (1,621)
France (1,602)	Canada (6,979)	Slovenia (118)	Slovenia (713)	Italy (722)
United Kingdom (1,892)	France (1,348)	Switzerland (600)	Croatia (606)	Canada (7,043)
Austria (811)	Australia (15,751)	Bosnia and Herzegovina (286)	France (1,668)	Australia (15,594)

Source: World Bank (2008), Migration and Remittances Factbook. Globefeed.com for distances between capital cities; own compilation.

3.3 Diaspora links

Diaspora can be a major source of innovation and new economic activities at home. Worldwide, in many key sending countries, governments have been seeking, with different degrees of success, to establish links with migrant organisations abroad to encourage emigrants to maintain relationships beyond family bonds and to stimulate and contribute to technological change and skills development at home by transferring skills and remitting both ideas and capital for innovation. Policy approaches and local action to interrelate migration impacts with local development will need to be adaptive and flexible over time in order to stimulate and enhance the level of skills and economic activities that will trigger gradual movement towards a sustainable development path, away from a low-skill equilibrium, where insufficient demand for skills is balanced by the emigration of surplus labour (OECD, 2009). All of the countries reviewed in this chapter have developed, with varying degrees of government involvement, linkages with diasporas abroad. Links with scientific diasporas where emigrant academics and researchers contribute to the development of academia and science back home, are gaining importance. Croatia, Serbia, Albania, and the former Yugoslav Republic of Macedonia are making progress in countering emigration of the highly-skilled by facilitating education and professional development abroad and enhancing patria-linkages (IOM, 2009).[12]

Serbia, in particular, can be mentioned here for its emphasis on diaspora linkages. The Serbian government is nurturing the role of diaspora organisations amongst the highly skilled as key drivers for the re-orientation or technological adaptation of the economy. Serbia has recently allocated EUR 20 million for strengthening these kinds of relationships.[13] In addition, the Serbian Ministry of Economics has been successful in establishing a network of 16 so-called Centres for the Diaspora within the regional Chambers of Commerce. This is expected to facilitate the internationalisation of local businesses as well as business start-ups, joint ventures and venture capital activities of emigrants and/or returnees. The Serbian Ministry of Foreign Affairs maintains an up-todate database on Serbian diaspora organisations in 34 countries.[14]

There is a debate on the extent to which a government can resource a diaspora, as diaspora networks are more the result of serendipity (*Kuznetsov,* 2006), but there might be more potential at local authority level, where a mayor with

[12] This is in particular important for Albania, who lost, according to Çaro and van Wissen (2007), 45 per cent of the research and teaching staff of Albanian institutes and universities over the last two decades.

[13] http://www.balkans.com/open-news.php?uniquenumber=59251; accessed 9 June 2010.

[14] http://www.mfa.gov.rs/Diasporaframe.htm.

serious interest in promoting local development and the right amount of publicity for what is happening, can reach out to the diaspora. In Albania some mayors of local authorities are active promoters of diaspora links. For example, in Dropull i Poshtem, a commune with around 20,000 inhabitants close to the Greek border in the South of Albania, the mayor maintains regular contact with the diaspora organisations in northern Greece (OECD, 2004). These contacts, although informal and very much linked to the individual, facilitate investment activities by migrants and create opportunities for return, as demonstrated by increased business start-up rates. However, the lack of national government support makes replication of such initiatives elsewhere in the country difficult. At regional level, the City Authority of Tirana is working to establish a database of skills amongst expatriates from municipalities and communes under the region's jurisdiction. Questionnaires have been sent to all 18 local authorities to gather information about migrants' demographic characteristics and their acquisition of skills – on their departure, and, if available, also during emigration. The aim of the survey is to integrate the information into regional strategic planning, so as to tailor initiatives. A full inventory of skills might be difficult to create, as international co-operation with labour market institutions to this end has not yet been established.

New social media is used to some extent to promote links with diaspora, yet in the countries reviewed this is not used by governments. Internet fora and blocks are tools frequently used by diaspora and professional groups to network. The Institute Alb-Shkenca (IAS) is an example of this. IAS started in October 2002 as an online platform and has been further developed into an institute since then. In 2007 an institute was founded with offices in Albania, FYROM and Kosovo.[15] IAS brings together academics and scientists from different disciplines in the above three countries and diasporas in more than a dozen countries.

One example of the various Bosnian and Herzegovinian diasporas is the Bosnian and Herzegovinian American Academy of Arts and Sciences (BHAAAS). The Academy was founded in the end of 2007 in Charlotte (North Carolina), US. Its aim is to provide connections between Bosnian and Herzegovinian scientists, artist and professionals in North America and build co-operation with Bosnia and Herzegovina.[16]

In Croatia, the Ministry of Science, Education and Sports established in 2007 the Unity Through Knowledge Fund (UKF) to promote linkages between the scientific and professional communities in Croatia and abroad. UKF is part of a

[15] http://www.alb-shkenca.org/index.php?/Rreth_nesh/Rreth_nesh/about-us.php; accessed 9 June 2010.
[16] http://bhaaas.org.

larger project to promote research and development in Croatia. The target group includes young professionals (up to 35 years), doctoral students, experts, scientists and second and third generation individuals of Croatian origin who live abroad, as well as universities, research and development centres, small and medium-size enterprises (SMEs) interested in technology and knowledge transfer and young professional in public administration. The fund's budget is €5m, 74% of which is covered by a World Bank loan and 26% comes from Ministry funds.[17] In addition to this, Croatian diasporas in a number of countries have established academic associations. An interesting case is the Croatian Academic Association that operates as a non-profit organisation in Germany gathering Croatian and Croatian-German university graduates in a country-wide network. Since 1970 the Croatian Academic Association organises "SUSRET, the well-known annual meetings with varying topics of scientific and cultural significance".[18]

Croatia, Serbia, FYROM and Bosnia and Herzegovina are actively involved in the I-SEEMob project of the European Union. The project's aim is to contribute to the career development of R&D personnel by enhancing international exchange for researchers and scientists and policy learning to address existing gaps in legal and policy frameworks.[19]

4 Conclusion

Emigration and remittances are still playing a significant role for most of the countries in the Western Balkans. Regional integration is on the rise with the growing re-integration of local labour markets, particularly in the countries that were formerly part of Yugoslavia. Whereas there is a noticeable influence of the European Union and international organisations in migration policies, in particular concerning the regulation of immigration, more efforts are needed to sustain regional collaboration in labour market regulation.

[17] http://www.ukf.hr/.

[18] http://www.hrvatski-akademski-savez.de.

[19] Project members include the Ministry of Civil Affairs of Bosnia and Herzegovina, the Macedonian Academy of Sciences and Arts, the Croatian Agency for Mobility and EU Programmes, the Mechanical Engineering Faculty at the University of Nis in Serbia, as well as the General Secretariat for Research and Technology of Greece and the Centre for Research & Technology-Hellas in Greece, the Scientific and Technological Research Council of Turkey, Sofia University St. Kliment Ohridski in Bulgaria, and the Unitatea Executiva pentru Finantarea Invatamantului Superior si a Cercetarii Stiintifice Universitare (UEFISCSU) of Romania. See http://www.iseemob.eu/sitegenius/topic.php?id=160 for more information.

More policy-development oriented research is needed on the migration-remittances-development relationship, in particular, as pointed out by Dimova and Wolff (2009), since emigration and remittances may trigger a circular process in which a large proportion of remittances are channelled into investing in education and the development of skills that are not absorbed by local labour markets, but abroad. Such a process needs to be brought to a rapid halt, as most local economies in the Western Balkan region are significantly lagging behind the European destination countries both in terms of income and wage differentials and job opportunities. It is, therefore, important for governments to promote opportunities for education and professional development abroad, to facilitate circular migration of the highly skilled, and to link with talents in the diaspora. This may also pave the way for policies that attract and sustain return migration, which, in the case of emigrants from the Western Balkans countries, because of their strong bonds to people and territories of the homeland, might be more effective than in other parts of the world. Establishing linkages with the highly skilled diaspora can be a promising starting point (OECD, 2009).

EMPLOYMENT AND LABOUR MARKETS

ELISA CAMPESTRIN – EMMA CLARENCE

1 Introduction

After the destructive wars and the social and economic turbulence that blighted the Western Balkan region following the end of communism, recent years seemed to have heralded a period of increasing economic prosperity. Transformation, whilst still bearing many challenges, including high levels of poverty and social exclusion, was seemingly moving in more positive directions than those witnessed in the 1990s. Economic growth was broadly in evidence, with rising rates of GDP. However, the story is somewhat more 'mixed' than these rising GDP rates appear to suggest. Economic growth was not accompanied by increasing employment, but rather stagnant or even declining rates of employment and by a formal labour market which functioned, at best, only weakly. Furthermore, when in mid-2008, the economic crisis started to hit the region, even the positive GDP trajectory stalled.

Initially, the Western Balkan region had hoped that the global financial and economic crises would pass it by with little significant impact, with such optimism rooted in the belief that the relatively low exposure of the region to the international markets would protect it. However, this hope has proved to have been misplaced. Instead, the impact of the global crisis has been profound and its wider consequences have been to highlight the many unresolved issues from the transition process that exist around the labour market, including those in the areas of skills and training, as well as employment disadvantage, and to demonstrate the critical need for policies, programmes and strategies to address these.

Focusing on the labour market, this chapter will consider the broad trends in evidence across the Western Balkans and will briefly consider the impact of the economic crisis, before going on to examine disadvantage in the labour market. Challenges for the labour market, alongside the use and impact of active labour market policies, including skills-based strategies, will be explored before the chapter concludes with an examination of wider issues, such as the flexibility of employment protection legislation, and what they can tell us about the functioning of the labour market across the region.

2 Economic growth and the labour market before the crisis

Following the end of communism across the region, and the devastating conflicts which followed, the Western Balkans started a long period of economic and social transition and transformation (*Table 18*). The transition process was undoubtedly made more complex and more difficult as a result of the conflicts which had led to the imposition of sanctions on some parts of the region and created high levels of political uncertainty, with subsequent effects on, for example, foreign direct investment (FDI) and the economic development of the region. However, with increasing levels of demand, FDI flowing into the region to (albeit not uniformly), the first years of the twenty-first century appeared to bring new opportunities for the region.

Economic growth was broadly in evidence across the region as a whole. The return of conflict, on a much smaller scale in FYROM (in 2000–2001) had a negative impact on economic growth in the country, reducing it to 1.3 percent in the period 2000 to 2004, but wider regional effects were not in evidence, with GDP above four percent across the region during that period (from 4.1 percent in Croatia to 5.8 percent in Albania).

Table 18

GDP and employment trends, 1995–2004

Country	Real GDP annual, %		Employment, LFS	
	1995–1999	2000–2004	1995–1999	2000–2004
Albania	5.3	5.8	–1.6	–2.7
Bosnia and Herzegovina	22.9[1]	4.2	300.2	–1.0
Croatia	3.4	4.1	2.3	0.7
FYROM	3.0	1.3	–2.7	–3.9
Serbia and Montenegro[2]	0.4	4.9	–1.2	–0.9
EU8[3]	4.1	4.9	–0.9	0.2

Note: 1 – The sharp rise in Bosnia and Herzegovina in this period was driven by the cessation of hostilities; 2 – Excluding Kosovo and Metohia (since 1999); 3 – Unweighted average (EU eight refers to the 10 accession countries, of whom 8 became members in 2004).
Source: Nešporova–Cazes, 2006.

However, it is important to contextualise the economic growth which occurred, both as a way of indicating the challenges that have been (and continue to be) in evidence in the region, and in order to understand the impacts, both real and potential, of the economic crisis. Despite experiencing economic growth prior to the crisis, Serbia, Bosnia and Herzegovina and Montenegro are

yet to return to their GDP levels of 1989. Croatia and FYROM reached, and moderately surpassed, 1989 GDP levels (in 2006 and 2008 respectively). Only in Albania was GDP growth significant. In 2000 it passed the level of 1989 and continued on a rising trajectory, reaching over 160 percent of 1989 GDP levels in 2008 (EBRD, 2009).

Nevertheless, GDP growth is only a partial indicator of what is happening within an economy and should be considered alongside other factors, such as employment (examined here) and poverty and social exclusion (explored elsewhere in this volume). In particular, it is worth highlighting the disassociation that existed between GDP growth and employment growth in the Western Balkan region; GDP growth was achieved with little actual employment growth driven as it was by productivity (*Gligorov* et al. 2008). Indeed, in Albania, which recorded average annual growth rates in GDP of 5.8 percent in the period 2000–2004, employment actually declined by an average of 2.7 percent. Only Croatia experienced positive employment growth in the region over that period and, even then, it was only 0.7 percent, as compared to GDP growth of 4.1 percent. Given this, it is unsurprising to find that any decreases in poverty and social exclusion, to which unemployment is often an important contributory factor, remained less than could have been expected by economic growth, with group and spatial disadvantage being perpetuated and hardened.

3 The impact of the global economic crisis

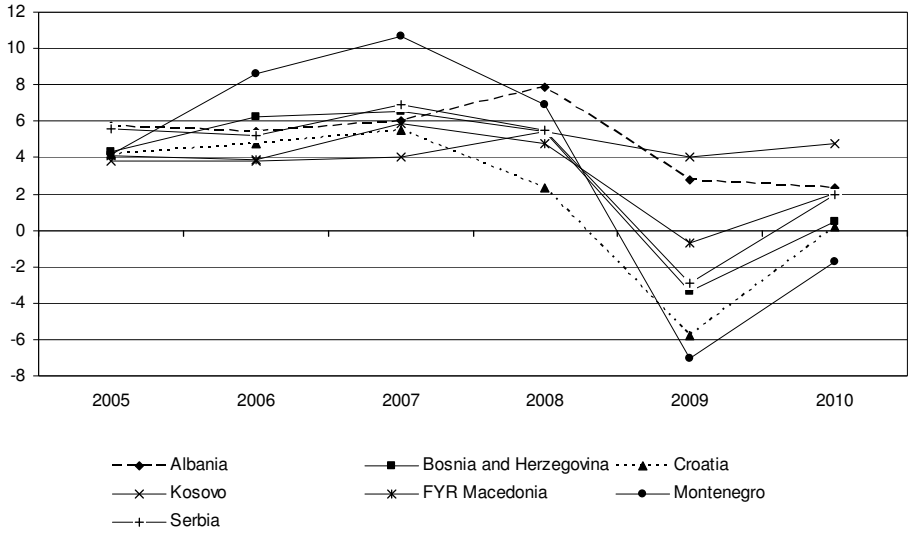
Whilst the Western Balkans had hoped to escape the worst of the crisis due to its relatively low level of exposure to the international market, this proved somewhat over-optimistic. Across the region, when the crisis hit, it brought with it an "extraordinarily sharp" decline in output (EBRD, 2009). Indeed, such was the crisis that both Serbia and Bosnia and Herzegovina needed to turn to the IMF in order to establish support arrangements (EBRD, 2009), something of symbolic importance given that the IMF had 'left' the region in 2008 (Bastian, 2009). As *Figure 24* (showing actual and estimated GDP) highlights, the IMF's projected falls in GDP are dramatic across the region with Albania's economy still recording positive, albeit declining, growth, in 2009, driven mostly by infrastructure investment, and Kosovo under UNSCR 1244/99 where the IMF had also estimated positive growth in 2009–2010.

Despite the differences which exist across the region, it is possible to identify some general trends on the impact of the global economic crisis. The drop in FDI experienced across the region was accompanied by a decrease in trade as export-oriented industrial production (such as textiles, machinery and compo-

nents) declined, with unsurprising negative consequences for employment. At the same time, remittances also fell sharply as the global nature of the economic crisis affected those abroad, contributing to the dampening of consumer demand in some parts of the region and increasing vulnerability to poverty at individual and family level.

Figure 24

GDP Growth: actual and future estimates, annual %*



*Estimated data first appears in 2008 for Kosovo, 2009 for Albania, Bosnia and Herzegovina, Croatia, Montenegro and Serbia, and 2010 for FYROM.

Source: International Monetary Fund, 2010.

Whilst the European Bank of Reconstruction and Development (EBRD, 2009) foresees some return to growth in the region in 2010, as does the IMF, what remains is that unemployment, as a lagging indicator, and with already notably high levels across the region, is unlikely to improve significantly in the short-term. The presence of long-term structural issues in the labour market, which have been in evidence from the transition process, suggests, however, that a return to growth does not in itself indicate increased levels of employment. For that to occur, the complex challenges which labour markets across the region face will need to be effectively tackled.

4 Labour markets in the Western Balkans

4.1 The impact of transition

The transition process had a profound impact on the labour market and demand for skills across the region and its consequences continue to echo across the region. The restructuring of the economy led to job losses and a sharp decrease in employment in the industrial sector, in particular, as less productive sectors declined. It is worth noting that unemployment in 1990, as the region entered the transition period, was already high: 40.8 percent in Kosovo, 23 percent in FYROM, 21.2 percent in Bosnia and Herzegovina and 16.7 percent in Serbia (*Gligorov* et al. 2008). Long-standing, high rates of unemployment increased and at the same time the capacity of the economy in transition to absorb the growing numbers of unemployed was hampered by difficulties surrounding the emergence and development of SMEs (ETF, 2007).

It is worth noting that it should not automatically be assumed that the economies of the Western Balkan region emerged from the transition process on a high skills/technically advanced path to economic development. Whilst the former Yugoslavia had a highly skilled workforce, there were significant 'regional' differences in evidence before the end of Communism which have now become national. Slovenia and Croatia were more advanced in technological and skill terms than FYROM, for instance (*Bartlett,* 2009) and Albania started the transition process from very low skill and technical bases, attributes which continue to be in evidence. With the exception of Croatia, and potentially Serbia, who can be identified as pursing an economic approach rooted in innovation and increased skills and, therefore, as moving towards an economy which demands a more highly educated labour force (ETF, 2007), the Western Balkans would appear to be currently on a path of low skill specialisation, which is characterised by prolonged and significant unemployment, low demand for skilled labour, low levels of FDI, which in turn is driven partly by the low skills base and whose absence effectively "undermines the process of skill upgrading", and emigration (and the attendant loss of human capital) (*Bartlett,* 2009).

The European Training Foundation (ETF) has argued that a low skill specialisation is not, in itself, necessarily an 'inferior path'. However, given that the low-skill approach is associated with high levels of unemployment and informality in the Western Balkans, and that a low skills base lessens the innovative capacity of local firms and lowers overall competitiveness (*Bartlett–Uvalič,* 2008), it presents significant challenges to the aspirations of the countries of the region to join the European Union. As ETF (2007) has noted, "the route to EU membership in these countries and territories is likely to require a significant

upgrading of the skill levels of the labour force and a reorientation towards the skill path of transition through innovation-led growth."

If the Western Balkan region is to achieve this route to economic growth, then it is evident that policies and programmes are required to tackle the complex problems that hinder its ability to do so. This includes the need to develop foci on supply and to demand supplementary issues for the labour market, education and skills training, and to ensure that labour market disadvantage (both group and spatial) is addressed. In turn, such policies and programmes need to be integrated into short, medium and long-term economic strategies. These are not simple challenges to overcome, nor are they quickly resolved, but the benefits from moving out of a low skill equilibrium are significant.

4.2 A note on data

Before considering the labour markets in the Western Balkan region in greater depth, it is necessary to consider the data that is available. In many countries registered unemployment rates significantly exceed survey-based unemployment, such as in Croatia and FYROM. Indeed, in FYROM registered unemployment is actually estimated to be 14 percent higher than Labour Force Survey data (*Gligorov* et al. 2008). Factors contributing to this include the size of the informal economy (discussed below), the fact that in many countries in the region registering as unemployed is a precondition for access to health insurance or social assistance (whilst people may also be undertaking work in the informal economy), and that some may be de facto self-employed in the agricultural sector. Although Labour Force Surveys are run across the region according to European Union practices, the harmonisation process still requires some time before being completed and the full catalogue of labour market indicators are not available in all of the countries. Nor may data sets fully and accurately reflect economic and labour market activity due to the high levels of informality in the region. With regard to population-related figures, there is a lack of a recent, reliable population census – which renders all per capita figures problematic and makes trend-based forecasting very difficult.[1]

[1] The last full censuses were conducted as follows: Bosnia and Herzegovina 1991, Albania 2001, Croatia 2001, Montenegro 2003, Serbia 2002, FYROM 2002 (pilot census in 2009 for 2011 full census) and Kosovo (pilot census in 2008 for first full census in 2011).

5 The informal economy

A consideration of the labour market in the region could not be undertaken without mention of the informal economy. By its very nature, measuring the size of the informal economy is problematic. However, it is evident that in the Western Balkans it is a substantial sector in its own right. This situation has emerged partly a result of the way in which its development was tolerated and it was allowed to expand because it contributed to the alleviation of social tensions in the transition process and afterwards. The lack of jobs in the formal sector has acted to 'push' people towards the informal sector, and this has been accompanied by a willingness by employers to utilise informality as a way of avoiding regulations as well as social insurance payments (*Bartlett,* 2009).

In 2007 a report by ETF, estimated that the informal economy in the region was between 25 and 35% of GDP. Notably, it is only in Croatia that the informal economy is not an important issue; with its size estimated at 11.1% of GDP this suggests that it is the lowest in Europe (European Commission, 2009a). Nor is it clear that, despite significant and sustained reforms across the region, the informal economy is necessarily reducing in size. Recent work by the European Bank of Reconstruction and Development suggests that in Serbia the informal economy has actually grown: in 2002, 28% of total employment was found in the informal economy, whilst in 2007 it had risen to 35% (*Krstić–Sanfey,* 2010).

The impact of the size of the informal economy should not be underestimated. As the OECD has noted: There are at least two important consequences of a large informal economy: (a) lower tax revenues (which, in turn, increases the burden on the formal sector, pushing more firms into the informal sector); and (b) inaccurate statistical data on output, consumption, labour force, and unemployment which result in inappropriate political decisions (OECD, 2009a).

Not only does it affect social welfare provision, leaving people vulnerable to social exclusion and poverty, and limit the resources available for improving working conditions (such as health and safety) and programmes to support people back into work, it also has consequences for the labour market and for wider economic development. For example, individuals employed in the informal labour market frequently confront higher levels of poverty; in Serbia, of those employed and living below the poverty line, 72 percent were working in the informal economy (ILO and Republic of Serbia, 2009).

Two main types of measure have been adopted to tackle the informal economy; first, encouraging enterprises to formalise their working relations and, second, strengthening the administration of penalties for non-compliance. The

former approach implies the review of administrative and tax provisions whereas the latter focuses on enhancing the role of labour inspectorates. In 2009 the ILO launched the project "Enhancing labour inspection effectiveness", in co-operation with Norway, targeting, amongst others, Albania, Montenegro and FYROM with the aim of modernising those countries labour inspectorates and helping them to move towards more prevention-oriented organisations. However, the success of this approach has been undermined by issues around staffing. In general, labour inspectors have salaries and incentives that are unattractive, as a result of which staff turnover is high and vacancies frequently remain unfilled. Clearly, if the informal economy is to be meaningfully addressed, there is an urgent need to develop and maintain a labour inspectorate which has the capacity to fulfil its role. However, this has also to go hand in hand with wider strategies to create employment opportunities in the formal economy.

6 Unemployment and group disadvantage

Labour market development is notably uneven in the Western Balkan region and characterised by relatively low labour force participation rates and by high rates of unemployment. Levels of unemployment vary significantly across the region, but on the whole it is clear that unemployment remains relatively unresponsive to economic growth. However, a simple measure of total unemployment fails to illustrate the disadvantage that is concentrated amongst some groups with society in the region (*Table 19*).

Highlighting the way in which unemployment figures can mask the depth of problems surrounding unemployment is the example of Kosovo. At the end of June 2009 over 338,000 people were registered as unemployed in Kosovo. Of that total, over 90 percent of all registered job seekers had been on the unemployment register for more than 12 months (European Commission, 2009b). Thus, despite a decrease in the unemployment rate, the level of long-term unemployment had actually increased. A more positive picture is in evidence in FYROM where the number of employed persons in 2009 increased by 3.4% compared to 2008 and the employment rate was 38.4%, whereas the unemployment rate was 32.2%. This shows that some progress has been achieved in addressing structural unemployment and in reducing impediments to employment with public spending an important factor behind this favourable development (European Commission, 2009c).

However, even such positive pictures mask the fact that formal employment levels have been seemingly disassociated from wider economic growth. In Montenegro, for example, despite economic growth people from disadvantaged

groups experience persistent unemployment (UNDP, 2009); a similar pattern can also be found in Bosnia and Herzegovina. Given this, it should not be presumed that sound macro-economic policies and a return to economic growth will resolve unemployment (ETF, 2007; ILO, 2008). The same idea held sway with regard to poverty and social exclusion, leading to a failure to harness the period of economic growth to develop targeted policies to overcome disadvantage, including with regard to the labour movement (UNICEF, 2007). If group disadvantage on the labour market is to be overcome, what will be required is an array of strategies and activities aimed at addressing the complex factors which contribute to it, such as education and training activities, and that seek to balance the demand and supply sides of the labour market.

Table 19

Unemployment rates in the Western Balkans 2007–2009 aged 15–64, %

Country	2007	2008	2009
Albania	13.5	12.7	13.0
Bosnia and Herzegovina	29.6	24.0	24.4
Croatia	9.6	8.4	9.6
Kosovo	43.6	47.5	43.0
FYROM	34.9	33.8	32.2
Montenegro	19.4	16.9	19.2
Serbia	18.8	14.4	16.9
Western Balkan average	24.2	22.5	22.6
OECD average	5.7	6.0	8.8

Note: Albania: data for 2008 and 2009 are average from quarterly data from 2008 and 2009 LFS; Kosovo: unemployment rate for 2009 is an estimate; OECD countries: unemployment rate for 2009 refers to last 2009 quarter.

Source: Eurostat online for Croatia, OECD. Stat for OECD countries, Labour Force Survey Data and National Statistics Agencies' website for the other countries.

There are a number of groups of people who are particularly vulnerable to unemployment and confront significant problems in entering and staying in the formal labour market. Such groups are also vulnerable to crises and economic shocks, such as the current global economic crisis. They include: (i) the long-term unemployed, which in turn has an age, ethnic and gender dimension; (ii) young people; (iii) people with low skills and low levels of education; (iv) minority groups, particularly Roma; and (v) women. Evidently, there is also overlap between these groups. A brief consideration of the challenges each of these groups confronts across the region follows.

6.1 Long-term unemployed

Long-term unemployment is of particular importance in the region, given the proportion of unemployed who confront it (*Table 20*). In the Western Balkan region the level of long-term unemployed is extremely high and has never fallen below Croatia's 2009 rate of 53.1 percent. The severity of the situation is even more evident in comparison with the OECD countries where the long-term unemployment rate was 29.1 percent in 2007 and 25.9 percent in 2008 (OECD, 2009b).

Table 20

Incidence of long-term unemployment (% of unemployed)

Country	2007	2008	2009
Albania	96.3	n.a.	n.a.
Bosnia and Herzegovina	87.3	84.9	83.5
Croatia	61.5	62.6	53.1
Kosovo	85.0	81.8	90.0
FYROM*	84.9	84.9	n.a.
Montenegro	73.2	79.5	81.5
Serbia	80.8	71.2	65.5

Note: n.a./not available.

* Refers to the share of people unemployment for one year or more as a percentage of the total number of unemployed people

Source: Serbia: 2008 and 2009 LFS, Albania LFS 2007, own calculations based on Labour Force Survey Data 2007, 2008, 2009 and National Statistics Agencies for all the other years and countries.

High levels of long-term unemployment present significant challenges to bringing people back into the labour market. The loss of skills which accompanies a prolonged period outside the labour market, alongside social issues that may lead to a disengagement from the labour market, are but two of the consequences which accompany long-term unemployment. Furthermore, as time out of the labour market lengthens, it becomes more difficult to re-engage with it, as employers perceive recent work experiences as synonyms for having the skills and the capacity to adapt to changes in a working environment.

Whilst long-term unemployment has grave consequences on the economic development and prosperity of a country, it also has a profound impact on social exclusion and the resilience of communities to meet economic and social challenges. The long-term unemployed are more likely to confront poverty and so-

cial exclusion, with lower levels of social cohesion frequently in evidence in communities blighted by them, which can, in turn, contribute to deepening and hardening exclusion from the labour market. Furthermore, OECD LEED work has highlighted how territories with higher levels of social inclusion and cohesion are not only more dynamic and more attractive for business investment, but also more resilient, which in turn contributes to more prosperous communities (OECD, 2010a; *Noya* et al. 2009). Accordingly, tackling long-term unemployment is an important element of labour market, and indeed social inclusion, strategies.

However, Gligorov et al. (2008) raise a cautionary note with regard to long-term unemployment data, namely that the figures also reflect those working in the informal economy who have registered as unemployed in order to access health and social care services. Accordingly, the severity of the problem may be being overstated. Nevertheless, as Gligorov et al. (2008) note, long-term unemployment is a particular issue amongst certain sections of society, including the young and minority groups, and concerns about the accuracy of data with regard to the size of the problem should not lead to it being overlooked or ignored.

6.2 Young people

Youth unemployment is a pressing issue, not only in the Western Balkan region, but also internationally. Being unemployed at a young age has far-reaching consequences with prolonged unemployment and inactivity early in life a predictor for lower employability and wages in adulthood, as well as individuals who are disconnected from the labour market completely. Furthermore, high levels of unemployment amongst young people not only devalues the skills these people have acquired, leading to discouragement, but it is also a significant waste of resources, resources which are needed for economic and social prosperity.

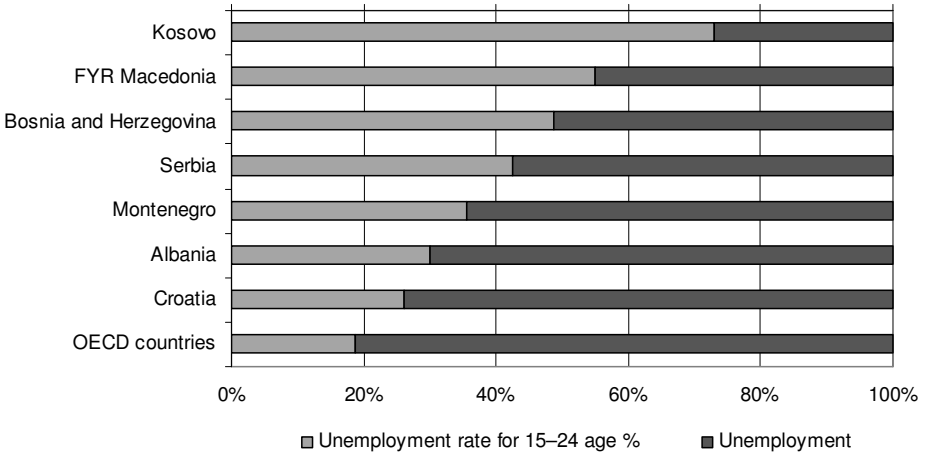
Across the region, young people are disproportionately affected by long-term unemployment, albeit with significant variations clearly in evidence. *Figure 25* provides information on the unemployment rate for people aged 15–24 in 2009. This data, accompanied by the fact that between 2001 and 2006 the rate of youth employment fell by only two percent in the Western Balkan region, highlights the scale and depth of the problem (ILO, 2008).

The lack of jobs in the economy, accompanied by difficulties in the transition from education to work, and weak linkages between schools and businesses, are important factors contributing to youth unemployment in the region (OECD, 2010c). Another element is the unwillingness or reluctance of employ-

ers to employ people and to provide training, something which is also pertinent to the employment of the long-term unemployed (*Kuddo,* 2009). These problems, and the failure of the economy to create enough jobs for young people more generally, has left many of them with a stark choice: emigrate or work in the informal sector (*Gligorov* et al. 2008). Indeed, in Serbia the number of young people in the informal economy rose between 2002 and 2007 from 41 to 50 percent in Serbia (ILO and Republic of Serbia, 2009). However, the Serbian government has recognised the costs – both economic and social – associated with youth unemployment and has developed a strategic response together with the ILO for the period 2009–2001 in order to address the challenge, particularly in the context of the current economic crisis.

Figure 25

Unemployment rate for group age 15–24, % of unemployed



Source: Labour Force Survey Data and National Statistics websites for Western Balkan countries; OECD (2010b).

Just as with long-term unemployment, strategies and programmes which focus on youth unemployment are clearly an important response to the problem. However, it should be remembered that addressing labour market disadvantage, whichever group be the target, can only take place within a wider context in which policies that seek to increase demand for employees are also being implemented (ILO, 2008).

6.3 Low skilled and low levels of education

People with low levels of educational attainment, or poor skills, face significant difficulty on the labour market. The World Bank (2009) has noted that more than half the unemployed in Montenegro and FYROM have below secondary general education. Such individuals are also likely to confront long-term unemployment. However, in the Western Balkans, the informal economy also plays an important role in 'employing' these people. Across the region, lower skilled workers, and those with low levels of educational attainment, are concentrated in the informal economy (ILO, 2008); for example, in Serbia 53 percent of informal workers had only primary school education level (ILO and Republic of Serbia, 2009).

Highlighting the overlapping nature of disadvantage are the links between young people and education levels, and employment outcomes. For those young people who leave school without vocational training or educational qualifications, the long-term future is bleak. Indeed, even substantial improvements in labour market conditions accompanied by a growth in the number of jobs available may not be enough to improve their situation. Furthermore, the threat of poverty and social exclusion will be a persistent one (*Kuddo,* 2009).

At the same time, the effect on economic development is also important. A low-skilled labour force limits the potential for the development of a more skills-based/knowledge economy and can present a territory with little choice but for a low-skill equilibrium. Even where opportunities do appear, those territories with a low-skilled labour force lack the ability to respond positively to them. Accordingly, it is necessary to focus on education and vocational training, including lifelong learning, within the context of articulated skills strategies which seek to balance the supply and demand of skills, in order to avoid skills mismatch (OECD, 2010c).

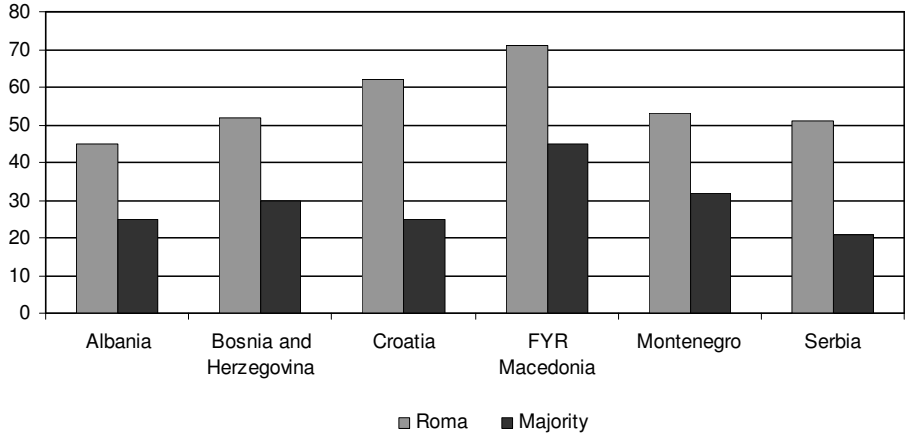
6.4 Minority groups

The Roma are not the only minority group in the region, but their situation is a useful one to illustrate the difficulties minority groups confront. As *figure 26* highlights, across the Western Balkan region Roma are disproportionately represented amongst the unemployed. A central factor in long-term deprivation and exclusion are low levels of educational achievement and a lack of skills leading to unemployment. For example, levels of illiteracy amongst young people (15–24 years) remain an important issue in many parts of the region, ranging from 35 percent in Albania to 9 percent in Croatia (UNDP, 2005). Indeed, such is the role of education and skills that there is effectively a 'vicious circle' in opera-

tion whereby unemployment and exclusion, alongside other forms of deprivation, become both the cause and the effect (European Commission, 2009a).

Figure 26

Percentage of Roma and the majority between 15 and 55 years of age who are unemployed



Source: UNDP, 2006.

Ensuring that there are appropriate education and skills facilities and training opportunities, alongside appropriate curricula and adequate resources are all critical to overcoming this disadvantage, as is tackling discrimination. However, as the European Training Foundation has noted, in the region there are a wide range of factors which have hindered inclusive education and training, including: the lack of pre-school education; divisive curricula in mainstream education; problems in realising rights to first language education; distorted curricula; segregated schooling for some groups; cultural stereotypes in vocational training and preparation for work; and lack of minority teachers and mentors. Overall, there is still a lack of a positive and consistent emphasis on inter-cultural education and training (European Commission, 2009a).

Whilst education and training is not the only challenge to be overcome, it remains that the lack of access to the labour market is central to exclusion and that without inclusive education and vocational training opportunities such exclusion is perpetuated. However, tackling discrimination is also needed if the wider social and economic disadvantage minority communities confront are to be addressed.

6.5 Women

It is interesting to note that the current crisis has led to a break with historical patterns which have seen women as more likely to be unemployed than men; reflecting the concentration of the recession in the industrial and construction sectors, in this economic crisis male unemployment has risen much more rapidly than female unemployment (OECD, 2010d). However, the high levels of female unemployment evident in the Western Balkan region should not be seen as being driven by the crisis, but are instead a long-term feature of the labour markets in the Western Balkans (as shown in *table 21*). For example, during the transition employment opportunities for women declined more for women than men in Albania and Montenegro (*Gligorov* et al. 2008).

Whilst men and women are equal in law in all countries, gender based exclusion is common across the region and female poverty and high rates of female unemployment are frequent. Indeed, in Serbia young women, despite being better educated are more likely to be unemployed (48.3 percent as opposed to 40.7 percent for better education men) (ILO and Republic of Serbia, 2009) suggesting that discrimination is, at least to some extent, at work in keeping women out of the labour market, as is the adherence to traditional gender roles in the region. At the same time, a lack of childcare facilities and inflexible working hours also hinder women's ability to access the labour market.

Table 21

Male and female unemployment rate 2007–2009

	2007		2008		2009	
	Male	Female	Male	Female	Male	Female
Albania	14.4	12.2	n.d. (12.7)	n.d.	n.d. (13.0)	n.d.
Bosnia and Herzegovina	27.3	33.7	21.9	27.4	23.5	26.2
Croatia	8.4	11.2	7.0	10.1	8.7	10.6
Kosovo	38.5	55.2	42.7	59.6	n.d. (43.0)	n.d.
FYR Macedonia	34.9	35.5	33.7	34.3	32.0	32.9
Montenegro	18.2	21.0	16.1	18.0	18.2	20.6
Serbia	16.5	21.7	12.6	14.7	15.3	18.4

Note: Albania: data not available for 2008 and 2009, Kosovo: data not available for 2009, OECD: data not available for 2009. Where sex divided data was not available, the total unemployment rate is indicated in brackets.

6.6 Spatial dimension of unemployment

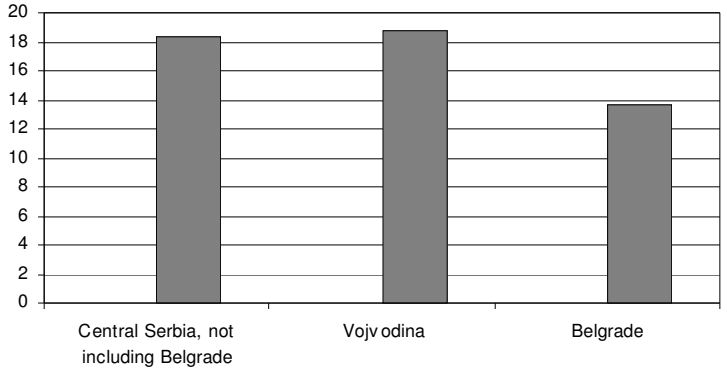
Finally, it is important to mention the spatial dimension to the labour market which is in evidence across the region. The transition process led to a growth in disparities between capital cities and other areas, as well as between rural and urban areas more generally. Compounding this division was the way in which those areas hit hardest by the transition process, such as rural ones through the decline of agriculture, also lacked the capacity to create effective strategies for local economic development. A number of Labour Force Surveys (LFS) recently conducted throughout the region highlight this phenomenon. For example, in Serbia, unemployment was nearly four percent higher in the central area of the country and the Autonomous Province of the Vojvodina than in the capital city of Belgrade (*Figure 27*) (Statistical Office of the Republic of Serbia, 2009).

This trend is further evidenced in neighbouring Montenegro (*Figure 28*), whose rural northern region has been plagued with markedly higher unemployment than the industrialised coastal region and the capital city of Podgorica (Montenegro Statistical Office, 2010).

An interesting anomaly in this context is found in Bosnia and Herzegovina, where the lack of a major metropolis has generated peculiar results (*Figure 29*). Despite having the country's largest city in Sarajevo, the Federation of Bosnia and Herzegovina has had higher unemployment than the Republika Srpska when analysing the issue by entity over the time period 2007–2009 (Agency for Statistics of Bosnia and Herzegovina, 2009).

Figure 27

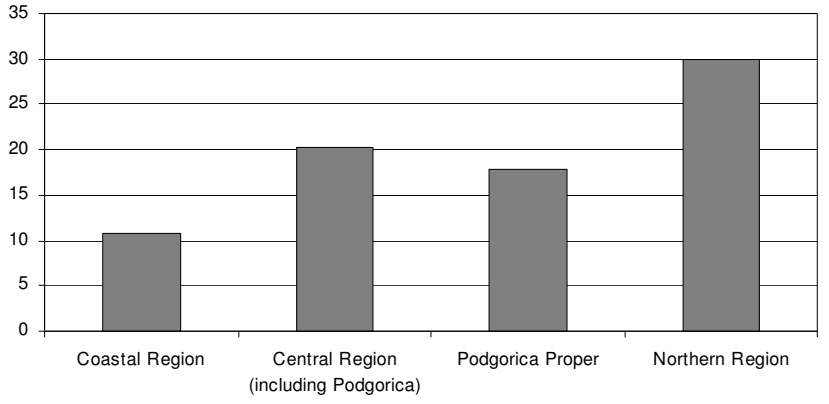
Unemployment rate (%) by region in Serbia (October 2009)



Source: Statistical Office of the Republic of Serbia, 2009.

Figure 28

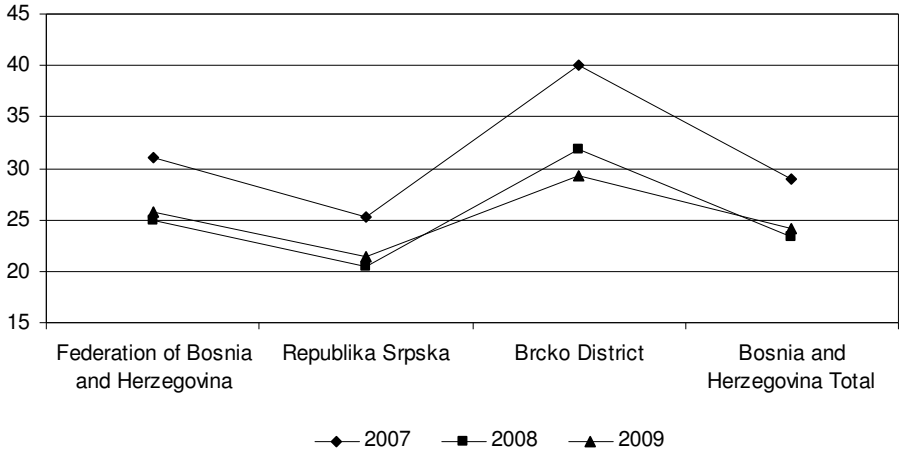
Unemployment (%) by region in Montenegro – Fourth Quarter 2009



Source: Montenegro Statistical Office, 2010.

Figure 29

Unemployment rate (%) by entity in Bosnia and Herzegovina, 2007–2009



Source: Agency for Statistics of Bosnia and Herzegovina, 2009.

Adding to the challenges presented by spatial unemployment has been significant out-migration (both within a country and abroad) which has further reduced the skills base available. As Bartlett (2009) notes, this has left some areas without the endogenous capacity required in order to stimulate local economic development and to exploit wider positive macroeconomic changes. Spatial disadvantage poses additional challenges to job creation and entrepreneurship development, unless the design and delivery of local development policies effectively addresses patterns of labour market disadvantage at both the individual, group and spatial levels.

7 Human capital development

The problems confronting the labour markets across the Western Balkan region are by no means insignificant. Arguably one of the most pressing issues across the region is to enhance human capital in a way which addresses underlying labour market weaknesses whilst also seeking to ensure sustained economic development where opportunities and prosperity are inclusive and diffused across territories. If this is to be achieved then there is a need to ensure that the right mix of strategies and implementing tools are in place. These include active labour market policies, skills strategies focused on meeting a territory's needs and actively seeking to develop a balance of the supply and demand of skills and jobs. It also raises issues about the way in which these strategies and processes can be co-ordinated, and the need to give partnerships a central role in these activities in order to develop integrated approaches which respond to local needs.

7.1 Active labour market policies

Broadly, active labour market policies (ALMPs) have a dual focus: economically they seek to increase the likelihood of an individual finding work and also to contribute to higher levels of individual productivity, whilst socially they focus on inclusion. A wide range of activities can be undertaken within the framework of active labour market policies, including training, the provision of wage/employment subsidies and public works and also employment services. However, it is important to recognise that such activities in themselves do not automatically lead to an increase in employment levels and the better functioning of the labour market. A World Bank report (2009) has highlighted that their usefulness is dependent upon the availability of jobs within an area and so ac-

cordingly ALMPs should not be seen as "a panacea for large-scale unemployment" (*Kuddo,* 2009). This is not to suggest that they are inappropriate tools to use, but rather that their ability to resolve deep seated problems within the labour market is limited, and that to be most effective it is necessary to ensure that active labour market policies are embedded within wider approaches focusing on local economic development accompanied matching the supply of and demand for skills.

In 2007, a report by the European Training Foundation highlighted how active employment policies lacked effectiveness, partly because they were not linked to wider strategies for job creation and economic development. Furthermore, there was strong evidence of 'creaming', with the best candidates being employed quickly, and a failure to tackle 'deadweight' issues, long recognised as a potential problem and something which needs to be considered in the design of ALMPs. There are also wider issues on the funding of ALMPs in the Western Balkan region, as result of budgetary pressures on the available resources. This is driven in part by the fact in many parts the same budget is used to fund both passive measures (social transfers) as well as active measures. Greater demand for benefits by increased registrants therefore reduces the resources available to implement ALMPs (ETF, 2007).

However, there is growing evidence of a recognition of such problems and of good practice across the region. Croatia has introduced information seminars for newly unemployed people, which is a low-cost/high volume tool that reaches individuals quickly at an early stage of their unemployment. In Republika Srpska (an 'entity' in Bosnia and Herzegovina) targeted measures focusing on disadvantaged groups (such as women, the disabled, and the long-term unemployed) are becoming more effective, alongside better understanding of the uses and limitations of ALMPs (ETF, 2007). A tool used in FYROM and Serbia are individual action plans, offered to registrants within a set period of time, as a way of helping people to develop the skills and experience required to find employment (World Bank, 2009). By creating a pathway to employment individuals are given clear guidance and direction. Such action plans, implemented in Serbia in 2006, appear to have been valuable tools for helping people to find work (ILO and Republic of Serbia, 2009). However, they are labour intensive, and their effective, wide-spread use will depend on the capacity of the public employment service to deliver them.

7.2 Public employment services

Public employment services (PES) have a central role to play in addressing unemployment by helping individuals find work and ensuring that they have both the hard and soft skills they need to take up employment opportunities. However, across the region PES confront significant difficulties in fulfilling that role. A World Bank report (2009) highlighted that in some Balkan countries staff within PES offices confront workloads which effectively hindered their ability to work with the unemployed, particularly the most disadvantaged, such as young people and the long-term unemployed. The ILO recommended staff/registrant ratio is 1: 100, and the European Union average is 1:150. In FYROM the ratio is 1:654 but this rises to over 1:1200 when it emerges that less than just over half of PES staff are actually working with clients (*Kuddo,* 2009). An ETF report in 2007 noted the "sense of hopelessness" evident in some PES as a result of the sheer quantity of registrants. The registration 'burden' stems from the way in which, in many parts of the region, health care is provided to those registered as unemployed. Removing the registration burden, as has been done in Serbia, is an important step in helping PES to fulfil their core activities (*Krstić–Corbanese,* 2009), as is seeking to tackle the informal economy, such as by ensuring that those registering as unemployed are in fact actively seeking work.

Whilst there are clear issues around the need to improve the capacity of PES, there is also a need to return to a core focus in their activities. Across the region PES have found themselves involved in a wide-range of activities, such as overseeing enterprise and business centres, registering new employment contracts and administering health insurance coupons (as PES are required to do in FYROM) which have taken them away from their primary task "of helping to ensure that the supply side of the labour market is working satisfactorily" (ETF, 2007). A consequence of this has been that the complex needs of the most disadvantaged can be overlooked; the very people who need the PES to function effectively if they are to be (re-)integrated into the labour market.

At the same time, it is important to acknowledge that the lack of resources is not the only challenge for PES. A World Bank report (2009) has suggested that PES in many countries are overly passive in finding recent employment vacancies. Furthermore, employers across the region have expressed dissatisfaction with the ability of PES to recommend suitable candidates and so there are low levels of usage of public employment services by employers, which hinders the contribution which PES can make to helping people find work.

In the Western Balkan region, PES have an important role of play, but the lack of resources and lack of capacity is hindering their ability to deliver and

evaluate ALMPS and to work with other local actors in order to enhance their understanding of the local labour market and the needs of local employers. Indeed, with such difficulties, the PES also faces challenges in the design and implementation of ALMPS. However, it is critical to the long-term economic prosperity of a locality, region and country, that active labour market policies which are cost-effective and responsive to local needs are developed. Addressing the capacity of PES in the region is therefore an element of enhancing their contribution to tackling unemployment and also enabling them to work in areas which have been relatively marginal areas of activity, such as training (*Kuddo,* 2009).

7.3 Skills strategies

The stocks of skills in the Western Balkan region are low, and the OECD (2010c) has highlighted the urgent need to focus on skills development within the region in a co-ordinated and integrated way, which is truly consultative. Such co-ordination and integration has an important role to play in helping to ensure skills training and education takes into account local needs, as well as long-term local economic development strategies. OECD LEED work has emphasised the longer-term benefits that accrue from skills development when it is fully integrated into a wider strategy for local economic development (OECD, 2010a). Focusing upon, and resourcing, human capital and skills strategies are not in themselves, however, enough. Rather, they need to be matched by strategies in parallel to develop innovation, knowledge transfer, technology, enterprise and general investment.

Nor should these be divorced from other strategies focusing on overcoming disadvantage or building the capacity of local communities (*Noya* et al. 2009). Indeed, the weak employment performance in evidence across the region, highlights the need to develop multi-dimensional strategies for economic growth and increased employment which in turn are part of integrated economic and social policies (*Kuddo,* 2009). Focusing on disadvantaged groups from a perspective which is broader than simply employment, but which seeks to address the underlying reasons for the disadvantage experienced in the labour market will also contribute to more sustainable, more effective local economic development.

There is growing evidence of good practice in the Balkans in the development of skills strategies. In 2006 Macedonia established a skills needs analysis model to be used for short-term labour market forecasting which has been utilised by the Employment Service Agency as a way of identifying skills require-

ments. Sectoral strategies are then developed by the Ministry of Economy in concert with interested parties. Given Croatia's high-skill path to economic development, it is unsurprising to find that an important element of their skills strategy is continuing education training, including being the only country in the Western Balkan region to make it tax-deductible. In other parts of the region, there is growing interest in the need for on-going skills updating and training, and policies and strategies are being adopted to support this (OECD, 2010c).

Such strategies have also been found to be more efficacious when developed within partnership approach, with public and private sector actors, as well as social economy ones, all involved in the local design and implementation of a skills strategy, and at the local level along with appropriate decentralisation. This helps to focus local skills strategies (and associated activities) by identifying and responding to local needs in the short, medium and long-term, and also can assist in the development and incorporation of ideas about the economic direction of a territory. In particular, strong integration between government bodies such as employment services and economic development agencies, training and educational institutions, employer organisations, trade unions and social economy organisations, will help to ensure the "appropriate synergies and trade-offs between different strategic objectives related to human resources development (e.g. integration into employment, skills upgrading, further education, and the attraction of new talent)" (*Giguere–Froy,* 2009).

Although consultation is not the same as working in partnership, it nevertheless remains a valuable process which can also help build the trust necessary for partnerships. Across the region, the OECD (2010c) has found evidence of growing consultative processes, and also nascent partnerships, being put in place. In particular, FYROM and Montenegro have been identified in the Western Balkans as having consultative processes which approximate best practice within the OECD and Albania's National VET (Vocational Education and Training) Council has representatives from both employers and unions. However, questions remain for other parts of the region as to how meaningful and how representative some of the consultation being undertaken should be considered.

Decentralisation is also important, as it enables institutions, such as PES, to be more responsive to local needs, as well as having a stronger understanding of them. Across much of the Western Balkan region there is evidence of decentralisation, although its effectiveness is more problematic. The most extreme example of decentralisation in the region is that of the Republic of Bosnia and Herzegovina (divided into two entities, the Federation of Bosnia and Herzegovina and the Republika Srpska, the Federation is then sub-divided into ten cantons which then deliver services, alongside municipalities) although there are other examples, such as the creation of 123 small municipalities in FYROM

(which replaced the 34 that had previously existed). However, it is not always evident that these decentralised levels of government have the necessary capacity, nor that it has been effective in creating a high trust environment in which partnership working flourishes (*Bartlett,* 2009). Rather, the fragmented decentralisation in evidence in the region has led to greater inefficiencies and marked disparities (*Stubbs,* 2009), rather than enhancing local responsiveness.

The challenges which the Western Balkan region confronts, such as the informal economy and firmly entrenched labour market weaknesses, are not be downplayed. Nevertheless, LEED's work has highlighted the value of adopting partnership approaches in order to identify local labour market needs in order to address and balance the demand and supply of skills.

7.4 Supply and demand side issues

The low-skills path noted earlier as being evident across much of the Western Balkan region, and associated problems with skills development, are not the only difficulties to be overcome in addressing labour market disadvantage and creating more and better quality employment opportunities. Indeed, central to achieving this is to ensure that there are appropriate skills matching and that supply side interventions to skills and employment are matched by demand side. This must be accompanied by an avoidance of the creation of skills' surpluses, which can increase the likelihood of migration. This is extremely relevant to the Western Balkans given the high rates of emigration in evidence and the accompanying economic impacts of this.

Skills, training and education are central elements to responding to challenges in the labour market. Active labour market policies, including training on the job and for the unemployed, are an important element in helping local territories to meet the challenges they confront and to helping bring disadvantaged individuals and groups into the labour market. In order for them to be effective, active labour market policies need to ensure that they are responding to local needs, such as by matching skills to local demand, addressing low productivity and seeking to move towards a high skills/high productivity equilibrium. This latter factor is particularly important for countries in the Western Balkans who find themselves in a low skill/low productivity equilibrium and need to make a step change in order to contribute to their candidacy for the European Union. Such a change would also contribute to overcoming a loss of skills, evident across the Western Balkans, whether that be through internal migration, which serves to further embed spatial disadvantage, or through the loss of skills to international migration, the 'brain drain'. Countries including FYROM and

Serbia have had their economic development and prosperity hindered by the impact of a brain drain. For example, in FYROM, between 1995 and 2000, over 70 percent of scientists and engineers working in the field of research and development left the country (IOM, 2007).

Turning the 'brain drain' into 'brain circulation' by encouraging well educated individuals to return home is an opportunity to enhance the skill levels and innovativeness of a territory. Serbia, which has long suffered from the loss of well educated and highly skilled individuals, in 2010 sought to attract people through the utilisation of a loan of 30 million EUR from the European Investment Bank to rebuild and modernise science and technology in the country, including facilities and equipment. Croatia has a "Unity through Knowledge Fund" which encourages the Croatian scientific professional diaspora to return, and also seeks to build links between institutes and researchers in Croatia with those in the diaspora (IOM, 2009). Whilst in turn Albania has a "Brain Gain Initiative" which seeks to provide incentives for highly skilled Albanian to return to Albania (OECD, 2010c).

Such programmes, accompanied by reforms to ensure that there are no administrative obstacles for returnees to overcome, can make an important contribution to creating 'brain circulation' which in turn has a positive impact on the wider environment for research and development, innovation and economic development more generally.

8 International frameworks

The effectiveness of national laws is decreasing as a result of the wider context of a global labour market affected by atypical employment, the sizeable presence of an informal economy, decentralisation and outsourcing, international trade, and capital and technology which can jump national borders (*Bronstein,* 2009). In this context, a range of voluntary and compulsory (within the context of the European Union) labour standards are important. These include those agreed by members of the International Labour Organisation, supranational laws formulated by the European Union (whose interpretation is entrusted to a supranational judiciary body), and treaties or international trade agreements including social clauses or other voluntary standards. Corporate social responsibility, in which standards respond to stakeholder expectations of environmental and social policies and practices, for which companies are held accountable are also important, as is, to some extent, the advancement of corporate social responsibility ideas as a social licence to operate.

In 2003, the Bucharest Declaration, Improving Employment in South Eastern Europe, was adopted on the occasion of the South East Europe Conference on Employment (SEE-EC). At that conference, ministers responsible for employment from Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Moldova, Romania, Serbia and Montenegro and FYROM, as well as Kosovo, formally committed themselves to:

- "preparing our future integration into the European Union by converging towards the objectives and guidelines of the European Employment Strategy;
- implementing the Council of Europe standards in employment matters – the European Social Charter and the Revised Social Charter – and creating a situation conducive to the application of Council of Europe Recommendations concerning the promotion of employment; and,
- making operational the core elements of the International Labour Office's Global Employment Agenda in our countries."

Whilst at present only Croatia and FYROM from the Western Balkan region are EU candidate countries, the others are all potential EU candidates. The EU has repeatedly reaffirmed, at the highest level, its commitment to the Western Balkan region, provided that they fulfil the accession criteria (which includes issues around institutional stability, respect for the rule of law and human rights, the presence of a functioning market economy, and the ability to accept and adhere to the obligations which accompany membership), although it has been suggested that the wait for accession may be prolonged, with little evidence of enthusiasm for expansion in some member countries (*Tsoukalis,* 2008).

According to the Bucharest Declaration, numerous rules and regulations in the Western Balkan region are being aligned with EU practices. However, the OECD has suggested that low and medium-income countries (as those of the Western Balkan region are) need more flexible employment protection legislation (EPL) rules than those which exist in Western Europe. There is a need to avoid overprotection, yet ensure the provision of basic protection and rights, in order to support the rapid restructuring of an economy and to promote and sustain economic growth with a higher degree of labour market flexibility (OECD, 2006; 2008).

9 Assessing employment protection legislation

The OECD has created a methodology for determining the strictness of EPL (OECD, 1999). This breaks down the costs of hiring and firing permanent and temporary employees and the costs of collective dismissal. Based on this method, work by Micevska (2004) and Gligorov et al. (2008) has calculated the EPL index for countries in south east Europe, including the Western Balkan region. Their findings suggest that there are relatively flexible EPL for permanent contracts in the region, which is in contrast to most EU member states (*Table 22*).

Table 22

EPL index as per OECD methodology

Country	Year	Regular employment	Temporary employment	Collective dismissals	EPL index
Albania	1995	2.1	3.0	2.8	2.6
Bosnia and Herzegovina	2003	1.8	3.1	3.3	2.6
Croatia	2003	2.6	1.9	4.3	2.6
Kosovo[1]	2001	1.3	2.8	4.6	2.5
FYROM	2003	2.0	3.1	4	2.8
Montenegro[2]	2003	2.2	4.5	4.8	3.6
Serbia	2005	2.0	4.4	3.6	3.3
West Balkan regional average		2.0	3.2	3.9	2.8
EU average[3]	2008	2.4	1.8	3.2	2.3

Note:

1 Regulation No2001/27 on Essential Labour Law in Kosovo could not be considered a comprehensive labour law since it contains only essential elements and does not cover other important fields. Therefore the low value could be a result of the incomplete regulation of the labour market.

2 In Montenegro the new labour law n. 49/08 introduces greater freedom for employers in negotiating employment relations and greater flexibility of the labour market in general but, on the other hand, also includes improved provision of unemployment benefits and assistance in seeking new employment. The new law introduces a shorter notice period of 15 days (down from the previous 30 days), the possibility to establish: (i) temporary and periodic contracts for work in line with the firm's activities for no longer than six months; (ii) special service contracts outside the line of the employers' businesses; and (iii) contracts for a definite period of time such as for seasonal jobs, specific projects, etc. The employer can conclude an individual collective contract, a special contract or a general collective contract. The EPL index requires revision in light of this 2008 regulation.

3 Excludes Cyprus, Latvia, Lithuania and Malta.

Source: OECD (2010c) and OECD (2008) http://dotstat/OECDStat_Metadata/ShowMetadata.ashx?Dataset=EPL_OV&Lang=en&backtodotstat=false (Version 2).

However, temporary contracts in the Western Balkan region tend to be quite rigid when considered within the framework of the OECD EPL index. Indeed in Albania, Croatia and Serbia fixed-term contracts are still prohibited for permanent tasks (*see table 23*) and, where they are allowed, only Kosovo and Montenegro do not limit the duration of fixed-term contracts. Temporary contracts are generally restricted to specific situations such as seasonal work and the replacement of temporarily absent permanent employees. Temporary work agencies, where they are allowed, appear to helping people to find employment. In FYROM, where the Law on Temporary Employment Agency was adopted in 2000, such agencies have appeared to play a valuable role in finding work for registered unemployed people, with around 14,300 placed in a two year period (World Bank, 2008a).

Table 23

Fixed term contracts and redundancy in the Western Balkans

	Albania	Bosnia and Herzegovina	Croatia	Kosovo	FYROM	Montenegro	Serbia
Fixed-term contracts							
Are fixed-term contracts prohibited for permanent tasks?	Y	N	Y	N	N	N	Y
What is the maximum duration of fixed-term contracts (including renewals)? (in months)	No limit	24	36	No limit	60	No limit	12
What is the ratio of mandated minimum wage to the average value added per worker?	0.39	0.69	0.3	0	0.28	0.08	0.26
Redundancy							
Is the termination of workers due to redundancy legally authorised?	Y	Y	Y	Y	Y	Y	Y
Must the employer notify a third party before terminating one redundant worker?	N	N	Y	N	N	N	N
Does the employer need the approval of a third party to terminate one redundant worker?	N	N	N	N	N	N	N
Must the employer notify a third party before terminating a group of nine redundant workers?	N	Y	Y	N	Y	N	N

Cont. Table 23

	Albania	Bosnia and Herzegovina	Croatia	Kosovo	FYROM	Montenegro	Serbia
Does the employer need the approval of a third party to terminate a group of ine redundant workers?	N	N	N	N	N	N	N
Is there a retraining or reassignment obligation before an employer can make a worker redundant?	N	Y	Y	Y	N	Y	Y
Are there priority rules applying to redundancies?	N	N	Y	Y	N	Y	N
Are there priority rules applying to re-employment?	Y	Y	Y	Y	N	N	Y
Redundancy costs (weeks of salary)							
What is the notice period for redundancy dismissal after 20 years of continuous employment? (weeks of salary)	13	2	13	13	4.3	2.1	0
What is the severance pay for redundancy dismissal after 20 years of employment? (weeks of salary)	42.9	28.9	26	17.3	21.7	26	25.3
What is the legally mandated penalty for redundancy dismissal? (weeks of salary)	0	0	0	0	0	0	0

Source: World Bank, Employing Workers, retrieved 22 April 2010 from World Bank Doing Business [project site] 2009 www.doingbusiness.org/ExploreTopics/EmployingWorkers/. The most recent round of data collection for the project was completed in June 2009.

In all Western Balkan economies, redundancy is a legitimate basis for dismissal and no prior approval from a third party, such as a trade union, is required before firing an employee, although in Croatia notice is required. In five countries the employer is obliged to retrain or try to reassign a worker before declaring him redundant. Severance pay for long-time employment is notably high in Albania, Bosnia and Herzegovina, Croatia and Montenegro.

However, it is also known that restricting flexible forms of employment tends to lower employment sharply and participation rates for youth, women and other groups which tend to be on the margin of the labour market (OECD, 2009c; 2004). It may also contribute to the growth of the informal economy as firms seek to avoid the application of such norms and regulations.

10 Social dialogue

In order to persuade employers to improve working conditions and use sanctions in a strategic manner, rather than as an automatic 'punishment' which may cause fledging small and medium-sized enterprises to 'go under', the capacity of trade unions in the areas of health and safety is acquiring greater importance. Consequently, social dialogue also appears to be particularly important as an instrument to encompass expanding and declining parts of the labour market, and in being able to create a compromise between reconciling workers' demand for income security whilst allowing a high degree of flexibility in business decision-making.

There are still a number of problems preventing social dialogue from operating properly in the region, such as the insufficient legal framework (with the exception of Croatia which has already adapted its fundamental structures more completely to the European social model, as highlighted in the EU Progress Report on the region for 2008 and again in October 2009 (European Union, 2008a and 2009a), the weakness of social partners, the ineffectiveness of the institutions of social dialogue and a lack of experience in social dialogue (ILO, 2010). Generally speaking, tripartite framework regulations agreed between the competent ministries and the social partners that then serve as framework collective agreements for all employees in the public or private sector exist. However, as a rule, they contain little more in terms of substance than the statutory minimum standards that apply in any case, not containing specific pay scales but, at best, including provisions for a minimum wage which is established in all Western Balkans countries (*Kohl,* 2009).

Nevertheless, the alignment to international practice on all essential points could not represent the only goal since the most serious shortcomings of the Western Balkans' labour market institutions belong, as seen above, to the implementation stage. The challenges brought by globalisation and technological progress, exacerbated by the global economic crisis, translate into new tasks for labour market institutions. Far from undermining the role of employment and training organisations, globalisation calls on the contrary for more intelligence gathering, more partnership building, and more strategic thinking. Such activism does not always fit with the standardised procedures of employment and training organisations. This is why changes are required on multiple fronts, from adapting the policy management framework to building capacities on the ground (*Giguere–Froy,* 2009).

11 Conclusions

The challenges which the Western Balkan region confronts with regard to employment and the creation of a well functioning, inclusive labour market should not be underestimated. Continued high levels of unemployment, the presence of significant group and spatial disadvantage, alongside a substantial informal economy (except in Croatia) are factors which contribute to the low skills/low productivity equilibrium which is broadly the trajectory across the region barring Croatia and potentially Serbia. Overcoming these complex problems requires sophisticated, responsive policies and strategies which address disadvantage and help to (re-)integrate people into the labour market, such as through active labour market policies and skills development. In turn, these strategies need to be part of an approach which seeks to develop an appropriate balance between skills provision and the needs of employers at the local level, which also avoids creating incentives for migration through skills mis-match.

The design and deployment of such strategies brings with it questions as to the availability of resources and the presence of capacity amongst the actors who should be involved. PES, who have an important role to play in helping people to find work, particularly disadvantaged people, appear to have been over-burdened in many parts of the Western Balkan region, such as with regard to registering individuals for access to health and social assistance, and also lack the ability to meet local employers' needs. As OECD work has highlighted, local strategies to meet and respond to local needs are the most effective. However, this requires local actors, including government and government agencies, such as PES, and those from the private sector and civil society, to have the willingness, capacity and resources, alongside appropriate, decentralised powers, to work together in partnership.

As this chapter has highlighted, amongst the many challenges which the region confronts, there is evidence of good practice. Across the region can be found a growing recognition of the need to ensure that public employment services are not burdened by roles which arguably fall outside of their core focus, ALMPs are becoming more sensitive to local needs and are acknowledging creaming and deadweight issues and increased consultation and nascent partnerships are also in evidence. Thus, whilst many challenges remain, there are also significant opportunities which can be seized, particularly as the region emerges from the impact of the economic crisis in order to build a more inclusive labour market which harnesses the economic potential of individuals and groups to increase productivity, generate higher standards of living and, in the long-term, to ensure that the benefits of economic growth are diffused through increased labour market participation and the creation of a high skills/high productivity equilibrium.

III.

ENVIRONMENT AND SETTLEMENT NETWORK

NATURAL RESOURCES AND STATE OF THE ENVIRONMENT

IMRE NAGY

1 Short overview of the physical environment

The region has a varied geological structure and so practically all eras and periods of the Earth's history can be traced here. The oldest Archean and Paleozoic crystalline formations constitute the Rodope Massif. Such rocks comprise almost the entire basis of the Balkan Peninsula and are visible at surface level also. Similar rocks constitute the Eastern and Central territories of Macedonia, the area east of the river Ibar in South Serbia, Kosovo Polje and some parts of Šumadija. Similar crystalline rocks can be found in the Julian Alps and the Karavanke massif in Slovenia, in the Prokletije Mountain (Albania and Montenegro), in the valley of Vrbas, Una and Kupa rivers (Bosnia and Herzegovina) as well as the in the massif of inland mountains in the area between the rivers Drava and Sava. Triassic limestone builds the mountain chains of the region ranging from the Julian and Savinja Alps in Slovenia through the Gorski Kotar and Lika in Croatia, through Bosnia and Montenegro to Albania and Southwestern Serbia. The higher parts of the Šar Mountain are also Triassic formations.

The limestone layers from the Mesozoic Era's middle and late–Jurassic and Cretaceous–periods are located south of the Triassic formations. Such rocks appear in the mountains in Croatia (south of the Kupa River) in Western Bosnia and Herzegovina and in southern Montenegro – as well as forming the Adriatic coast and the islands. These rock layers cover the Carpathian-Balkan massif crystalline rock and perm sandstone layers also. Eocenic flysch can be found in the synclines of the Adriatic coast and islands.

Mountain formation in the Tertiary period was followed by the sinking of the Pannonian territory and the formation of the Pannonian Sea. The disappearance of the latter left Neogenic sediments such as sandstone, slate and clay along the northern part of the region, the rim of the Pannonian depression, as well as in the Vojvodina and Slavonia. The thickness of marine and lake sediments (clay and sandstone) reach 2000m, whereas sediments of other lakes (Lake Ohrid, Lake Prespa, Lake Doiran) may be as thick as several hundred

meters. The most significant volcanic massifs in Eastern Macedonia can be found in the Vranje region, the valley of the River Ibar, and the Rudnik and Kopaonik Mountains in Serbia.

Aeolian sediments (sand, loess) formed by the Pleistocenic accumulation of wind-blown materials can be found in the Vojvodina (Serbia) and Slavonia (Croatia). Alluvial sediments are characteristic of river valleys.

As the present book does not aim at the detailed description of the region's relief, I will only provide a short overview of its macro-formations and territorial structures.

Several macrotectonic units can be identified within the region's relief. Mountains stretch from the Triglav Mountain (Slovenia) through the Maleševo Mountain (Albania), and from the Dinarides (Croatia) through the Kučaj Mountains in Serbia including the Julian Alps, the Dinarides, the Šar Mountains (Macedonia, Albania), the Pelagonic, Rodope and Carpathian-Balkan Mountain ranges.

The Adriatic coast in the southwestern part of the region includes the Adriatic Sea Basin, the Croatian and Macedonian islands, and the narrow coastline with varied relief formations created by sea and river abrasion as well as karstic erosion. The transboundary Shkodra basin between Albania and Montenegro widens in Albania. Lower Albania, uplifted in the Quaternary until the late Pliocene epoch, continues in the alluvial plains created by rivers depositing sediment. Along the low coastline barrier beaches and lagoons create wetlands. South of the Vlora Bay the flat coastline narrows and turns mountainous.

The southern Carpathian basin (Pannonian basin) and the western and southern parts of the rim of the Pannonian Plain (Croatia, Serbia) constitute the largest flatland in the region. Terraces indicating the withdrawal phases of the Pannonian Sea can be traced in currently existing terraces of the rim region. Other flatlands can be found in the western part of the Vlach-Pontus flatland (Vlaško-pontijski basen) in eastern Serbia including Negotin Krajina as well as the area surrounding the mouth of the River Timok which developed identically to the Pannonian region. Within the territory examined the southern Macedonian highlands sank into the plains area of the Aegean coast (Gevgelija-Strumica River basin, Tikveš).

Assymetricality in the region's relief occurs due to the uneven distribution of the drainage basins of the Adriatic, Black and Aegean seas. The dividing ridge between the Adriatic and Black Seas sometimes runs only 26 km from the Adriatic sea (the origins of the Kupa and Sava rivers is about 70 km from the Adriatic, yet it takes several hundred km for them finally to reach the Black sea after joining the River Danube). The central area of the ridge is situated to the east and functions as a dividing ridge, also creating climactic differences. River valleys and basins visibly cut up the Albanian highlands and divide it into several

parts. In the northern Albanian border region, south of the Montenegro Mountains and the western Serbian plateau, a number of basins were filled with water at the end of the Pliocene epoch: the Shkodra Basin including Lake Shkodra, Metochia Basin, and Kosovo Polje. Albania stretches from the northern borders to the valley of the River Drina. The karstic range of the Prokletije Mountains, situated between these basins and the upper valleys of the Lim and Tara rivers, is built up mostly of Mesozoic limestone and it stretches from northeast-east to west. In the eastern part of the country the isolated tectonic rift basins and block-mountains (Rodope) can be found. Some basins located at an altitude of 500–800m are partly filled with water (Lake Ohrid, Lake Prespa), whilst others are dry (e.g. Korça Basin).

1.1 Climate

The region is located in the temperate zone, in the northern hemisphere and on the 45° northern latitude as it goes across northern Serbia (the Vojvodina), to western Croatia and southern Istria. The area has a temperate climate. The maritime effect of the Adriatic and Aegean Seas and the specific relief are responsible for the variety of climatic conditions in the Western Balkans, which are: Mediterranean climate, mountainous temperate climate and the temperate climate of the Pannonian flatlands.

A Mediterranean climate is characteristic of the coastal zone of Slovenia, Croatia, Montenegro, and Albania as well as of the southernmost part of Macedonia due to the impact of the Aegean Sea. Mild winters characterize these regions (the mean temperature in January is 5–10 °C). Spring starts early as it begins to warm up in late February and early March. Summer is hot and dry; it lasts for 5–6 months (mean temperature in July 25–26 °C). Autumn is long and warm yet rich in precipitation. The annual amount of precipitation in the coastal regions and islands reaches 1000 mm, yet there is a lot more rain in the mountains (Krivošije and Orjen Mountains in Montenegro 5000 mm/year–the highest amount in Europe).

The Shkodra basin (Albania and Montenegro), at the delta of Bojana, Neretva and Zeta Rivers (in Montenegro), has a transitional climate with dry, hot summers, yet continentally cold winters due to the climatic impact of the surrounding high mountains. However, the river valley of Vardar in Macedonia has modified Mediterranean climate. Due to the maritime impact of the Aegean Sea its summer is hotter and dryer than the coastline of the Adriatic Sea, its winter is however sharper and colder with little annual precipitation (400–500 mm). Due to its size the region's moderate mountainous climate shows varying features.

Mountainous climate is characteristic of approximately 75% of the region. Various subtypes of mountainous mountain climate can be distinguished as a result of significant differences due to latitude, the maritime impact and vertical structure. A temperate mountainous climate is characteristic of a height of 800–1400 m above sea level, with moderately warm summers, cold winters and moderate weather in the autumn months. In the Alps, typical mountainous climates produce extremely cold winters with a great deal of snow. Summers are cool and short with a considerable amount of precipitation. In the Triglav Mountains (Slovenia) winter lasts for eight months, in the Bjelašnica Mountains (2,067 m high in Montenegro) and in the Šar Mountains (2,500 m high in Macedonia and Albania) the daily mean temperature remains below zero for six months, whereas in Kupres (1,160 m high in Bosnia) the same mean temperature lasts for 5 months. In the karstlands and basins at high altitude, winters are severely cold whereas summers are pleasant, cooler only in karstlands at higher altitudes, due to temperature inversion. Summer heat lasts only for a short period of time. Climatic data ranges widely. The absolute maximum temperature range is between 46.2°C (measured in Mostar, Bosnia-Herzegovina) and –46.2°C (in Bjelašnica). In drier areas the annual average precipitation hardly amounts to 500 mm: whereas in the high mountains of Montenegro precipitation reaches 2,500–3,000 mm, and, in the Alps, 2,000–3,150 mm.

The temperate continental climate of the Pannonian Basin is characterised by hot summers with little precipitation and cold winters. Annual mean temperatures increase from west to east (Čakovec, Croatia 10.4°C Jaša Tomić/Banat 12.4°C), yet there is a palpable difference along the north-south axis (Osijek 10°C, Bijeljina 11.2°C, Senta 11.3°C, Belgrade 11.6°C). The mean temperature in July, the hottest month, increases from west to east (with 1.8–2.5°C difference); whereas the mean temperature in January decreases from west to east (Zagreb, Karlovac 0.6°C, Senta –1.3°C, Bečej –1.2°C).

1.2 Hydrography, water resources

The surface and subsurface water resources of the Western Balkan region differ greatly due to the varied relief, geological structure, vegetation and distribution of rainfall. Generally speaking there are significant water resources available, except for the Adriatic islands and a few high mountainous terrains. Subsurface water resources in the region function as substantial drinking water supplies whereas surface water currents and lakes serve recreational and energy production purposes. Subsurface water resources can be classified according to the geological structure of the water storage layers: water from silicate rock forma-

tions, karstic waters, waters with high mineral content, sour or bitter water resources, water with high iron content and indifferent water resources (*Vidanović,* 1975). Therefore, the whole region is rich in mineral and thermal water resources, which has become increasingly substantial in the field of health tourism as well as water supplies. Without the aim of providing a full inventory, *Table 24* lists a few famous and characteristic spas and mineral water resources emphasizing their specific features.

Table 24

Survey of some important mineral water resources

Mineral water/hot spring	Location	Country	Characteristic features
Sour water springs	Aranđelovac	Serbia	high H_2CO_3 content
	Vrnjačka Banja	Serbia	
	Sijerinska Banja	Serbia	
	Radenska Slatina	Slovenia	higher than average NaCl content, 12.4–13,8°C
	Rogaška Slatina	Slovenia	NaSO4
	Sarajevski Kiseljak	Bosnia-Herzegovina	
	Lipičke Toplice	Croatia	
Mineral waters with high salt content	Stari Slankamen	Serbia	10–20 g mineral content, largely NaCl
	Novi Sad iodine spa	Serbia	Besides salt it contains iodine and bromide
	Iodine spring of Sisak	Croatia	
	Tuzlanska Banja	Bosnia-Herzegovina	High saline mineral water
Bitter mineral water springs	Banja Luka	Bosnia-Herzegovina	High content of bitter saline ($MgSO_4$ – magnesium sulfate and $NaSO_4$ – natrium sulfate
Sulfatic mineral waters	Mataruška Banja	Serbia	1–93 mg/l Hydrogen sulfide gas content
	Varaždinske Toplice	Croatia	
	Ilidza	Bosnia-Herzegovina	
	Vranjska Banja	Serbia	
	Brestovačka Banja	Serbia	
	Jošanička Banja		
	Kočanska Banja	Macedonia	
	Splitske Toplice	Croatia	High sodium content
	Bečej iodine spa	Serbia	iodine sulphurous thermal water

Cont. Table 24

Mineral water/hot spring	Location	Country	Characteristic features
Mineral water with alkaline earth metal content	Kiseljak	Bosnia-Herzegovina	
Mineral water with high iron content	Banja Koviljača	Serbia	Iron and carbonate content
Indifferent waters	Niška banja	Serbia	
	Čateške Toplice	Croatia	
	Krapinske Toplice	Croatia	
	Dolenjske Toplice	Slovenia	

Source: Vidanović, 1975 (author's modifications).

The area's surface hydrography is characterized by dense river networks, the biggest part of which (69.3%) belongs to the Black Sea drainage basin. The Adriatic Sea drainage basin extends to over 21% of the region, whereas the Aegean Sea drainage basin comprises 9.3%. The highest average amount of precipitation falls in the area of the Adriatic drainage basin and the highest average volume of water draining also occurs in this drainage area: 0.5 l. The gross hydroelectric power potential of the region is an estimated 108 billion kWh of which the annual net energy reserve totals 90 billion kWh whereas the annually exploitable amount mounts only to 66.5 billion kWh due to the unfavorable conditions of storage. Approximately 65% of this capacity could be exploited in the Black Sea drainage basin, 29% in the Adriatic and 6% in the Aegean drainage basins. Such rich supplies of hydroelectric power resources rank the region third in Europe following Norway and France. Of the region's countries, mainly Albania and Bosnia depend on hydroelectric power as their major energy supply. This amounts to 90% in the case of Albania and 60% in the case of Bosnia.

There are unique tectonic and glacial lakes in the region with a high level of biodiversity such as Lake Ohrid and Prespa on the border of Macedonia and Albania; Lake Dojran on the border of Macedonia and Greece; Lake Bled and Lake Bohinj in Slovenia; Lake Shkodra on the border of Montenegro and Albania. As most of the rivers and lakes are situated in the territory of more than one state, these countries have developed close institutionalized co-operation in the field of water conservancy.

1.3 Flora, fauna and forestry

The species and forest stand of the Western Balkan's natural flora are defined by the varied climate and soil surface, by territorial distribution and the relief characteristics.

Typically Mediterranean flora covers the islands of the Adriatic, the flatlands along the Adriatic coastline and the river deltas, where thin juniper forests (*Pinus Pinea*), cypress (*Cuprescus semperriens*), olive groves, laurel, Turkey oak (*Quercus cerris*), cork oak (*Quercus rubber*), and macchia form the scrubland vegetation of the Mediterranean barren karstic regions. Steppe plants in the plains of the Pannonian flatlands differ according to humidity on loess-covered plateaus, already fixed and strengthened sandy territories as well as on alluvial wetlands. Sandy areas have been fixed and afforested with dry graminaceous plants, primarily cheatgrass (*Bromus tectorum OK*), Black Locust trees (*Robinia pseudoaccacia*), juniper (*Juniperus communis*), and hawthorn (*Crataegus oxyacantha*). The natural steppe plants on loess plateaus cover only 15% of this area. Characteristic graminaceous plants are often used as herbs.

Regarding the region's flora, the largest area is covered with mountainous forests and a smaller part is mountain pasture. Deciduous forests cover 80% of all forested areas with a relatively poor range of species. The vertical distribution of species depends on the micro-climate, the geographical latitude and the orientation of the forest. In the Šar Mountains and the Kopaonik (Serbia) oak forests grow at 100 m, in Croatia and Slovenia they can be found also at 600 m, whereas beech woods can also be found at 400 m on the edge of pine-woods. Thus, the boundary of deciduous forests on the Triglav Mountain (Slovenia) is at 1,200 m, on the Durmitor Mountain (Montenegro) 1,300 m and in the Šar Mountains 1,600 m. The most common forests consist of oak, usually mixed with other species (beech, maple, white ash, sweet chestnut, and birch) that cover large areas in Serbia, Northern Bosnia and Croatian Istria. Pine forests make up 20% of mountain forests and are found up to 1,800 m on the Triglav (Slovenia), 1,900 m on the Bjelašnica Mountain (Montenegro), and 2,000 m on the Prokletije Mountain (Montenegro/Albania).

Mountain pastures and meadows can be found above the forested area and are either covered with grass and shrub or entirely with grass. Such pastures can be found at 2,300 m in the Julian Alps (Slovenia) and the Durmitor Mountain (Montenegro), at 2,000 m in the Prokletije Mountains (Montenegro/Albania), and 2,700 m in the Šar Mountains (Serbia).

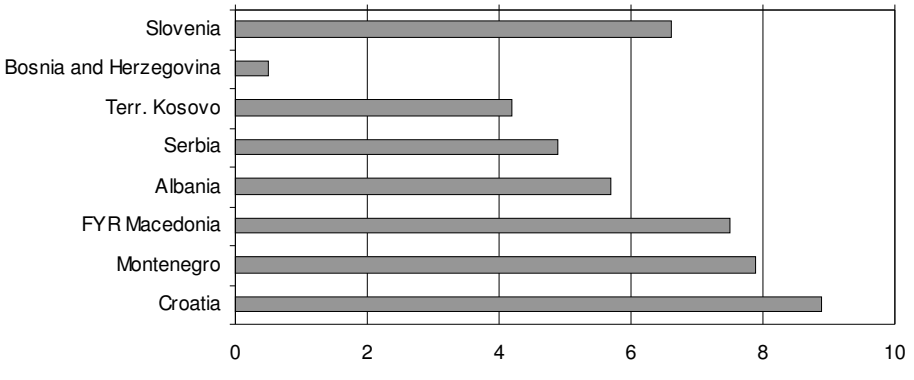
2 Natural resources and environmental perspectives of their exploitation

Among natural resources, soil, forestry, hydroelectric power, and metal mining have the greatest economic significance. Especially agriculture and forestry can be pursued at local farm level in Albania, Kosovo and Bosnia. The proportion of cultivated land differs from one region to the other and depends on relief and geological features. The size of forests is considerable, which proves the importance of forestry and the volatility of forest ecosystems (*Table 25*). The amount of farmland in the area is decreasing, yet, at the same time, there is increasing construction in city suburbs due to infrastructural and traffic development. However, degradation from soil erosion is also characteristic. There is no perfect irrigation system where this would be necessary and property ownership and land registers are often unregulated. EU regulations concerning soil conservation and the use of pesticides are not implemented strictly enough, except in Croatia, Slovenia, and Serbia.

Forests are endangered by bad forestry as well as by illegal deforestation – especially in Bosnia and Herzegovina and Kosovo – leading to soil erosion and a loss of flood-control as well as endangering the ecosystem. Despite existing hazards, major territories in the region have been brought under protection in order to maintain their special natural values and to sustain biodiversity (*Figure 30*).

Figure 30

Protected areas in the Western Balkan region, %



Source: Little Green Data Book, 2006.

Table 25

Agriculture and Forestry

	Slovenia	Albania	Bosnia and Herzegovina	Territory of Kosovo	FYR Macedonia	Serbia	Montenegro	Croatia
Percent agricultural land	25	41	42	53	49	65	14	48
Percent agriculture in GDP (2005)		25.2 (2004)	11.5	30	12.0	12 (2002)	15 (2004)	7,7
Percent agriculture employment		58.5 (2004)	4.0 (2004)	65	4.1 (2003)	30	15	16,2 (2004)
Percent forest area	62.8	29	42.7	41	35.6	26.7	53.9	38,2
Deforestation (percent change, 1990–2005)	–0.4%	0.0	(+) 0.1	No figure. known + rates	0.0	(–) 0.4		(–) 0.1

Source: 2006 Little Green Data Book; EC Progress Reports, 2005; UNECE, 2005; REC, 2006; Kosovo NEAP, 2006.

The region is rich in endemic species: four times as many endemic species can be found there as in other European regions. The organizational structure of nature protection areas is most developed in Slovenia, Croatia and Macedonia, which have been incorporated into the Nature 2000 Network, and their operational principles also harmonize with EU regulations. Although, officially, the size of protected areas has increased, some are as yet only planned to go under protection. Thus, the preservation of biodiversity, the development of infrastructure and the sustainable use of resources in these areas are not settled due to the lack of management and organization. These problems result mostly from the continuing heritage of the 1990s political conflicts as well as the difficulties of economic transition which has not yet given priority to nature protection in Bosnia and Herzegovina, Kosovo and Albania. Several wetland habitats are located in the region, a few of which can be found along the coast or in border regions, requiring close cross-border co-operation. The number of Ramsar sites in Serbia is 9, in Croatia there are 4, in both Albania and Slovenia 3, in Bosnia 2, and in both Montenegro and Macedonia 1. Further, several wetlands and oxbow lakes are under protection (*Figure 31*). Such natural values, together with the cultural heritage of the region, are important tourist attractions providing substantial revenues for these states.

Mineral resources of the region occur in zones formed according to the above geological structure.

The zone along the River Drava (Slovenia, Croatia, Bosnia and Herzegovina) covers the area where the Alps meet the Dinarides. Crude oil, natural gas, lignite, brown coal and mineral coal, copper, lead and zinc ore, and mercury are found and mined.

The zone of the Dinarides and the Sar Mountains (Slovenia, Croatia, Macedonia, Serbia, Bosnia and Herzegovina, Albania) extends from the Ljubljana basin through the massif in Western Macedonia and is well-known for its significant amount of iron ore, copper, manganese, bauxite, salt and coal.

The Rodope zone (Serbia, Kosovo, Macedonia) is very important for its lead and zinc ore resources but it also has mineral coal, lignite and manganese resources.

The volcanic layers of the Vardar zone contain andesite, dacite, riolite and basalt, and the area also has important lead and zinc ore and talc resources.

In the Carpathian-Balkan zone important resources of copper, pyrite, magnesite, wolframite, gold and iron ore are available, mostly found along the geological fault line of the mountain range.

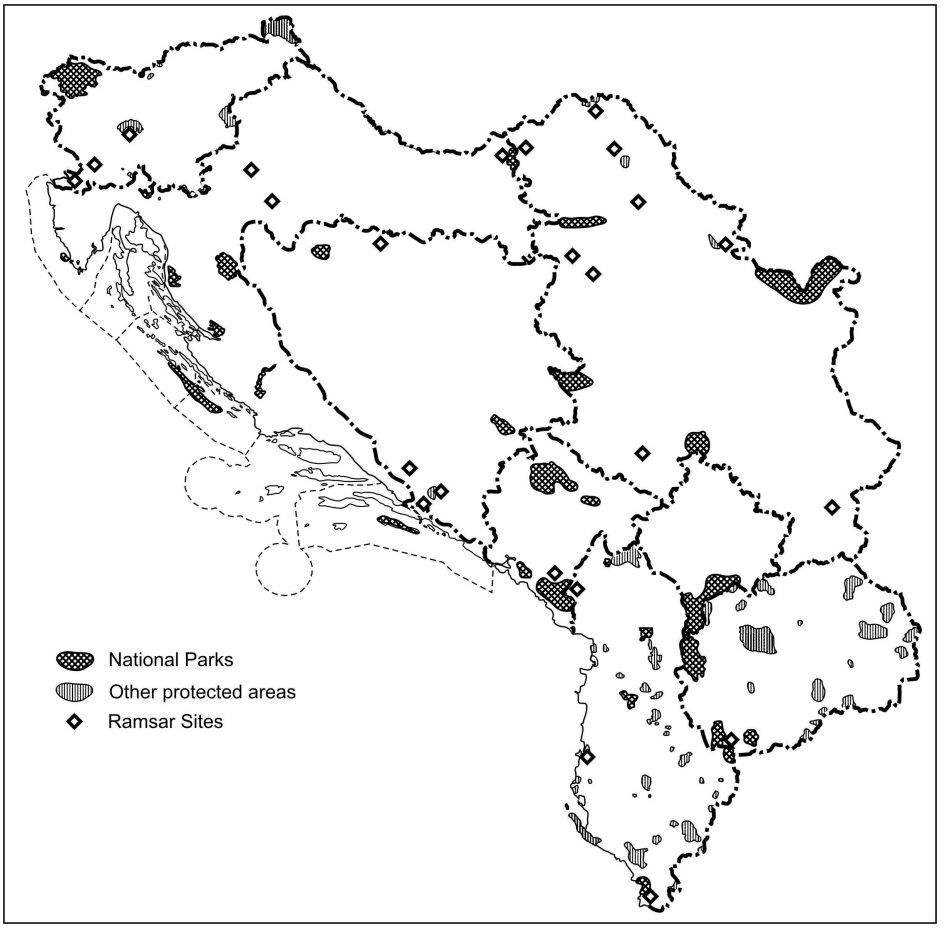
The transitional zone between the Pannonian flatlands and the surrounding mountains is rich in antimonite, lignite and mineral coal, and crude oil.

Albania's mineral wealth consists of chrome, nickel and copper, crude oil and natural gas reserves. Albania was one the world's three leading chrome

exporting countries 1960–1980. Despite the decrease in mining intensity since the 1990s, in 2003 chrome ore production grew 7%, compared to the production in 2002. In the past 8 years dolomite, gypsum and marble mining as well as other industrial resources mining operated only temporarily. Crude oil decreased 14%, natural gas production decreased 11%, and coal mining decreased 1% compared to 2002.

Figure 31

Protected areas of the region



Source: http://maps.grida.no/go/graphic/protected-areas-and-conservation-hotspots-in-albania
http://maps.grida.no/go/graphic/biodiversity_and_protected_areas_in_macedonia
http://www.dzzp.hr/
http://www.eko.vojvodina.gov.rs

The most important mineral products of Bosnia and Herzegovina are bauxite, brown coal and iron ore with less substantial amounts of lead and zinc ore.

In Macedonia lead, zinc and copper are the most important mineral products. The country's mineral supply is estimated at 44.4 billion tons, of which 5.8% is lead, 4.3% zinc and 37 grams per metric ton silver (*Steblez,* 2003). The national annual ore-mining capacity is approximately 2.5 million tons. The Zletovo smelter produces lead, zinc, cadmium, silver and gold as well as smaller amounts of antimonite, arsenic, manganese, and nickel (*Efremov,* 2004). The Kamenica, Probištip and Kriva Palanka mines have an annual capacity of some 750,000, 600,000 and 450,000 tons respectively. The Bućim copper mines near Radoviš produce 0.3% pure copper, and mining capacity is estimated at 85 billion tons.

All ore mines pose serious environmental hazards. For this and other economic reasons the Zletovo smelter plant closed down for a while. At the same time the mine at Bućim has been declared a "hot spot" by the UN (United Nations Environment Programme, 2000).

Slovenia has a limited supply of fossil fuels or other industrially usable minerals. Therefore, the country needs to import those. Data provided by the Statistical Office of the Slovenian Republic show that the amount of imported raw materials, except for fuels, exceeds exports three-fold, whereas the amount of imported mineral fuels exceeds exports six-fold (Statistical Office of the Slovenian Republic, 2004). Industrial raw material supplies in Slovenia depend largely on imports and feature in particular bentonite, diamonds, feldspar, fluorite, gypsum, and magnesite. Regarding fossil fuels, coal mining increased in 2003, compared to 2002, although crude oil production fell by 37% and natural gas production decreased by 18%.

In the Trepča lead and zinc mines over 300,000 tons of ore was produced at the beginning of this millennium, from which 192 tons of pure lead and 62 tons of zinc were produced in 2003. In the Suva Ruda mine, production reached an annual level of 200,000 tons of combined lead and zinc ore. Lead and zinc ore produced in the Lece mine contains gold also (Statistical Office of Serbia and Montenegro, 2003).

In Serbia, cement, magnesite, lime, quartz sand, and gravel mining is decreasing whereas energy fuel extraction grew by 4% in 2003 compared to previous years: coal mining grew 6%, although crude oil and natural gas production fell (Statistical Office of Serbia and Montenegro, 2004).

2.1 Energy production, alternative energy sources

The total energy consumption of the region has been increasing since 1995; motor fuel and household usage take the largest share of all energy consumers (traffic-related energy consumption has doubled in the past 20 years). Household users constituted the most comprehensive consumer branch in 2005. Primary energy supply increased by 35% and GDP grew by 54% in 1995–2005. A decrease in total energy supply is more likely to occur due to GDP growth rather than to energy efficiency.

A large part of the region has climatic, hydrological, and geological features which make renewable energy use (a high number of hours of sunshine, wind, geothermal energy) possible – so supporting energy efficiency.

According to the evaluation by the EEA, it was mainly hydropower and bioenergy of the available renewable energy resources of the region which were exploited, and their use slowly decreased from 1995 to 2005. Other renewable energy resources (solar, wind, geothermal) contribute less than 1% of the total energy production. The proportionate decline since 1995 can be explained by the increase in total energy consumption (35%). However, it is not really possible to comply with the EU norm requiring that 12% of all energy consumption should come from alternative resources.

Solar power production in Croatia totals 100 PJ. In Macedonia 10 GWh are produced in this way. In 2005, 28,000 solar panel units were installed in Serbia replacing 0.14 TWh energy gained from fossil fuels. The total energy amount produced by solar panels could meet approximately 50–60% of all energy demands in central Serbia. Bosnia and Herzegovina has a very favorable solar energy potential, as the annual amount of radiation reaches 1240 kWh/m^2 in the north, whilst in the south this reaches 1600 kWh/m^2. In Montenegro and Slovenia solar energy could be produced year-round along the coast and in sunny basins.

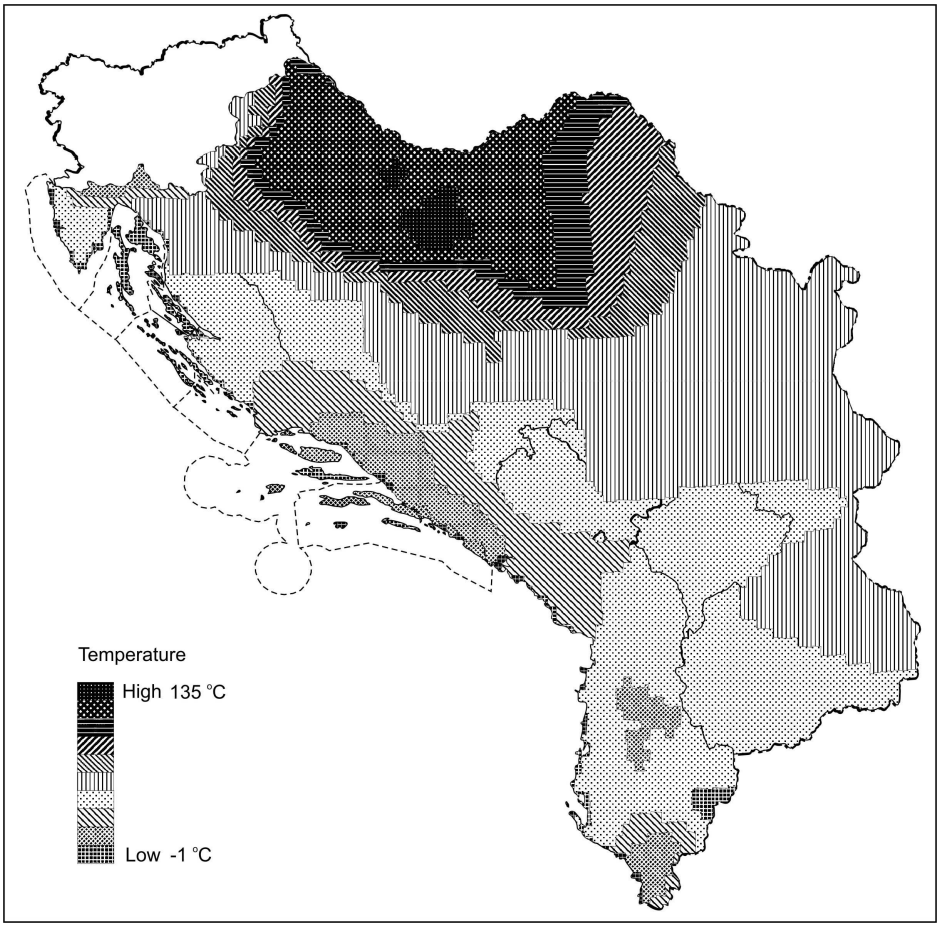
The geothermal energy supply of Croatia has a high geothermal gradient in the northern part of the country. In 2000 the installed capacity amounted to 36.7 MWh and the estimated supply was 839 MWh. Macedonia has a capacity of 210 MWh. Slovenia also has a good potential for this renewable energy use, mainly in the Pannonian rim area, in the Rogaška–Šoštanj–Celje, Laško–Zagorska and Krško–Brežiška regions, and in the Ljubljana basin (*Figure 32*).

The estimated wind energy capacity is most favourable in the coastal region and in the Adriatic islands of Croatia. According to the ENDWIND program, the energy potential of the islands is 209 MWh, and that of the coastal region is 163 MWh. The annual wind capacity of the average wind speed in Serbia and Montenegro (coastal and sea) is 26.3 TWh. In the early 2000s there are no en-

ergy producing wind turbines installed in Macedonia, but it is estimated that the country has a favourable wind energy potential, especially in its central territories.

Figure 32

Geothermal energy potential of the Western Balkan region



Source: Renewable energy potential maps for the West Balkan countries.

Small hydropower turbines are especially important among renewable energy sources, as their construction does not trigger key ecological changes in the land, yet their energy production increases energy efficiency. The potential capacity of small hydropower plants in Croatia mounts to 177 MWh, in Serbia the

technically usable capacity is 49 MWh and there are 856 settlements, where more than 10 MWh of energy could be produced. The energy capacity of small hydropower plants is very substantial in Bosnia and Herzegovina also (2,500 GWh). However, in Bosnia, classical hydropower plants are only in the design phase, and so alternatives to sustainable energy solutions only exist as possibilities. In Macedonia, over 400 potential locations are registered for creating small hydropower turbines, with 45–5,000 kWh capacity. The full potential is estimated at 225 MWh, which would allow 1,100 GWh of potential energy production in the future. The capacity of small hydropower turbines in Montenegro is 8.92 MWh each, which provides an annual amount of 400 GWh of energy. There are 400 small hydropower turbines operating in Slovenia (a capacity of 5 MWh each). The installed capacity of small and medium hydropower turbines and plants adds up to approximately 150 MWh, which produces 330 GWh energy annually – which is 3% of the total electrical energy production.

Energy production from biomass and recyclable waste offers an important source of energy in all countries of the region (*Table 26*). The annual biomass potential of Bosnia and Herzegovina reaches 1 million m^3 due to the size of the country's forested area. In Macedonia an estimated 3.4 GWh biomass-based energy could be used and in Serbia approximately 200 ktoe of fossil fuel-based energy could be replaced, if fast-growing non-food energy grass (a source of methanol) were grown on at least 3% of all arable land, and, annually an extra 260 ktoe of fuel could be saved by recycling agricultural waste. In Croatia biomass-based energy provides 3.3% of the total energy production. According to recent data sources, in Slovenia it is possible to produce 2,500 MWh of energy from 2,500 mt of oil plants.

Table 26

Energy from biomass products and waste, % of total

Albania	10.1
Bosnia and Herzegovina	3.4
Croatia	4.8
Kosovo	n.d.
Macedonia FYR	6.0
Montenegro	n.d.
Serbia	4.7
Slovenia	6.5

Source: Balkans Energy Futures, Fossil fuel dependency vs. energy efficiency and renewable energy.

3 Evaluation of the region's environmental condition

The state of the environment in the region is determined by the stage of development, economic structure, the burdens of wartime destruction, the stage reached in approaching and joining the EU and the limits of support. The existing EU member state, Slovenia, has many fewer problems than soon-to-join Croatia and Macedonia or other states waiting for preliminary negotiations on Accession. Traffic, industrial emissions and ommunal waste disposal are key issues among environmental damage in the region. The source of air pollution is mainly the growing number of vehicles in interstate and inter-regional transportation. In Albania the emission of nitrogen-dioxide escalated substantially (21%) in 1993–2003. In Macedonia it increased 17% and in Croatia by 47%, whereas Serbia-Montenegro succeeded in decreasing such pollution by 11% and Bosnia by 14%.

Mainly in Montenegro, Kosovo, and Macedonia air pollution from heavy industry occurs due to the lack of control and use of outdated technology mainly in the metal, energy and chemical industries. Sulphur-dioxide emissions in Croatia declined by the turn of the Millennium, but in Macedonia such pollution was still increasing and was eventually stopped only in 2003.

Acid rain together with industrial pollution slow down the growth of vegetation and accelerate the deterioration of the built environment. Per capita carbon-dioxide emission is highest in Macedonia, Albania and Kosovo, and per capita communal air dust is highest in Albania (*Table 27*). In Albania, Bosnia and Herzegovina and Croatia the amount of emitted CO_2 has increased, but the amount of floating dust has decreased in Bosnia, Serbia-Montenegro, Croatia and Slovenia (EEA, 2010).

Table 27

Air pollution

Country	CO2 per capita (metric tons, 2009)	Particulates (urban-pop.-weighted avg., μg/m^3) (2009)
Albania	1.1	44
Bosnia and Herzegovina	6.9	19
Territory of Kosovo	5.5	n.d.
FYR Macedonia	5.1	21
Serbia and Montenegro	3.7	17
Croatia	5.2	30
Slovenia	7.4	30

Source: 2009 Little Green Data Book; Kosovo poverty assessment 2005.

Floating and sedimenting dust emissions, responsible for an increasing number of respiratory diseases, are the result of pollutants occurring from traditional heating in cities and large industrial centres. Air pollution remains an important source of pollution in Macedonia, Kosovo and Montenegro even after the turn of the Millennium. According to forecasts PM10 emission will decrease 10% in 2000–2020 in the majority of the region's countries. However, a threefold increase of PM10 is forecast in Croatia similarly to PM2,5 emissions. Earlier these pollution indicators were highest in Serbia and Bosnia (EEA, 2010).

Even though all states in the region signed the Kyoto Protocol there has been little advance in the field of implementation. Surface water and groundwater quality deterioration occurs as a result of the inadequate public sewage system, substandard wastewater treatment and untreated industrial wastewater effluents (*Table 28*).

Sewage disposal and treatment do not meet EU environmental norms and so EU harmonisation in this field and any related investment will pose a great challenge for all these states. While the sewage problem is partly solved in big cities – especially in districts with high population density – in villages wastewater treatment is very much below standard. In areas where the groundwater is close to the surface, nitrate pollution due to intensive cultivation and the raising of livestock means a source of danger. Except in Croatia and Slovenia, water quality monitoring is underdeveloped or completely outdated, and so local authorities are unable to estimate related health risks. The level of service is still low despite the better treatment of sewage in cities.

The sewage system is unevenly developed across the region and in many rural settlements people take drinking water from their own wells. Data about water supply are difficult to find, especially regarding mountainous areas; moreover political conflict and war destruction also slowed down the pace of developing even basic water infrastructure.

The annual per capita quantity of communal waste in the region (234 kg in 2003) is growing and by 2007 it had reached 330 kg. Such an increase is a result of rapid economic growth and the spread of the market economy (EEA, 2010).

In Albania, deforestation, pollution from urban communal waste management, and industrial pollution are typical country-wide problems. The rapid population growth (40% of the population lives in coastal towns) could not be followed by communal infrastructure development, and so urban environmental problems are exacerbated by low-level communal hygiene. Extensive, non-sustainable agricultural practices in the coastal flatlands burden the environment still further.

Bosnia faces similar environmental challenges, as drinking-water supply and sewage disposal are unresolved problems – together with waste management. Only half of the towns have organized waste collection and villages entirely

Table 28

Water supply and wastewater infrastructure

		Slovenia	Albania	Bosnia and Herzegovina	Kosovo	FYR Macedonia	Serbia and Montenegro	Croatia
Water supply coverage, %	Urban		99	n.d.	90	100	97	95
	Rural		94	n.d.	20	28	68	52
	Total	91	96	56 (FBiH) 48 (RS)	44–50	71	83	76
Sewage coverage, %	Urban		90	56	n.d.	68	88	70–75
	Rural		37	10	n.d.	13	22	5 (?2,000) 35 (2,000–10,000)
	Total	ND	59	50 (FBiH) 35 (RS)	28–30	46	56	40

Source: World Bank, 2003 (data for 2000); REC, 2005 & 2006; Croatian Government, 2005.

lack this service. Therefore, illegal waste dumps are frequent along roads and railways. Industrial zones along the river Bosna contaminate the river and are sources of continuous air pollution (Zenica, Sarajevo).

Environmental problems in Kosovo are the consequence of the lack of a communal infrastructure. The water infrastructure is underdeveloped, and only 44% of the population, 8.4% of village population, has access to tap water. In rural areas, the water supply is provided from groundwater as well as surface springs, and so the organic and bacteriological pollution of the water reserve occurs frequently. In 2002 the proportion of households connecting to the public sewage system was a mere 28%. Communal wastewater from villages runs off on the surface, or dries up in ditches, whilst industrial wastewater is allowed to run off untreated into surface streams. In this way, surface waters and rivers are so polluted that their water cannot be used even for industrial or irrigation purposes without pre-treatment (e.g. the River Sitnica). Besides communal waste problems, the mining of low energy-density lignite near Obilić and the lead and zinc production in Trepča have a serious polluting impact.

In Macedonia surface water contamination is especially significant in the lower Vardar, Pčinja, Bregalnica, Crna Reka rivers which all flow through densely populated areas. As in other countries in the region such pollution is mainly a result of untreated communal, industrial, and sometimes agricultural wastewater, as only 6% of drained sewage is treated before reaching the recipient river.

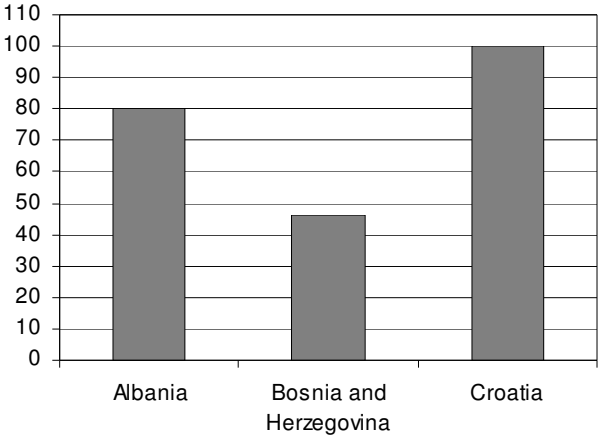
In Serbia key environmental issues are air pollution from intensive traffic and emissions from industrial and power plants (e.g. Pančevo, Bor, Obenovac), lack of waste management, and the pollution of surface and groundwater reserves. In 2000 untreated wastewater from industry and mining amounted to 730x106 m^3 (Ministry of Natural Resources and Environmental Protection, 2003). The largest proportion of industrial and mining wastewater pollutes the River Sava and its tributaries. The River Timok is also heavily polluted by sewage from the copper mines in Eastern Serbia (Bor, Krivelj, Majdanpek) (*Jović* et al. 2002). According to the Ministry of Natural Resources and Environmental Protection, altogether 120 companies have wastewater treatment plants of relatively low capacity. There are only 20–30 riparian industrial companies able to pre-treat their sewage fully, and the wastewater treatment plants of some operate only at part-capacity.

The environmental problems in Montenegro include communal surface water pollution, a lack of public hygiene, illegal waste dumps and mining-related pollution. The most important environmental problems requiring immediate response include the integrated ecological protection of Lake Shkodra and the sea, and the construction of a water infrastructure that meets public health standards in all major towns and tourist centres along the Adriatic coast.

The quality of sea-water along the coast is satisfactory despite the impact of tourism and urbanization. There have been significant developments in Croatia to avoid the pollution of coastal and surface waters. Water quality is checked at 851 coastal survey and measuring sites and always meets national standards. In Albania this result was characteristic of 80% of the existing 70 survey and measuring sites, whereas, along the mere 17 km-long coast of Bosnia and Herzegovina these norms were met to a much less extent (under 50%) (*Figure 33*).

Figure 33

Sea water quality in the coastal areas of the region in 2005
(the percentage of survey and measuring sites meeting national standards)



Source: EEA Report No 1/2010.

Significant developments have been carried out in Croatia to avoid pollution of coastal and surface waters. Air pollution is only characteristic of crowded traffic intersections, and Croatia, with its new highway network, successfully decreased potential tourism-related pollution. In the continental region there are counties that do not even need the monitoring system. Modernized waste management is carried out in up-to-date regional waste disposal sites.

Mining-related environmental damage is substantial in all countries in the region. Such polluting processes, nevertheless, have cross-border effects also, causing direct or indirect damage in the border regions of neighbouring countries, which may be a potential source of political conflict.

A UNEP study establishes four basic categories of cross-border pathways of harmful pollutants: 1. airborne transport of pollutants such as dust, smelter

emissions, gases, vapours; 2. mass movement of "solid" waste (generally "tailings" containing heavy metals and toxic compounds); 3. the mass movement of liquid, or semi-liquid wastes (again, generally "tailings" containing heavy metals and toxic compounds; 4. waterborne transport of waste as suspended solids and as dissolved materials (South Eastern European mining-related risks: Identification and verification of "environmental hot spots", Lund, Vienna, 2006).

Table 29 below presents the cross-border impacts of pollution according to state, sites of pollution and assessment of its potential cross-border effects.

Spatial aspects of environmental issues in the Western Balkans are defined by the region's natural resource endowments, mining, the different developmental levels of industrial technologies, the dissimilarities in economic development, and the lack of a unified environmental policy.

Table 29

The cross-border impact of environmental pollution from mining in the Western Balkan region

Country	Mining site	Environmental hazards	Potential cross-border damage consequences
Albania	Elbasan Ferrochromium, Fe (steel) Ni mine	Toxic and heavy metal emissions, uncontained and unprotected waste, residues and chemicals.	Cross-border air pollution, pollution of Lake Ohrid shared with FYR of Macedonia Pollution via Shukumbinit River to Adriatic Sea. Tensions with FYR of Macedonia.
	Shkoder Cu mines (incl. Palaj, Karma I and II)		Pollution of Lake Shkodra shared with Montenegro. Tensions with Montenegro, Serbia.
Macedonia FYR	Bucim Cu mine	Toxic/acidic effluents, uncontained waste rock, dust emissions and unsecured workings, poorly contained and/unstable tailings waste.	Cross-border pollution to Bulgaria then Greece via Nivicanska River, tributary of Strumica, then Struma. Danger of political tensions with Bulgaria and Greece.
	Lojane Cr & Sb mine and beneficiation mill		Political tensions with Serbia & Montenegro and Kosovo.
	Kavadarci Fe-Ni and Sb mine(s)	Toxic solid waste, airborne toxics and SO_2, untreated waste	Cross-border pollution Greece via Vardar River. Political tensions with Greece.

Cont. Table 29

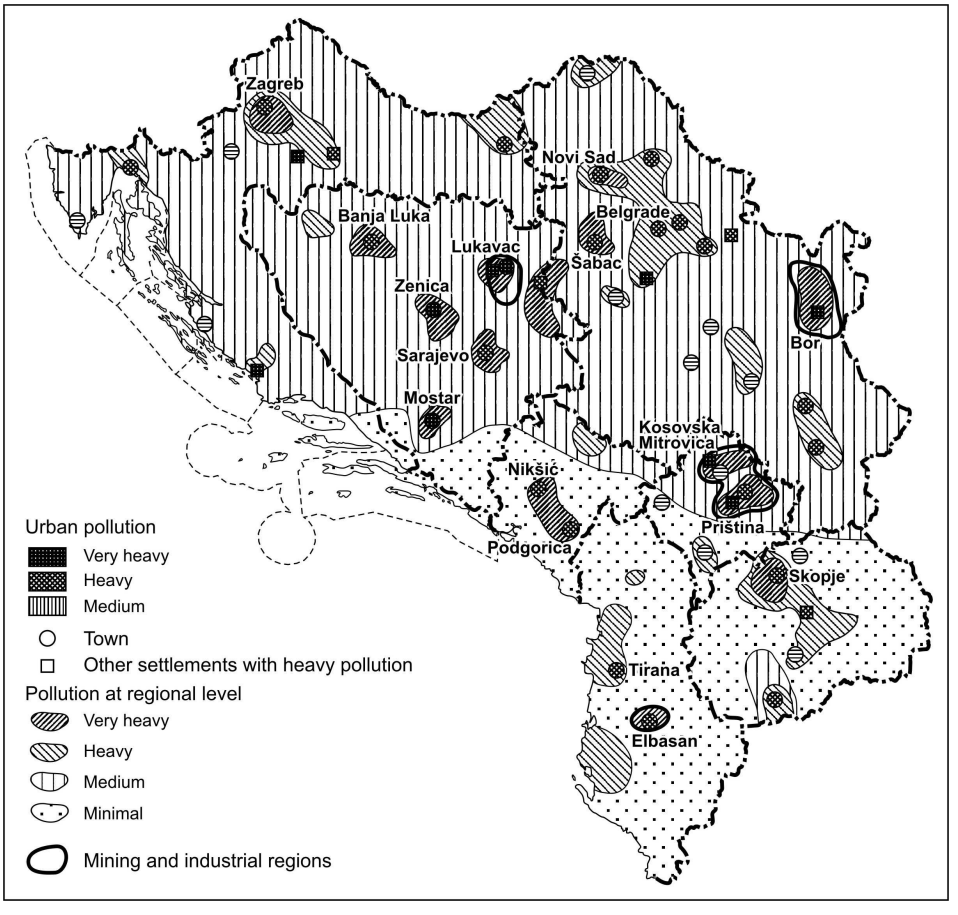
Country	Mining site	Environmental hazards	Potential cross-border damage consequences
Serbia	Bor (RTB) Cu mining	Toxic/acidic effluents, uncontained waste rock, dust emissions and unsecured workings, poorly contained and/unstable tailings waste. Toxic solid waste, airborne toxics and SO_2, untreated waste	Tensions with Romania and Bulgaria due to pollution of downstream Danube
	Krupanj – Veliki Majdan Pb-Zn mine		Cross-border pollution to Bosnia and Herzegovina via Drina River (BiH Border). Tensions with Bosnia and Herzegovina.
	Majdanpek Cu mine		Cross-border pollution to downstream Danube countries via Pek River, then Danube. Tensions with downstream Danube countries (Romania and Bulgaria).
Bosnia-Herzegovina	Srebrenica Energoinvest Pb-Zn ore mine		Cross-border pollution via Drina River (Serbian Border) and into Danube River. Tensions with Serbia and downstream Danube countries (Romania, Bulgaria).
	Birac Zvornick – Alumina Refinery and Aluminum smelter		
Montenegro	Podgorica –Aluminum smelter and refinery		Cross-border pollution of Lake Shkodra Political tensions with Albania.
	Brskovo Pb-Zn		Cross-border pollution of the Tara River. Political Tensions with Bosnia-Herzegovina.
	Šuplja Pb-Zn		
Kosovo	Djakovica chrome ore mine		Cross-border pollution of Albanian border rivers (Erenik River), Lake Fierzës.
	Trepča Pb-Zn mines (Kriva Feja, Rudnik, Zvečan, Kosovska Mitrovica).		Cross-border pollution of border rivers in Serbia (Ibar, Danube). Cross-border air pollution

Source: Reducing environment and security risks from mining in South Eastern Europe. Modified by the author.

Processes of environmental management have been indirectly influenced by earlier historical, demographic, and economic characteristics and by the civil war of the 1990s. In the spatial structure of environmental risks (at regional and national levels) industrial and mining towns, ports (Dures, Bar, Split), large tourist centres and capital conurbations (Belgrade, Novi Sad, Sarajevo, Skopje, Zagreb) are the most significant (*Figure 34*).

Figure 34

Spatial characteristics of the state of the environment in the Western Balkan



Source: Identification and verification of "environmental hot spots", Atlas of Eastern and South Eastern Europe, 1985–1989.

4 Environmental protection institutions

The once characteristically homogeneous physical geography of the Western Balkans has become environmentally heterogeneous and diversely polluted as a result of economic policies dissimilar in nature and intensity. Substantial differences exist in the organization of environmental protection institutions, especially at regional level, which tend more and more to meet EU environmental requirements.

Environmental protection has increasingly been integrated into economic processes in countries participating in the second and third circles of EU enlargement, and so the environmental policy of Western Balkan states has become comparable to that of EU member states and can be assessed on that scale. Documents by various ministries of the Western Balkan countries (settlement development, environmental protection action programmes etc.) and surveys by the OECD also support this claim.

The institutional network of environmental protection can most reliably be assessed by looking at environmental departments, their structure, the state of current environmental documentation and the system of environmental offices within various levels of public administration.

Ministries can be classified as complex[1], divided[2] or ministry groups[3] (*Table 30*). In the majority of the states in the region, environmental protection belongs to the Ministry of Settlement Development. As these countries construct their environmental protection institutions in line with EU directives, the essential regulations and related documents were already available in 2009.

Environmental protection at local government level has been very efficient in Croatia where environmental authority and management are implemented by inspectorates functioning within counties (OK). These inspectorates perform management tasks as part of the County Government Environmental Office as well as of a County Office at the Ministry of Environmental Protection, Physical Planning and Construction.[4]

In Slovenia essential environmental issues are dealt with at local government level. In Serbia local authorities are responsible for basic environmental tasks whereas environmental protection and nature conservation authorities belong to the Republic of Serbia's Ministry of Environmental and Spatial Planning.

[1] One ministry deals with environmental, nature, and water protection.
[2] Environmental protection (nature and water protection) belongs to other ministries (e.g. Ministry of Environment and Settlement Development).
[3] Various components of environmental protection belong to different ministries.
[4] Controls regulations concerning air protection, waste management, seawater and coast protection as well as international agreements concerning the protection of environment and performs inspectional duties.

Table 30

Environmental ministries in countries of the Western Balkans

Country	Environment	Water	Spatial planning	Agriculture	Forestry	Nature protection
Slovenia	√	√	√	–	–	√
Croatia	√	shared	√	–	–	–
Albania	√	√	–	shared	√	√
BiH	State: √	–	–	–	–	
FBiH	FBiH: √	shared	–	–	–	√
RS	RS: √	shared	√	–	–	√
Brcko District	BD: √	shared	–	–	–	√
FYR Macedonia	√	shared	√	–	–	√
Serbia	√	shared	–	–	–	√
Montenegro	√	shared	√	–	–	shared
Territory of Kosovo	√	shared	√	–	–	√

Key: √ responsibility for the sector belonging to the Ministry of the Environment;
– responsibility for the sector in another ministry (OK).
Source: Government websites.

In Bosnia and Herzegovina environmental protection at local government level is complicated due to the partitioning of the state (Federation of Bosnia-Herzegovina, Republika Srpska [Bosnian Serb Republic], Brčko district). In the Federation of Bosnia and Herzegovina the Federation and the cantons are responsible together for environmental protection and the use of natural resources. In cantons the authorities governing environmental policy are ministries of the cantons[5] or other ministries[6] entitled to solve questions of environmental protection. In the Bosnian Serb Republic (Repblika Srpska) local authorities in larger settlements have Offices of Environmental Protection that coordinate construction control, water and waste management and supervise environmental protection tasks.

In Albania, primary environmental issues and tasks of local authorities include water supply and sewage treatment, waste management, and green space management, whilst environmental protection is a task shared between local and central authorities.

[5] Cantons: Ministry of Environment and Tourism; Ministry of Physical Planning and Construction; Ministry of Agriculture, Water Management and Forestry.
[6] Cantons: Ministry of Health; Ministry of Economy; Ministry of Energy, Mining and Industry; Ministry of Finance.

In Macedonia[7] local authorities control fresh water supply, green space management, street-cleaning and communal waste management and they are also responsible for regional development and planning. There is no separate Office for Environmental Policy. Municipal authorities have environmental committees and separate departments deal with city planning, local infrastructure development and environmental policy. This is the case at central government level also.

Cross-border and international environmental co-operation and its support have been created to manage water and environmental problems related to divided waters, border rivers and lakes. There is similar co-operation in the co-ordinated management of cross-border protected areas (national parks).

One form of co-operation in the field of environmental protection is the EU-IPA sponsored support to protect the environment, landscape and biodiversity in cross-border regions. This programme enhances and implements local environmental co-operation between areas on both sides of the border with the joint efforts of state and independent organizations, local authorities, and environmental institutions. Such joint projects have been devised to spur the protection of the Black Sea-Danube region, the Mediterranean basin or the joint environmental management of lakes (Lake Ohrid, Lake Prespa, Lake Shkodra) among Albania, Macedonia and Montenegro. Similar efforts can be mentioned in connection with border rivers (the Drina, the Neretva Delta, the Sava and the Drava) as well as related to the coordinated management of cross-border protected areas such as the Iron Gates National Park, and the mountains of Montenegro and Albania.

The UNEP-sponsored programme "Strengthening capacities in the Western Balkans countries" is meant to initiate help in solving the problems of regions with severe environmental damage. The programme provides support for devising pilot projects that aim to reduce risks mainly from mining in countries of the Western Balkan region.

In Montenegro US$ 1.8m is paid to help the remediation and recultivation of the Mojkovac lead and zinc tailings mines. In Macedonia and Kosovo the programme encourages reopening four mines. In all of these places the aim is to impound tailings with toxic compounds as well as flotation tailings. In Kosovo the aim is to relocate hazardous tailings from mining and keep tailings with toxic heavy metals from getting into surface waters or the air as well as to monitor contamination (Mitrovica, Novo Brdo).

In Bosnia the project supports the substitution of the thermal power plant as well as the modernization of the industrial wastewater treatment plant in Ugl-

[7] Skopje and 123 settlements have local authorities.

jevik, which would make it possible to stop the flow of highly saline or other chemical-contaminated wastewater into recipient rivers.

In Serbia the extreme pollution of the Danube–Tisa–Danube Canal (Grand Backa Canal) in Kula-Vrbas from, mainly, food-processing can be solved only with international support and help. The above project provides US$ 50 m to handle this problem.

In Shkodra, Albania the project aims to solve the problem of a hazardous chemical storage, which endangers the ecosystem of crossborder Lake Shkodra, a Ramsar site, located between Montenegro and Albania.

Bilateral intergovernmental co-operation in the field of environmental policy has not been fully exploited in the region, and there are no institutional forms of co-operation between neighbouring states.

URBAN NETWORK

LÁSZLÓ FARAGÓ – SZILÁRD RÁCZ

The settlement network of the Western Balkans comprises different subsets, and these have been combined in different ways throughout the centuries. Their relations have been varied in terms of both direction and intensity, and often they were at the mercy of current regional power struggles. It is, therefore, more appropriate to analyse the region's settlement network both in its entirety and in respect of these subsets. An analysis of the former Yugoslavia's total settlement network gives a different result than one relating only to the old or the new, individual, smaller entities. It is reasonable to ask which approach it is more effective: to evaluate the recently formed new states one by one or to consider them as potential member states of the EU – that is, as an aggregate of co-operating subsets. Knowledge of the history of the Balkans prompts us to favour the one-by-one approach, since the development of settlement networks into an operating, effective system is a vital part of the (re)construction of nation states. To date, due to the effects of the recent Balkan wars, the various nations have not taken advantage of their potential spatial relationships, and, in fact, often seem to be consciously breaking away from their old Yugoslav ties.

1 The historical development of the urban network

To be able to understand the present settlement network and suggest potential development directions, we need to be familiar with its origin. Three main factor groups have influenced the formation of the urban network: (a) frequent changes of empire and state borders; (b) local geographical conditions; and (c) cultural divergences.

a) The Western Balkans has been a periphery throughout the centuries; it has never been in the developmental centre of a major region. In comparison with other European countries, the ever-changing political structure is a special feature in evaluating the town or city network. Once there were independent countries, whilst at other times the territory formed part of a major empire

(Habsburg, Ottoman) or country (Hungary, Yugoslavia). Political instability led to rapid demographic, economic and administrative changes, and the urban network was constantly forced to adapt to these, whilst the settlements had to adjust their own functions to their changing roles. From these constant changes, it follows that not even one town in the Western Balkans area had the opportunity for uninterrupted development: there was no dominant city formed and the actors changed – even at the different levels of the urban hierarchy.

Until the First Balkan War the south part of the area belonged to the Ottoman Empire, where town-building was influenced by Turkish-Byzantine traditions. However, after liberation from the Turks, new administrative centres were formed in Serbia (Obrenovác, Mladenovac, Žabare, Lapovo). The central and western territories belonged to the Austro–Hungarian Monarchy. Urbanization appeared in the southern parts of Croatia-Slavonia and Southern Austria – exactly as in the other parts of the Monarchy; relations with the North (roads and railways) dominated. The situation was no simpler between the two world wars. The Kingdom of the Serbs, Croats and Slovenes was formed in 1918, but the territory and statehood of Yugoslavia were altered several times. After World War II, Yugoslavia came into being, formed from six member states, but the new situation created new circumstances for the formation of the urban network. Until 1991 the network developed within unchanged state borders, and the internal relationships between settlements (e.g. transport) were directed in a way which looked on the country as one entity. After the break-up of Yugoslavia, the new countries aimed principally at strengthening their integrated state territory and establishing their own administration. This meant the development of national capital cities and new administrative centres. The population growth in the capitals changed the formal ethnic proportions, that of the majority nation being increased. Political change had also changed the status of several settlements in the settlement network.

b) Natural features have facilitated, or in other cases blocked, inter-settlement interaction. The Dinaric Alps, extending from Slovenia to Albania, hampers links between the coast and the northern territories, whilst the Adriatic has almost pre-ordained relationships among the coastal settlements and maritime trade. This had been the main economic driver in the region, and so the development of the Adriatic towns was more significant. From the 19th century onwards, the commercial relationships of the Western Balkans gradually turned towards the north-west and this led to the decline of several Adriatic seaports. Mountain valleys, safe harbours along the coast are, necessarily, meeting points of socio-economic relationships, and this meant advantageous local conditions for town development. However, those coastal settlements which were located on a road (e.g. Bar, Dubrovnik, Kotor, Split, Rijeka) or on a railway (Bar) saw their networks maintain their good development potential. Among the towns on

the mainland located in valleys, it was mainly those situated at the junction of several roads which were able to maintain their positions over time. Skopje is an example of this, a node of roads leading to and from several cirques. The Danube and its tributaries, as well as the roads running parallel with these, had facilitated the formation of towns. A significant part of these had the functions of a town (Serbian towns on the banks of the Timok, the Drina and the Ibar, Bosnian towns on the banks of the Drina, the Bosna, the Vrbas, the Una and the Sana rivers). Securing access to the sea and the development of a national port was a crucial consideration in the formation of the new Yugoslavian states.

c) Changes of regime, the influence of other cultures, as well as their diverse usage of space impacted on towns and their relationships in different ways. As is widely known, the Western Balkans' ethnic and regional composition is very diverse; its level of multiculturalism is unique in Europe. This is the area where the edges of Western Christianity meet the Muslim religion's most westerly groups (Bihać). Roman Catholics (Croats, Slovenes, Hungarians, Catholic Serbs, Šokci), orthodox Serbians and Muslims (Bosnians, Gorans, Albanians) do not only build different holy places and praise God in different ways, but different everyday usage of space results from these diverse cultural traditions. They build their towns and houses, live in them in different ways, they use their streets and public spaces for different purposes. (Market places and bazaars represent not only different forms of trade, but different social spaces also.) Different types of towns were formed in the different cultural zones of the Balkans. Cvijić (2009) differentiates Mediterranean-Dalmatian, Turkish-Byzantine and the patriarchal types. Considering the border territories of the North (Slavonia, the Vojvodina) we have to complete this list with the traditional Austro-Hungarian type of town.

The Mediterranean-Dalmatian variation is dominant along the coast from Trieste to Bar, as well as through the Kranji Gate to Postonja, and in the valley of the Neretva as far as Mostar. Towns here are of ancient (Greek or Roman) origin, the, mainly 2-3 storey, houses are mostly built of stone and the streets are alleys. During their modern development, new urban districts and residential areas were built on the edges of these towns.

A special variation appeared in Albania and Montenegro. Mediterranean and Turkish notes mingle in Shkoder, Durrës, Vlore and Lezhe. The view of the streets is rather oriental, although the houses are Mediterranean, multi-storied and of stone. Current development is mostly marked by Mediterranean influence.

Turkish-Byzantine impacts can be perceived in "typical Balkan" towns located in the heart of the mainland (e.g. Sarajevo, Skopje). The commercial districts are oriental, bazaar-like; several buildings are entirely made of timber or are timber-framed. The "Slavification" of the population was noted in the

20th century, and "Aromanian"[1] quarters were formed in southwest Macedonia and in southern Albania.

Patriarchal towns have been formed by the Serbs moving in from villages. Turkish-Oriental and Byzantine influences decline and unique adaptations of Western influence are gaining ground. These small towns are mostly in Serbia's Morava district, Montenegro and, in smaller numbers, in Bosnia and Herzegovina.

Towns, as in Central Europe, have been formed on the northern borders of the territory (from Maribor via Osijek to Novi Sad).

Urbanization came late to the Balkans and still lags behind; even by comparison with Central Europe, the Balkan's urban network is less dense. The urbanization of the Western Balkans is also well below the general European level – clearly related to the general economic underdevelopment. The fact that no city has been built which could have had a durable and significant influence on the whole region is another specific feature of the region.

Industrialization and, based on this, urbanization, started relatively slowly after World War I, and this change did not even affect all the territories. Belgrade, the regional seat of the Ottoman Empire, and (from 1920) the capital of the Serbian Kingdom, had long been no more than a provincial middle-sized town. Its population grew relatively rapidly and had tripled by the 1940s, but very few towns (and only then if they had some special function) could grow significantly at the lower levels of the urban hierarchy. Albania, Bosnia-Herzegovina and Kosovo were trapped in a pre-industrial phase. Tirana's population barely exceeded 25,000 before World War II.

Yugoslavia, formed after WW II, and Albania were under-urbanized, even in comparison with Central European countries. A mere 16.2 % of the Yugoslav population lived in towns in 1949. At that time the situation was slightly better in Albania, where the proportion of the urban population was 18%. Over the whole region, the population of only six towns exceeded 100,000. Belgrade was home to 397,700 and 325,200 lived in Zagreb. Tirana's population was well below 100,000. The situation was no better in the case of middle-sized towns (50–100,000), since there were only six of these.

Urbanization accelerated in socialist Yugoslavia and Albania, and the proportion of the urban population grew rapidly. The pace of growth was at its peak in the '50s and then gradually declined. Industrial development was increasing the proportion of the urban population in the era of state socialism, but forced collectivisation was not as significant as in other Central European countries such as Hungary, and so the "pushing" effect of villages could not

[1] Aromanians or Macedo-Vlachs are guest workers, who live from their incomes earned abroad at a higher standard of living than the national.

prevail. A specific feature of rapidly growing towns is that, for example, at the end of the '60s two-thirds of Belgrade's population had been born in the provinces and a significant part of the population of other towns (30–40%) lived in two settlements in parallel. In many cases towns were ruralized rather than urbanized (*Mihaliović,* 1972). Infrastructure development could not follow the rapid growth and many lived rural lives in urban apartments and other space. This made it easier for a good many to reverse the direction of migration and move back in the villages during the Balkans war. The development of Belgrade, the capital, was not disproportionate in multi-ethnic Yugoslavia. The centres of other regions (Zagreb, Ljubljana etc.) were also developing, and so the urban network was relatively in proportion. Every part of the country or region had its own centre. This was true of both the proportion of small, medium and large towns as well as for the network's geographical location. Belgrade's growth declined by virtue of the fact that the country's government was decentralised in several respects.

Socialist industrialisation, the opening of new factories and other projects linked to these, accelerated migration. Population growth and the change of character of the settlements were followed by a change of administrative classification. 15 so-called socialist towns were formed in Yugoslavia (Jesenice, Krani, Titovo Velenje, Borovo, Zenica, Valjevo, Majdanpek, Titovo Užice, Priboj, Bor, Vranje, Nikšič, Titov Vales, Štip, Kočani), and 4 (Elbasan, Qytety Stalin, Ballsh, Memaliaj) in Albania. Mining towns (e.g. Elbasan in Albania) and metallurgy centred developments were typical examples (e.g. Nikšič in Montenegro). In many rural regions the reasons for industrialization were political; they intended to make these territories fall into line (Macedonia). This meant a significant rearrangement from the more developed Croatian and Slovenian regions towards the underdeveloped territories. This had been used as an argument during the later ethnic conflicts. From the '70s, socialist industrialization ran out of breath, and, moreover, the crisis of the '80s reached these settlements first. As a result of planned urban network-development, administrative and service centres were established in regions lacking towns. During the 40-plus years of the socialist era, the number and population of settlements with town status had grown significantly, and the number almost tripled in Albania also. In socialist Yugoslavia the proportion of the urban population grew from 20% to 53% and in Albania from 20% to 36%. In particular, the population of Belgrade grew – although Zagreb and Ljubljana also doubled their population. In this way, Yugoslavia developed alongside moderately urbanised countries, whilst Albania still lagged behind the world average (43% in 1990). The real urbanization of Tirana started only after WW II. This was the time of electrification, when airports, theatre and museums were built. The population reached 172,000 in 1972, although the boom was controlled by the authorities.

Migration stopped in the ‘90s, and in some places its direction also changed. This, however, was not the same de-urbanization process as in the USA and in some countries of Western Europe; the driving forces were different. In the former it was the automobile and quality suburban mass transportation which made it possible for people to enjoy life away from the city centre whilst taking advantage of higher urban wages. In the Balkans, however, people chose to return to the underdeveloped villages since urban jobs ceased to exist and this was the only way to ensure their survival. Areas of Ljubljana and Zagreb were the only exceptions, since urbanization there followed the western pattern. The populations of Skopje and Belgrade have probably sunk only temporarily, although, aside from capital cities, local centres are also attractive for migrants.

In spite of continuous urbanization, Yugoslavia was lagging behind the European average urbanization level even before the break-up, and, later, the different member states urbanized at very different rates. The Yugoslav wars were a watershed for several towns. Some were devastated and abandoned and a significant ethnic migration took place. Industrial jobs disappeared and so many who had found themselves in a hostile ethnic environment moved back to their former homes which ensured both ethnic security and a livelihood. Not only was internal migration significant, but many town-dwellers left the area and moved abroad. Carniola (Krajnska) settlements lost the most population in Croatia. In Bosnia-Herzegovina several settlements had lost a significant part of their population (e.g. Grahovo 76%, Glamoč 60%, Kupres 58% and Vareš 54%). In Serbia the population of the southern territories decreased, whilst increasing in the Novi Sad region.

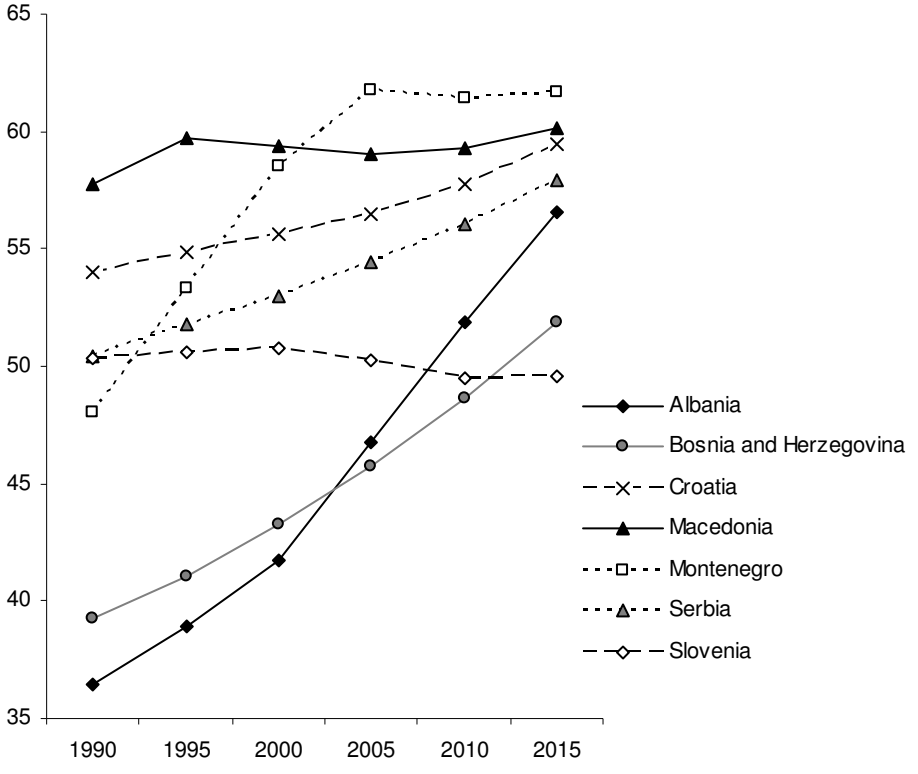
There was no rapid urbanization in the successor states; the status of town was granted in some cases for administrative reasons – mostly since earlier centres were now in other states. The most heavily urbanized states in 2002 were Croatia (69%) and Macedonia (63%). Serbia and Montenegro (50%), Slovenia (47%) and Albania (46%) were in the medium category for the region, although they were under-urbanized in international terms. Bosnia-Herzegovina (33%) is the most rural territory of the whole Balkan Peninsula (*Figure 35*).

The recently created nation states consider developing their capital city and town network as a top priority, although their efforts in this direction have been handicapped by several problems. Natural population growth is low in towns (except the Albanian cities), and so any increase can only result from migration, e.g. Tirana (*Figure 36*). Many Serbs migrated from Bosnia and Kosovo to the Vojvodina, and so the ethnic balance there has changed significantly. Many Albanian refugees moved to northwest Macedonia. It is difficult to trace migration, since many consider the move as temporary and do not register at their new domicile. Ethnic conflict produced ethnic segregation in many multi-ethnic towns. This is especially true of Albanian-Serb and Albanian-Macedonian

inhabited towns (Kosovska Mitrovica, Skopje, Priština). Beside ethnic segregation, property-based segregation has also increased. Real estate prices are much higher in new and modern neighbourhoods, where people returning from abroad, or guest-workers, purchase property.

Figure 35

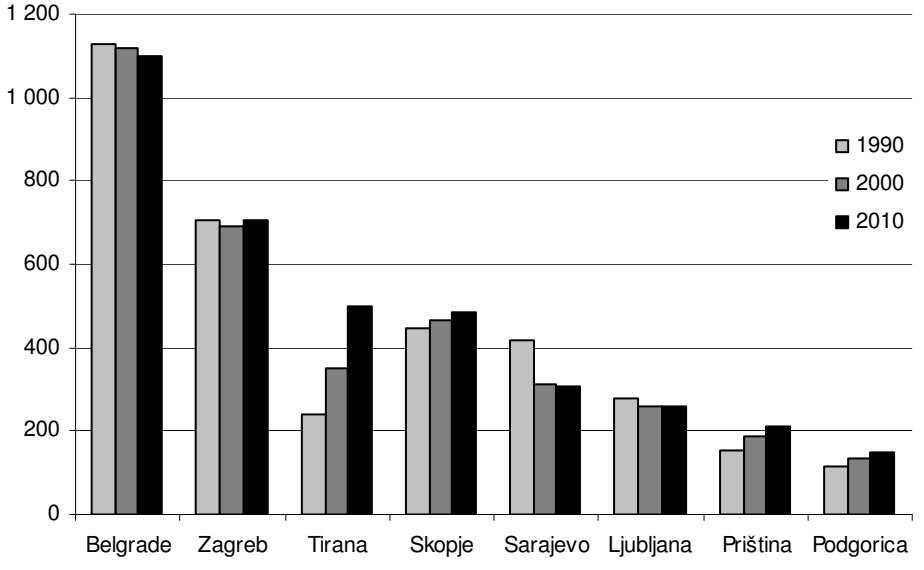
Urban population 1990–2015, %



Key: About the urban population of Kosovo see the coutry profile.
Source: Designed by Rácz based on WUP, 2010.

Figure 36

Population change of the capital cities 1990–2010, thousands



Source: Designed by Rácz on the basis of census and statistical yearbook dates and estimates of www.world-gazetteer.com.

2 Evaluation of the current status of the urban network

2.1 Albania

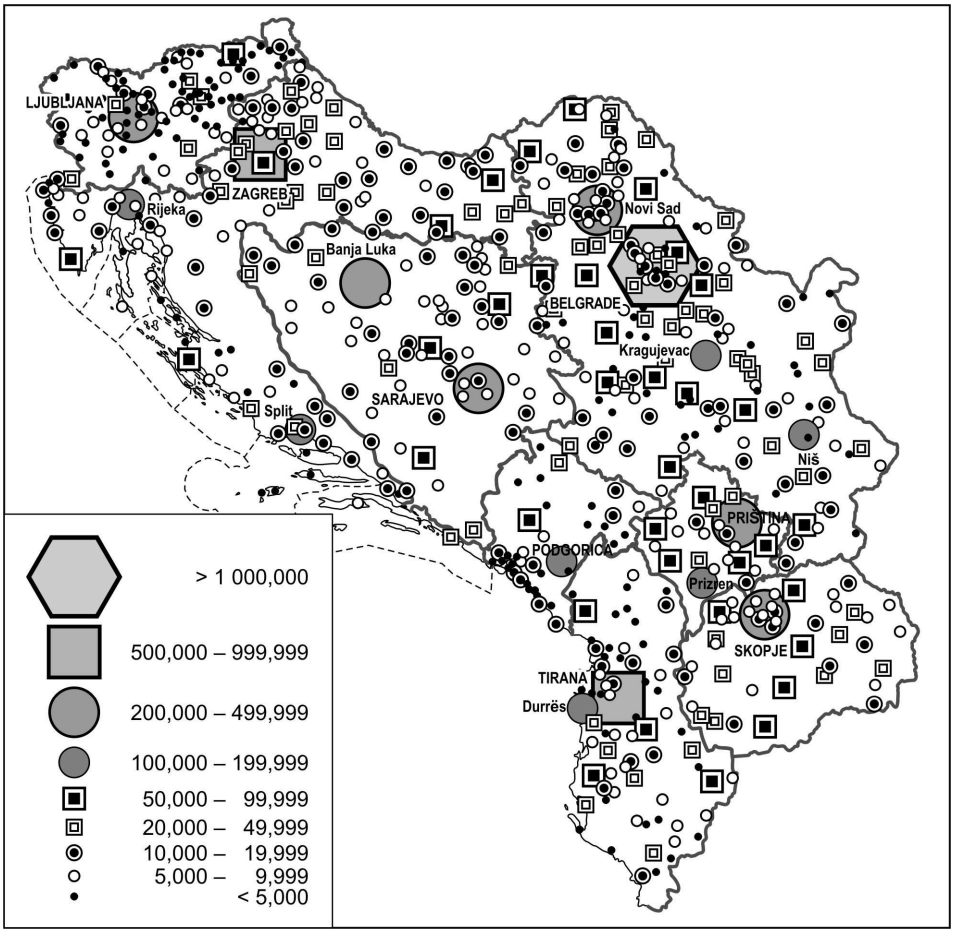
The country's land relief basically determines the population's territorial structure. 28.6% of Albania's territory lies more than 1,000 meters above sea level, and the proportion below 300 meters is 29.9% (INSTAT, 2007). 60% of the, approximately, 3,000 settlements and all the significant towns also lie on the 20–50 kilometre-wide Western coastal lowlands (*Figure 37*).

From the urbanization perspective, Albania is unique in the region. In Europe's most rural country, where, in 2006 58 percent of all employees worked in the primary sector, migration to towns was hindered by administrative barriers before the change of regime. The possibility of moving to towns in the 1990s, along with, in the European context, the extraordinary natural birth rate caused an increase in growth of the urban population (cf. *Figure 35*), which

was accompanied by significant migration trends. Because of jobs offered by industry, commerce and tourism, and also because of better living conditions, migration from the higher territories (mostly in the Northwest) to the capital, to coastal towns and abroad was significant.[2]

Figure 37

Towns of the Western Balkans, 2008



Source: Designed by Rácz based on data from national statistical yearbooks.

[2] Based on the calculations of Gëdeshi and Gjokuta (2008) nearly 1 million people (25% of the population, 35% of manpower) have left Albania since the change of regime; the majority of the emigrants has settled in Italy and Greece.

More than three-quarters of the migrant population, of which people below 30 made up 46%, chose the area of Tirana and Durrës for a new home. Between 2001 and 2010 the population of these two largest cities grew by 260,000, i.e. by 37 percent, and 41.8 percent of Albania's population currently lives in this region. The primacy of the capital, whose population exceeds 500,000, follows from all significant development indicators (*Pojani,* 2010). Considering its dynamics, Tirana's weight within the country is becoming more and more crucial. Durrës, lying 40 kilometers from the capital, is the major national seaport, fulfilling the role of gateway to the world and to the most significant commercial partner, Italy. The second most important settlement in the country, it does have serious tourism potential and its population will probably soon exceed 200,000.

Besides these two dynamically growing cities, there are five further settlements where the population exceeds 50,000 and which are important industrial and economic centres. Elbasan, lying in the middle of the country, in the valley of the river Shkumbin (along the former Via Egnatia and now TEN corridor 8) is significant because of its role as the location of the "transmitter" link between Albania's western and eastern territories. Shkodër, North-Albania's regional centre, an outstanding cultural and higher education centre, is the eponymous settlement of the Balkan-peninsula's largest lake (Lake Skadar). The Mediterranean Vlorë is a significant seaport in southwest Albania, whilst northwest of here lies Fier, whose development is due to nearby petroleum, natural gas and bitumen deposits. Korçë was built in the Southwest, near the Greek border, on a territory of very high agricultural potential: this is the only urban centre where the population has not grown throughout the past decade.

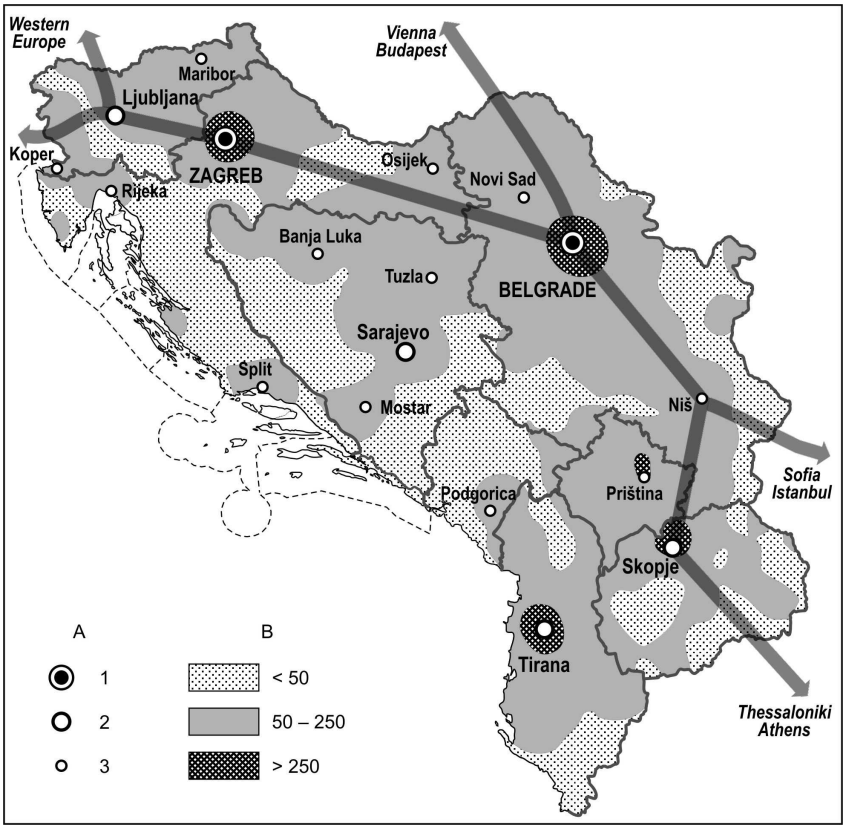
The next level of the urban network is made up of five medium-sized towns and approximately a dozen small towns. Among these, Sarandë, a popular seaside resort of the Albanian Riviera is outstanding. The development dynamics of the small town are similar to those of the capital, the reasons being a world heritage site (Butrint) and the proximity of the isle of Corfu. Of the medium-sized towns, the city centres of Gjirokastër and Berat are also on the UNESCO World Heritage List.

The territorially concentrated and uncontrolled urbanization process is having adverse effects on nature and the living standards of towns, since it is not accompanied by appropriate infrastructure and service development. Further, housing and employment development are also lagging behind the rate of growth of the urban population. Considering the consequences – e.g. the deteriorating health of migrants, increasing illiteracy – the economic and social costs of rapid Albanian urbanization are steadily increasing (Human Development Promotion Centre, 2002). The number of illegally built houses is very

significant: construction usually takes place in the suburbs, but there are illegally built houses in public parks also. The transformation of city societies poses several problems for local authorities, since migrants coming from different places (with diverse cultures) have varying capacity to adapt to the new urban way of life. (There are those who move to the capital along with their farm animals.) In spite of all this negative experience, spontaneous and chaotic urbanization is a necessary concomitant of Albania's development – which has positive effects also. With these problems, however, appropriate handling and planning are extremely urgent (*Figure 38*).

Figure 38

Spatial structure and urban hierarchy of the Western Balkans



Key: A.1. – World cities; A.2. – Cities; A.3. – Significant towns; B – Population density inh./km^2.

Source: Designed by Rácz based on BBR, 2006, p. 12. and ÖIR, 2006, p. 42.

2.2 Bosnia and Herzegovina

The major part of the state territory is dominated by the Dinaric Alps, which are split by a number of valleys and basins. Larger coherent lowlands can be found along the Sava River and in the valley of the Neretva. All significant rivers – except the Neretva – flow towards the Sava, so opening up the land towards the North. Bosnia and Herzegovina is divided in four great physiographic sections (*Hajdú,* 2004):

- Central Bosnia (12,920 km^2, 1,249,000 population) is the country's highest and most developed region; this was the state's historical core territory;
- Peri-Pannonian-Bosnia (21,622 km^2, 2,253,000 population) is the country's demographic core area, the most valuable agricultural region, a gateway towards Central Europe;
- Herzegovina (11,842 km^2, 325,000 population) is a high-lying karst area, where only 9% of the territory can be cultivated; its population is low and historically poor;
- Mediterranean Bosnia (5,399 km^2, 296,000 population) lies between the karst and the sea; this is where the country's 20 kilometre stretch of coastline is situated.

The urban network is adapted to the natural features. Larger settlements could only be founded in basins and on the plain of the Sava River. Sarajevo became the territory's undisputed centre for the 20th century. Besides the capital, Mostar (Herzegovina's historic capital), Banja Luka, the centre of the Posavina, and two industrial towns (Tuzla and Zenica) were the large towns during Yugoslav times, and, based on their catchments areas, these towns divided the former Yugoslavian Republic into four[3] macro-regions. The relief features strengthened the territorial functions of several, well-located medium-sized towns (Bihač, Brčko, Bijeljina and Prijedor). The geographically divided space favoured autonomous regional development and the establishment of a territorially balanced town network. This polycentric network based on the territorial division of work was torn apart by the Yugoslavian war.

Bosnia-Herzegovina was the Western Balkan state that suffered the most from its split from Yugoslavia; here the war lasted longest and had its most casualties. The areas of mixed population and the larger towns suffered especially.[4] The

[3] Due to the proximity of Sarajevo (80 km), Zenica could not develop an independent catchment area on a regional scale (*Rogić*, 1977).

[4] Large towns and their districts had, ethnically, been the most heterogeneous territories within the Yugoslav republic. In such areas were found the highest proportions of Yugoslavs and children born from mixed marriages. These towns were examples of tolerance, peaceful cohabitation and

tragic war changed fundamentally the country's ethnic and demographic constitution, from both a quantitative and a territorial perspective.

The settlement network was mostly damaged after the war. The territories (Central Bosnia, Bosnian Krajina, Podrinje) severely affected by the fighting lost most of their population. The population of the territories spared from the worst of this decreased less, and there was a substantial increase of population in the immigrant-host settlements (mainly in Banja Luka and Bijeljina). The three important ethnic groups were naturally moving in opposite directions, and so the old mosaic-like pattern became more homogeneous. As consequences of the war, however, it needs to be recorded that the changes within the urban population seem, for the most part, to have turned out better than those in rural areas, in spite of the fact that agriculture in the rural areas offers the opportunity for self-support (*Reményi,* 2009).

As a result of the multifactor compromise which ended the war, and which reflects the different interests of diverse ethnic groups, as well as the current power relations – a state was established which was, formally, unified, although with numerous internal divisions (*Table 31*). At sub-national level, a final and legalised ethnic separation was established between the Federation of Bosnia-Herzegovina (FBiH) and the Bosnian Serb Republic (RS – Republika Srpska). Further homogenization can be seen in the Federation: of the ten cantons (each acting as a state within a state) (*Juhász* et al. 2003) – only two (the Central Bosnian, and the Herzegovina-Neretva cantons) have a mixed population. The nationalization process, however, cannot be regarded as settled in the light of the international presence in the Posavina corridor, in the vicinity of Brčko.

The peace affected the settlement network fundamentally. The main effect of the political settlement was shown by the new borders to catchment areas. The inter-entity boundary divided the territories of 28 communities (among these were the cities of Sarajevo and Mostar). Though the IEBL[5] does not form a physical border, there are already different centres of gravity for "opposite" territories, since settlement level and territorial processes will continue to work at sub-regional level in the future. Naturally, where the ethnic pattern so requires it, relationships will remain in some form. Using these boundaries, the catchment areas of regional centres (most importantly of Sarajevo, Mostar and Tuzla) were substantially reduced. Banja Luka cannot be considered to have been adversely affected by these newly-drawn borders, since, although it has lost a significant part of its earlier territory, it now dominates territories of the

multiculturalism. Their symbols (buildings, common spaces) became targets for destruction aiming at nationalization and ethnic homogenization.

[5] Inter-entity boundary line between the Federation of Bosnia-Herzegovina and the Bosnian Serb Republic.

former Tuzla region. Among the medium-sized towns, Prijedor was also affected, whilst Bihač might finally surpass Banja Luka. The situation of those territories which lost their centres was in many cases disadvantageous in that they became peripheral. Such territories are, for example, Podrinje or eastern Herzegovina, where smaller settlements will take over central functions. The spatial organizing power of Pale, Zvornik, Bijeljina and Trebinje will, presumably, grow (*Reményi,* 2009).

Several settlements which formerly exercised no administrative function or whose significance had not been so great have risen in the hierarchy as a secondary effect of the new administrative system. These will include Sarajevo (as the new state capital and the capital of two entities at the same time), the de facto Serb ethnic centre Banja Luka (which was the actual second capital, although the HQ of the wartime government was in Pale) and the seats of cantons[6] (Sarajevo, Tuzla, Zenica, Mostar, Bihač, Travnik, Livno, Goražde, Široki Brijeg and Orašje). The "Special Status town" of Brčko can also be counted among these.

Table 31

Spatial structure and urban features of Bosnia and Herzegovina

	FBiH	RS	Brčko District	Bosnia and Herzegovina
Area, km^2	26,111	24,617	493	51,197
Urban population, %, 1991	42.7	33.6	47.3	39.5
Population, '000s, 1991	2,720	1,569	88	4,377
Population, '000s, 2001*	2,307	1,447	44	3,798
Population, '000s, 2008*	2,327	1,437	76	3,840
Population growth, %, 1991–2008	–14.4	–8.4	–13.6	–12.3
Population density, pop/ km^2, 2008	89.1	58.4	154.2	75.0
Number of cities over 100,000 pop.	1	1	–	2
Number of towns 50–100,000 pop.	3	1	–	4
Number of towns 20–50,000 pop.	2	9	1	12
Number of towns 10–20,000 pop.	14	14	–	28
Number of towns 5–10,000 pop.	38	19	–	57

*Estimates of current population.

Source: Calculations by Rácz on the basis of census and statistical yearbook dates and estimates of www.world-gazetteer.com.

[6] Five towns below 20,000 people became cantonal seats (including Orašje with 3,000 inhabitants); a significant expansion of their functions is limited mainly by their size and that of their catchment areas, since only 30–80,000 people live in the four smallest cantons.

In order to ensure the quasi-autonomous self-determination of the two nations, a system of so-called "cantons" which completed the settlement hierarchy with the "cantonal seat" category, was established in the Federation. The territory of the Bosnian Serb Republic is divided into administrative regions in which settlements enjoy a wide range of autonomy. However, in comparison with cantons, regions have insignificant power and heavy centralization strengthens the position of Banja Luka.

Sarajevo became a true European capital (with all its positive features) in spite of the fact that Sarajevo's population had significantly decreased (by more than 100,000) due to the near-four-year blockade and siege, that its economy had been, to all intents and purposes, wiped out and that it had lost a part of its catchment area and its eastern territories. Its powers are, nevertheless, limited, since it cannot affect the activity of the Serbian ethnic group.

Banja Luka is the decision-making centre of the Serb Republic and is a significant economic, financial, cultural and educational centre. Its catchment area has changed to some degree, but, since it was away from the front-line and in view of its new administrative functions, it is indisputably a winner in the territorial processes and its population now exceeds 200,000.

2.3 Croatia

Croatia is the Balkan Peninsula's geographically most divided country. 53% of its territory is less than 200 meters above sea level, and this is where 85% of its population lives. The areas more than 500 meters above sea level make up 21% of the territory and are home to more than 100,000 people. Approximately 30% of the population lives in villages with a population below 1,000 inhabitants, although almost the same percentage lives in towns of more than 50,000. The country can be divided in three major physiographical sections: the lowland and hills (Pannonia), the coast (Adriatic) and the mountain range separating the two (the Dinaric Alps). The country's shape is quite unique and far removed from the compact state shape pattern established in political geography (Hajdú, 2006). Croatia's continental borders are 2,028 km long, of which 932 km (46%) form the border with Bosnia and Herzegovina. The coastline is 5,835 km long, of which 69.5 km are borders formed by the islands. 1,185 islands account for 5.8% of the territory, although only 48 are inhabited, 2.8% of the population living there (Central Bureau of Statistics, 2009). The country is also rich in rivers: the Sava River (Zagreb–Sisak–Slavonski Brod) acts as an internal axis, whilst the Danube and the Drava are important border rivers.

Territorial variety has to be taken as natural in the case of a country which has such features as Croatia. From an economic perspective, this variety provides opportunities for several forms of activity, and so is advantageous. The settlement network and the structure of the economy are mostly tied to natural geography, although the role of the terrain is not exclusive. The Pannonian territories (showing many typical Central European features) and the Danube Basin are dominated by agriculture, towns acting as industrial and service centres. The lowlands permit a higher population density and so the average town and settlement size is high in the national context. The thinly populated Dinaric Alps have a very scattered settlement pattern. The most obvious activities featured include forestry and animal husbandry, together with some light industrial activity and tourism. The size of the towns is below 10,000. The population in the uplands has been decreasing for decades and special programmes have been introduced to reduce emigration. Tourism is the main industry on the Adriatic coast with some typical port activity such as ship- and boat-building visible. There is light industry in the larger towns and also fish-processing, energy generation and agriculture as subsidiary branches of industry. Because of the significance of tourism to the country's economy, the development of coastal towns and other settlements is fundamental. The population is concentrated in a few coastal resorts, whilst the remaining countryside and islands mainly comprise tiny villages or hamlets – a very typical feature of the settlement network.

From the city network perspective, functional urban areas are generally divided into four, based on the four cities' (Zagreb, Split, Rijeka, Osijek) relatively separated catchment area. However, significant transitional zones have been established during recent years. From a geographical-functional perspective, two very different (in terms of both history and development) territories of Inland Croatia need to be highlighted: (Zagreb-centred) Central Croatia and Slavonia, whilst the Adriatic coast can be considered as a single region (*Table 32*).

Regional statistics hide significant inner divergences (*Sić,* 2003) which cannot be described in detail in this study, although we do need to mention the special space-shaping forces of the previous period. Established regional divergences became more acute during the transition. The country suffered substantial social, economic and settlement-related damage in the Yugoslav war (genocide, the forced migration of hundreds of thousands). The devastation caused by war differed both in its measure and character in the territories involved. Neither the special regional and urban network problems, nor the priorities of different policies aiming at solving them can be understood without considering the consequences of the conflict. Territories afflicted by war became underprivileged areas needing special treatment and the partly demolished town of

Vukovar became the symbol of heroism. Regional and local development played a significant role in reconstruction.

We cannot talk about one central power covering the whole of Croatia until 1998. Croatian sovereignty had, by this time, been restored in east and west Slavonia and Krajna – under Serbian rule for years (*Hajdú,* 2006). Meanwhile, the mother-country had to recognize that the Croatian territories in Bosnia-Herzegovina could not be integrated. The country's leaders, elected by the millennium, committed themselves to Euro-Atlantic integration, and so, in domestic policy, a stronger emphasis was placed on decreasing regional divergences and the expectation of having to accept refugees. People returning to a country, as also the different ethnic and religious groups, generally choose to move to a town, since, besides the general advantages of urban life, improves the possibility of a more peaceful cohabitation – so augmenting the proportion of the urban population.

Table 32

Spatial structure and urban features of Croatia

	Adriatic Croatia	Central Croatia*	Slavonia*	Croatia
Area, km^2	24,705	19,403	12,486	56,594
Density of settlements, per 100 km^2	9.9	17.1	8.0	11.9
Average size of settlement, pop.	601	635	865	657
Population, 1991	1,580,213	2,226,661	977,391	4,784,265
Population, 2001**	1,427,008	2,119,193	891,259	4,437,460
Population, 2008**	1,466,983	2,104,144	863,381	4,434,508
Population growth, %, 2001–2008	+2.8	–0.7	–3.1	–0.1
Population density, pop./ km^2, 2008	59.4	108.4	69.1	78.4
Number of cities over 100,000 pop.	2	1	–	3
Number of towns 50–100,000 pop.	2	–	2	4
Number of towns 20–50,000 pop.	3	6	4	13
Number of towns 10–20,000 pop.	8	7	4	19
Number of towns 5–10,000 pop.	12	9	8	29
Number of towns below 5,000 pop.	33	22	4	59

* Geographical-functional macro-regions, which differ from NUTS2 regions; **Total population from 2001, according to the new definition of population.

Source: Calculations of Rácz on the basis of census and statistical yearbook dates.

In relation to its economic strength, Croatia developed its highway network with unprecedented speed. The main reasons were not only the country's transit potential, but also strengthening inner cohesion.[7] Although the network is clearly focused on the capital, it facilitates fast transportation around the country. In spite of the Karlovac–Split–Dubrovnik highway not being part of the Helsinki corridors, Croatia had no other option to boost the Dalmatian resort zone (*Erdősi,* 2005). The investment has already had some visible results (tourist arrivals, increased real estate value). The Adriatic Highway's layout helped to open up several peripheral areas – for example, the scarcely inhabited county (županija) of Lika–Senj which had faced the greatest decrease in population. In addition, it provided the connections to the national network so vital to coastal resorts such as Zadar and Šibenik (*Sić,* 2009).

The capital stands on the very summit of the Croatian city hierarchy. Zagreb is an outstanding educational, cultural, transport and economic centre, the country's top growth pole, which is home to 18% of the population, 19% of employees, 25% of industrial production, 31% of GDP and 67% of new investment (*Koči-Pavlaković–Pejnović,* 2005). GDP per capita is 174% of the national average. The city itself has 700,000 inhabitants, but the agglomeration exceeds 1 million, and it has several characteristics which are the hallmark of socialist towns (*Slavuj–Cvitanović–Prelogović,* 2009).

Three, flexibly developed, macro-regional centres form the second rank of the urban network, and are towns which, due to their location, show very different characters. Split dictates Dalmatia's territorial development: it has significant industrial capacity, its tourism is rapidly growing and it has several small towns in its agglomeration. Bosnia and Herzegovina has a potential relationship with its hinterland, whilst most Croatian ferries to Ancona, on the other side of the Adriatic, sail from Split. Rijeka has, by tradition, exceptional importance considering the country's maritime economic interests (port-related industry, international freight traffic). Its future potential can be much improved still further by regenerating the Serbian, Bosnian relationship, but, due to the Dinaric Alps, its economic gravitational centres can only be reached with greater difficulties than those of Trieste or Koper. This area, however, is the country's leading tourist region and its capacities are well utilized; this is proved by the fact, that, apart from Zagreb, GDP per capita exceeds the national average only in the counties of Istria, Rijeka and Dubrovnik. Whilst the two port-towns open

[7] Croatia's shape is very disadvantageous for the organisation of domestic traffic. Spatially rational traffic lines go through the territory of another country. The distance between Dubrovnik and Osijek, as the crow flies, is 330 km, but by road (via Bosnia-Herzegovina) it is 490 km. However, using Croatian roads only (avoiding foreign territory), the road journey is more than 1,000 km (*Erdősi*, 2005).

a window to the world, Osijek is the link towards the Carpathian basin. Slavonia's economic and cultural centre suffered severe economic damage on the fringe of the Yugoslav war and after the disintegration of Yugoslavia it ended up on the eastern periphery of a country which had "turned to the west", and, in comparison with those towns which have "found themselves" in tourism, it lags behind increasingly.

The number of sub-regional centres is not low, but their distribution is uneven: they are generally concentrated close to cities. Relationships between towns on the plain are hindered by the terrain: they can be marked in zones, whilst the Adriatic towns' areas of influence are rather linear. The ring around the capital has the highest population and the largest area (Karlovac–Sisak–Bjelovar–Varaždin). In the case of Osijek a southern semi-circle can be seen (Pozega–Slavonski Brod–Vinkovci–Vukovar), while the networks on the Adriatic territories have fewer members (Pula, Zadar, Šibenik, Dubrovnik) and all are located on the coast (*Sirac,* 1997).

Irrespective of population, županija seats (county towns) play a very important role in the town network, since they provide the substantial part of territorial services (*Mezei,* 2010). Approximately 90 small towns (less than 10,000 population) form the lowest level of the network, but they have their own catchment areas on this mixed terrain (mountains, islands, coast). Due to its heterogeneous and uniquely shaped territory Croatia, despite its historical (and current) centralized administration, is a country with a rather polycentric urban network.

2.4 Kosovo

Much of Kosovo's territory is a basin at a height of 500 meters above sea level, surrounded by high mountains. Its two largest lowland areas – Metohija (Dukagjin) in the west and Kosovo Polje in the east – have the country's densest population. 16 of the 23 towns with populations over 5,000 are here, whilst the others lie in smaller basins or along rivers.

Priština (Prishtina), the capital and located in the middle of Kosovo Polje, in every respect heads the settlement hierarchy. Its population is 200–250,000 (no exact data are available). The total population of the capital city's agglomeration is about half a million. The second rank of the urban hierarchy consists of the six regional centres with more than 50,000 inhabitants. Their layout is relatively even, and only one of the country's least developed central territories (Drenica) lacks large towns. Prizren, situated in the southern part of Metohija, at the foot of Šar Planina, is the second largest settlement with a population of

120,000. Some 40% of the urban population currently lives in the two largest towns.

The country's urbanization level before the war was approximately 35%[8], but there are no exact data available on the post-war Kosovo towns. A part of the population is still moving and tens of thousands were obliged to leave their homes – those unable to return because they lacked accommodation or jobs. According to popular opinion, the urban population proportion is higher than before the conflict, although by 2004 it had still not reached 50%. The country has maintained its agrarian character and agriculture's contribution to the national GDP is some 30% (ESK, 2008).

Migration is significant in Kosovo. This is a long-term process, caused mainly by rural poverty, although there is no doubt that the war increased the number of domicile-changers. The basic dilemma of the rural state is not new; the rural population was the poorest in Yugoslavia in general and in its poorest republic, Kosovo, also. Politically based, extremely high population growth has been peculiar to the Albanian living space, especially since the 1960s. The population grew rapidly, but neither arable land, nor the number of jobs kept pace. As a consequence, labour emigrated – mainly to German-speaking countries. The income remitted home was the only real means to keep the countryside alive. The emigrants of the 1990s were already political refugees due to increasing ethnic tensions, and the Diaspora is currently estimated at 350–400,000.

In spite of the fact that, during the war, most incidents (damage, arson and attempted murder) happened in the large towns, internal migration from rural areas, especially from the mountains by the border and the inner peripheries towards the urban areas has been durable and significant. In the meantime several smaller settlements may well have been permanently abandoned.

After 1999 Kosovo had to face a very complex and unsustainable form of urbanization. Town development is unplanned and uncontrolled, and brings with it many negative effects. The visual results are shocking. Towns were not prepared for rapid population growth, and especially not for the employment of a significant number of young people. The urban expansion threatens the most fertile agricultural lands, particularly by erecting shopping malls on the main roads. The main problems of Kosovo towns are: illegal building, informal settlements, lack of mass transportation, traffic jams, environmental damage and a lack of green space. These problems are caused by structural difficulties: unsustainable demographic trends (the major part of the population is under 20), a high unemployment rate (40–50%), deepening poverty, wide-spread crime,

[8] The census of 1991 was boycotted by the Albanians, and so the data of the last complete census date from 1981.

mass migration, Serb enclaves and cohabitation conflict, either no or ineffective institutions, inadequate education and social services (*D'hondt,* 2006).

The urban network structure has slightly changed over the past twenty years. The number and proportion of the urban population increased over the whole country: the population growth was above average in the capital, in the regional centres (except Mitrovica) and in towns of 5–10,000 inhabitants; the population of settlements of 10–20,000 stagnated, whilst the weight of the smallest dropped by a half. Due to uneven territorial development, the population streams from village to town, from one town to a more developed town an, in particular, to the capital. The best housing opportunities are offered in (already overcrowded) Priština[9], where it is easiest to obtain subsidies, jobs or higher wages. This is the only city, where, due primarily to foreign investment, the tertiary sector is developing strongly. The airport is – based on the demand of the visiting Diaspora and the international organizations – the most dynamically developing airport in the Western Balkans, and in 2008 its passenger traffic exceeded 1 million.[10]

During the first five years after the conflict Priština's and Peč's (Peja) positive migration balance was the highest, while Đakovica (Gjakova) and Kosovska Mitrovica (Mitrovicë) had suffered the highest emigration (UNDP, 2004). Mitrovica broke into two parts along the river Ibar after 1999. The (Serb) northern part of the town, which has an overall Albanian majority, became the biggest example of ethnic division and is currently the de facto capital of the Serbian enclave in Kosovo. Yugoslavia's largest and richest ore mine, the Trepča complex which includes several (principally lead, zinc and silver) mines, processing facilities and factories meant the same for the Albanians in Kosovo as the shipyard in Gdansk did for the Poles. After the split-up of Yugoslavia and the withdrawal of autonomy the industrial flagship, which had lost its markets, went into rapid decline. At the same time Trepča did not only became the centre of the independence movements, but it turned into the focal point of the Serbian-Albanian ethnic quarrels. The old, inherited, treasury is actually a burden on the young state (debt and early old age pensions); privatization and consolidation, due to unclear property ownership and to a lack of interest on the part of foreign investors, still lie ahead (*Tóth,* 2009).

Although ethnically it is a more homogeneous country, Kosovo's way to independence is a much more complex procedure than that of Montenegro. On account of the international status and the economic problems, "independence" gave little impulse to towns, except for Priština as it grew into a capital city. In the light of the main European and global trends, the current National Devel-

[9] The capital's long-term development plan for 2020 calculates a population of 700,000 and a built up area twice as large as at present (*Dobruna,* 2009).

[10] Source: www.airportpristina.com

opment Plan aims to ease the problem of Kosovo's being centred around its capital (*D'hondt,* 2006), but to realize the visualized polycentric (1+6 towns) concept seems rather utopian under current circumstances. We also need to consider the effects of the decline of the international presence and of refugees returning home on the local economies.

2.5 Macedonia

A significant part of Macedonia is mountainous, only 25% of its territory lies under 500 meters above sea level. A quarter of the 1,762 settlements lie in the valley of the river Vardar, which acts as the main traffic axis of the country. Natural population growth is positive in all eight regions; however its pace is decreasing, which originates on the one hand from the decline of the birth rate, and on the other, from the rising mortality rate. 53% of the population is concentrated in the three densest northern regions (Skopje, Polog, northeast). The migration balance is positive only in the region of the capital.

The country's urbanization level is about 60%, which, considering its dynamics and structure, seems stable. Approximately 40% of the urban population lives in Skopje. The city of 500,000 inhabitants has seen well-balanced growth for decades. The weight of the capital city region within the country is very considerable: 30% of the population, 33.6% of employees, 37% of university students, 38% of businesses, 38.6% of foreign overnight stays, 46% of theatres and museum visitors, 48% of GDP, 61% of businesses (Statistical office of Macedonia, 2009, 2010). The second line of the urban network consists of towns of 50–75,000 inhabitants: Bitola, the traditional centre of southwest Macedonia (the country's pantry), and, in its vicinity, Prilep, famous for its tobacco production; Kumanovo has a significant Albanian minority and lies in the north-south corridor close to the Serbian border, whilst Tetovo, a town with an Albanian majority that hosts the country's largest private university is not far from the Kosovo border. 40% of the urban population lives in evenly distributed (21 small and 8 medium-sized) towns of under 50,000 people. Besides migration, the spatial structure of the settlement network is influenced by (newly born) industrialization, due to which the air, water and soil pollution of the towns has become significant.

2.6 Montenegro

In spite of its small territorial size, Montenegro has a very diversified terrain. A significant part of the country is a thinly inhabited mountainous area with a few small and medium-sized towns, contiguous lowland areas are found only in the Nikšić plain and north of Lake Scutari (Skadarsko) where the capital lies, whilst a narrow strip on the Adriatic coast is the country's most densely populated region (*Table 33*).

Table 33

Spatial structure and urban features of Montenegro

	Central region	Coastal region	Northern region	Montenegro total
Area, km^2	4,917	1,591	7,304	13,812
Density of settlements, per 100 km^2	8.7	15.7	7.9	9.1
Population, 1991	254,860	126,267	212,377	593,504
Population, 2008	292,100	152,300	195,300	639,700
Population growth, %, 1991–2008	+14.6	+20.6	–8.0	+7.8
Population density, pop/ km^2, 2008	59.4	95.7	26.7	46.3
Urban population, %, 2003	78.9	59.8	39.0	61.9
Number of towns over 25,000 pop.	2	–	–	2
Number of towns 10–25,000 pop.	1	5	3	9
Number of towns 5–10,000 pop.	1	2	1	4
Number of towns below 5,000 pop.	3	13	9	25

Source: Calculations of Rácz on the basis of census and statistical yearbook dates.

Tourism[11] has made the Montenegrin coast the most dynamically developing region from both economic and demographic points of view. The foreign – primarily Serb, Russian and Bosnian – guests spend 97% of the total of overnight stays here, nearly half of the non-metropolitan university students study here (three metropolitan universities have faculties located here); 19 of the 40 towns of Montenegro lie directly on the coast. Especially significant has been the change in the town of Budva: the pace of urbanization and, in the national context, the value of real estate is the highest here and the only non-capital city-based bank has its head office in this small town (MONSTAT, 2009). Important

[11] According to the TSA (Tourism Satellite Accounts) concept, tourism accounted for 20.8% of the country's GDP in 2009. (World Travel & Tourism Council, 2009), and tourism also meant that Montenegro was the only Western Balkan country where FDI did not decline during the crisis of 2008.

urban centres on the coast are Kotor, Herceg Novi, Ulcinj and Bar, whose seaport is extremely important in the relationship with the country's number two commercial partner, Italy.

The three most important Montenegrin settlements are located in the central region. The Balkan's smallest capital city, Podgorica, aspires to increase its macro-regional role, and the country's independence, declared in 2006, is a great help to this ambition. In the city, named Titograd until 1992, there lives a growing part of the population (currently 23.4%), as well as-one third of all employees. Podgorica's national significance is particularly seen in the fields of industry, commerce, financial services and knowledge production (two-thirds of all university students study in the capital). Nikšić (58,000 inhabitants) is the second strongest centre of the country. Its traditional industries (steel production, mining, and brewing) suffered after Yugoslavia's disintegration and, in consequence, the town ceased to grow, so triggering spontaneous tertiarization. Montenegro's former capital Cetinje (15,000 inhabitants) nowadays is only the official residence of the head of state; its importance and population have declined since it had lost its administrative function in 1946.

The mountainous areas substantially lag behind the national average in terms of both their economic and social development; the population of the central settlements does not exceed 5,000. The Sandžak (Sandjak), towns in the northern region close to the border, where Montenegro's much diversified ethnic relations are increasingly seen are an exception to this rule: Rožaje is the centre of the Bosnian minority, whilst Bijelo Polje, Berane and Pljevlja have a Serbian majority. The latter is the country's third largest settlement with a population of 21,000. Its economic basis is coal-mining, the coal supplying its power station which produces 40% of the country's electricity.

2.7 Serbia

The Western Balkan's largest and most populous country extends from the southeast of the Pannonian Plain to the centre of the Balkans. In consequence, its northern territories are rich agricultural plains, whilst in the south, in Central Serbia, the hills and mountains (the Dinaric Alps and the Balkan Mountains) are incised by several deep valleys. The Tisa, Sava and Morava rivers with their confluence in the heart of Serbia make up the main traffic corridors. The area has geo-strategic importance, since the routes crossing the country link Western and Central Europe to the Balkans and the Middle East. One positive output of this location is the central territory's (the node cities') spatial organizer-transmitter role. The country's main development axis runs along the Rivers Danube and Morava in a north-south direction. It touches cities such as Subotica, Novi

Sad, Belgrade, Niš, Leskovac, Vranje etc. The secondary axes are in an east-west direction. Sremska Mitrovica, Šabac, Obrenovac, Belgrade, Pančevo, Smederevo, Požarevac are towns along the route in the Vojvodina's Southern part and in the latitude of the capital. The axis crossing Central Serbia strengthens the spatial organization of Užice, Kragujevac, Niš and Pirot. The traffic network currently serves the urban network, and territorial development is in line with the development of the road network. Roads are the most developed sector for both goods and passenger traffic, and transit traffic is linked to the Trans-European Corridor No. 10. Serbia's river transportation, in terms of its potential, is unexploited, but its favourable traffic-geographical location would facilitate port development and the establishment of logistics centres, primarily in the region of Novi Sad and Pančevo (*Nagy,* 2007).

The country's direction over the last twenty years has been very specific. Due to the isolation in the 1990s, its integration into global processes was somewhat slow, and, in fact, the development of a market economy did not start until the fall of the Milošević regime in 2000 (*Nagy,* 2007). The effects of the lost wars and the transformation of the economy emerged, with varying intensity across the country and also in the urban network (*Zeković,* 2009). After the break-up of Yugoslavia, hundreds of thousands[12] of Serbian families moved from the new states to the mother country. These waves of refugees were territorially uneven, since they were generally concentrated in those towns and cities close to the areas affected by hostilities. The population boom was most visible in Novi Sad and its surrounding area. The positive numbers of this migration in South and West Bačka, Syrmia, Belgrade and the Mačva district in the 1990s were a counterbalance to the natural decline of population that was characteristic for Serbia as a whole. Nonetheless, and in spite of migration, Serbia's population decreased by 3% between 1991 and 2008. The decline was the highest (13–18%) in the already thinly inhabited (below 45 people/km^2) territories; these are the mountainous districts close to the border, where only four medium-sized towns of 40–60,000 inhabitants (Bor, Zaječar, Pirot, Prokuplje) are found. The population only grew in four districts: the highest (a near-10% increase) was seen on the Belgrade–Novi Sad (North Bačka, Srem) axis. Niš, Kragujevac and Subotica stagnated demographically, and their districts shrank, as did the national average.

The country consists of two constitutionally separate entities: the Vojvodina and Central Serbia. The first is an autonomous territory with a multi-ethnic background, where the political status and the finer detail of its independence have changed much over recent years. The territory is relatively advanced in comparison with the country's southern territories, and so it contributes to

[12] The most common estimates calculate 600,000 immigrants.

national production at a level well above its 27% share of the population (*Nagy,* 2007). Its urban network is polycentric, a fact primarily due to the small and medium-sized towns, whose number – once again – far exceeds the Vojvodina's own proportion of the national territory and population. The settlement network is morphologically balanced, although its North and Central Banat territories (east of the river Tisa) are less densely inhabited. The average settlement size, the density of population and the proportion of urban population are higher in the Vojvodina, than in the country's other territories. Because of its terrain, Central Serbia for the most part features small villages or hamlets. While only 3% of the Vojvodina's population live in settlements with fewer than 1,000 inhabitants, this proportion is nearly 22% in the southern part of the country – which demands an increase in the functions of smaller towns (*Spasić–Petrić,* 2006). In terms of the proportion of population and the territorial distribution at urban level, this difference between the two parts of the country is much smaller. This, however, is deceptive, since the statistical data for Central Serbia as a whole are substantially affected by the data relating only to the capital city (*Table 34*).

Table 34

Spatial structure and urban features of Serbia

	Vojvodina	Central Serbia*	Belgrade	Serbia**
Area, km^2	21,506	52,746	3,222	77,474
Density of settlements/100 km^2	2.2	7.7	4.9	6.1
Average size of settlement, pop.	4,239	918	10,327	1,561
Population, 1991	1,970,195	4,054,491	1,552,151	7,576,837
Population, 2008	1,979,389	3,749,437	1,621,396	7,350,222
Population growth, %, 1991–2008	+ 0.5	– 7.5	+ 4.5	– 2.9
Population density, pop/ km^2, 2008	92.0	71.1	503.2	94.9
Number of cities 100,000+ pop.	1	2	1	4
Number of towns 50–100,000 pop.	4	10	–	14
Number of towns 20–50,000 pop.	9	11	4	24
Number of towns 10–20,000 pop.	16	18	1	35
Number of towns 5–10,000 pop.	15	24	3	42

*Excluding City of Belgrade; **Kosovo and Metohija data not included.
Source: Calculations of Rácz on the basis of census and statistical yearbook dates.

A transformed and revived Belgrade is, from every perspective, at the peak of Serbia's urban network. The former Yugoslavian capital's administrative and economic functions were significantly narrowed by the fact that nearly 70% of the country's population and territory left its control within a period of 20 years.

After a sharp drop in the '90s the local economy had stabilized by 2003. Belgrade's capacities are, in every single respect, too big for the current size of the state. 1.6 million people live in the agglomeration of a metropolis of 1.1 million, which lies at the crossroads of the most important routes. Medium-sized towns such as Pančevo or Smederevo also belong to its catchment area (*Tošić–Đorđević,* 2004). 22% of the total population and 31.4% of all employees live in Belgrade. Nearly one-third of the country's GDP is produced in the capital, whilst 40% of all investment, 52% of university students, 54% of the foreign overnight stays are also concentrated here. As a consequence of the post-industrial transition and nearly 100,000 refugees, the city has to face a general decline in industry and specific urban problems (illegal building, suburbanization within the city limits) (*Hirt,* 2009, *Graovac–Djokic,* 2008).

In respect of a functional hierarchy, the capital is followed by two urban areas of international significance: Novi Sad and Niš (RAPP, 2010). Novi Sad is the capital of the Vojvodina, Serbia's second most important town. Its transport, industrial (mainly chemical, petro-chemical and food), cultural and higher educational role is nationally of great importance, and it is also its region's financial, commercial and power centre. The migrations of the last two decades affected Novi Sad the most, its actual population exceeds 200,000 and its catchment area stretches far along the Danube and Tisa rivers.

Niš with 170,000 inhabitants, is the regional centre of South Serbia. Its favourable geographical location, its developed electronics and engineering industry, administrative, cultural and commercial functions underlie its significant development potential.

Based on the town's development plans, Kragujevac (145,000), Serbia's former capital, and known for its manufacture of armaments and the production of Zastava cars, as well as Užice (55,000 people) which lies close to the Montenegro-Bosnian border, may also aspire to a possible new role as a regional centre (ÖIR, 2006).

Serbia's fifth largest town is the near-100,000-strong Subotica, whose catchment area holds altogether nearly 200,000 inhabitants in a semi-circle of North Bačka settlements along the Hungarian border. Its significance can be increased by developing cross-border relationships with its EU-member northern neighbour, especially with the city of Szeged only 45 km away.

2.8 Slovenia

Despite its modest territory of 20,273 km^2 Slovenia is characterized by significant territorial divergences caused by the fact that the country lies at the meeting point of four physiographic sections: the Alps, the Adriatic Sea, the Pannonian Plain and the Dinaric Alps. The capitals agglomeration is the core of the central territory (the Ljubjana Basin, the Southern Pre-Alps, the Karst Plateau), together with a few medium-sized and numerous small towns. The western – the Mediterranean coastal – region is service and tourism-oriented with a borderland town-cluster on the coast near the Italian border. The Pannonian plain is a traditional industrial area in the eastern part of the country, which has, at the same time, significant agricultural activity, although its demographic and economic conditions are unfavourable (RePUS, 2007). The mountain regions, mainly the Julian Alps, have positive employment and tourism potential, whilst its settlement and population density are low and emigration is high. Firstly, regional differences are significant between the western and central territories and the eastern part of the country. This phenomenon is not new, since the growth potential of the eastern part has always lagged behind that of Ljubljana and the Adriatic territories. As there are few lowlands in Slovenia, its settlement network is structured and features numerous small villages or hamlets. According to the Slovenian national definition, the number of settlements exceeds 6,000. The country is characterized by evenly distributed settlements and a low urbanization level; 44.3% of the population live in settlements of under 1,000 (SURS, 2009). Slovenia ranks among the most polycentric European countries (Nordregio, 2004), since its urban network is balanced both from a morphologic and a functional point of view. The urban structure is also even in terms of dynamics. Since the change of regime, the numbers of the urban population have not changed, whilst the overall population of Slovenia has increased by some 45,000. Only seven towns showed a population change of more than 10%, and these changes have all been positive – that is, they have shown an increase. The rankings of towns with more than 20,000 did not change between 1991 and 2009. Their population stagnated or, in the case of Maribor, Celje and Velenje, decreased. The population boom of towns of 10–20,000 inhabitants was the most significant, and five settlements managed to step over the town definition threshold of 3,000.

The country's power and cultural centre, Ljubljana, is, in the European context, a small capital city (270,000 people). It is also an important commercial, scientific and education centre. Due to its favourable geographical location the capital is the transport system's main node. As a leading country in international integration it fulfils the role of potential gateway to the post-Yugoslav states.

27% of the urban population, one third of public service jobs and 60% of university students are to be found here. Dynamically developing Ljubljana offers high living standards and a high quality of life. Knowledge and service-based production is continuously growing in significance in the economy. The population of the metropolitan agglomeration is also growing, partly due to the (in national terms) high natural birth rate, and partly to the migration surplus. In the Central Slovenian statistical region, centred on Ljubljana (Osrednjeslovenska) lives a quarter of the population, 36% of all those in employment, 40% of new investment, 46% of business enterprises and 55.1% of all R&D expenditure (government sources providing half of this). Due to these factors, GDP per capita is approximately 45% higher than the national average (*Ravbar,* 2009; SURS, 2009, 2010).

The second largest town is Maribor, the centre of the eastern part of the country with a population of almost 100,000. The town, termed the Styrian metropolis after the historical Austrian region, underwent severe demographic change in the 20th century. Based on its traditions and its geographical location it became a significant industrial centre for Yugoslavia and so the loss of its former markets after the change of regime put the town's economy in a difficult position. Although the transformation in the 90s can be considered successful, its economic and demographic indices are much worse than those of the capital. Its major take-off point lies in its knowledge-based activity since 25% of Slovenian university students study at University of Maribor. The intensification of traditional economic and cultural relationships between Maribor and Graz, the Austrian city some 60 km distant, can be expected (ÖIR, 2006).

These large towns are followed by five multifunctional, mainly service-oriented and medium-sized towns with 20–50,000 inhabitants (Celje, Kranj, Velenje, Koper and Novo Mesto) and nine neo-Fordist towns with a population of 10–20,000. Celje, the third largest town, is the regional centre of historic Lower Styria, and its development might be supported by the establishment of the Technopolis and the International University by 2013. Kranj lies only 25 km to the north of the capital, and, with a population of 40,000 it is the regional centre of Upper Carniola, but cannot be clearly isolated from Ljubljana's functional urban area (Nordregio, 2004). Due to its location, it benefits from the capital's closeness (e.g. the international airport, industrial investment etc.). The coastal polycentric urban region on the Italian–Slovenian–Croatian border led by Koper (Koper–Izola–Piran–Portorož) is the third most important element of the Slovenian urban network. The basis of development is tourism (built on the merely 46.6 km-long Slovenian coastline) as well as the dynamically developing seaport with considerable significance for Central Europe. The area is characterized by a high population density, a growing population, a service-based economy, a highly educated labour force and good accessibility. Since 2003 the

University of Primorska has been operating here. This is Slovenia's third (in size) institution of higher education with 5,000 students. Also, the importance of Nova Gorica should be emphasized from the perspective of cross-border relationships, since the (Slovenian) town built on the eastern territory of the (Italian) town of Gorizia (territory awarded to Yugoslavia at the end of World War II) effectively makes up a Slovenian-Italian twin-town. National statistics record 52 small towns (3–10,000 inhabitants) and 37 urban settlements at the lowest level of the urban hierarchy (SURS, 2009).

Phenomena connected to suburbanization, such as urban expansion, the decline of town centres, and income polarization, are the most significant urban problems (*Sasek,* 2009). Suburbanization, which started a few decades ago, intensified after the change of regime and is strongest around the two major cities. However, it can also be seen in some medium-sized towns, and the smaller towns along the coast. Business, industrial and commercial investment in the metropolitan area show growing de-concentration in economic activity – in the form of both specialization and fragmentation. The augmentation of Central Ljubljana's functions is a process in the opposite direction, although it is weaker. In respect of smaller towns, the rehabilitation of town centres and brown belts will be a serious task.

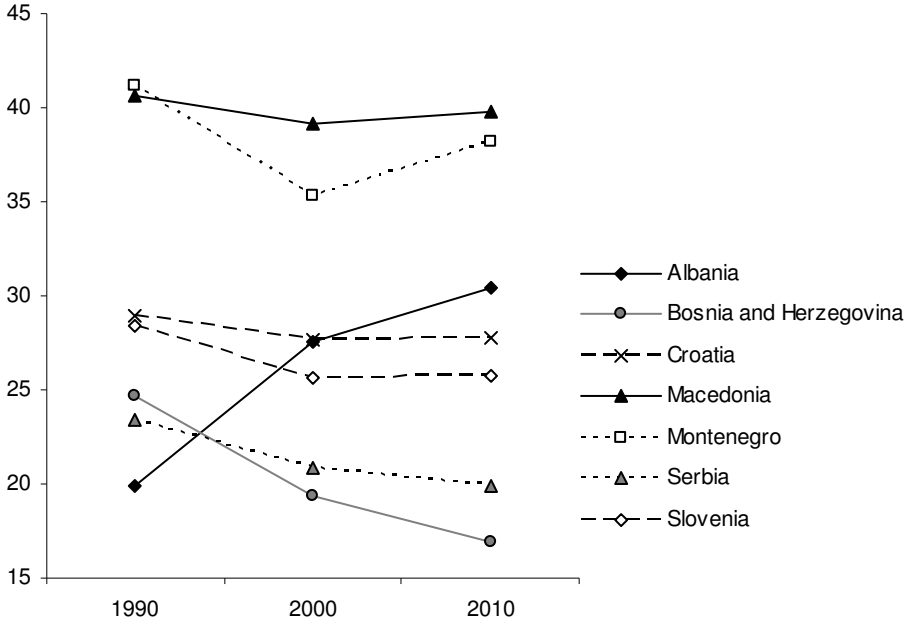
3 Current situation and expected trends

A perhaps inadequately proven hypothesis of the European spatial political documentation (ESDP, Territorial Agenda) and ESPON research says that a mono-centric country has less development potential than a polycentric. Whilst examining this region we cannot ignore this dimension of these newly established countries. The former Yugoslavia could have been considered as polycentric from many points of view. It had regional centres, but small countries with small populations cannot be expected to show the same features. The new nation states, the former Yugoslavian territories, are the size of a NUTS2 region, or a significant region of a city in Western Europe. Their polycentric development is favoured by the fact that there is no dominant centre, except for Serbia, that could functionally integrate the whole area. Considering their size and their richness of functions, Zagreb or the central region could play a dominant role, but the unique morphology of Croatia (both its basic shape and the features of the terrain) rather favours polycentricism. Slovenia, Kosovo and Albania are mono-centric countries, but their size does not make it necessary for them to develop polycentrism, and, moreover, further development of the capitals is desirable. In Bosnia and Herzegovina the population of Sarajevo is

substantially bigger than that of the next rank of towns, although the situation of the capital, its two ethnic groups and the existence of different ethnic centres, do favour a polycentric development route. The proportion of Western Balkan capital cities in the total urban population is varied (*Figure 39*).

Figure 39

Share of capital cities in the total urban population 1990–2010, %



Source: Designed by Rácz based on data from national statistical yearbooks.

It is a world-wide tendency for former cities and their regions to have grown similarly to economic concentrations. Currently, the regions of cities – the metropolitan regions – are considered to be the most important sites of territorial competitiveness, since they have priority in respect of development potential. In ESPON research these are called Metropolitan European Growth Areas (MEGA). We can draw the conclusion from these European analogies that the more developed cities and metropolitan areas are found in a country, the more developed is that country. This argument, however, is not valid in this context: Slovenia is more developed and its GDP per capita is higher than that of the region of Belgrade.

A similar shift in terms of proportions has occurred in the relationship of Belgrade-Serbia as in that of Budapest and Hungary in the 1920s. Budapest became the (relatively oversized) capital of a smallish country within a very short period of time. After the separation of Kosovo and Montenegro, Belgrade with a population of more than 1.5 million became the capital of a country of seven million people.

The urban network of the Western Balkans might take a new direction in the light of European integration. Towns, the regions surrounding bigger cities and coastal settlements, basically having more attractive features, are the target for migration. In Croatia, except for the Zagreb agglomeration, it is the coastal towns which show significant development potential. In Bosnia-Herzegovina the different ethnic groups have different target settlements. Further Croatian migration is to be expected in the Western territories, whilst Bosnian Serbs concentrate in the East. The Vojvodina has been revaluated in Serbia. This region and large towns in general will be migration targets. The development of state and administrative functions can be expected in the new administrative capitals; this induces further development. There are ethnic centres (Tetovo, Novi Pazar, Mostar etc.), which play a significant role in ethnicity-based development policy, and an accentuated development of new, national ports is to be expected.

Looking at the Western Balkans as a whole, basically a 1+4-level hierarchy of settlements can be visualized, which, at national level, might be expanded with even more levels.

1. Areas of Belgrade and Zagreb, as potential Metropolitan Growth Areas (MEGA 4) emerge from the urban network, and these might provide services for the whole of the Western Balkans or a part of them. The multinational companies settling in this region will probably choose one of these as their HQ. Trans-national relationships will primarily work through these, since they will act as transmitters between the South-East Balkans and Eastern Europe.
2. Capitals will grow and their central functions will become more complex. The development of Ljubljana, Sarajevo, Podgorica, Skopje and Tirana will be faster than in the other countries. They will be classified as weak Metropolitan Growth Areas (MEGA 4). (The status of Priština is unique: it is the capital of Kosovo and also the centre of the region of Kosovo.)
3. There are regional centres – at the NUTS2 level – of true national significance in Croatia and Serbia which provide services for parts of the countries and regions. Such regional centres are Osijek, Rijeka and Split in Croatia, and Novi Sad, Kragujevac, Niš – and, perhaps, Subotica also – in Serbia. The culturally heterogeneous Prizen – lacking a region – is, in Kosovo, rather more of an associate centre to Priština. Banja Luka, as the

centre of the Bosnian Serb Republic in Bosnia and Herzegovina, stands out from the other regional centres, a second capital city for the Serbs. Tuzla, Mostar and Zenica have lost part of their former catchment areas, although they might have a regional centre role in a NUTS2 structure.

4. Centres of smaller spatial units (NUTS3, LAU1, županija, counties, and cantons) might provide services in respect of their individual catchment areas, and their development will be in line with the basic interests of their regions.
5. Basic towns bring together and integrate a few surrounding settlements and will provide town-level services for them.

VILLAGE NETWORK AND RURAL AREAS

TAMÁS HARDI

The whole of the Balkan Peninsula has traditionally been a rural region. Before World War II, 70 to 90% of the population in some regions lived in villages, and only a small fraction of the inhabitants were urban citizens. The high proportion of the rural population was decreased by the waves of industrialisation in the second half of the 20th century, but, nevertheless, many regions today still have a large number and high proportion of their population living in rural areas. These, consequently, feature in a considerable number of the development issues of the Western Balkans. It is not easy to determine exact figures, however, as a widely accepted definition of rural areas is lacking in most countries. There are different sources from which we can calculate the proportions of rurality – the characteristics of rural areas – but the different sources often lead to different conclusions. It is not enough to define the proportions of urban vs. non-urban inhabitants, as town or city status is awarded on the basis of different criteria in the respective countries. There are countries where very few settlements are given town status (e.g. in Serbia and Macedonia), whilst in Albania municipalities with very small populations but which function as minor centres of rural areas, are regarded as towns. Articles on the rural areas of a region are based on estimates, and are made with different methodologies. (In Montenegro, for example, 77.4% of the population live in rural areas, according to the national statistics, whilst less than 1% of the total area is regarded as urban). A generally accepted definition, however, is the OECD recommendation – which is approved by most countries including the European Union. In this, NUTS 5-LAU 2 units are classified as rural if the population density does not exceed 150 persons/km^2. These data are not fully applicable to the region examined, but, naturally, these obstacles cannot prevent us from looking at the general conditions and development directions of rural space in the Western Balkans.

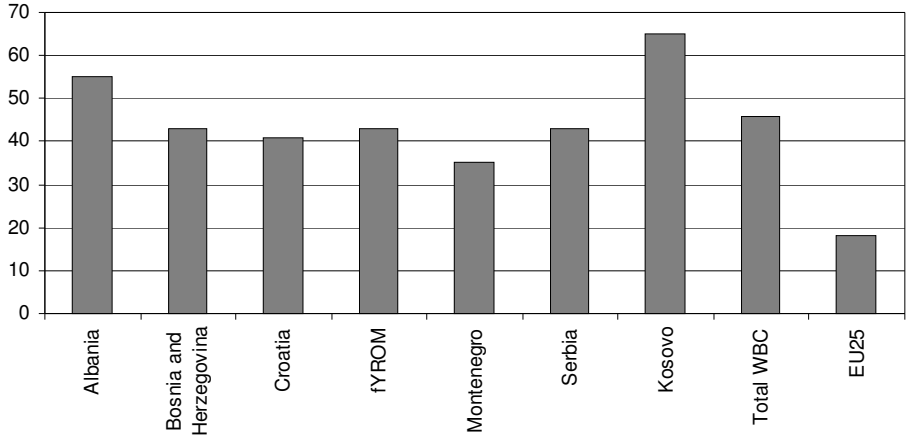
In addition to the significant percentages, we can also see extreme diversity. The types of rural area are organically linked to the mosaic of different areas defined by natural environment, traditional farming methods and power relations. It is typical that the different rural spatial types are defined not so much by ethnic-religious boundaries. These factors in total created a different way of

life to which the rural settlements had to adapt. We find different cultures in the region, ranging from the mountain shepherds to the peasants of the upland villages, from the large lowland farms to the distinctive ways of life of the coast and islands. These different cultures have had an impact with their individul farming and agricultural methods on the image of the urban space and of the landscape (*Cvijić,* 2009; *Prevelakis,* 2007).

In present-day Western Balkan states, approximately 42% of the population (over ten million inhabitants) live in rural regions (ARCOTRASS 2006a–h), although the number and proportion of this rural population show considerable differences across the respective states. In respect of numbers, Croatia is the country with the largest number of rural inhabitants (2.1 million), while Kosovo has the highest share of rural inhabitants within the total population (over 60% in 2008), followed by Albania (52%) (*Figure 40*). Naturally there are large disparities within the respective countries as well. In Albania, for instance, the proportion of inhabitants living in rural settlements may reach 70 to 100% in the mountainous area in the central and northern parts of the country.

Figure 40

Proportion of inhabitants in predominantly rural areas in the Western Balkan states



Note: Data refers to predominantly rural regions according to the OECD nomenclature of rural areas.
Source: ARCOTRASS – Consortium Synthesis Report 2006.

It is important to note that the inhabitants of the rural regions are still largely dependant on agriculture. This is the main sector of employment (reaching 70–80% in certain areas) and, even in the areas in the proximity of the urban zones, 80% of the population has some form of agricultural activity (*Ersado,* 2006). The proportion of the agricultural population working on their own land is high, but efficiency is very low and market skills are lacking. The diversity of the rural economy is low, and there are few or no employment opportunities in sectors other than agriculture. These factors combined lead to the hardening of rural poverty and to extreme levels of migration from rural to urban areas.

1 Basic features of rural areas in the Balkans

In recent decades the rural areas of the Balkans have lost many of their special functions, as a result of the collectivisation of agriculture, the large-scale influx of the population to the towns and cities, and the economic decline of the rural areas in the latest period. The age structure of the rural population shows signs of ageing, and the proportion of ethnic minorities is increasing in these regions (*Rey,* 1998). On the whole, we can see a strong decline in the rural areas, especially in regions less favourably endowed and we can see a significant number of villages which are now uninhabited.

In accordance with the physical geographical endowments, agriculture with different functions and, accordingly, different rural types have emerged. The scale of these differences is still measurable since the rural spatial types induced by various physical geographical conditions act differently in the current process of rural transformation. Prevelakis (2007) differentiates four Balkan ways of life: the mountain shepherd communities, the peasant villages of the uplands or hilly areas, the large agricultural holdings of the lowland plains and the coastal and island villages.

The rural areas of Serbia have been typified on the basis of their economic activity (*Bogdanov–Meredith–Efstratoglou,* 2006). Although this typology uses only Serbian data, the four rural types defined by the method of cluster analysis can also be found in the other successor states of the former Yugoslavia. High productivity agriculture and an integrated economy are typical of rural areas situated, for example, in the Vojvodina and on the northern edge of Central Serbia. Intensive agriculture in these areas uses the most fertile land, and the food processing industry is also commonly found there. The demographic processes are favourable compared to the other types of rural area, the infrastructure is developed and business enterprise is notable. This type more or less matches the regions dominated by the large villages on the Hungarian Great Plain, but

we have to note that, while in Serbia the most advanced rural areas fall into this category, the counties in the Croatian region of Slavonia and in Mura county in Slovenia are the least developed territories in their respective countries. Developed intensive agriculture is also typical in the villages located in the vicinity of the big cities (Belgrade, Zagreb, Novi Sad, Niš, Kragujevac).

The second rural type involves those areas where small towns and smaller farms with labour intensive agriculture are typical. The creation of small town industry was a product of the socialist era, and the industrial sites are scattered all over the country. This type is most typical on the edges of the urban centres and in the proximity of major cities. Dominant agricultural activities are fruit and vegetable production and intensive animal husbandry. Comparing this type to the other rural regions, we can see relatively productive agriculture, with a low level of unemployment and developed public services. This type is, by and large, identical with Prevelakis's upland or hill country category, where these small towns were already prospering in the Turkish era with their freedom and sovereignty, their advanced work ethic and trade. Although their history does not go back so far, cities with similar economic features can also be found in the plains of Albania, or in the region around the Macedon capital, Skopje, and in the Vardar valley.

The third rural type can be found in the mountainous areas, where the economy is mostly built on the extraction industry. Due to their historical functions and a natural environment less favourable for farming, animal husbandry (grazing) used to be the primary activity; later, in the 20th century, mining was also prominent. These mountainous areas are most seriously impacted by the typical problems of rural areas, depopulation, ageing, poverty and unemployment. Because of the diversity of their natural environment, these rural areas make the least homogeneous type. Their economic situation and ethnic conditions are varied, but they typically have few inhabitants, a low population density and underdeveloped infrastructure. In the view of Prevelakis (2007), an important characteristic of the population of the mountains is that family and clan relations have come to dominate over the centuries, and this still makes for strong networks even among the emigrants from these areas – and emigration from these regions is, in any case, significant. This particular type can be found all over the Balkan Peninsula: in Eastern Serbia, Bosnia, Montenegro, over most of Macedonia and in the southern areas of Albania. A peculiar type of mountainous area is to be found also in the central and northern (mountainous) part of Albania, where the extraction industry is insignificant. This region has preserved rather traditional socio-economic conditions, with very high agricultural employment and intenal societal conditions. It is interesting that the population of this area is less mobile than that of other mountainous regions (*Bërxholi–Doka–Asche,* 2003).

The fourth type of rural region consists of areas with outstanding tourism potential. The economy in these areas is characterised by the strong presence of the service sector, together with a relatively small agricultural sector. Such areas are the regions around the spas in Southern Serbia, or on the shores of major lakes (e.g. on the Macedonian and Albanian shores of Lake Ohrid) and along the coastline of Croatia, Montenegro and Albania. The tourism potential of the mountain areas is similarly important, especially in the field of ecotourism, but the accessibility of these areas and, in some places also, public safety, prevent this potential being exploited on any large scale.

The analysis of Serbia, understandably enough, ignores the archipelago although several previously mentioned features are visible: they have a low population density, and their traditional activity (fishing) did not produce sufficient income and so had to be supplemented with farming. Nowadays, neither of these activities can secure the livelihood of the large community. Tourism is only prominent on a few islands for the time being, but it does produce substantial revenue there. Island existence now has problems just as serious as living in the high mountains. The archipelago is, of course, extremely heterogeneous; there a few islands which are just as developed as mainland regions (perhaps even more so), but the overwhelming majority of the islands lag behind in development. Similarly to mountain areas, islands typically suffer from emigration and ageing. Of the total of 698 islands in Croatia, the census of 2001 only registered settlements on 67 islands, of which 47 were inhabited (*Bali,* 2009; Statistical Office of Croatia).

The breakdown of the settlement network by size is very typical of some areas of the Western Balkans. It is very difficult to underline with figures, as no database in a single structure for all countries is available. In all the former Yugoslav states the basic unit of public administration is the community (municipality) which may integrate several settlements (up to 20 or 30), whilst, in the case of cities, a community may be a single settlement. It means that the population numbers of these units in themselves do not reflect the real settlement sizes of the given region. Statistical data are mostly provided for the communities, settlement level data (numbers of population) are only given by the censuses. Accordingly we can only find comparative data for the territory of the Federal Republic of Yugoslavia but not for the whole of the region. For FR of Yugoslavia we used the data of the census of 1991, which database, unfortunately, does not contain the data of the seceded states, and in several cases (especially in the territory of Kosovo) not even the number of inhabitants was measured in each settlement and so the figures given for these territories are either defective or uncertain. The typical regions nevertheless can be described by the use of the data.

Table 35 shows that Montenegro has the most fragmented settlement network. Two-thirds of the settlements have less than 200 inhabitants and large villages cannot even be found in the country. The situation is just the opposite in the Vojvodina region where the settlement network has fewer elements, and over 40% of these are villages with more than 2000 inhabitants.

The Pannonian region (the Vojvodina), dominated by large villages, is strikingly different from the Central Serbian areas with a dominance of middle-sized villages, and also from the mountainous areas (especially Montenegro) where small villages are in a majority (*Figure 41*). Because of the differences in the status of the settlements we did not construct a table for Croatian regions, but it can be seen that the large village pattern is continued in Slavonia. It is clear then that the existence of villages with more than five thousand inhabitants is a characteristic of the Pannonian regions, whilst no villages of this size can be found in the mountainous or hilly areas.

2 Migration in rural areas, depopulation

One of the biggest problems in the rural areas of the Balkans is related to the migration of the rural population. There are several reasons for this, and the impacts can mutually reinforce each other. The age of industrialisation in any case started a flow of population towards the urban areas, and this was further strengthened by the large-scale disparity between urban and rural spaces in terms of infrastructure, employment opportunities and income. The result of these processes was depopulation in some rural settlements. Now there are hundreds of villages without a single inhabitant in the Balkans, and their number is expected to increase. This crisis had the most brutal impact on the villages of the mountain areas (in Macedonia, for example, the population of the mountain areas dropped by half between 1948 an 2001 (see Macedonian National Poverty Reduction Strategy). These villages are typically far from both rural centres and the cities, and either some public services are unavailable or the infrastructure is poor. Besides mountain areas, depopulation also threatens the plains and the upland areas, even in the regions with the most intensive agricultural production (e.g. the Vojvodina, the Fruška Gora, and the northern and southern part of the Banat region). A serious decline of population is now a problem not only in villages but also in small provincial towns.

The first wave of urbanisation reached the states of the Western Balkans in the Socialist era. Socialist ideology promoted the increase of the number and proportion of urban population by the development of industry. This caused a strong migration pressure towards the centres of urbanisation, which the big

Table 35

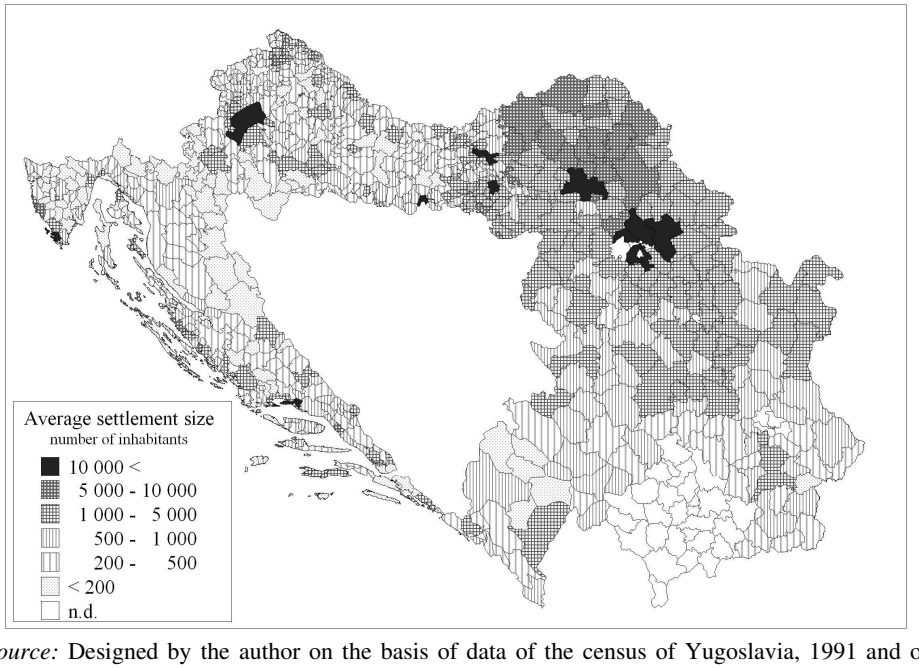
Breakdown of villages by population in some areas of the post-1992 Yugoslavia

Inhabitants of the villages, people	Montenegro		Central Serbia		Vojvodina		Kosovo	
	number	%	number	%	number	%	number	%
10,000 <	0	0.0	4	0.1	3	0.7	0	0.0
5,000 – 9,999	0	0.0	19	0.5	34	8.2	1	0.1
2,000 – 4,999	6	0.5	169	4.1	130	31.5	8	0.6
1,000 – 1,999	24	2.0	527	12.8	120	29.1	33	2.5
500 – 999	102	8.5	998	24.3	61	14.8	61	4.6
200 – 499	252	21.0	1296	31.6	44	10.7	44	3.4
1 – 199	799	66.7	1054	25.7	21	5.1	538	41.0
n.d.	15	1.3	35	0.9	0	0.0	628	47.8
Total	1198	100.0	4102	100.0	413	100.0	1313	100.0

Source: Calculations and editing by the author, on the basis of data of the census of Yugoslavia, 1991.

Figure 41

Breakdown of municipalities by average settlement size – in Croatia and certain areas of post-1992 Yugoslavia



Source: Designed by the author on the basis of data of the census of Yugoslavia, 1991 and of Croatia, 2002.

cities were not always able to absorb. In the case of Tirana, for example, central government banned unauthorised migration into the city and defined annual quotas for the number of incoming population. By industrialising the rural settlements, however, significant numbers of rural population were created. In Yugoslavia this was general and scattered all over the country (*Bogdanov–Meredith–Efstratoglou,* 2006), whilst in Albania it primarily concerned the settlements of Lower Albania and the southern mountain regions. This also intensified the "population drainage" effect of industrialisation – which started to empty some areas at this time. In respect of the relations of urban and rural areas, rural regions were typically subordinate to towns and cities, in accordance with the political-administrative structures. After the systemic change, this dominant role was preserved, but urban functions transformed (*Rey,* 1998). Several small towns were given new functions, typically administrative tasks (*Pap–Kobolka,* 2009), but, nevertheless, the network of rural centres and their services functions are still weak, something which contributes seriously to the problems of the countryside.

In the second half of the 20th century, the transformation of agriculture also created jobs in the rural regions. The collectivisation of agriculture was less typical in Yugoslavia (approximately a quarter of the farms were integrated into the large holdings) than in the other Balkans states (*Rey,* 1998), but in Albania the socialist (typically, state-owned) large farms were dominant.

The transformations of the 1990s strengthened migration, but its forms were more diverse than before:

- Strong population concentration processes started, and the regions losing population were the rural areas. Capitals and port cities started to grow rapidly, but the urban-rural disparities in infrastructure provision continued to increase. Industry in rural small towns was reduced, and so these settlements were less able to keep their population, whilst agriculture lost a large number of employees also. Meanwhile, incoming capital was concentrated in the centres, improving their economic prospects, especially in the field of services and the construction industry, which attracted large numbers workers from the rural areas.
- A kind of migration from urban to rural areas started also. In the 1990s, those who had formerly moved to the cities – or their descendants – moved back to the rural settlements as industry declined, escaping from higher urban living costs and unemployment. Many of them started agricultural activity, although without qualification and practice, and so they only produce enough for self-sustenance. This process, the actual growth of the number of people active in agriculture, is one of the reasons for the increase of agricultural employment in several states (*Kocsis,* 2005),

together with the reduction of jobs in industry. This phenomenon is especially typical in Albania, where the proportion of agricultural employees in total national employment is 58% (cf. the below-40% share of the sector in the socialist era), but in some mountain areas the share of agricultural employment may reach three-quarters of all jobs. A similar growth can be seen in Macedonia also. The classic way of moving from urban to rural areas, suburbanisation, also started in the recent years. A significant suburban zone emerged around Belgrade, Novi Sad, Zagreb and Ljubljana, but the suburbanisation process around Tirana has also started recently.

– International migration was possible in the successor states of the former Yugoslavia even in socialist times, and so it is not a new phenomenon among the factors leading to depopulation. For the citizens of Albania, however, the possibility to travel abroad was a novelty after the systemic change. The proportion of emigrants is especially great in the southern mountains of Albania where a considerable number of a Greek ethnic minority also live, and so language and cultural barriers were less of an obstacle to employment in Greece, as one effect of which there were rural districts – although with small numbers of population – from which over 40% of the inhabitants had emigrated between 1991 and 2001 (*Bërxholi–Doka–Asche,* 2003).
– The wars of the 1990s and other violent conflicts led to a migration that was one of the greatest in the history of the region, in terms of the number of people involved. As opposed to migration to towns, the largest numbers "exported and imported" were in the rural regions. The movement and settling down of refugee groups over the last five hundred years (especially the flow of the Serbs fleeing from the Turks, from south to north) had a considerable impact on the transformation of rural societies, not only in respect of ethnic relations, but also in issues concerning the economy. In the 1990s, in the estimation of the UNO High Commissioner for Refugees, approximately 650 thousand refugees were dispersed as an effect of the wars in Croatia and Bosnia and Herzegovina and the subsequent territorial rearrangements (*Djurdjev,* 1999). Although the author cited believes that this number is an underestimate, this number is complemented by the new waves of refugees following the secession of Kosovo and Montenegro. It should also be remembered that several families changed their place of residence within the respective successor states, and, accordingly, were not registered as international refugees. Totalling these numbers, we can see that the number of population in the rural areas forced by the crises to change their home and way of life may have

reached a million. Although many refugees were able to return home in the last decade, a significant proportion could not do so, as their original places of residence had been destroyed – and/or they did not wish to return after the ethnic changes. Among the refugees, the number of families living from agriculture was significant, and these settled in rural regions. Approximately 40% of the people fleeing from the seceded areas to Serbia found new homes in the Vojvodina region. Djurdev sees a possibility for the renewal of the villages in the (Serb–Hungarian, Serb–Bulgarian and Serb–Romanian) border regions in the reception of refugees, as these settlements had been in a disastrous demographic condition since World War II. In addition, the settlements around the big cities (Belgrade and Novi Sad) were in similarly bad conditions in the 1990s, and so they became the major reception areas. The author evidently did not deal with the impact of these processes on ethnic spatial structure and geopolitical issues. Similar problems also appeared in Albania, although on a more limited scale and with different preliminaries. A flow of population without exact numbers indicated, but considered significant, took place from Kosovo to Albania in the late 1990s, parallel to an intensive migration from the mountains in the north to the central regions. The leaders of the county tried to make some of the migrants find new homes in the southern regions that had been left by many inhabitants, and many settlements are now threatened by total evacuation. Because there is a relatively large proportion of the Greek ethnic minority in the region, this promotion was also given an ethnic touch, and evoked bad fears of "ethnic cleansing", or "Albanisation" in the Greek ethnic minority (*Hall,* 1996).

All these migration processes led to the depopulation of the rural settlements, especially in the mountains and on the islands. This also led to a change in the age structure, since emigration is more typical among the people in their active working age, especially men. Both high and low numbers of births can be seen in rural regions. We can see rural regions showing signs of ageing and others with a much younger age pyramid than the average of the rural regions in the European Union. In Eastern Serbia an extremely low number of children and a high proportion of elderly people are typical. In Croatia, a similar ageing of the rural regions can be observed, the proportion of generations aged 60 or more being twice as high as that of the youth (those younger than 18). In the mountainous areas of Northeast Albania, a considerable natural increase can be seen besides high fertility rates. In the Albanian mountains there are still villages where the natural increase of the population exceeded 30 per mille in the years between 1996 and 2000. As a consequence of these high birth rates, the age structure is young. One of the most typical mountainous region is the dis-

trict of Has (in the northeast border region), where the ageing index is 11.37, and in more than 40% of families the number of family members exceeds six. In Macedonia the proportion of inhabitants older than 65 is 11%, as opposed to the Union average of 16%. As regards the change in numbers of the population, we find considerable disparities within Macedonia also: the population with the youngest age structure and the highest birth rates can be found in some mountain districts. We cannot deny that the phenomenon of significant increase is related to ethnic issues, as the regions inhabited by Albans show a higher natural increase than those with Slavic ethnic groups. This is true even if we consider that the index of natural increase has substantially dropped in the Alban ethnic group also in recent years; in the rural mountain regions the number of children is still much higher than anywhere else in Europe, despite the decline. Taking the limited number of jobs into consideration, this age structure leads to serious social problems.

3 The current quality of life in rural regions

3.1 Rural infrastructure

Rural regions have weak basic services (drinking water and sewage, health care, education), and the provision of a physical infrastructure (roads, railways, institutions) is also poor. In Kosovo, only 28% of homes are linked to a sewerage system, and in Macedonia 18% of the rural population lives in such accommodation. In Macedonia 9% of the rural population lives in regions where tapwater is still not available. Especially in the sparsely populated mountain areas, the lack of public transport causes significant problems, and, of course, the provision of profitable public transport under market conditions is almost impossible in areas with a low population density. This is one of the factors which make a significant part of the population migrate towards the valleys. Formerly jobs were more easily available; they were located closer to where workers lived, but economic restructuring and the increased concentration of the economy in the cities has simply increased commuting distances.

3.2 Education level and poverty in the rural regions

The rural agricultural population typically has a low level of education, especially women. In all countries the schooling level of the rural population lags behind the national average. In Albania 80% of agricultural employees have

only finished the lower classes of primary school, whilst in Kosovo 60% of men and 25% of women in rural regions have completed secondary school. In Macedonia the rural population has a significantly lower level of schooling than the urban population; unskilled people are concentrated in the countryside; 62% of the adult population have not finished school at all and 58% of those who have not finished primary school live in the rural areas. Twenty-seven percent of the rural adult population has not finished primary school and another 41% have only primary school education. These figures are considerably higher among women. Illiteracy is also relatively significant, well above 10% in some areas (Macedonian National Poverty Reduction Strategy).

Poverty is one of the biggest problems in the Balkans. The income of the poor families living here depends on the revenues of their own farms in the first place, and it may be supplemented in the best cases with some income from temporary employment on better-off private farms. The rate of unemployment is very high in the rural regions, although this is not always reflected by official unemployment data. Unemployment is especially high among the youth (e.g. in Albania 85% of the rural registered unemployed are between 15 and 34 years). As we have already mentioned, agriculture has significant/exclusive role in employment. While in Albania the proportion of agricultural employment has grown in the recent years, it has considerably decreased in Croatia. The conclusion may be that grey and black employment in the private farms must be very significant. We have to add, however, that the strong family ties of the rural population also means that the family members having migrated (especially those who migrated abroad to work) help the family members staying at home with a significant part of their income; in many places these transfers are practically the only source of income. This may be the reason for the better positions of the rural population in consumer power, as detected by researches in Bosnia and Herzegovina. In Bosnia and Herzegovina the poor make up 19% of the population, and their proportion is no higher in the country than in the national average. In Macedonia, 30% of the population lives below the official poverty threshold. Of the country's 1,700 rural settlements, 1,003 are economically backward. In Serbia the proportion of those living in poverty in the rural regions was 16.2% in 2003, which was a decrease compared to 2002 (*Table 36*).

Considerable territorial disparities have evolved within the respective states. In Serbia it is the southeastern part of the country where rural poverty is most widespread, and the Vojvodina region where it is least typical, but the level of vulnerability is high in the latter region (*Ersado,* 2006). In Montenegro the poorest and least developed regions are in the north. In Albania poverty is concentrated in the mountain areas, while in Bosnia and Herzegovina it is the Bosnian Serb Republic whose inhabitants seem to be the poorest and the least favoured. In Croatia, on the other hand, four of the five poorest counties can be

found in the Pannonian plain, in the rural regions of Slavonia and the Central region.

Table 36

Change in the proportion of the poor in rural Serbia, 2003, %

	Poor in 2003	Not poor in 2003	Total
Poor in 2002	7.3	8.3	15.6
Not poor in 2002	8.9	75.5	84.4
Total	16.2	83.8	100.0

Source: Ersado 2006 refers to Serbian Living Standard Surveys (SLS) 2002 and 2003.

Looking backwards, we can see that poverty in the Western Balkans was not always related to rural life. If we examine household incomes in the Yugoslav member republics and the autonomous provinces in 1983, we can see that the incomes of rural families were often higher than those of the average working families. This was the case in Macedonia, Montenegro, Slovenia and especially in the Vojvodina region, where the best-off families of the whole of the ex-Yugoslav state could be found: their income was even higher than that of the rural families in Slovenia, the most developed member republic in economic terms (*Table 37*). The particular situation in the Vojvodina region was due to the fact that the rural population was also active in the rapidly developing processing industry, besides keeping their agricultural jobs and income.

Among the territories where agriculture had a dominant role, it was actually only the Vojvodina with its modern technology and good natural endowments that was able to sustain this prosperity and economic progress. (In the production of GDP per capita the Vojvodina region ranked No. 3. in 1983 with 121% of the Yugoslav average, after Slovenia and Croatia.) The share of the other, predominantly rural areas also fell in the socialist era: from 1947 to 1984 the figure for Kosovo dropped from 49% to 26% of the Yugoslav average, the decline in the same period in Macedonia was from 70% to 66%, in Montenegro from 94% to 78%, Bosnia and Herzegovina from 86% to 69% (1945–1985 Yugoslavia… 1986, p. 189). This decline was due, in addition to the backwardness of the economy, to the natural increase of the population, which was especially high in the rural areas.

This shows that both developing and declining rural regions have always been present in the Balkans. Rural poverty is not so much the heritage of agricultural past, it is much more the consequence of isolation, the lack of innovation, and a low level of education. The future of the villages depends on the

destiny of their inhabitants and farms. Besides remote and declining rural regions, we will probably also witness development in areas which have advanced agriculture and a food processing industry.

Table 37

Incomes of the families in Yugoslavia, in percent of the national average, 1983, %

Member state/province	Working family with four members	Households in rural regions
Yugoslavia	100	100
Bosnia and Herzegovina	88	78
Croatia	117	115
Macedonia	80	88
Montenegro	90	110
Serbia	95	98
Within Serbia:		
Central Serbia	96	90
Kosovo	73	61
Vojvodina	97	156
Slovenia	122	134

Source: 1945–1985 Yugoslavia – Statistical Review, Federal Statistical Office, Belgrade 1986. p. 189.

4 Conclusions

As we could see, the characteristics, roles and problems of the rural regions are rather diverse in the Western Balkans, and even today a relatively large proportion of the population lives in these settlements, their proportion of the total population exceeding the EU average. Particular rural spatial types have emerged on the Balkan Peninsula, which are determined not so much by the respective countries and ethnic groups, but rather by the physical geographical endowments of the respective regions. The different rural spatial types are important not only from economic and social aspects; they also are the spaces which have preserved the diversity of the Balkan's cultures and also have historical, emotional and symbolic relevance for many nations.

In the last decades, the situation of the rural settlements has mostly been influenced by the migration of the population, migrations with different motivations. These started in the socialist era as one impact of urbanisation, but the last twenty years or so may have launched processes even more intensive and

drastic. Wars, the basic transformation of the economy, the freedom of individual travel in Albania have all contributed to the increase of problems of the rural regions. Today the majority of the rural regions have to cope, in the shadow of the rapidly developing urban areas, with poverty and unemployment. In some areas the problems were caused by the high proportion of the younger generations, in the areas in the western part of the region or with Slavic ethnic groups the ageing of the population – which may finally lead to the depopulation of the rural regions. A basic sector in these regions is agriculture; it is the largest employer and the producer of the basic means of life for poor families. Villages possessing a modern, diverse economy and using intensive agricultural technologies are only found in the Vojvodina region, around the big cities, and in the west, in the rural regions of Croatia and Slovenia in larger numbers. In general, however, the tasks of rural development remain the diversification of the rural economy, the improvement of rural living conditions and the accessibility of services. Without solving these problems, the outflow of the rural population will continue, which will result, in addition to economic, social and public security problems, in the decline of the diversity of the Balkans' cultures.

IV.

POLITICAL SYSTEM, PUBLIC SERVICES

SPECIFICS OF THE GOVERNMENTAL SYSTEM

ILONA PÁLNÉ KOVÁCS – ZOLTÁN GRÜNHUT

1 State and political structure

The most tragic chapters of the period spanning the changes of regime in Central Eastern Europe could be written about Yugoslavia's successor states. War, uncontrollable hatred, crimes against humanity and acts of genocide at different locations in the heart of Europe manifested themselves for an entire decade. Fortunately, however, peace, achieved so painfully and slowly, even with international intervention, seems now to have stabilised, politico-institutional changes of regime seem to have come to an end, new structures have been established, the first steps towards economic adhesion and European integration have been taken. Ethnic conflicts, which disfigured the area for so long have died down, there has been an improvement in the general situation of ethnic minorities and their rights have been recognised constitutionally. Politico-social crises are not particularly characteristic of this region, and, moreover, co-operation between states has widened (*Szilágyi,* 2009b), but potential risk factors still exist. These include the future of the state structures of Bosnia and Herzegovina and of Kosovo, the growing influence of extremist groups emerging in a number of countries and focusing on matters such as minorities, recent events, the fate of "heroes" and criminals or the aggravated territorial demands which are publicly voiced from time to time. The European integration of Yugoslavia's successor states is a key question from the perspective of the political, social and economic stability of the region, of which the consolidation of the organisational structure of individual countries and the reciprocity of the level of their attachment to the European Union are excellent examples. Slovenia's accession in May 2004 clearly shows a mature political structure, and Croatia and Macedonia, as EU candidate countries, have achieved outstanding results in the area of institutional stability. The submission of applications for accession and the start of negotiations with Serbia, Albania and Montenegro all testify to compliance with the requirements for consolidation or to the intention to comply. Nonetheless, despite these promising developments, the maintenance of EU support and the availability of peace-keeping missions are vital for the integration of the whole area.

1.1 The states – their forms and constitutions

According to their Basic Laws, Slovenia, Croatia, Montenegro, Macedonia, Kosovo and Albania are spatially homogeneous, unitary states. This is characteristic of the entire region and clear proof of efforts towards the building of nation-states – in direct contrast to the Yugoslav tradition and multi-ethnicity. Paragraph 8 of the first chapter of the Serbian Constitution asserts that the territory of the country is indivisible, whilst Paragraph 12, partly in accord with EU integration objectives, emphasises the possibility of provincial autonomy, a special status accorded to the Vojvodina since January 1, 2010 (*Szilágyi,* 2009a). Among the South Slav countries, only Bosnia and Herzegovina remained a federal state, comprising two entities: the Federation of Bosnia and Herzegovina and the Serbian Republic. (The district of Brčko, with Serbians as the largest single ethnic group, lies in the Northern part of the country and has a unique legal status, belonging to both member states, but with an independent administration.)[1]

Although Croatia, the Federal Republic of Yugoslavia (the Federation of Serbia and Montenegro), Bosnia and Herzegovina and Albania started to build a semi-presidential structure following the change of regime, all of the countries in focus currently belong to the category of Parliamentary republics. This change of government structure, in the light of which the concentration of power in one person – which had historical traditions both in the South Slav and Albanian political cultures – was eliminated, can be explained by a desire to fulfil the requirements of European integration. Meanwhile, the relatively strong authority of Presidents of the Republics established through direct election has been maintained in the Yugoslav successor states (with the exception of Kosovo). This is somewhat opposed to Parliamentary government, although the heads of state mostly carry out ceremonial duties, their political role being basically weak.

When we examine the constitutions, what is striking is that a relatively detailed chapter on the Basic Law almost invariably follows a similar line of general assertions, in which individual and collective minority rights also feature strongly, in addition to inalienable human rights and those of citizens. The structure, construction and thematic order of the individual Basic Laws show

[1] In relation to Bosnia and Herzegovina, we must mention that attempts to transform the entire Dayton structure do exist. While Bosniaks, who constitute the majority of the population, promote the idea of a unified state, Serbs are interested in the preservation of the Federation and, even more, in the establishment of a confederative system. The Croatian community, recognised as a state-creating nation, has a changing standpoint, emphasising more and more its demand for independent member republic status (*Szilágyi*, 2007).

clear similarities in consecutive chapters, and even though their length differs, certain constitutions (e.g. those of Kosovo, Serbia and Slovenia) are more detailed, whilst others (among them those of Croatia and Bosnia and Herzegovina) feature a more comprehensive approach, although their basic content is almost the same. Several factors were accorded special emphasis whilst the constitution of Bosnia and Herzegovina was being elaborated, such as the requirement to follow Western patterns, the adoption of international norms and the delicate question of whether what one entity in a country declares in its Basic Law on human rights should be included in its own Basic Law by the other entity.

In relation to preambles, it is worth noting that the Slovenian Basic Law deals with "the century-long struggle for gaining independence", whilst the Croatian equivalent writes of "a thousand-year history", over several pages, invoking great events in the nation's history in chronological order. The introduction of the constitution of Kosovo places emphasis on regional peace and Euro-Atlantic integration, whilst, according to the Preamble to the Basic Law following the regime change, the most basic constitutional arrangements were declared in the name of a "belief in God and other universal values" in Albania, which had, in the Socialist era, declared itself the world's first atheist state. The solemn introduction of the Bosnian Basic Law prepared in collaboration with external peace-keepers is quite reserved; it underlines respect for human rights and international norms, the importance of peaceful co-operation between state-creating nations, democracy, political independence and integrity. To summarise, we can conclude that the Preambles to the constitutions reflect efforts to build an identity for the nation-states (Slovenia, Croatia, Albania and Macedonia), whilst the stabilisation of peace, consolidating the organisation of the state and conforming to international norms are accorded special emphasis in the others (Bosnia and Herzegovina, Kosovo).

1.2 The head of state

The institution of the head of state is quite similar in seven of the eight countries studied. Bosnia and Herzegovina, with its special state organisation, constitutes the single exception, where the institution of president is unique, filled simultaneously by three persons representing the majority states – on the basis of the all-embracing federal structure established by the Dayton Agreement and not on rights and competences.[2] Members of the Presidency are elected directly

[2] During the presidential elections in the winter of 1990, citizens could vote for only one candidate. Supported by citizens of Croatian nationality, the Bosniak Alija Izetbegović gained the presidency.

for four years[3], the Bosniak and Croatian candidates on the territory of the Federation, and the Serbian in the Serbian Republic.[4] The body can proceed (in terms of competences as detailed in the Basic Law) only in the form of consensus, although majority decisions are sufficient in certain matters. Each member may enforce its right of veto by sending the detailed documentation of the step planned to the politicians involved in his/her member state[5] – who may confirm the presidential objection by a two-thirds majority and so trigger a reconsideration of the given topic. Besides their typically ceremonial (representative, appointing and granting) powers, the major tasks of the three-member Presidency are to determine the direction of foreign affairs policy, to supervise the army, to designate the Prime Minister in his post (supported by the House of Representatives), to promulgate laws and to ratify international treaties.

As in Bosnia and Herzegovina, the Head of State is appointed by direct election by the citizens in Slovenia, Croatia, Serbia, Montenegro and Macedonia, whilst in Albania and Kosovo the process is indirect, through a vote in Parliament. In the case of the former country we must emphasise that, similarly to Bosnian practice, the President of the Republic of Kosovo fulfils a more positive role in shaping the direction of the foreign affairs policy of his homeland. To summarise, we could describe the role of the President of the Republic in Yugoslav successor states, and in Albania, as "weak", charged with carrying out mostly ceremonial tasks (and a representative role inside and outside the country; validation of the Constitution; supervision of the Army; promulgation of laws; ratification of international treaties; the designation of the Prime Minister; the dissolution of the Parliament in certain rare cases; the calling of elections and referendums; nominations; granting medals and titles). The personality cult dominant during the Socialist era (Tito, Hoxha), and the leader cult characteristic of post-war independence (Tudjman, Izetbegović, Milošević, Rugova) have been pushed into the background. Due to consolidation, political integration into Europe and the consequent need for institutional reform, the role and scope of the influence of the President of the Republic have diminished.

[3] The Presidential Mandate lasts five years in all of the other countries examined.
[4] The Presidential Mandate established by the 1996 election lasted only two years.
[5] Members of the Bosnian and Croatian Presidency can turn to politicians of Bosniank or Croatian origin for revision, while the Serbian President may request the same from the National Assembly of the Republic of Serbia.

1.3 Electoral systems

As in the former Socialist Eastern European countries, pure proportional representation (PR) or mixed electoral systems were established in Yugoslavia's successor states and in Albania, embracing both simple majority and compensatory elements at the same time. We can see the same factors (induced by international pressure and requirements) in the background in all of the countries examined, specifically, the desire to promote pluralism, to prevent the extreme homogenisation of political power relations and to promote the representation of minority and sub-culture interests. Among the countries in question, only Slovenia has a stable electoral system, in which the 90 members of the National Assembly have been elected in eight districts, each with 11 seats or mandates, since the declaration of independence, by means of a list system based on PR with a 4% qualification threshold, whilst the remaining two Parliamentary seats are allocated to representatives of the Italian and Hungarian minorities.

In Bosnia and Herzegovina, due to its rather complex state structure, among the various Federal institutions only the 3 members of the Presidency and the 42 members of the National House of Representatives are elected directly, both strictly following the two-thirds (Bosniak–Croatian) to one-third (Serbian) representation principle. In the Federation, of the 28 members (14 Bosniaks and 14 Croats), 21 are elected by multi-member constituencies, and seven seats are allocated from the so-called "compensation lists" of the member-states. The same system applies to the area of the Serb Republic of Bosnia: nine Parliamentary seats are allocated in multi-member constituencies, whilst five members are allocated seats in the Federal House of Representatives from the "compensation lists" of the member states.

Amidst these complexities, it might be appropriate to include a few words about the elections to the Chambers or Houses of the two entities (member states). Both individual republics have a bi-cameral (two-chamber) Parliament comprising a House of Peoples and a House of Representatives. Only the members of the Houses of Peoples are elected directly (i.e. 98 representatives from the Federation and 83 from the Republic of Serbia) via similar constituency lists and compensation lists of member states using PR rules. In both entities, the composition of the second Chamber (the House of Representatives) is based on the principle of ethnic parity as prescribed by law.

The political institutional system of Croatia has undergone continuous change since the change of regime, and the electoral structure has been modified likewise.[6] After independence, the scheduled Parliamentary elections of

[6] The Croatian Constitution set the number of MPs at between 100 and 160, but the procedural question of the election of the founding fathers is left to lower levels of the legal hierarchy.

1992 were organised on "mixed model" lines: 60 seats were allocated in a single-round election in single-member constituencies, 60 were awarded from lists, and a further four representatives of the minorities were elected to the House of Representatives, while members of the second Chamber (the so-called House of Counties) were elected one year later by means of proportional representation and a list system. Whilst several areas of previously disputed status were annexed to Croatia in 1995, early elections were called after further modifications were made (a decrease in the number of single-member constituencies and the provision of 12 seats for Croatians living abroad – in Bosnia as well as in Western Europe (*Sokcsevics,* 2002). New reforms were introduced before the year 2000: the second Chamber of Parliament was abolished, and the system of distributing seats from lists was revised (the country was divided into 11+1 constituencies). This method also attracted criticism and so a much simplified system was adopted before the general elections of Autumn 2007: ten list-based constituencies were formed, each with 14 seats, a further five seats were allocated to citizens living abroad and eight to national minorities.[7]

A mixed-structure system was institutionalised in Macedonia following the change of regime and the achievement of independence. More than two-thirds of the 120 seats – specifically, 85, were given to two-round single-member constituencies, whilst 35 were distributed from party-lists (*Kapronczay,* 2002). As in Croatia, the reform of the Macedonian electoral system targeted simplification and improved proportionality, and the country was divided into six list-based constituencies with 20 seats in each. Again, as with Croatia, the qualifying threshold exists only implicitly.

A structure with a similar logical background was implemented in Albania before the 2009 election. 12 multi-member (from 4 to 32) constituencies were created for a total of 140 Parliamentary seats allocated by proportional representation. The earlier mixed system featuring mainly majority elements and which returned 100 members from single-member constituencies and 40 from party lists, was modified in the spirit of proportionality, even though the 2.5% qualification threshold for single-member constituencies was raised to 3%, and the 4% for common lists to 5%.

In Serbia, Parliament was forced to undertake continuous revisions of the electoral system – due, not so much to the need of political reform, but to changes in the state organisation. The structure inherited from the Yugoslav era

[7] According to the Election Law, the Serbian minority has three seats, the Hungarian and Italian are entitled to one each, the Czech and Slovak communities share one and one is shared also by the Austrian, German, Bulgarian, Polish, Roma, Romanian, Ukranian, Ruthenian, Russian, Turkish and Jewish communities, and a final seat is shared by the Bosniak, Albanian, Montenegrin, Macedonian and Slovenian minorities.

was changed for the first time in 1992, and new modifications were necessary later – in the spirit of the federal state, until the independence of Montenegro and Kosovo forced the umpteenth successor state with the name of the Republic of Serbia into making yet another decision. The change had been introduced with a view to enhancing proportionality still further and the previous mixed electoral structure was replaced by a 100% PR model. The entire country is regarded as one constituency and 250 seats are allocated according to the so-called d'Hondt method. A 5% qualification threshold applies without affecting minority lists, which are only required to attain the number of votes necessary for one parliamentary seat (*Juhász,* 2010).

The 81 members of the unicameral (single-chamber) Parliament of Montenegro – officially independent from the Federation with Serbia on June 3, 2006 – are elected through a list system with proportional representation with a 3% election threshold. In Kosovo, gaining independence only one and a half years later, on February 17, 2008, seats are also allocated via a list system with proportional representation. One hundred of Parliament's 120 members were elected by this method, whilst the remaining 20 seats were retained for the minorities living in the country (10 seats to the largest (Serbian) community, four to different Roma groups and six to other national and ethnic minorities).

An analysis of election data shows a decreasing activity of voters in both of the states which underwent a political systemic change. Participation has decreased to a steady 50–60% in the previous three general elections in Slovenia, Croatia, Serbia, Macedonia, Bosnia and Herzegovina and Albania. It is worth noting that, in the light of the two latest votes post-independence, a decreasing tendency can be observed in civil participation in Montenegro as well (a decline of 3%). No Parliamentary elections have yet been organised in the independent Republic of Kosovo, but since participation rates in recent provincial elections show only 40% of the eligible population voting, mobilising the population might pose a great challenge.

1.4 Legislative bodies

Several legislative bodies were established within the Yugoslav political structure to facilitate decentralisation both at federal and state level during the constitutional amendments of 1968 and 1974. With the modification of the Basic Law, the system of direct voting by citizens was abolished in respect of the Federal Parliament, since representatives were delegated to the Council of Republics and Provinces with 88 members and to the Federal Council with 220

members (*Bíró,* 2002b).[8] Legislative bodies of the individual member countries were increased to three chambers, and candidates were elected through a somewhat complex system (a simple system in one house, a qualified majority in another and a system of PR). The logic of this model led to the overrepresentation of the Communist Party on winning the majority of the votes (*Jović,* 2009).

During the first phase of the change of regime, most Yugoslav successor states established bi-cameral Parliaments. A Senate operates in Slovenia (State Council – Državni Svet), whose 40 members are elected for five years by an electoral body: 22 members by local authorities, six from candidates from different social organisations and 4-4 by employers' and employees organisations, and a further four by other economic interest groups (agrarian, commercial, private entrepreneurial, etc.) (*Juhász,* 2002). The body functions as a classic second chamber in respect of its competences: it is empowered to submit law proposals to the House of Representatives, to propose the calling of national referendums and to refer back accepted drafts of legislation for a second revision. During its operation, validating its narrow competences, it offers a sort of democratic guarantee due to its member structure exerting considerable professional control over the State Assembly (Državni Zbor) whose 90 members are elected for four years.

A two-chamber Parliament was also set up in Croatia when creating the constitution in 1991, but members of the second chamber (the House of Counties – Županijski Dom) were not elected until 1993. As in the Slovenian model, the Senate had a fairly limited scope of activity regarding its competences, (to which citizens could send 3-3 candidates from each of the 21 counties directly and a further 5 members were delegated by the head of state) but only survived two cycles. The Croatian Parliament (Sabor) with its 153 members and with only a single chamber since the elections of 2001 is currently the main legislative organ.

A Parliament with a House of Representatives and a Senate has been functioning in Bosnia and Herzegovina since the change of regime, and massive changes have occurred regarding the nature and functions of this legislative structure compared to the first years of the 1990s. The 130 members of the House of Representatives were elected from party-lists, and the 110 seats of the second chamber were allocated via the direct vote of citizens among candidates of communes/districts gaining the majority of votes (*Bíró,* 2002a). The Senate – following the Slovenian and Croatian examples – promoted primarily the representation of the interests and the legislative control role of integrated lo-

[8] The Parliaments of member states could delegate 12-12 members into the Council of Republics and Provinces, the autonomous provinces 8-8 members. Member states were represented by 30-30 members, and provinces by 20-20 members in the Federal Council.

cal/territorial governments. In the light of the Dayton Accord terminating the tragically prolonged war, this structure was dissolved, Bosnia and Herzegovina was transformed into a federal state, and the two-chamber legislative institution was reorganised in this spirit. According to the constitution adopted in the framework of the Treaty of Paris of 1995, the Senate (House of Nations) is made up of 15 members, 5-5 Bosniak, Croatian and Serbian representatives assist its work who are elected for two years by the Parliaments of member states. The members of the corporate presidency are rotated every eight months on an ethnic basis. The second chamber can only make decisions if at least nine (among them minimum 3-3 Bosniak, Croatian and Serbian) members support the given proposition.[9] The body is primarily responsible for assuring the acceptability of each federal political decision and law for each state-creating nation.

The House of Representatives with its 42 members in a 2/3-1/3 proportion fulfils the majority of classical parliamentary functions. Its decisions are made with a simple majority, it is concerned with no ethnic-based criteria since the House of Nations is responsible for those. To concentrate on its main functions: it sees to affairs concerning the federal budget, the common affairs fixed by the constitution in the areas of legislation and the ratification of international treaties (*Bíró,* 2002a). Since the state is comprised of two entities of equal status, the largest proportion of political decisions and rules of law are made at member state level.

The third Yugoslavia, made up of the federation of the equal member states Serbia and Montenegro was born on April 27, 1992. According to its constitution, a two-chamber Parliament was established, the lower house of which was made up of at least 138 members (108 Serbian and 30 Montengrin representatives), while 20-20 seats were allocated among member states in the upper house on an equal basis, with a view to preventing the excessive dominance of Serbia (*Bíró,* 2002b; *Lukić,* 2005). In 2003 Serbia and Montenegro transformed their former federal structure into a system of confederation, and this constitutional decision, besides making Yugoslavia a fact of history, had a profound effect on common institutions. Parliament was transformed into a single-chamber legislative body, 91 of its 126 members being elected in Serbia and 35 in Montenegro. However, before the confederation was able to consolidate its political institutions, Montenegro declared independence, based on the outcome of a referendum, as the international community had demanded, with a minimum of 55% support for separation from those actually voting. The two

[9] The right of corporate self-dissolution constitutes an exception, which requires the support of at least eight representatives, provided that there are a minimum 2-2 Bosniak, Croatian and Serbian members among them.

independent member republics of the now-dissolved confederation instituted unicameral Parliaments with classical legislative rights, comprising 81 members in Montenegro and 250 in Serbia.

Among the countries of the former Yugoslavia we have not yet discussed the national Parliaments of Macedonia and Kosovo (the successor state to have gained independence most recently) – nor that of Albania. We can, however, briefly assert that none of these particular bodies contain any specific factors – either in terms of their rights and competences or of their institutional history – to distract us. The Parliamentary structure of Macedonia has remained unmodified since the change of regime: the single-chamber National Assembly (Sobranie) with 120 members is the main representative institution, which, in the light of the constitutional prescriptions, set up an Interethnic Council (of 19 members) after its foundation aiming to elaborate solutions to emerging community conflicts and keeping minority interests in view (*Kapronczay,* 2002). The representation of minorities enjoys constitutional guarantees also in Kosovo, since one-sixth of the seats in the unicameral Parliament of 120 members is divided among ethnic minorities in fixed proportions. A Parliament (with 140 members) was established in Albania following the change of regime, although later the number of seats rose to 155 before the approaching elections. This decision was revised in 1998 in the form of a constitutional amendment restoring the 140-seat Parliament, whose political function was strengthened by narrowing the competences of the Head of State, so enabling the abolition of the semi-presidential system and the solidification of the Parliamentary system (*Szabó,* 2002).

It is interesting to note that, according to 2009 population data, the number of citizens per elected representative is the highest (110,000) in Bosnia and Herzegovina10; identical figures apply to Croatia, Serbia and Albania (25–26,000); in Slovenia it is somewhat less (22,000); the rate falls to 15–17,000 in Macedonia and Kosovo; and the highest number of Parliamentary seats in terms of population occurs in Montenegro (1 member per 8,300 inhabitants). Finally, it is worth noting that the number of Parliamentary committees is between 20–30 – quite high – in all of the countries examined, which suggests that the vast majority of the work in decision preparation and professional interest reconciliation is carried out in specialist bodies and not in open plenary sessions.

[10] It is true that if we add the number of representatives of the federation and of the member state of a given ethnic minority, the rates will be different.

1.5 Governmental structure

The basic principle of the functioning of the government in the Yugoslav successor states and Albania bears a closer resemblance to the chancellery-type model, whilst certain regulations (such as the possibility of holding Ministers responsible for their actions and forcing them to resign on the basis of a majority decision) follow the British structure. Taking into account the results of elections, the Head of State (or, in the case of Bosnia and Herzegovina, the three-member presidency) is authorised to nominate the Prime Minister, who must, however, be approved by a Parliamentary majority before taking up office. The Prime Minister appoints his cabinet and distributes other ministerial portfolios – also with the approval of Parliament. There are, consequently, a relatively large number of ministers holding office. This is due to some extent to the need for coalition agreements and to technocratic pressure.

1.6 Party structure

Despite their common historical heritage, their similar political, culture and electoral systems, these countries do not show a uniform schematic party structure. There are certain countries in which the party structures are bipolar, whilst others show a more diverse political landscape. There are examples where the forces which brought about the change of regime were able to maintain their positions in power for a long time, whilst, in other countries, the establishment of a new state organisation had scarcely ended before their collapse. In some countries, the movement replacing the old communist party won solid electoral support, whilst in others it lost virtually all its influence. Political blocs formed in some places, whilst, elsewhere, the power of individual entities was fragmented and multi-party coalitions were formed. There are some countries where the party system is in constant evolution, new formations are born and disappear, where it is easy to compete for the popular vote and where entry into the political market is relatively simple; in others the party system is quite rigid and controlled by dominant parties

In Slovenia, a stable party structure was established relatively rapidly, based on three centres of power or influence: Christian-Conservative, Centre and Social-Democrat, although in Parliament the political arena is, in reality, dominated by a right-wing and a left-wing alliance (*Szilágyi,* 2008b; *Fink–Hafner,* 2006). The Slovenian Democratic Opposition (DEMOS) comprised six larger and six smaller parties (already dissolved before the elections of 1992). Other parties – the Christian-Democrat (SKD), Populist (SLS) and Social-

Democratic (SDSS, later SDS) parties – broke away but are still active today, whilst smaller groups were abolished or integrated into other groups (Rizman, 2006). The SKD and SLS later united, and, together with the Slovenian National Party (SNS), susceptible to extremism and the Reform Socialists (SDS) (earlier constituting the opposition party), they form the political right wing, to which the grouping known as New Slovenia also belonged for a while (*Juhász,* 2002; *Szilágyi,* 2008b). The LDS (Liberal Democrats of Slovenia), a party positioned in the centre, but in reality closer to the centre-left, enjoyed popularity around the turn of the millennium, and from this a group (Zares) sensitive concerning its liberal roots, broke away following the shrinking of its electoral base and the inevitable internal conflict which followed. However, even this could not prevent grass-roots level desertions. The SDS and the successor to the Communist Alliance (ZKS) which became Social-Democrats (ZL, later ZLSD and SD) were fighting for the leading role of the classical political left-wing (*Juhász,* 2002), yet after the rapid strengthening of the latter in 2008, the SDS was forced to change its profile and positioned itself on the centre right. The Democratic Party of Pensioners (DeSUS) which functioned as a single-issue party is also worth noting as a weak, but stable, member of the Slovenian legislative system.

In Croatia the role of the political platform carrying out the regime change was taken by the Croatian Democratic Community (HDZ) which, in spite of the breakaway of certain smaller groups, was able to maintain its power until the death of Franjo Tudjman, the party leader and head-of-state, in 1999. The HDZ, considered as a right-wing populist party, defeated an opposition coalition of 2+4 parties in the 2000 elections, although only for the life of one parliament. Even though the Croatian political palette is quite colourful, with 6-8 parties taking part in legislation, the structure is still basically bipolar (*Sokcsevics,* 2002): HDZ is the leading force on the right, whilst the Social Democratic party holds the same position on the left, and, even though neither can form a government without coalition partners, the battle between the two parties is decisive for the final outcome of all elections (*Zakošek–Čular,* 2004). The various breakaway parties can rarely win a seat at two successive elections: they are unable to win permanent support due to the formation of political blocs. On the basis of the tendencies of the 2000s – and of the absence of a powerful third force, there is a good chance that the influence of the two large parties will grow.

The Yugoslav, Serbian-Montenegrin, and, later, the separate Serbian and Montenegrin party structures developed in three phases. The first phase was the implementation of a multi-party structure, during which the successor to the former Communist movement, the Serbian Socialist Party – in collaboration with the Yugoslav Left Wing and the grouping calling itself “New Democracy”,

and supported from outside by the Serbian Radical Party, was able to maintain its position in government against opposition forces (Depos) in coalition (*Todosijević,* 2004). Political pluralism also appeared in this same period in Montenegro, the other Yugoslav member state, with the rise of one dominant party (Social Democrats) and several smaller parties (*Bugajski*, 2002). The second phase was launched in September 2000, with the defeat of Milošević and a confident victory by the opposition (DOS), which opened the door to ending the international isolation of Yugoslavia (especially of Serbia) (*Szilágyi,* 2010). This period, besides providing a chance for concluding the outstanding legal-institutional issues following the change of regime, accelerated the process of restoring the federal structure and distinguishing the (quite heterogeneous) Serbian opposition entities, previously forced into co-operation. The confederative system promoted the development of parties in Montenegro also, and, even though the successors to the Alliance of Communists (the Social Democrats) pursued a quite aggressive policy against Serbia, and the "Together for Yugoslavia" movement (supported by the Serbs and oriented towards them whilst functioning as a common bloc) remained the main forces, the smaller parties attempted to counter this bipolarity.

The third massive change in party structure in both former Yugoslav member states only appeared after the dissolution of the confederation. Opposition parties formerly standing on the same platform in Serbia became rivals in this period, while the Serbian Radical Party – representing the radical nationalist line – became the strongest force outside the government, while the considerably weakened and reorganised Socialist Party became a potential coalition partner (*Juhász,* 2010). Independence brought slow changes in Montenegro also, although the signs of this were not felt so much during the elections of 2006 (which was conducted by parties grouped into blocs) as during the following three years, when support for the "For a European Montenegro" movement based on a Social Democracy platform increased to the detriment of other parties, whilst the actual opposition became totally fragmented.

In Bosnia and Herzegovina the first free elections were determined by the ethnic origin of voters: 72% of Bosniaks, 83 % of Serbs and over 90% of Croats voted for their national parties (*Bíró,* 2002a). This tendency became even stronger during the institutionalisation of the structure agreed at Dayton, and political formations intended to embrace communities were totally marginalised (*Burg,* 1997). Consequently, and due in part to the (precisely fixed) principle of co-operation in functioning, the ideology represented by individual parties is of small consequence, since ethnic preferences mostly influence decision-making (*Bose,* 2002). Both member republics have been characterised by a form of political homogenisation since the turn of the millennium, smaller formations have been marginalised, or are stagnating, whilst other parties enjoying larger

support are able to increase the number of seats won at each election. The Republic of Serbia is unipolar (with Social-Democrat leadership), whilst a 2+2 party structure seems to have developed in the Bosnian-Croatian Federation (apart from ethnic movements which emerge from time to time, the Social Democrats and the Supranational Centre Party).

In Macedonia, the first elections after the change of regime resulted in a sharp conflict between the opposition bloc and the moderate Communists (VRMO-DPMNE or Internal Macedonian Revolutionary Organisation – Democratic Party for Macedonian National Unity), whilst the Albanian-oriented Peoples' Democratic Party and the Alliance of Macedonian Reform Forces represented the second line in the area of political forces of power (*Kapronczay,* 2002). The party structure has not significantly changed since then: VRMO-DPMNE has remained the dominant movement, which left-centrist coalition blocs under different names but with the objectives of uniting the country or European integration, try to drive out of power. The Peoples' Democratic Party (representing Albanians) is constantly significant from the perspective of population structure and has been continuously gaining ground since the turn of the millennium (*Perry,* 1997).

In Albania a two-party system has been operating since the political change (*Szabó,* 2002). The successor to the Communist Party, the Socialist Party, has represented a government force in itself over 15 years, although its support is constantly in decline to the benefit of the Democratic Party, which defeated its rival for one term in 2005. The number of smaller groupings is changing, and their social embeddedness is weak, but, at the same time, being potential coalition partners, their significance is growing due to the finely balanced electoral base of the two large parties.

During the elections of 2007 a change occurred in the party structure of Kosovo, the last of the countries to be examined. The former bipolar provincial legislation had been constituted by the Democratic League (LPK) and the Democratic Party (PDK), and, even though the importance of these two parties has not diminished since independence, two or three new movements have emerged (such as the Alliance for the Future of Kosovo, the New Kosovo Alliance and the Albanian Christian Democrats) which have had some success, so making the political arena somewhat more heterogeneous (*Szilágyi,* 2008a).

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Despite the changes in regime now long since over, we cannot regard the political-institutional structure of the Yugoslavian successor states and Albania as being complete; neither has the state organisation of Bosnia and Herzegovina and Kosovo, where the constant presence of international peace-keeping forces

dominates, become fully consolidated. Despite the broadly interpreted constitutional guarantee of the rights of ethnic minorities, efforts in the direction of nation- and identity-building are evident in all countries, producing various consequences in the area of politics, public life and public law to a lesser extent. A key question from the perspective of the broad interpretation of stabilisation is the pursuit of the process of European integration and the promotion of the consequent – required – adoption of Western norms. The promotion of regional co-operation and bi-and multilateral agreements in different fields are of similar significance, from the point of view of reducing economic disparities on the one hand, and the confused cross-border ethnic ties on the other, since both factors have a negative influence on the stabilisation of the entire area.

2 Territorial specialities of public administration in the countries of the Western Balkans

In every Central and Eastern European country the change of regime transformed the way in which – in territorial terms – power was exercised. During the early 1990s, new Constitutions were adopted, Local Government Acts and Public Administration laws were introduced. Principles and basic institutions accorded with Western models of local government whose fundamental elements were defined in international documents. In the meantime, there appeared processes which were totally the opposite of those experienced during the transformation of Western European territorial public administration – both in terms of structure on the one hand and the functioning, range, scope and financing of public services on the other. What distinguished the system from the Western pattern was, perhaps, its fragmented nature. Abandoning the highly integrated Soviet-style council system, several legislators preferred the fragmented model of local government which granted autonomy to each small settlement. The model for exercising power based on basic settlement units can be detected in certain Western European countries, e.g. France, but it is far from typical, and, even in the case of France, the mechanisms of functioning and the regulation of association made co-operation necessary. Integration was almost always preceded by an implosion into autarchy in Eastern Europe. By the second half of the nineties, dysfunctions in the fragmented local government structure became apparent. The low development capacity of such units was clearly visible, and the motivation to form associations was lacking (*Surazska,* 1997). The first attempts to strengthen local authorities at lower meso-level, communes, districts, and counties also failed.

Around the turn of the millennium, as the years following the change of regime passed and EU Accession drew near, technocratic considerations and the need for improved efficiency were paid more attention – in a belated effort to match Western European standards. The objective of public administration reforms in post-communist countries was to attain Western European standards in both structural and functional terms. The methods of New Public Management became increasingly popular with the fashionable neoliberal paradigm, and an era of structural consideration began – largely by means of spatial reform, e.g., the development of larger territorial units (regions) in Eastern Europe.

This chapter will examine how the territorial public administration of the Balkan countries on their road to EU accession is able to adapt to the continuously changing European challenges and trends. Will Europe's colourful map of public administration be enriched with a new group of countries constituting a specific case, or is there hope for convergence and a slow progress towards the idea of the "European Public Administrative Space"? This is a justifiable question to ask, not only because the public administration reforms of post-accession Eastern European countries were neither successful nor deep, but due to the pessimistic opinions regarding former Yugoslavian countries from the beginning, invoking the strong role of tradition, which could override European challenges (Rabrenovic–Verheijen, 2006). What makes the evaluation of the situation of territorial public admistration even more difficult is that it is precisely the territorial structure, the location of national minorities and the geopolitical situation which are a source of conflict. In this respect, the successor states of the former Yugoslavia are in a special situation, further highlighting the unique character of the Eastern European region.

It is significant that the Constitutional structure of the former Yugoslavia preceding the change of regime differed in many aspects from other Eastern European countries who had applied the Soviet model more directly. Yugoslavia's "self-administering Socialism" was in opposition to Soviet-type Socialism in many respects with the background of the "Small Cold War" between the USSR and Yugoslavia, but, even if lopsidedly, it tried to model a federal state and a workers' democracy (*Sajti,* 2000). Ottó Bihari observed two distinctive specific features relating to the foundations of the Yugoslavian Constitution as adopted in 1957, i.e. that the founding of the state based on communes reflected a very different view of sovereignty, and also the fact that the Constitution served not only as the basic law of the organisation of the state, but of society as well. Both of these reflected the unique socio-political philosophy of the "self-administered society". This philosophy guided the constitutional regulation of the ethnic question. Bihari opposes the idea that Byzantine law prevailed in Balkan countries – in contrast to Central and Eastern European states where

Western traditions were followed, but he acknowledges that the first Yugoslavian Constitution differs most from the Soviet model both in historical and theoretical terms (*Bihari,* 1979).

Decentralisation has a special focus in our study, since self-administrative units of communes enjoyed primacy in the power structure asserted particularly strongly in the 1963 Constitution. The unique double nature of Yugoslavian organs of communes, working communities and popular organs conceded primacy to representative elements and provided a regulated channel for connecting special institutional and social groups. The multi-level system of decision-making and the assertion of interests was constructed in a bottom-up way, with the Skupštinas of communes delegating members to the Skupštinas of districts, the autonomous province and the republic. Following the logic of the model, communes enjoyed the widest competences. This model of power authorised that the size of communes should be appropriate to the relevant services to be provided, so linking the elements of decentralisation and the economies of scale. The reality of the constitutional model showed a quite different picture as a result of political and ideological obstacles, but yet, in a peculiar manner, certain elements of the model survived the change of regime. After this, we shall examine how the blocking and dynamising effects of path-dependency and modernisation prevailed in the evolution of territorial public administration in the various countries.

2.1 Characteristics and reform processes of territorial public administration in the individual countries

In Albania, the Law on Local Government was adopted in 1992 at the level of communes and districts, following the temporary constitutional arrangements brought in during the era of the change of regime (*Hoxha,* 2001). After clarifying the structural issues, a special Law was passed defining the bases of functioning. Despite the fact that the autonomy of municipal organs is laid down by law, the introduction of the prefecture system foreshadowed centralisation. Even though the aim of the legislation was decentralisation, the necessary professional and financial conditions were lacking from the very beginning. In the difficult economic situation, the need for budgetary restrictions provided ample reason for the extremely weak financial autonomy of local authorities, only 5% of their budget being "independent" (*Pigey* et al. 2008). Political will strove for nothing else but to fulfil the requirements of the European Charter of Local Self-government, which the country had signed up to in 1999. As the foundations of central governance were laid down from a party political standpoint, the

will to pursue decentralisation decreased. During the period between the change of regime and 1998, attention was focused primarily on the consolidation of central government, and the systemic change of public administration occurred only formally (*Pigey* et al. 2008). Since the basic regulation of 1992, Albania has continuously introduced municipal reform, and the last twenty years have shown considerable progress in decentralisation and local autonomy which earlier existed only in legal declarations.

After the adoption of the new Constitution in 1998, decentralisation became the focus of attention once again, since the new principles of the Constitution provided a more favourable basis for strengthening the autonomy of local government. The new Constitution, adopted by referendum, clearly lay down that the state of Albania is founded on the principles of local autonomy and decentralisation.

The Council of Ministers adopted a strategy in 1999 to implement decentralisation within the space of 6–7 years. This process introduced to the public consciousness values such as professionalism, efficiency and the economies of scale – which, through the integration of local and meso levels improves the efficiency of the system (*Hoxha,* 2001). The implementation of reform began with the adoption of the Local Government Act in 2000, and separate laws were enacted about territorial arrangements and municipal and capital boundaries in the same year.

Albania has 308 communes and 65 municipalities functioning as local government units, and these are charged with the administration of approximately 3,000 Albanian settlements. The sub-national level is considered by professional circles to be fragmented, which is not only due to settlement geographical conditions but also to the fact that the constitution made the modification of commune borders and the unification of settlements the subject of local referendums. Local ambitions which prevailed as the territorial structure developed produced this fragmentation, a phenomenon which, again according to professional opinion, has had a negative effect on functional efficiency.

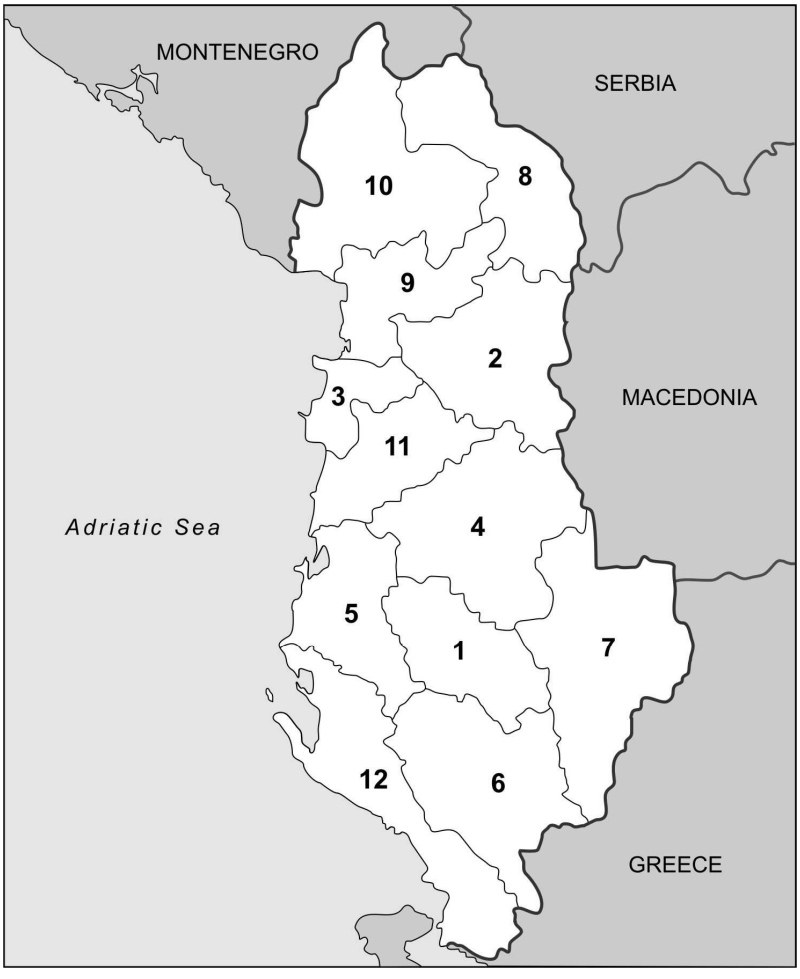
Districts were based not on territorial divisions before the change of regime, but on the basis of local and historical precedents, and the number of districts rose by 10, reaching 36. There is no hierarchical issue between the different levels, but the 36 districts have ample power in the area of harmonising the activities of settlements, e.g. they can prescribe co-operation by municipalities in the execution of certain tasks. Meanwhile, the individual service functions of districts remained weak, which is illustrated by the fact that they had only a 10–20% share of the total expenditure of the local government sector, a share which was continuously decreasing (*Hoxha,* 2001). A Prefect was appointed in each district to represent central government.

The earlier centralising, but fragmented system of the Socialist era which reduced the autonomy of local authorities in many respects was replaced in 2000 by a local government system with modified responsibilities and powers. The new Constitution introduced a new spatial category, the qarqe (district or prefecture) and so launched a process with the objective of replacing the old system of districts with a more integrated structure, in which Albanian regions might be able to fulfil the same functions as their European counterparts. At present, 12 such regions or prefectures encompass the 36 administrative districts, reflecting the original purpose and the requirement defined in the Constitution according to which the borders of municipalities must be in harmony with economic traditions and the unity of settlements at local and regional level. Consequently, and due perhaps to prevailing traditions and subjective factors, the 12 meso-level authorities are quite uneven in size (*Figure 42*). A more serious problem is that the regulations of the Constitution do not guarantee strong self-governing powers for regions. According to the Constitution, this level provides the appropriate framework for the harmonisation of individual regional policies with state policies. This twin role results in a dual power structure characteristic elsewhere also, and, since the bodies of regional authorities are made up of mayors and other members delegated from settlements, their political legitimacy has been weak from the outset. The Prefect of the qarqe has authority over municipalities, but only the Court is authorised to make decisions in case of dispute. De-concentrated organs of Ministries also operate at this level. The basic function of regional authorities is the management of development policy, and both central and local levels may delegate to them tasks whose content may differ.

This meso-level of Albanian public administration is unlikely to guarantee the decentralisation of power in the short-term, and it will have to undergo a development process during which the designated geographical frameworks will be given resources and functions. Nevertheless, there are certain visible results in the area of fiscal decentralisation. Whilst only 22% of their resources were at their disposal in 2001, this had risen to 53% by 2006 (*Pigey* et al. 2008). The length and possible outcomes of the process are uncertain, although existing municipal alliances are trying to enforce their interests against those of the government. The paradox is that, whilst the target of EU accession plays an important role in shaping the Albanian system of local government individual municipalities exert only a very limited influence on the process of accession (*Hoti,* 2005).

Figure 42

Prefectures (qarks) of Albania



Key: 1 – Berat; 2 – Dibër; 3 – Durrës; 4 – Elbasan; 5 – Fier; 6 – Gjirokastër; 7 – Korçë; 8 – Kukës; 9 – Lezhë; 10 – Shkodër; 11 – Tirana; 12 – Vlorë.

A basic factor in evaluating the state administration of Bosnia and Herzegovina is that the war not only destroyed existing institutions, but resulted in a dramatic movement of population, whilst the time elapsing between the collapse of Yugoslavia and the provision of a framework for the new nation-state was too short to enable the stabilisation of public administration.

Bosnia and Herzegovina is described by the Dayton Peace Accord of 1995 and the Constitution as a multi-national state. The central state (BiH) is quite weak, comprised of two strong entities, the (Croat/Bosniak) Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (Serbian Republic) with a Serbian majority (*Jokay,* 2000). The Federation is further divided into ten cantons, which, according to the somewhat obscure arrangements laid down in the Constitution (*Zlokapa,* 2008a) are also member states with their own constitutions and legislation enjoying autonomy in the administration of their system of local government. Brcko, an entity with a special legal status according to the Constitution, and which other terminology refers to as a self-governmental neutral district (*Maslyukivska,* 2006), can also be regarded as a condominium of the Federation and Serbia, but is under the control of neither of the two entities (*Figure 43*).

The Constitution of the Federation contains no arrangements related to municipalities and spatial division, listing only the main elements of local government, communes and their organisation. The constitutional foundations are quite controversial, the functioning of the state is strikingly complex, and maximum compliance with international conventions and norms is a constitutional obligation (*Miličević,* 2001). Due to the ethnic basis of the war, constitutional foundations strove to grant the widest possible autonomy to local communities which defined themselves primarily on an ethnic basis. The principle of the distribution of power between the Federation and individual cantons was that each affair which the Federation did not claim for itself fell under cantonal authority. Since the regulation of local public administration was under cantonal authority, several types of local government system operated in Bosnia Herzegovina. A common feature was that each desired to regulate the territorial governance of communities on an ethnic basis as well, whilst guaranteeing autonomy to their respective national minorities. In 1995, only regulations concerning the foundation of municipalities were adopted. Based on these regulations, the autonomy of local authorities could be interpreted only formally: in reality, they were, rather, creations of central government and the cantons (*Tesche,* 2008). General arrangements and principles related to municipalities were regulated by a Federal law of 2006, which promoted positive convergence towards European standards in several respects. The competences of local authorities were considerably strengthened, municipalities with town status were introduced and regulations on their organisation and the election of mayors were modified (*Zlokapa,* 2008b).

The originally 73 (later, 79) communes recognised in the Federation of Bosnia and Herzegovina are primarily attached to cantonal governments, the level responsible for the regulation and allocation of resources. The nature of cantons most closely resembles state administration. There is no distinct division of

functions between the two levels, and cantons have the right of decision on the distribution of functions in their own cantonal constitutions. Institutions providing services at district level, such as hospitals and secondary schools, are mostly maintained by the cantons, since the smallness of the majority of municipalities makes it difficult to assume these responsibilities. Disparities in size also provide a reason for centralisation at cantonal level (*Zlokapa,* 2008a), not to mention the difficulties of financing and the level of indebtedness characteristic of almost every level.

Figure 43

Regions (kantons) of Bosnia and Herzegovina



Key: 1 – *Republika Srpska;* 2 – Una-Sana; 3 – Tuzla; 4 – Zenica-Doboj; 5 – Bosnian; 6 – Central Bosnia; 7 – Posavina; 8 – Herzegovina-Neretva; 9 – West Herzegovina; 10 – West Bosnian; 11 – Sarajevo; 12 – *District of Brčko.*

The Republika Srpska is made up of 61 communes and two towns, forming a strongly centralised entity in which municipalities are in direct contact with the central government. Attempts to organise the 61 municipalities into a form of cluster coordinated by towns have failed due to the resistance of the mayors. The distance between central and communal government (300–400 kms in certain cases) causes problems of communication which the government has exploited in the centralisation of competences.

The system of municipalities is highly integrated and centralised, and communal municipalities do not transfer decision-making competences and resources to their own local communities and settlements (*Zlokapa,* 2008b). The communes vary greatly in size (since ethnic aspects had to be considered in the establishment of communes in harmony with the Dayton Accord), but the group of large municipalities is dominant in both state entities. However, whilst cooperation between municipalities is strongly recommended, particularly in respect of the smaller ones, this practice is almost totally alien among them (*Zlokapa,* 2008).

The basic paradox of the entire territorial power structure is the – almost extreme – level of public decentralisation on the one hand, and the strong centralisation of resources and decision-making on the other (*Jokay*, 2001).

This serves as a good example of the fact that regulation is no substitute for the favourable economic and social conditions required for local governance (*Zlokapa,* 2008a). The slow pace of fiscal decentralisation, difficulties of the optimal and efficient organisation of services are related to the confused nature and geographical fragmentation of the entire state structure and the relationships between administrative levels and units. This is further aggravated by the limited sovereignty of the state and the strong influence of the international community still present on the territory of the country (*Tesche,* 2008), contributing to post-war reconstruction works (*Maslyukivska,* 2006).

The territorial public administration of Croatia has made more concrete steps towards consolidation due to the preparations necessary as EU accession approached. The foundations of the municipal system were laid down in the Constitution of 1990, although their concrete realisation was retarded by the war following the declaration of independence of Croatia. It is not by chance that the Croatian Parliament had already passed a Constitutional Law on the rights of national minorities in December 1991, guaranteeing a special autonomous status to settlements with a Serbian majority. By contrast, Local Government Acts regulating the country's "normal" territorial public administration were passed only at the end of 1992. The country signed the European Charter of Local Self-Government in 1997, but experienced the most profound changes between 1999 and 2001 in the spirit of decentralisation (*Balázs,* 2005). Taking into consideration the current systems of power, competences and the allocation of resources,

it is clear that the Croatian state was strongly centralised until 2001 with significant changes occurring only in the last 10 years (*Bajo–Jakir-Bajo,* 2008). Some commentators note a relationship between the strong distrust towards civil society and autonomy and the exclusive dominance of the political system of values of the Croatian Democratic Union during the decade following the change of regime (*Perko–Šeparović,* 2001), even though cycles of decentralisation were seen in almost every Yugoslav successor state.

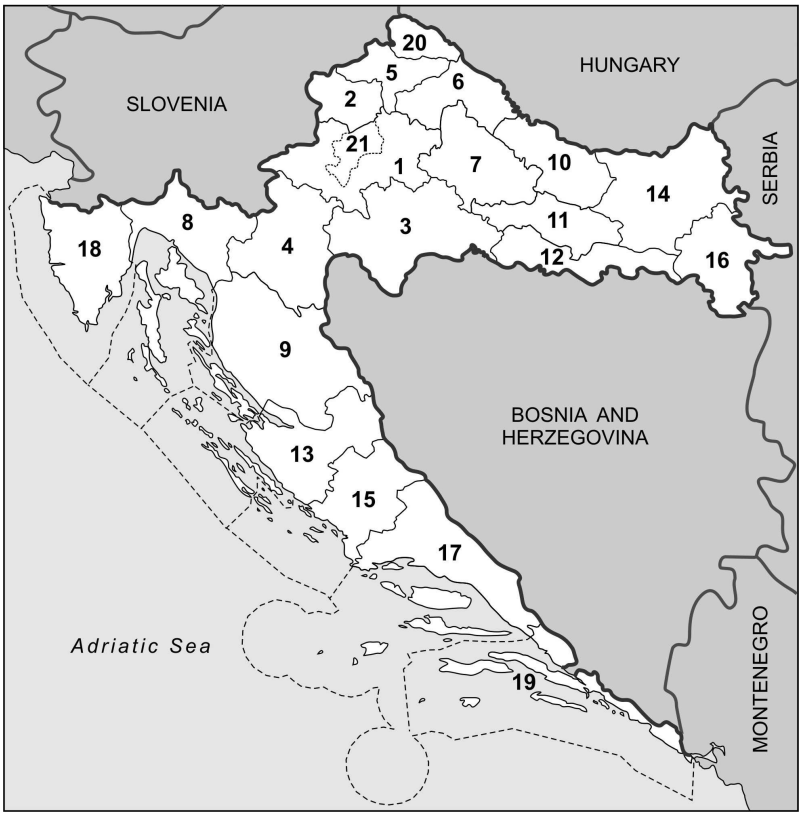
Croatia has a two-tier municipal system. Local government units can be split into municipalities and towns with different competences but a similar legal status. According to the Law on Territorial Division of 1994, the number of municipalities increased fivefold compared with the previous integrated system but the local administrative system is still relatively integrated, since the municipality as a legal entity may integrate several villages which form one economic and cultural entity. Several municipalities acquired autonomy on the basis of this earlier statute. The average population of the (nearly 420) municipalities is 3,600 (*Ivaniševič* et al. 2001), but the economic power and professionalism at local level is questioned by experts. A similar tendency towards fragmentation is a feature of towns or cities, whose number has doubled. Currently, there are 127 municipalities with town status, and the number of communal municipalities also rose to 429. This basic administrative system controls more than 6,700 settlement units. The functional efficiency of the relatively integrated basic level is raised by promoting associations, and concrete ideas concerning the obligatory introduction of association exist (*Kopajtich–Škrles,* 2008).

The country has preserved its "counties", although these do not always coincide exactly with historical and economic boundaries. Twenty counties plus the capital city form the meso-level of government (*Figure 44*). Besides the fragmented structure of counties – which vary in size – a further problem is caused by the greed of county authorities (or county councils) in terms of competences and financial resources in particular, whilst the county level provided a large field of action for the state administration controlled by the governor (*Koprič,* 2007), despite the fact that the public and municipal sectors were separated during the elaboration of the model of self-government (*Balázs,* 2005).

The need for reform of the system has been voiced from time to time by the government, and especially in pre-election periods. Several phases can be distinguished in the process of decentralisation in Croatia, although these sometimes lack coherence with proposals elaborated by committees of experts (*Ivaniševič* et al. 2001). The initial failure of reform was due also to a lack of professional and political consensus about the vision, role and structure of Croatian state development and there was also a shortage of processed and analysed information about the actual state of public administration and services (*Koprič,* 2003).

Figure 44

Counties (županijes) of Croatia



Key: 1 – Zagreb; 2 – Krapina-Zagorje; 3 – Sisak-Moslavina; 4 – Karlovac; 5 – Varaždin; 6 – Koprivnica-Križevci; 7 – Bjelovar-Bilogora; 8 – Primorje-Gorski Kotar; 9 – Lika-Senj; 10 – Virovitica-Podravina; 11 – Požega-Slavonia; 12 – Brod-Posavina; 13 – Zadar; 14 – Osijek-Baranja; 15 – Šibenik-Knin; 16 – Vukovar-Syrmia; 17 – Split-Dalmatia; 18 – Istria; 19 – Dubrovnik-Neretva; 20 – Međimurje; 21 – City of Zagreb.

Major reforms were introduced following the modification of the Constitution in 2001, providing space for differentiated regulation and for greater decentralisation (*Kopajtich–Škrles*, 2008). Based on the principles of subsidiarity and decentralisation declared in the Constitution and reaffirmed later in the decentralisation package plan for the period 2004–2007, the role of county as self governmental body was considerably enhanced and the presence of the state was restored at this level, but still the actual competences and resources of

counties could not be strengthened by legal means (*Koprič*, 2007). The functions of county councils are still far from comprehensive, and the state has preserved its own position in counties in several areas of public policy (e.g. agriculture, culture) (*Kopajtich–Škrles*, 2008). The amelioration of the role and state of towns is possible due to the fact that the conditions for obtaining town status (such as a population of at least 35,000) have been settled.

In respect of counties, reform ideas were primarily influenced by the regulation of regional policy and the requirement to adapt to EU requirements. Although the institutional system of spatial development has been regulated several times, the allocation of the (rather limited) domestic resources has remained strongly centralised (*Koprič,* 2007). Counties were classified as NUTS3 units, but the delimitation of initially five and later four NUTS2 regions was questioned by many on the basis of how the country would be able to maximise EU funding. Finally three NUTS2 regions were set in 2007 (*Kopajtich–Škrles,* 2008). A part of the new institutions were erected in a centralised manner (e.g. the National Development Council) and others, such as development agencies, were created in counties instead of in NUTS2 regions. Little is revealed about the system of development contracts, which, considered totally alien from the Croatian institutional system, were dealt with cautiously by experts (*Koprič,* 2007). The implementation of the system will obviously take place after EU Accession. However, available experience indicates the presence of centralising reflexes, the Croatian public sector is still highly centralised, the division of competences and responsibilities between the different levels is not clarified, and the tutelage of the state is strong (*Maslyukivska,* 2006). The administrative capacities and public service institutions of the Croatian system of local government are redundant, the financial autonomy and power of local authorities are weak, and a serious obstacle to reform is posed by the overly politicised system (*Bajo–Jakir-Bajo,* 2008), forecasting the difficulties of the absorption of funds following EU accession.

The development of the territorial public administration of Macedonia is associated with newly obtained sovereignty and the dissolution of Yugoslavia. While the system of local administration was considered by experts to be highly decentralised between 1974 and 1991 (*Davitkovski–Pavlovska-Daneva,* 2008), after gaining sovereignty in 1992, a strong tendency towards centralisation was detected due to the nation-building efforts resting on quite uncertain legal foundations in the first years (*Todorovski,* 2001). The Constitution adopted in 1991 describes local government as institutions ensuring rights of constitutional significance. It became obvious that this declaration is insufficient for effective decentralisation (*Maslyukivska,* 2006). The Law on Local Government enacted in 1996, caused a dramatic change in the situation, financing and structure of municipalities, even though the declaration contained the requirement of adap-

tation to EU standards. The competences of local authorities decreased, their financing became strongly centralised, and this process was accompanied by the extreme fragmentation of the territorial structure. There was no hierarchical difference between the special legal status of Skopje and other municipalities, and despite the fact that a special law was passed dealing with Skopje, it remained a part of a single-tier system.

Similarly to most of the successor states, the respect for national minority rights was strongly emphasised in Macedonia, guaranteeing proportional representation and the right to establish separate minority organisations. Only areas with an Albanian population demonstrated any interest towards regionalisation on the basis of the Ohrid Framework Agreement which designated territorial decentralisation as the instrument of peace between national minorities in 2001 (*Davitkovski–Pavlovska-Daneva,* 2008).

Regarding the creation of the legal framework enabling democratic and autonomous local government with an emphasis on closeness to citizens, the functioning of the Macedonian municipal system has received a positive evaluation. For instance, the inclusion of urban architects in the system contributed to raising the professional standard of local development policy. Meanwhile, extreme fragmentation and narrow municipal competences rendered the effective power and influence of municipalities an illusion compared to the weight of central government. It is no accident that reforms were proposed in Macedonia with the aim of strengthening the system of associations simultaneously with the competences of local authorities (*Todorovski,* 2001).

After several years of preparation, a new municipal regulation was enforced in 2002. This marks the effective start of decentralisation, with the introduction of the principle of subsidiarity, the creation of differentiated municipal competences and the granting of special status to the capital (*Angelov,* 2008). There was a gradual broadening of local competences after conditions were set – for example, when local authorities were compelled to fulfil certain tasks in their districts, but, nevertheless, control over them remained strong.

The evolution of the spatial structure of local administration had several phases. Initially, there were 34 local units (whose number rose to 123 post-1996) leading to the disintegration of the system with the organisation of new municipalities in rural areas. The average size of municipalities was only 16,000 in this period (including the smallest with a population of 500 (*Angelov,* 2008). Despite this fragmentation, there was no formal distinction between competences, and the situation was aggravated by the absence of the meso-level.

A major change in this organisation occurred in 2005 (due largely to pressure from European institutions) when the agglomeration of Skopje was organised into a special municipal unit, the number of local authorities fell to 85 again, almost 40 municipalities lost their autonomy, and the average size

reached 24,000. The reform encountered serious opposition, the unifications being rejected in 40 local referendums. However, the national referendum failed due to the low level of participation, even though 95% of those who did vote voted against the reform. In parallel with the unifications, the new municipalities were categorised into different groups: urban, suburban and rural – serving as a basis for the differentiation of competences and financing. Fiscal decentralisation began in 2006, and, to raise the efficiency of the tasks undertaken, co-operation between municipalities (formerly totally unknown) was launched. Meanwhile, according to various surveys on the effective state of municipalities, their situation varies according to the date of their establishment, i.e. those created before 1996 enjoy a considerably more favourable position, whilst newly created municipalities enjoy benefits only if they serve as the location of certain public organs. According to experts, this problem might be solved by the designation of obligatory competences and the creation of a meso level self-government (*Angelov,* 2008). The possibilities of regionalisation are strongly determined by the predominance of the capital, Skopje, and the multiplicity of ethnic groups, since the Albanian population lives primarily in the Western region with Tetovo as its centre (*Hajdú,* 2007).

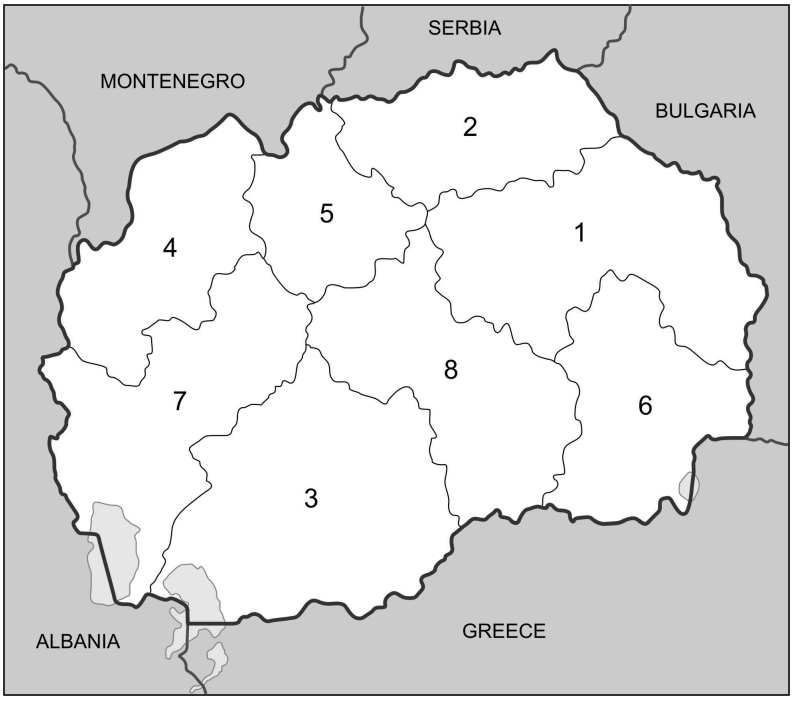
To fulfil the requirement to adapt to EU regional policy, a Law on Spatial Development was passed in 2007. After the delimitation of eight NUTS3 regions, Development Councils and Executive Centres made up of mayors were established in the regions (*Figure 45*). This regulation constitutes an essential part of the implementation of the National Development Plan as a necessary condition for EU Accession. One peculiar element of the law, however is that the government is obliged to devote one percent of its GDP to spatial cohesion objectives, indicating not only that politicians have recognised the negative effects of the increase of spatial disparities, but also reflecting the need to create some form of legal guarantee for cohesion policy in the midst of political instability.

Ideological and constitutional obstacles to creating a Western-type municipal system were removed by the new constitution in Serbia (which formed a state federation with Montenegro under the name of Yugoslavia until 2006), but, oddly, this did not result in effective decentralisation. With the nationalisation of communal property and the establishment of strong state control in 1992, the collapse of the Yugoslav Federation led to particularly strong centralisation in Serbia. The opposition made serious progress in major cities in 1997 and, as resistance to Milošević's regime became more open, this contributed to the beginning of decentralisation (*Meekel,* 2008), even though the Local Government Act adopted during Milošević's regime was still considered by the Parliamentary opposition to be a law imposing tutelage over local authorities (*Simić,* 2001). The country adopted a Local Government Act in harmony with the

European Charter of Local Self-government only in 2002 (*Balázs,* 2005), before the government elaborated an action plan for preparation for EU accession in 2003, including the implementation of the municipal system – as in other countries discussed here.

Figure 45

Statistical regions of Macedonia



Key: 1 – East; 2 – North East; 3 – Pelagonia; 4 – Polog; 5 – Skopje; 6 – South East; 7 – South West; 8 – Vardar.

According to the Constitution as it lays down the general structure of the local government system, the municipalities, cities, and the capital, Belgrade, constitute the local government units of Serbia. The country's territory was divided into 29 (later 25) districts, of which the Vojvodina has 7. These districts have no constitutional status, and are given only state administrative functions, including supervision of the district, and they execute these functions under the tight control of the responsible ministries (*Figure 46*). As a sign of their weak public legal status, the Serbian government introduced districts as new spatial units by Decree in 1992, since they had previously not existed in any form.

Figure 46

Districts (okrugs) of Serbia



Key: 1 – Severnobački; 2 – Srednjebanatski; 3 – Severnobanatski; 4 – Južnobanatski; 5 – Zapadno-bački; 6 – Južno-bački; 7 – Sremski; 8 – Mačva; 9 – Kolubara; 10 – Podunavlje; 11 – Braničevo; 12 – Šumadija; 13 – Pomoravlje; 14 – Bor; 15 – Zaječar; 15 – Zlatibor; 17 – Moravica; 18 – Raška; 19 – Rasina; 20 – Nišava; 21 – Toplica; 22 – Pirot; 23 – Jablanica; 24 – Pčinja; 25 – Kosovo; 26 – Peč; 27 – Prizren; 28 – Kosovska Mitrovica; 29 – Kosovo Pomoravlje.

Another sign of their subordination is that their personnel were mostly transferred from the centre (*Sević,* 2001).

The Local Government Act adopted in 2002 modified the status of municipalities. According to the previous ideology, municipalities were considered to be social-community constructions, while the new Constitution defined them as territorial units of the state serving as a framework for exercising municipal rights. According to the Law on the Territorial Organisation of the Country,

earlier the country had had 169 municipalities and 5 local authorities with city status. These numbers indicate the presence of a strongly integrated local administrative system, and statistical data indicate that the local government system encompasses almost 5,000 settlements. The average population of municipalities is 35,000 (*Meekel,* 2008). On the basis of the Local Government Act, municipalities have the right to organise local communities on their respective territories, and they are granted budgetary and legal status enabling them to exercise certain community rights. Present-day Serbia has 23 settlements with city status and 122 municipalities, whilst Belgrade, as the capital, has a special, constitutional status. In professional terminology, a co-operation or association of municipalities is referred to as a region or regional community, although they are not territorial administrative levels, but simply associations within the meaning of the Local Government Act.

The quasi-member state status of those former provinces enjoying broad autonomy was transformed with the loss of their right to constitutionalisation, their autonomous Constitutional Court etc. As a sign of the special legal status of provinces, the Constitution lists their names, and the creation of new ones is possible only through an Amendment of the Constitution via a referendum. The other autonomous province according to the Constitution, Kosovo and Metohia forms an exception to the Vojvodina. It is regulated separately and, despite being a part of the Republic of Serbia, according to the Constitution in place, it has not been subordinate to Belgrade since 1999, when the UN took over the supervision of the area.

The independence of the Autonomous Province of the Vojvodina is safeguarded by the Omnibus Law enacted in 2002, and later by the new Constitution promulgated in 2006, even though the Constitution contains only relatively few framework regulations related to public administration (*Korhecz,* 2007). It is a particularly important rule that the Vojvodina is entitled to at least 7 % of the Serbian state budget under the force of the Constitution, with the condition, that three-sevenths of the budget of the Vojvodina must be allocated to capital expenditure. Despite the extensive adjudicative power granted to the province, it has a dual structure, i.e. central governmental organisations are also involved, and so there is a potential source of conflict in relation to competences (*Korhecz,* 2007).

This indicates a lack of intermediate-level government over the country as a whole, with the exclusion of those provinces of special status populated by national minorities.

The need for reform was recognised in Serbia due to the extreme centralisation of the system – as was evident to all. For example, there are almost no legal obstacles to the dissolution of municipalities. Although reform proposals were prepared, their reception and success were difficult to foresee (*Sević,* 2001). The

lack of fiscal decentralisation was considered to be the major problem of the municipal system (*Sošic,* 2005), but this has been more solidly based on separate legislation since 2006, and the European Charter on Local Self-government was ratified in 2007 (*Meekel,* 2008).

As with the demand of cities for great autonomy, the idea of creating regions has arisen several times, but so far Parliamentary proposals for such reform have failed. European regional policy posed a challenge in Serbia as well, and the government committed itself to the introduction of the NUTS system in the Association Agreement with the EU. The Draft Plan on Regional Policy divides the country into 7 NUTS2 regions, the Vojvodina constituting one autonomous region among these but is divided into three geographical units (in the terminology of the Statute of the Vojvodina) and seven administrative districts. Development agencies and associations were established under this territorial system. The law explicitly states that public administration and municipal organs operate neither in these units nor in NUTS 3 regions, and so Serbian regionalisation is regarded rather as centralisation by experts (*Takács,* 2009), whilst, according to widespread opinion, appropriate political conditions for decentralisation are lacking (*Balázs,* 2005).

The territorial system of public administration in Serbia is basically strongly integrated and centralised at the same time, and, even though the Vojvodina, as an autonomous province, enjoys relative independence guaranteed by the Constitution, there are no other organic regions where municipal rights are exercised in the rest of the country.

Based on the Constitution of Serbia, the House of Representatives of the Autonomous Province of the Vojvodina adopted a statute in 2009. The legal rule serving as the fundamental law of the province declares provincial autonomy and multiculturalism at the same time. According to the statute, the territory of the province cannot be changed without majority support in a necessary local referendum. Autonomy is evident in organisations such as the directly elected House of Representatives, the government, its own ombudsman, its own assets, a broad range of competences (spatial development, tourism, environmental protection, culture, education, health, social care, etc.), empowerment authority in international co-operation, the protection of its legal status by the Constitutional Court and competence to enact laws. The constitutional guarantee of fiscal federalism is a minimum 7% share of the Serbian budget and the right to create an individual budget.

The situation of Kosovo within the state was not even discussed in detail in the original Serbian Constitution, and in reality its relation to the state has remained "floating". A commissioner from the General Secretariat of the UN was charged with establishing a local government system in the territory (placed under UN supervision in 1999) pursuing a strategy of bottom-up development

in order to prevent a strong national government from hindering UN administration. A Decree passed in 2000 supported the realisation of the actual objectives and priorities. The Decree led to the establishment of 30 municipalities in Kosovo, without serious efforts to retain the previous structure as far as elections were concerned. The broad competences transferred to the municipalities compensated for the lack of central governmental power, and partnership between the municipalities and UN forces was regarded as of primary importance. Separate Decrees were formulated on the protection of ethnic minorities, the creation of special community committees and arbitration commissions.

With the assistance of experts from the Council of Europe, the EU and the UNO, professional preparations for further decentralisation began in 2003 in accordance with the European Charter of Local Self-government, but the unstable political situation of the area did not permit the execution of various plans prepared later (*Burke,* 2005). The UN Security Council accepted the agenda of future development in 2003 (Standards for Kosovo) focusing primarily on national institutions, democracy and human rights. As a result of the instability of the area and the lack of trust, it was no accident that, although local administration functioned in a vacuum, it was still a basic reference point for the common citizen (*Sklias–Spyros,* 2007).

The elaboration of the system of local governance originally served political objectives, and it was only recently that professional factors were taken into consideration in the reform work – with the full awareness of the unique situation of Kosovo within the Balkans and of the fact that the process of implementing effective decentralisation would neither be simple nor quick (*Ebel–Péteri,* 2007).

Following the separation in 2008, the Constitution of the Republic of Kosovo mentioned municipalities. It regards municipalities as the basic units of territorial administration, but, apart from general arrangements serving as foundation for the legal status of municipalities and their functions, it does not go into detail sufficient to formulate a special provision. The number of municipalities is 33, encompassing a total of 1,500 local units. In addition to these, seven districts/regions were created in order to fulfil the demands of spatial development planning in Kosovo which resulted in a Law on Territorial Planning and the elaboration of spatial and urban development plans (*D'Hondt,* 2007). Kosovo is currently in the centralisation phase of a nation-building, and, according to a Hague Court decision of 2010, there are no international legal obstacles to separation which might contribute to stabilisation and strengthen the autonomy of territorial units.

Montenegro became an independent state only in 2006, but as a member state of the Yugoslav Federation its autonomously regulated municipal system had been legally established in 1995. The new Constitution declared that Mon-

tenegro was a unitary state, comprised of municipalities, and that local communities had the right of self-government. A separate law established the spatial division of the Socialist Republic of Montenegro, and, according to this, 19 settlements were granted commune status, Cetinje as the historic capital, is the official residence of the President of the Republic, whilst Podgorica is the capital (*Blažić,* 2008) (*Figure 47*). The area of the municipalities can only be changed by constitutional amendment following a successful local referendum (*Lekić,* 2001). Commune status is given to settlements which vary greatly in size: the smallest having a population of 3,200 and the capital 166,000. To counterbalance these differences in size, the law permits the merging of municipalities and the creation of smaller units within the larger. It is worth noting that special Constitutional institutions guarantee the rights of national and ethnic minorities, especially Albanians (*Lekić,* 2001).

The clarification of the competences of municipalities began after the establishment of the municipal structure, with the strict separation of practice and function from those delegated by the state. The decentralisation of competences and instruments has only been realised to a limited degree, far short of the requirements of the European Charter of Local Self-government (*Lekić,* 2001). 1998 marks the starting date of real decentralisation. A new law was passed in 2003, enabling the autonomy of public law and financial decentralisation, but the process is far from complete, and the failure to transfer assets prevents settlements from becoming real stakeholders of development (*Blažić,* 2008).

A study of Slovenia provides us with an opportunity to evaluate the extent of impact of EU accession on the modernisation of the country's public administration.

Despite the fact that accession took place in 2004, Slovenia is still considered to be a centralised country, due to its small size and the difficulty of implementing intermediate-level self-government (*Savin,* 2008). Another interesting aspect of the model is that ethnic, language and cultural minority policies pervade the regulation of local authorities with the aim of guaranteeing special rights on a territorial basis also (*Dimitrovska–Plostajner,* 2001). The Slovenian Constitution guarantees the autonomy of local authorities, but their status depends upon whether certain conditions and services are available, in order to prevent the arbitrary fragmentation of the local level. Fragmentation was experienced in Slovenia as in the majority of ex-communist countries, but the degree was less extreme. On the basis of the comprehensive regulation on local government, 62 local communities were replaced by 147 local authorities, although full municipal rights were only granted to settlements with a population exceeding 5,000 (in accordance with the Law on Local Government) (*Brejc–Vlaj,* 2001).

Figure 47

Local governments of Montenegro



Key: 1 – Andrijevica; 2 – Bar; 3 – Berane; 4 – Bijelo Polje; 5 – Budva; 6 – Cetinje; 7 – Danilovgrad; 8 – Herceg Novi; 9 – Kolašin; 10 – Kotor; 11 – Mojkovac; 12 – Nikšič; 13 – Plav; 14 – Plužine; 15 – Pljevlja; 16 – Podgorica; 17 – Rožaje; 18 – Šavnik; 19 – Tivat; 20 – Ulcinj; 21 – Žabljak.

It should also be noted that Slovenia inherited an integrated model, since, according to current statistical data, almost 6,000 settlement-geographical units were controlled within integrated municipalities even before the change of regime. Different sources are available concerning the notion of basic settlement units. According to the author of a book introducing the local government

system of Slovenia, 1200 local units were concentrated in 62 municipalities before the change of regime (*Plostajner,* 2008). 147 municipalities established by the Law on Local Government were further divided on the basis of a provision of the Local Government Act permitting autonomous municipalities to function with a population below 5,000 (but above 2,000) in exceptional cases. Nevertheless, there are 9 municipalities whose population is below 1,000, being obviously the remnants of previous regulations (*Savin,* 2008). There were 193 local authority units in 1999 and certain towns (11 settlements with town status) were accorded special legal status within the Slovenian system of local government (*Setnikar-Cankar* et al. 2000). There are currently 210 municipalities, which indicates that, even though there is still a strong presence of centralising elements in the administration of local government, and the strengthening of inter-communal co-operation plays a priority role among reform initiatives, rationalisation still has its (probably political) obstacles. The Slovenian system of local government is, in the eyes of experts, fragmented (*Plostajner,* 2007), although, in comparison with other ex-communist countries, it seems to be more favourable from the perspective of economies of scale. The absence of fiscal decentralisation constitutes the basic problem of the system, since the share of municipalities in community expenditure does not even reach 12 percent (*Savin,* 2008).

The survival of centralisation is related to the lack of intermediate level government – according to several opinions. Meso-level administration comprises 58 state administrative units functioning as NUTS4 and LAU1 units attached to settlements through a consultative body. Even though these de-concentrated official units consist of departments of ministries, they fail to serve as a coordinated model of central state control (*Leben,* 2002).

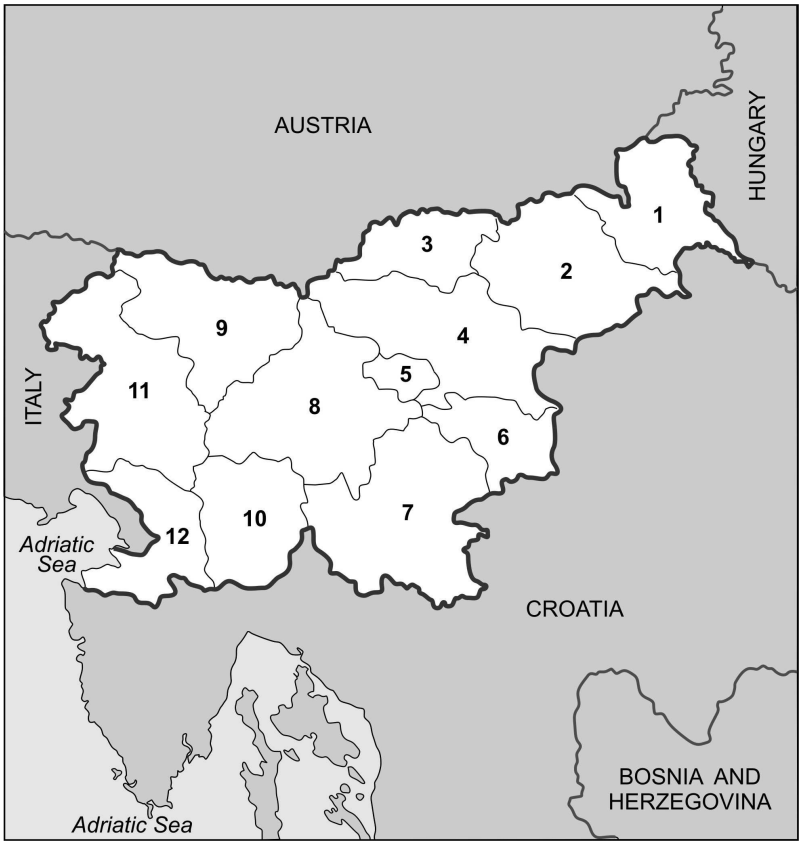
Adaptation to the European Union plays an important role in Slovenia and access to Structural Funds was an important factor supporting raising the compatibility of the meso-level. The Law on Public Administration promoted the creation of special territorial units. The government elaborated a concept in order to create larger territorial units. According to earlier provisions of the Constitution, settlements were granted the right to form regions. Another solution was the creation of municipal regions with a legal status, but experts remained quite reserved and cautious in presenting their viewpoint about this alternative (*Brejc–Vlaj,* 2001).

The process was accelerated by EU accession. The primary objective of the Law on Regional Policy (declared in 1999) was to create national institutions of spatial development. Local authorities decided in favour of creating 22 agencies, yet the system of institutions and the financing of development policy remained strongly centralised (*Tüske,* 2002). Public administrative reform was delayed in Slovenia; the country remained centralised, and the absorption of EU

regional development funds was handled through a centralised system. The relatively rapid economic development, the originally modest spatial inequalities and the small size of the country apparently failed to ignite the forces of decentralisation. This might be the reason why the NUTS division (one NUTS2 region and 12 NUTS3 regions) did not further harmonisation processes (*Figure 48*).

Figure 48

Statistical regions of Slovenia



Key: 1 – Mura; 2 – Drava; 3 – Koroška; 4 – Svinja; 5 – Zasavska; 6 – Lower Sava; 7 – South East Slovenia; 8 – Central Slovenia; 9 – Gorenjska; 10 – Inner Carniola Karst; 11 – Goriška; 12 – Coastal Karst.

The Law on Regional Policy was amended in 2005. The NUTS division was also modified, two NUTS2 units were delimited with the obvious aim of preserving their eligibility for EU funds, since the development gap between the two eastern and western development regions is considerable (although there was no direct effect on the territorial structure of public administration or the management of EU development programmes itself). The national institutional system of EU cohesion policy has remained centralised in the present programming period also, and separate operational programmes have been not elaborated for the two regions. 12 NUTS3 regions constitute the territorial units of national development policy and currently development agencies and development councils operate at their level.

The modification of the Constitution in 2006 clarifying the status of regions resulted in a change in the regionalisation of public administration. In the light of the modification of Paragraph 143 of the Constitution, the Slovenian public administration recognises regions expressis verbis which are no longer created by the voluntary adhesion of municipalities in the form of associations, but established on a compulsory basis by a separate law enacted by a two-thirds majority. The Constitution mentions neither the number nor the size of regions. The amendment to the Constitution opened the way for the creation of municipal regions, yet the amendment of the Local Government Act and the creation of a separate law are still awaited, and the constitutional possibility exists on paper only. Even though various numbers were mentioned in the debate on regionalisation (ranging from 5–7 regions to 14) a compromise on the number and borders of regions is lacking and the ideas clearly show no relationship to the NUTS2 classification. The most neglected element of the debate about regions is the definition of regional functions and instruments (*Plostajner,* 2007), foreshadowing that the issue of regionalisation belongs less to the realm of the territorial division of power, but more as an instrument of modernisation in the hands of the government.

This small country can apparently be controlled from one centre, although regional policy factors, the existence of spatial differences within the country, problems related to the quality and efficiency of the local level would require the strengthening of intermediate-level government and the establishment of its political legitimacy (*Dimitrovska–Plostajner,* 2008), so that the country might be able to progress towards effective decentralisation.

2.3 Summary. Halfway between the heritage of Yugoslavia and EU membership

According to Olsen, European Administrative Space denotes that public administration operates and is managed on the basis of common European principles (*Olsen,* 2004). Nation states still insist on their public administrative traditions, since it is a natural expectation that national public administration should fulfil the special demands of a given society. Despite common trends and fashions, the development and evolution of the system of public administration is largely dependent on its actors, its autonomous institutions functioning as a part of the system and the concrete context. Convergence among public administration systems can involve diverse needs, power relations and values. It is clear that national public administrations are slow to evolve due to inner cultures, organisational inertia, historical heritage and path-dependency. Evidently, it is always easier to harmonise rules and regulations than culture, practice and the behaviour of the political elite and bureaucracy.

The European Union strongly affirmed its will against ex-communist countries gaining membership in 2004 and 2006 in the framework of the so-called second wave "conditionalism" or, to put it less politely, as a sign of mistrust (*Hughes* et al. 2004). According to research programmes and analyses of the OECD, the Council of Europe and the European Union, significant reform programmes were announced in several Central and Eastern European countries, but reforms were halted in several cases. The meso-level is especially problematic in most countries (COR, 2000), and, despite the delineation of NUTS units, regional decentralisation did not occur. It is important to highlight that EU cohesion policy had its greatest impact on the convergence between the public administrative systems of European member countries especially in countries which benefited the most from EU grants and subsidies and whose public administration is least compatible with EU requirements in terms of structure, logic and culture. New principles (decentralisation, partnership, etc.) did not fit into the framework of traditional public administration (*Pálné,* 2005).

Examining the causes of failure, the OECD concluded a decade ago that Central and Eastern European countries should refrain from mechanically adopting Western practices based on Anglo-Saxon traditions (*Fournier,* 1998), since this region lacks stable structures, and traditional institutions and cultures coexist with signs of "Europeanisation–convergence". Comprehensive reforms were required both in structural issues and in the area of the methods of operation. The redesign of public administrative spaces transformed borders simultaneously with the former, traditional institutional systems. However, these reforms were not always steadfast and successful (*Bouckaert,* 2009).

The territorial harmonisation of national and EU institutional systems is not always successful and the replacement of traditional national public administration units with new, larger entities is proving to be an extremely difficult task. Changing geographical borders and organisational structures in Europe are phenomena pointing towards democratisation and decentralisation, but their success is largely dependent on actual political (parliamentary) conditions (*Wolmann,* 1997). Eastern and Western Europe show the largest disparities precisely in this respect. Undeniably, the European Union had a large impact on the modernisation of the territorial system of public administration in post-communist transition countries, yet these efforts did not necessarily produce effective decentralisation. Apparently, regional policy in itself and EU membership in the broader sense have not provided sufficient motivation for the transformation of the territorial distribution of power.

This is a useful lesson for countries of the Balkans facing public administrative reforms which must find the proper internal driving forces of modernisation and decentralisation if they wish to avoid the traps of the slavish imitation of patterns. This applies especially to countries whose EU accession date is still uncertain. Several factors influence the development of public administration systems in the countries of the Balkans and main trends can only be detected by studying long-term experience. Although requirements and impulses coming from the EU do exert a great influence in the spirit of "third wave conditionalism" (*Helmerich,* 2007), countries must implement their public administrative reforms in an entirely different milieu. Whilst it is evident to all that decentralisation is the only effective instrument of modernisation (*Miličević,* 2001), the process of its implementation will, very likely, be neither simple nor quick.

According to our analyses, territorial public administrations of countries of the Balkans share certain common specificities and distinctive features compared with those ex-communist countries which joined the EU earlier. The following section contains a review of these features.

The role of the common past which these countries share is still being determined. The Yugoslavian model of local government implemented since the 1950s had distinctive features compared with the Central and Eastern European Soviet-type council system. The federal structure and the existence of autonomous provinces provided a very different basis, contrasting strongly with unitary Central and Eastern European countries. The model associated with the figure of Tito was considered to be more decentralised, since the Constitution implemented in 1953 and revised in 1963 and 1974 granted wide autonomy to municipalities. Undoubtedly, the one-party system was a basic shortcoming of the system, evident in centralisation at state and territorial administrative levels (*Sević,* 2001). The "maverick" nature of Tito's Yugoslavia within the Socialist bloc was apparent in the bottom-up constitutional approach to decentralisation,

yet it proved insufficient to curb the unlimited power of Tito. A concentration of power and resources accompanied the implementation of the series of reforms from the 1950s until the 1960s. The dominance of specific "semi-market" mechanisms from the middle of the 1960s facilitated the strengthening of the self-governing of municipalities and contributed to the solidification of social trust even though Yugoslavian socialism and the system of self-government did not serve as an alternative to state socialism – in professional opinion (*Juhász,* 2001).

During the regime changes of the '90s, the political elite initially supporting Western values of self-government became less enthusiastic about promoting the process of decentralisation after rising to power (*Navracsics,* 1992), and consequently temporarily defied the traditions of decentralisation. The change of regime and the collapse of Yugoslavia produced strong centralisation in all the successor states, and the situation changed only gradually due to the presence of international peace-keeping forces and the hope of joining the European Union.

The implementation of decentralisation was gradual. Initially, public legal autonomy guaranteed by the Constitution was granted only to municipalities. While Central and Eastern European countries suffer from municipal fragmentation, the situation is not so severe in countries of the Balkans. The integrity of the former Yugoslavian model of local governance has been conserved in several areas, although to a very extreme degree. Due to the disappearance of earlier districts, the number of municipalities fell from 11, 556 in 1946 to 518 in 1963 (*Bihari,* 1969), and municipalities were able to perform significant, meso-level functions as well (*Juhász,* 2001). It is understandable that, after the change of regime, efforts towards autonomy emerged almost everywhere, although countries of the Western Balkans escaped the so-called "first wave fragmentation" characteristic of the change of regime in Central and Eastern Europe; municipalities are identical with settlement districts in most cases (*Table 38*). Nevertheless, compared with most western models, the efficiency level of municipal governments lags far behind that expected (*Pintar,* 2001; *Maslyukivska,* 2006). According to the views of experts and the opinions of international expert groups, there are serious attempts to consolidate settlements, primarily through the promotion of associations. The progress of the decentralisation of competences and particularly of fiscal decentralisation has been quite slow, the absence of the latter being considered a further handicap for the region's public administration.

As we have already mentioned, meso-level government showed the strongest resistance to decentralisation, and we can observe a most colourful picture at this level. In most Central and Eastern European countries, formal factors played the most important roles in the organisation of the meso-level and the

Table 38

Territorial Organisation of the Western Balkan Countries, 2010

Country	Territorial authorities	Local authorities			Number of settlements	Per municipality	
		City status	District	Total		Number of settlements	Population
Albania	12	65	308	373	3,052	8.2	9,811
Bosnia and Herzegovina							
Federation	10	–	79	79	3,343	42.3	36,110
Republic of Serbia	7	2*	61*	63	2,721	43.2	23,220
Croatia	21	127	429	556	6,752	12.1	8,070
Kosovo	–	–	33	33	1,466	44.4	55,001
Macedonia	–	–	84	84	1,767	21.0	24,668
Montenegro	–	–	21	21	1,256	59.8	31,749
Serbia	1	23	122	145	4,720	32.6	50,654
Slovenia	–	11	199	210	6,028	28.7	9,539

* Banja Luka is a district type municipality with city status.
Source: CIA Factbook, 2010.

imitation of the model of the size of the NUTS system was desirable. The geographical borders of new meso-level units are uncertain: sometimes several types of meso levels coexist and administrative borders often change due to a lack of internal cohesion (*Pálné,* 2007). In the Balkans, political, national and ethnic considerations determine the territorial division, often under the pressure of force or with the aim of co-operation. Autonomous territorial units divided on an ethnic basis often function within federal structures. The requirements of efficiency and professionalism are often neglected in the pursuit of harmonising the ethnic and territorial division of the country (*Miličević,* 2001). A basic contradictory element in regionalisation is that, in contrast to ethnic autonomies, in homogenous regions, national governments strive to maintain their positions at meso-level by exercising strict supervision or maintaining a dual structure of public administration. In a paradoxical way, traditional "federalism" and strong centralisation coexist in countries of the Western Balkans. Decentralisation constitutes, undoubtedly, an essential, but by no means exclusive, instrument for the political and economic stabilisation of the region.

SOCIAL INFRASTRUCTURE AND SOCIAL SERVICES

EMMA CLARENCE

1 Introduction

The necessity of poverty reduction and tackling social exclusion, not only for the individuals, families and communities blighted by it, but for local economic development generally, should not be underestimated. OECD LEED work has highlighted the role which social cohesion has in contributing to local economic development, by making territories more dynamic, more attractive and more resilient. Recognising the interplay between poverty, social exclusion and wider community prosperity and the advantages that flow from socially inclusive communities and low levels of poverty, has led to 2010 being designated the European Year for Combating Poverty and Social Exclusion. Indeed, such are the economic benefits which derive from social inclusion and cohesion that they should be central areas of policy and programme activity rather than being seen as secondary or as less important.

Even before the global crisis, the Western Balkan region confronted issues surrounding poverty and social exclusion. The economic and social transformation, alongside conflict and war, had contributed to poverty and social exclusion which was both spatial and concentrated amongst certain groups in the region. Although poverty measurement and data collection are areas that have been highlighted as requiring more effective systems in order to be in line with European best practice, poverty had, broadly speaking, been in decline prior to the global crisis. However, the reduction had neither been as rapid as pre-crisis economic growth suggested was possible, nor evenly distributed within countries (European Commission, 2009). The failure to effectively harness economic growth across the region lies as much with the perception that poverty and exclusion could be overcome simply through economic growth, rather than by ensuring that there were programmes and policies to target spatial disadvantage or those groups that economic development was not reaching.

The challenges confronting the Western Balkans in the areas of poverty and social exclusion are complex and multi-faceted. This chapter examines these issues in the region, before going on to consider the provision of social protec-

tion and health care. Finally, the potential of the social economy to play a role in overcoming poverty and social exclusion in these countries is explored.

1.1 A note on data

It should be noted that there is a paucity of up-to-date, comparable data available for the Western Balkans – and also an absence of time-series data. Whilst there is evidence to suggest that this is slowly improving, it nevertheless remains a critical issue in order to allow for the timely consideration of progress (or lack of progress) over wide-ranging areas, including poverty and social exclusion. This chapter draws on data collected on behalf of the World Bank, the European Commission, the World Health Organisation and the UNDP, amongst others, in its analysis, although such data does not always allow for cross-regional comparison.

2 Poverty and social exclusion: the concepts

It is important to recognise that poverty is not the only indicator of social exclusion, and indeed social exclusion conceptually refers to more than simply income-based poverty (*Klasen,* n.d.). Poverty is clearly a component factor, particularly when understood in the wider context of deprivation. However, as a concept, social exclusion also incorporates the idea of the inability of individuals and groups, such as ethnic minority groups, disabled people, ex-prisoners, the long-term unemployed, etc., to participate in the economic, social and cultural life of the society in which they live, as a result of a combination of a range of factors (*Bynner,* 2003). These factors include unemployment, income, educational attainment, housing, financial exclusion and a lack of financial assets, health and mobility, as well as many others. Key issues, when considering social exclusion, are the way in which such factors interact and the consequences of that interaction on individuals and groups – all on an intergenerational basis as well as spatially – and how social exclusion can be avoided or the barriers to social inclusion overcome. Indeed, owing to the importance of the interaction of factors leading to social exclusion, it has been suggested that exclusion should be seen as 'more a process than a state' (*Noya–Clarence,* 2007), a process which can, by its very nature, be difficult to reverse (*Atkinson* et al. 2005).

The complex, inter-linked concepts of poverty and social exclusion have long-lasting and multi-faceted consequences. Individuals, families and communities who confront them are more likely to experience negative outcomes in

areas such as education, employment, health and housing which, in turn, contribute to inter-generational poverty and social exclusion. Communities where poverty and exclusion are present are likely to have lower levels of social cohesion, with attendant economic difficulties emanating from this. Areas with lower levels of social cohesion are less attractive to firms, less dynamic in seizing opportunities and also lack the resilience to meet and recover from economic challenges (OECD, 2010; *Noya* et al. 2009). Accordingly, tackling poverty and social exclusion should be seen not only as a social justice imperative, but also as an economic one.

3 The Western Balkans: who are the poor and who are the excluded?

It is possible to identify a number of key groups who are more likely to confront poverty and social exclusion in the Western Balkans. These include refugees and displaced persons, 'ethnicised' groups and women. Groups such as these, are not exclusive and individuals and communities can experience overlapping disadvantage. This can be demonstrated by the experience of displaced people from Kosovo under UNSCR 1244/99 ('Kosovo') living in Serbia in 2006: 49 percent of the displaced Roma lived in poverty, as compared to 17 percent of displaced Serbs, highlighting how displacement and ethnicity compound the level of disadvantage experienced (*Müller–Jovanovic,* 2010).

Nor are they the only groups in the region amongst whom social exclusion (or poverty) can be found or who are vulnerable to them. The disabled, for example, are another group for whom the transition has increased their vulnerability and experiences of poverty and social exclusion. Jobs for the disabled have disappeared, and they confront significant discrimination in the labour market with the perception that they are less productive and costly employees in evidence (World Bank, 2010). Across the region, elderly people (65 years and over) are also a group particularly at risk of poverty, often as a result of poor pension provision and the cost of health care as "out-of-pocket" expenses (discussed below).

2.1 Refugees and Displaced Persons

In July 2007 it was estimated that there were still over half a million internally displaced persons in the Western Balkans. Whilst data collection remains problematic (with no figures for refugees in other countries, or for those granted citi-

zenship or who have taken up permanent residence), it is clear that there is a sizeable group of people who remain displaced in the Western Balkans, including those who have suffered multiple displacements. Given the plight of such individuals and families, their ability to participate economically or socially in the areas where they reside is significantly hampered. As the UNHCR has noted, even those displaced people who have been able to return across the region confront difficulties in areas such as obtaining housing, receiving relevant identity documents, and accessing health care, education, employment and other social services. With limited ability to have such basic needs met, it is not surprising that displaced people are profoundly vulnerable to both poverty and social exclusion and may also be isolated from the communities in which they reside.

2.2 Ethnicised groups

The wars and violent conflicts which accompanied the break-up of Yugoslavia have ensured that ideas of 'ethnicity' and 'minority groups' are hotly debated ones in the region. A report for the European Commission (2009) has referred to this 'political construction of ethnicity [as]…ethnicisation' and criticised the lack of ethnicised data, the lack of mainstreaming of minority issues into reporting on education and employment, and the lack of a focus on the interrelationship between ethnicity and gender issues. One could go further and suggest that very few studies focus on the specific needs of those members of vulnerable ethnicised groups who are disabled and/or elderly. Poverty, long-term unemployment, social and spatial segregation, political and social marginalisation affect particularly vulnerable ethnicised groups in the region.

Such criticisms present a strong challenge to the provision of social services across the region and hint at failures in recognising and addressing the needs of ethnicised groups.

Three distinct types of ethnicised group can be identified in the Western Balkans: 'national minorities'; Roma (which may include groups who claim distinction such as Ashkali); and smaller, often linguistic, minorities (European Commission, 2009). It is often difficult to ascertain the size of such groups in the region; accurate data is frequently lacking as a result of the disputed and politicised notions of identity. With regard to the Roma population, a UNDP report (2006) noted that expert estimates of the size of the population in individual countries in the Western Balkans were significantly in excess of the reported census data. As *Table 39* demonstrates, these estimates suggest that the Roma are a significantly more sizeable minority in the region than formal figures would appear to allow.

Table 39

*Estimated Roma population**

Country	Census, per capita	Estimated Figure, thousand	Total Population, million
Albania	1,261	80 – 120	3.1
Bosnia and Herzegovina, 1991	8,864	20 – 60	3.8
Croatia, 2001	9,463	30 – 40	4.4
FYRoM, 2002	53,879	80 – 250	2.0
Montenegro, 2003	2,875	20	0.6
Serbia (without Kosovo), 2002	108,193	400 – 800	7.5

*Kosovo has been excluded since the available data is incomplete (see Müller and Jovanovic 2010).

Source: Adapted from Müller and Jovanovic, 2010.

The disadvantage and discrimination that the Roma minority confront has been well documented (*Bodewig–Sethi,* 2005; UNDP 2006; *Müller–Jovanovic,* 2010). Some common regional characteristics which demonstrate the socio-economic disadvantage which Roma confront across the region include poverty; low levels of education, unemployment, inadequate living conditions and insufficient health care. Demonstrating the profound disadvantage which the Roma confront in the region, *Table 40* notes the differences between the Roma and the neighbouring population (the figures in brackets are not national aggregates) in the region, with stark differences clearly in evidence across the region.

2.3 Women

Another vulnerable group, and one which reflects the impact of multiple disadvantage in respect of social exclusion, are women. Whilst legislative frameworks embedding gender equality are in place across the region, there are gaps between the laws and their implementation, particularly with regard to equal treatment at work, in education and training, maternity leave, and equal pay, as well as in the area of protecting women from gender-based violence (DFID, 2008). Such disparities, accompanied by factors including higher levels of unemployment, appear to be leading to the 'feminisation' of poverty (European Commission, 2009).

However, the 'story' of female poverty is more mixed than would appear, with evidence suggesting that female-headed households are less likely to be in poverty than male-headed ones in some parts of the region, such as Albania,

Table 40

Roma disadvantage in the Western Balkans, %

	Albania	Bosnia	Croatia	FYROM	Serbia	Montenegro	Kosovo
Poverty	72 (15)	29 (4)	13 (5)	52 (14)	61 (10)	40 (6)	79 (42)
Unemployment							
Total	36 (19)	49 (26)	18 (16)	61 (46)	40 (21)	56 (25)	83 (74)
15–24	53 (45)	67 (46)	42 (40)	79 (78)	68 (36)	67 (53)	89 (79)
Education							
Enrolment 7–15	48 (98)	50 (98)	89 (100)	77 (99)	73 (92)	39 (85)	62 (97)
Illiteracy rate	32 (2)	28 (0)	17 (1)	16 (1)	13 (2)	42 (1)	34 (8)
Illiteracy rate 15–24	35 (0)	24 (2)	9 (2)	10 (0)	10 (3)	27 (1)	35 (2)
Housing and living conditions (Lacking)							
Essential drugs	41 (12)	71 (29)	50 (13)	79 (42)	60 (22)	64 (9)	86 (47)
Secure housing	7 (0)	36 (5)	10 (2)	36 (5)	50 (5)	11 (2)	n.d.
Improved sanitation	72 (4)	50 (4)	60 (4)	59 (12)	50 (6)	68 (2)	72 (45)
Potable water source	28 (0)	17 (0)	29 (1)	1 (0)	8 (1)	18 (0)	n.d.

Source: UNDP, 2005.

Bosnia and Herzegovina and Montenegro (European Commission, 2009). In Albania, the high level of remittances which female-headed households receive is an important factor in ameliorating poverty. However, in Croatia and Kosovo women are more likely to live in poverty. In Croatia, female poverty and age-related poverty are closely intertwined: with women more vulnerable to, and more likely to be in, poverty because of their preponderance amongst older people.

2.4 The spatial dimension

It is important to recognise the spatial dimension of poverty and social exclusion. The causes and consequences of poverty and social exclusion can often be found clustered together in particular areas, effectively interacting in such ways as to exacerbate and compound each other (*North–Syrett,* 2008). Indeed, it is clear that the intrinsic characteristics of poor neighbourhoods (in terms of location, housing, educational attainment and job opportunities) worsen over time and that geographic exclusion may preclude such areas from being able to exploit wider, positive macroeconomic changes (OECD, 1999). Differences between the experiences of disadvantage and exclusion in rural and urban areas, such as in evidence in the Western Balkans, must also be recognised, as social exclusion does not develop in the same ways – nor take the same forms – in these two different contexts.

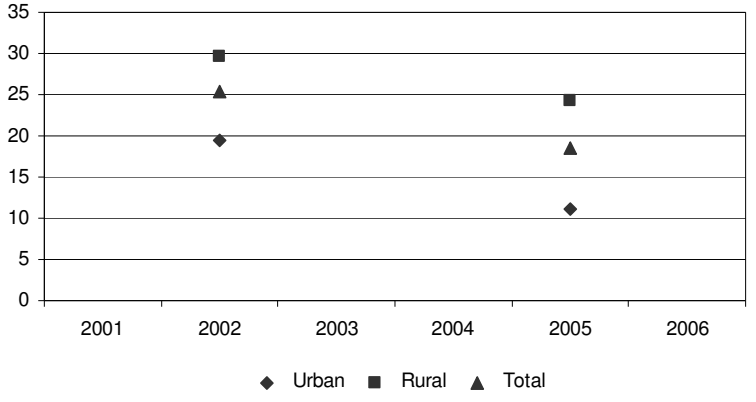
Spatial poverty and social exclusion are significant issues across the Western Balkan region. As *Figure 49* highlights, poverty rates in Albania differ markedly between rural and urban areas; a trend not uncommon across the region. A 2008 report for the European Commission recorded that, in Montenegro, people living in rural areas confronted a risk of poverty which was twice as high as those in urban areas, and poverty itself was likely to be deeper and more severe. At the same time, regional disparities are also in evidence in Montenegro (UNDP, 2009). Other countries, including Serbia and Bosnia and Herzegovina also have a rural/urban poverty divide in evidence. Indeed, in Bosnia and Herzegovina, the spatial dimension is not only rural/urban, but there are also sharp differences in poverty between the levels experienced in the Republika Srpska and those in the Federation of Bosnia and Herzegovina (*Figure 50*).

In Kosovo, the complex interplay between spatial and ethnic factors is clearly in evidence. The Serb minority population is concentrated in the north of Kosovo, albeit with predominantly Serbian communities also present in other parts of Kosovo. Despite the fact that the Serbian population accounted for

approximately five percent of the total population (and Albanians 92%) (European Commission, 2008c), it is substantially more likely to confront poverty, as *Figure 51* shows.

Figure 49

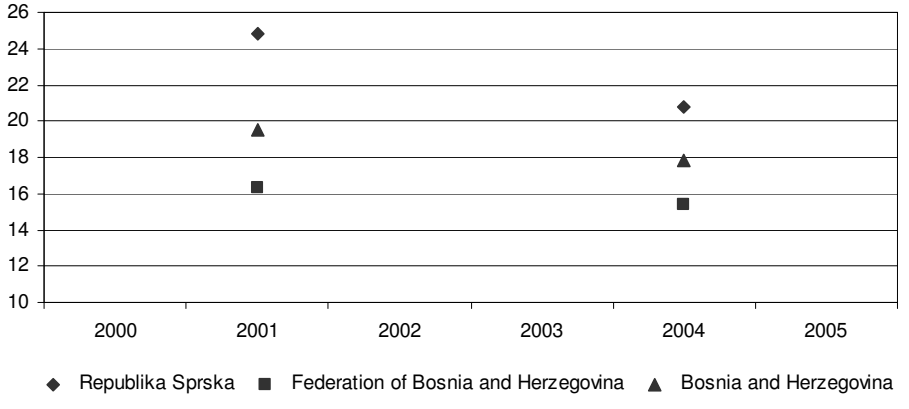
Absolute poverty rates in Albania 2002–2005, as a percentage



Source: European Commission, 2008a.

Figure 50

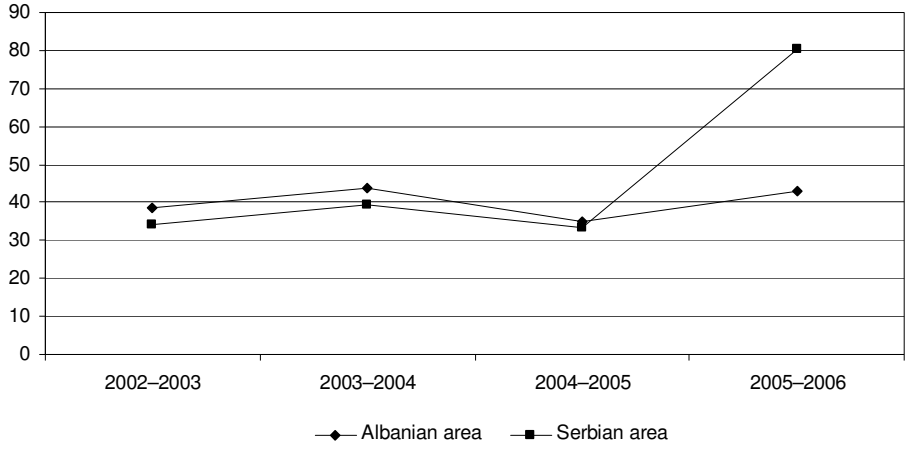
Poverty rates in Bosnia and Herzegovina (%), 2001–2004 by entity



Source: European Commission, 2008b.

Figure 51

Kosovo poverty head count



Source: World Bank, 2007a.

2.5 Poverty trends and social exclusion in the Western Balkans

A lack of recent, comparable, longitudinal data makes it difficult to assess accurately recent trends across the region with regard to poverty and social exclusion, as do different data collection methods. For example, in Albania the most recent LSMS/World Bank data (2005) showed a decline in absolute poverty (40 EUR per month) from 25.4% (2002) to 18.5% (2005) and in extreme poverty (25 EUR per month) from 5% (2002) to 3.5% (2005), whilst EU Laeken indicator data suggests that poverty has, in fact, risen in Albania from 20.4% to 21.2% in 2005 (European Commission, 2008a). Broadly, however, it can be asserted that, prior to the crisis, the trend was towards declining poverty rates across most the region. Absolute poverty in Serbia had decreased by more than 50 percent between 2002 and 2007, to a rate of 6.6 per cent, whilst the decline in relative poverty was somewhat less dramatic (although still significant) from 22 percent to 14.6 percent (European Commission, 2008d). However, it should be recognised that, even in countries where substantial reductions in poverty and social exclusion have occurred, they remain persistent and problematic amongst some groups and within some areas across the region.

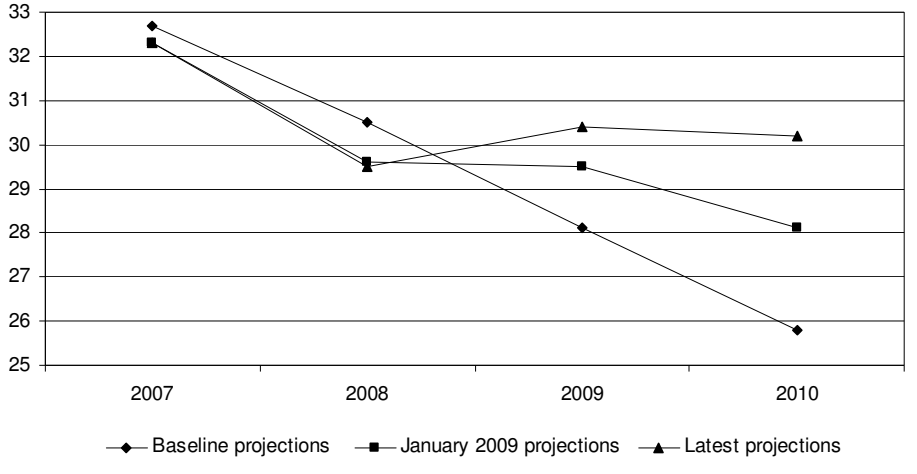
The economic growth which the region had been experiencing prior to the crisis was such that there was the potential for poverty and social exclusion to be even more effectively addressed. However, failure to recognise that poverty

and social exclusion could not be overcome by economic growth alone meant that targeted policies were not introduced or utilised effectively (UNICEF, 2007). Accordingly, the opportunities which accompanied economic growth were not broadened to promote greater social inclusion and cohesion. In Montenegro, for example, despite economic growth, employment remained persistent for people from disadvantaged groups (UNDP, 2009); a similar pattern was also in evidence in Bosnia and Herzegovina. At the same time, economic development has not been spread evenly across countries, and so regional disparities are also in evidence, such as in Croatia where Zagreb's GDP per capita is up to three times more than other, less developed regions in the country (European Commission, 2008e).

However, the economic crisis has raised the spectre of a reversal of a decline in poverty. The World Bank has forecast a significant rise in poverty in the Western Balkan region as a result of the economic crisis. As *Figure 52* highlights, the crisis is having a far greater impact than first anticipated. The impact of increasing poverty is to further reinforce the message that poverty and social exclusion need to be central areas of policy activity, and that targeted policies should be in place to ensure that those groups most in need receive the support they require.

Figure 52

World Bank poverty forecast: Western Balkans $PPP 5.00 a day



Source: World Bank, 2010.

2.6 Remittances and poverty alleviation

The role of remittances, particularly with regard to their contribution to poverty alleviation in the region, should not be overlooked. In Albania, which has a significant proportion of its population (35% of the active workforce), working abroad, remittances are an important factor in the decline in poverty (World Bank, 2007b). Highlighting that importance is the fact that, in Albanian households which do not receive remittances, poverty rates remain higher than in those which do. Montenegro is also reliant on remittances as a tool for alleviating poverty. In Kosovo, households who receive remittances have a poverty rate seven percent below the population as a whole, and in rural areas this raises to 13 percent. Indeed, in Kosovo remittances are higher than formal social transfers, highlighting the critical role they play in poverty alleviation (World Bank, 2007a). *Table 41* shows the size of remittances across the region. Whilst not all of the total will go to the poorest and most in need, remittances do nevertheless, by their sheer magnitude, have a serious economic impact.

Table 41

Workers' remittances in the Balkans in 2007 and 2008, US $ million*

Country	2007	2008	In % of GDP, 2007
Albania	1,071	1,071	10.1
Bosnia and Herzegovina	2,520	2,600	17.2
Bulgaria	2,086	2,200	5.7
Macedonia, FYR	267	315	3.6
Romania	8,533	9,000	5.6
Serbia + Montenegro**	4,910	5,100	13.8
Kosovo***	430	450	16.5

* Data for 2008 are World Bank estimates; ** The World Bank does not yet provide disaggregate data for both countries after Montenegro's independence in 2007; *** Data for Kosovo is from Kosovo's Institute for Advanced Studies, 2008.
Source: Bastian, 2009.

Falling remittances as a result of the economic crisis will, therefore, have an important effect on both the wider economies in the region and also on individuals and families who see remittances decrease or even disappear completely. In countries such as Serbia, where remittances have hugely contributed to increasing the standard of living (rather than to direct poverty relief) any decrease will have an economic impact as consumption falls, accompanied by a threat of increasing poverty. In Albania and Montenegro, where remittance lev-

els have historically been high, and where they have played a major role in poverty reduction, the threat of increased poverty is severe. Remittances have acted as an important cushion for many people in areas suffering from longer-term decline or on-going poverty; and the removal of that cushion is likely to have pronounced detrimental effects. Falling remittances may also be accompanied by increased rates of migrant return, as individuals who can no longer find work abroad return home. This, in turn, could lead to increased levels of poverty.

2.7 The impact of the international economic crisis

Initially, it was expected that the impact of the global economic crisis on the Western Balkans would not be as dramatic as in other parts of Europe, partly as a result of the region's relatively low levels of exposure to international markets. However, this hoped-for sheltered position has proved to be over-optimistic. As the crisis has progressed, the impact on employment, poverty and social exclusion in the region has been pronounced. Significant decreases in foreign direct investment and falling remittances, accompanied by knock-on economic effects from countries outside the region, including Hungary and Greece (*Bastian,* 2009), have brought rising unemployment, and the fragility which many individuals and groups were already confronting has been exacerbated. Furthermore, high levels of household debt, as seen in Serbia, Croatia and Albania, have added to vulnerability to the crisis. Indeed, a World Bank simulation of the impact of the crisis, suggests that there will be falling levels of private consumption (with the poor most sensitive to anticipated increases in food and fuel prices) and increasing poverty as a result (World Bank, 2010).

The need to act is evident. Whilst for many countries in the region the rising cost of financing current deficits has constrained the fiscal policy options open to them as a response (World Bank, 2010), governments in the Western Balkans have received support from a range of sources including, for example, international financial institutions and the European Union through the 'Western Balkans Investment Framework'. The purpose of the Investment Framework is to bring together the investment resources for the region and ensure they are targeted in a co-ordinated way in order to ensure that financial assistance is as effective as possible. Projects are funded across a wide-range of areas, including improving infrastructure (such as in the environmental, energy or transports fields), supporting small and medium-sized enterprises and enhancing education and health care facilities.

Such programmes have an important contribution to make in ameliorating the immediate impact of the economic crisis and in improving facilities, bring-

ing medium to long-term benefits. However, the urgent social and welfare needs of society should not be overlooked. Indeed, it has been suggested that "there has been virtually no attention to social protection, even though the nature and responsiveness of a range of social protection systems (social assistance, social services, pensions, health, education, and housing) will be crucial, with all facing funding pressures, increased demand, and struggling to ensure appropriate access and services for the most vulnerable" (*Stubbs–Venancio,* 2009). Whilst such a claim may be considered extremely harsh, it echoes earlier failures in the transition processes in the region, which neglected the economic and social costs that were, in turn, predominantly borne by the poor (UNDP, 2008a). However, as OECD work has highlighted, tackling disadvantage will be crucial to the recovery process from the current economic crisis and to longer-term approaches to local economic development (OECD, 2010; World Bank, 2010).

3 Financing and delivering social services

Across the region a variety of models are in place to fund social security, but broadly the main sources are direct central government funding and insurance schemes. Social assistance benefits can be divided into contributory and non-contributory forms; contributory benefits include, for example, unemployment and sickness benefits, whilst non-contributory include some forms of social assistance and child benefits (where payable). Eligibility and payment levels vary across the region for both contributory and non-contributory benefits.

The problem with contributory schemes in general, and one which is particularly pertinent to much of the region, is that they work most effectively where there are high levels of formal economic activity and employment. High levels of unemployment and the presence of a significant informal economy in some countries of the region have reduced the resources available for social services and welfare provision. Indeed, these problems can be seen as reflected in the division of the Western Balkans on the basis of spending. The first, Croatia, Serbia, Montenegro, and Bosnia and Herzegovina, had relatively high levels of expenditure on social security and social protection provision (above 15% and above 20% respectively). The second, FYROM, Albania and Kosovo, has significantly lower levels (below 7% and 12%) and notably high levels of informal economic activity (*Bartlett–Xhumari,* 2007).

Contributory schemes in the region confront significant challenges. Under reporting of income levels leading to under payments, has decreased the resources available for social welfare. At the same time, the informal economy is also an important issue (discussed below). Furthermore, underpayment (or

non-payment for those in the informal economy) means that individuals can find themselves without the formal support they need. Low contribution levels also lead to increased pressure on centrally funded assistance schemes, such as in the case of Montenegro where central government makes up any deficit in insurance-based social protection (European Commission, 2008f).

Centres for Social Work (CSW) – which existed across the former Yugoslavia – remain in place in the region, albeit with differing roles, functions and responsibilities. In theory, CSW bring together a mix of professions to address and prevent social problems within a local area, as well as having a role in paying benefits. However, in reality, this mix of preventative activities and the distribution of benefits is rarely achieved. CSW are overly bureaucratised and rather than focusing on needs based activities, their actions are focused on fulfilling legislative requirements. Furthermore, in many places across the region, CSW are understaffed and lack the human resources they need. Even in Croatia where the network of CSW is considered a strength, there is a failure to tackle problems holistically (European Commission, 2008e). In Albania, the General Administration of Social Services (GASS) provides benefits and social services through a network of regional and local (district and municipal) offices. The role of these offices is very similar to those of CSW and indeed they confront many of the same problems (European Commission, 2008a). Whilst there are on-going reforms across the region in the way in which CSW and GASS operates, including processes of decentralisation, it remains that there is much to be done in order to make them dynamic and effective centres for addressing poverty and social exclusion.

3.1 Decentralisation

Across the region there has been a growing trend towards decentralisation. Whilst decentralisation can enable services to be better focused on local needs, much depends on the wider political framework in place. For example, the Republic of Bosnia and Herzegovina is divided into the Federation of Bosnia and Herzegovina and the Republika Srpska ('entities'), with the Federation of Bosnia and Herzegovina then sub-divided into ten cantons. These cantons have an important role to play in the area of social services. Whilst the Federation sets our policies in areas including education, housing social welfare and social services, it is the cantonal governments who finance and implement these, also through municipalities. The Republika Srpska is itself responsible for these areas and is more centralised than the Federation. One of the consequences of the decentralisation in Bosnia and Herzegovina is that the system is highly

fragmented, with significant inefficiencies and there are marked disparities in benefits across the country (*Stubbs,* 2009a), all of which overshadow the potential for local responsiveness.

The fragmentation seen in social services is also evidenced in healthcare. Health insurance funds are in place in the ten cantons, with the Ministry of Health of the Federation of Bosnia and Herzegovina responsible only for strategy, and regulatory and evaluative frameworks, whilst in the Republika Srpska there is a single health care insurance fund, albeit with some decentralisation, with the eight regional offices keeping eighty percent of the income collected in their territory (European Commission, 2008b). However, health care is not transferable; that is, a person cannot receive medical care in a different canton or entity from where they are registered. This is an important point since it contributes to difficulties with accessing health care resources (long journeys, for example, may be required to attend a hospital despite one being closer, because the closer one is in another canton) which, in turn, can be an element of social exclusion. Agreements to enable transferability have yet to be implemented (European Commission, 2008b).

Decentralisation is also present in other parts of the region, albeit not in such an extreme form as in Bosnia and Herzegovina. In Albania, for example, central government provides block grants to fund social services, although it is at the municipal level that services are actually provided and reforms will increase the local dimension. In Montenegro, responsibilities are divided across all levels of government, and in Serbia responsibility lies between national and local level. Decentralisation offers the potential to develop services that are more responsive to local needs and which are rooted in local and regional partnerships. However, it also brings with it issues, such as those in the case of the Western Balkan region, which need to be considered and addressed, including financing and equity. Ensuring that geographical inequalities, such as the rural/urban poverty divide in existence across many parts of the region, can be overcome through appropriate transfer payments and equalisation formulae should not be overlooked as part of a decentralisation agenda or process (European Commission, 2009).

3.2 The informal economy

Given the impact of the informal economy on social services, its role in the region should be noted. Whilst it is difficult to ascertain its size across the region, it is clearly a significant actor. An estimate by the European Training Foundation suggested that in FYROM the informal economy accounted for between 33 and 37 percent of GDP, whilst in Kosovo it was between 27 and 35 percent.

ETF concluded that across the Western Balkan region as a whole, the informal economy was between 25 and 35 percent of GDP (ETF, 2007). Highlighting the continuing nature of the challenge presented by the informal economy is that in Serbia is has been found that the informal economy actually expanded between 2002 and 2007 (*Krstić–Sanfey,* 2009). Croatia's informal economy is, at 11.1 percent of GDP, not only the lowest in the region, but also the lowest in Europe (European Commission, 2009).

The informal economy has an important impact on the provision of social and welfare services and health care. Those working in the informal economy lack contributions to health and social insurance, and so lack access to a 'formal' safety net. In 2007, UNDP estimated that approximately only 30 percent of employed people in Albania actually paid contributions (UNDP, 2007). Furthermore, the low contribution levels also constrain the abilities of governments to provide social and health care by limiting the resources available for utilisation. Thus, the formal economy has a double impact: firstly on those individuals who are excluded from social welfare transfers (or receive the barest minimum), and secondly, on vulnerable families and communities as a whole who suffer from a lack of government resources to address their needs (ETF, 2008). Addressing the informal economy will play a critical part in making contributory schemes more efficient and more sustainable, as well as helping to deliver services which actively seek to overcome poverty and social exclusion.

3.3 Challenges for the Region

Social policy alone cannot overcome the challenges of poverty and social exclusion, labour market policies, for example, also play an important role. Nevertheless, social policies are a crucial element of any policy response to these issues. However, Stubbs (2009b) has suggested that social policy remains overshadowed by economic and political agenda in the region, and is perceived not as an investment in future prosperity, but rather as a drain on resources. Furthermore, rather than focusing on those groups and areas that most require support, certain influential interest groups can come to dominate the agenda.

Social policy has also tended to be 'captured' in much of the region by groups with a powerful political voice, notably war veterans, those disabled in the wars and, to some extent, pensioners. Behind a general if vague commitment to social rights, then, social policy making in the region is rather more interest-based than needs-based (*Stubbs,* 2009b).

As a result, wider social inclusion and social cohesion activities have seemingly been overlooked or marginalised as a policy priority, particularly where

social policy has been decentralised as part of wider administrative reform leaving them even more open to 'capture' (*Stubbs,* 2009b). Indeed, financial allocations to municipal CSW can be less than that required to meet the needs of the poor and vulnerable (UNICEF, 2007).

Significant challenges can be identified across the Western Balkan region that should be addressed if social services are to be able to meet the needs of the most disadvantaged, and poverty and social exclusion reduced. The focus on benefit distribution rather than needs-based activities which has emerged, partially as a result of overly bureaucratic legal and institutional frameworks, stifles the ability of CSW to deliver the types of service that could be more effective in tackling poverty and social exclusion. Further hindering the development of effective policy responses and weakening the social security systems which have been put in place, is a lack of resources, often driven by weak tax collection alongside weak capacity in some public administration institutions (*Bartlett–Xhumari,* 2007).

Human resources and capacity-building are two key areas for attention across the region. In FYROM, for example, UNICEF has challenged the ability of CSW to successfully fulfil their tasks and to ensure that social welfare and social protection is delivered appropriately and effectively.

Overall, social services, delivered through the Centres for Social Work (CSW), are not effective. A significant shortage of human resources in the social sector is largely recognised as a key impediment for ensuring effective delivery of social services. Furthermore, systems to monitor quality of social services delivered to children and families are largely inadequate. Administration of social welfare benefits, including child allowances, is found to be largely ineffective with the result that the most vulnerable groups, first and foremost children, risk being left out of the existing social safety nets (UNICEF, The Former Yugoslav Republic of Macedonia, http://www.unicef.org/ tfyrmacedonia/ index.html).

Staff shortages in CSW local offices are not uncommon, and indeed in Montenegro (European Commission, 2008f) no CSW had their full complement of staff. Ensuring that there are enough trained staff employed is fundamental to their ability to function appropriately. Furthermore, the employment of staff in a way which reflects their area of operation (culturally and linguistically for example) has been highlighted as something that would strengthen the ability of local offices to engage with disadvantaged groups (*Gerovska-Mitev* et al. 2007).

If social services and social welfare are to tackle poverty and social exclusion, targeted policies will be key to doing so effectively. This demands an evaluation and recognition of who are the most disadvantaged and where they can be found. It is not enough to hope that economic growth will resolve poverty and social exclusion (European Commission, 2008g). By improving service

provision and the targeting of support, social welfare provision is likely to be more effective and the programmes and policies designed to tackle poverty and social exclusion enhanced. There is a wide range of benefits available, but social transfers have little impact on poverty in many parts of the region. A lack of clearly targeted policies and programmes means that some of the neediest households are unable to access social protection generally or at a level that fulfils basic needs (European Commission, 2008f). For example, in 2006, it was estimated that in Bosnia and Herzegovina, some 350,000 people living below the poverty line did not receive the support needed (European Commission, 2008b).

Greater integration and co-ordination in both policy design and implementation is also a pressing issue. The complex and multifaceted nature of poverty and social exclusion demands multifaceted solutions. Active labour market policies, training and education, as well as social services, are all elements of that solution. However, such policies and programmes need to be effectively integrated. Enhancing vertical and horizontal government working, central to such integration, should be accompanied by recognition of the value of working in partnership with non-governmental actors, including the private sector and the social economy. The contribution of partnerships to policy design and implementation has been well recorded in OECD LEED work (OECD, 2010) and, whilst there is evidence in the Western Balkans of increasing understanding of their value, there is still much to be done to ensure that effective partnership working becomes part of social service provision (amongst other areas).

Enhancing social services and social protection in the Western Balkan region undoubtedly presents many challenges. However, the threat of the economic crisis lies in that with ever more limited resources, governments in the region confront even greater difficulties in making poverty and social exclusion the focus of their activities and that the need to make social service provision more effective may be overlooked. There is evidence of a growing recognition of the need to make poverty reduction and social inclusion a policy priority, and across the region strategies, such as Albania's Social Inclusion Strategy approved in January 2008, which envisage both preventative and active social policies to tackle social exclusion are emerging. For example, as a result of negotiations surrounding Croatia's EU candidate country status, a new focus on poverty and social exclusion became evident in 2005 and a Joint Inclusion Memorandum was then signed in 2007 (*Stubbs–Zrinscak,* 2009). Strategies in themselves are not enough – political willingness to support, resource and implement such strategies is crucial. Whilst the region has clearly made many positive steps, it remains that there is still much to be done if group and spatial disadvantage are to be significantly reduced.

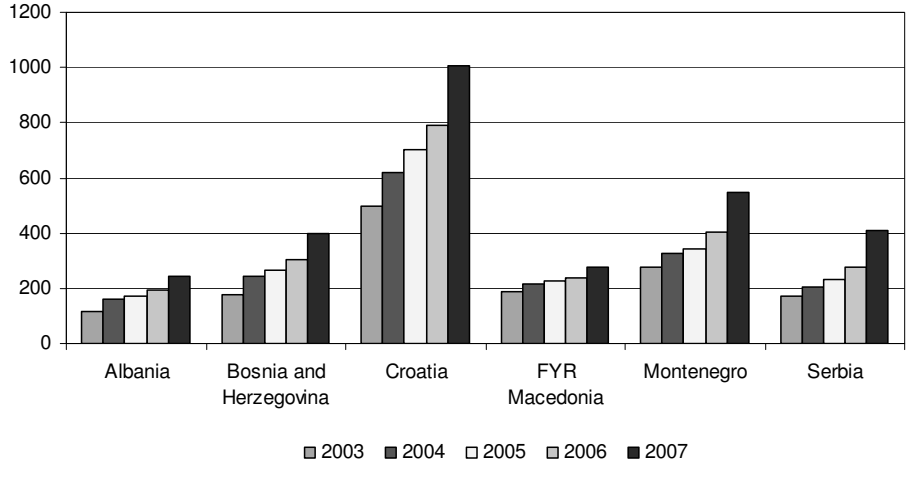
4 Health care

Health care is an important element of any approach to overcoming poverty and social exclusion, as well as contributing to the long-term economic and social well-being of communities. One of the consequences of poverty and exclusion is poor health, stemming from factors such as poor nutrition, sub-standard housing and limited access to health care, allowing health issues to develop into more serious, long-term problems with all the economic and social effects which flow from these. At the same time, health care can also be a key factor in impoverishing individuals and families, if out-of-pocket expenses are high. It is, therefore, important to consider health alongside social welfare, as important tools to address poverty and exclusion.

As *Figures 53 and 54* highlight, health care spending varies considerably across the region. Per capita spending has been increasing, with Croatia, Serbia and Montenegro all recording notable increases between 2006 and 2007.

Figure 53

Per capita total expenditure on health at average exchange rates (US$), 2003–2007

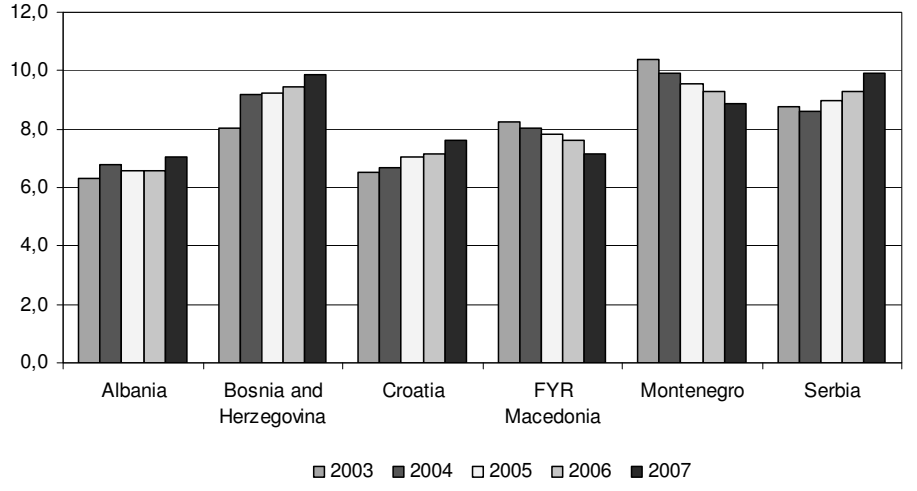


* Following the separation of Serbia and Montenegro in 2006, health expenditure for the previous years has been estimated separately for each of the two countries. Expenditure in Kosovo is not included.

Source: World Health Organization Data, NHA Ratios and Per capita levels, http://www.who.int /entity/nha/country/ nha_ratios_and_percapita_levels_2003-2007.xls [20.05.2010.].

Figure 54

*Total expenditure on health as % of GDP, 2003–2007**



* Following the separation of Serbia and Montenegro in 2006, health expenditure for the previous years has been estimated separately for each of the two countries. Expenditure in Kosovo is not included.

Source: World Health Organization Data, NHA Ratios and Per capita levels, http://www.who.int/entity/nha/country/nha_ratios_and_percapita_levels_2003-2007.xls [20.05.2010.].

However, examining total health care spending (as a percentage of GDP) reveals a somewhat different pattern, with health care spending actually decreasing in FYROM and Montenegro. Whilst the data may not be comparable, a report from the European Union (European Commission, 2008c) noted that Kosovo's health care spending was approximately three percent of GDP.

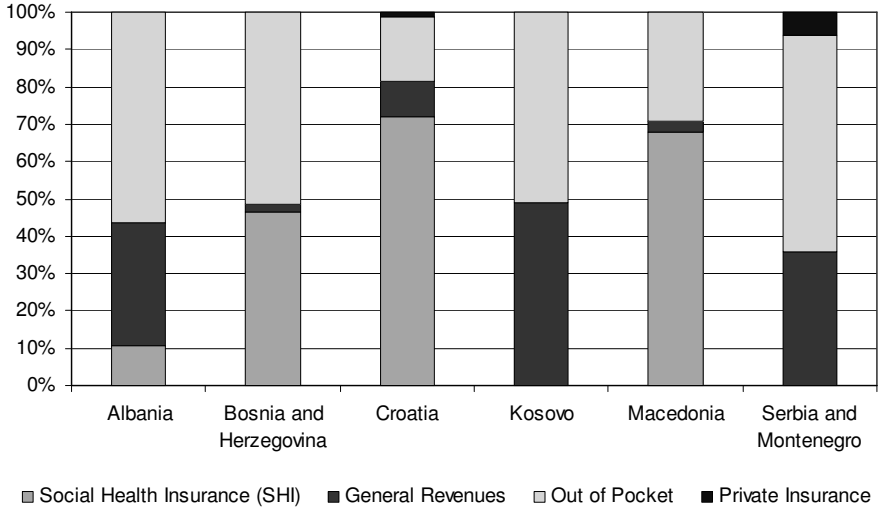
Differing historical paths in health care provision clearly have contributed to the contemporary developments across the region. Whilst Albania's health care had been funded from the general budget, Yugoslavia differed from other countries in the Communist era in that health care was funded from compulsory social insurance contributions (as opposed to the general budget). This has persisted in Serbia, Montenegro, Bosnia and Herzegovina and Croatia. Health insurance was only introduced in Albania in 1995 as an element of health care funding (*Mendola* et al. 2008). As *Figure 55* shows, the three main sources of financing for the health sector are social health insurance, government/central revenues and patient payment (out-of-pocket expenses).

Given the significant role of the informal economy, and high levels of unemployment, insurance schemes which also guarantee universal health care

and are financially sustainable are one of the most pressing issues in the region where many health insurance schemes are struggling with substantial deficits. The decentralisation of health care planning and provision has also been implemented, although, as with social services, this raises issues of ensuring that spatial disadvantage is not compounded and strengthened.

Figure 55

Sources of health care finance



*The data available from the World Health Organisation (2005 – Kosovo data is from 2004) is limited due to collection and disaggregation difficulties.

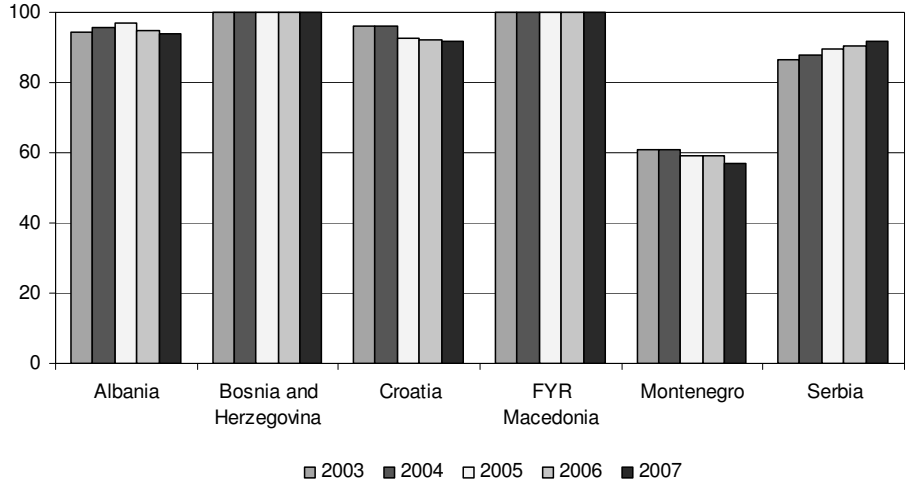
Source: Adapted from Bredenkamp and Gargnolati (2007).

With health insurance schemes playing an increasingly important role in the region, there is a clear link between economic status and health insurance, with those having higher economic status being more likely to have insurance (*Mendola* et al. 2008). With regard to poverty and social exclusion, a crucial element is the role of out-of-pocket expenses. Out-of-pocket expenses are usually not subject to any differentiation due to ability to pay and so, accordingly, those in poverty and those vulnerable to poverty are likely to be most affected by their cost. For example, in Albania, Bosnia and Herzegovina and Kosovo health care spending is dominated by out-of-pocket spending and, indeed, in Kosovo, health care costs represent a significant financial burden on the poor (some 13% of total consumption) (*Mendola* et al. 2008). In Bosnia and Herzegovina, the level of 'participation payments' are set by cantons (in the Federa-

tion of Bosnia and Herzegovina) and by the entity itself in Republika Srpska. In some cantons 'annual stamps' can be purchased which obviate the need to make ad hoc out-of-pocket payments, but still symbolise a drain on the resources of the poor. *Figure 55* shows out-of-pocket expenses as a proportion of the total cost of private health expenses.

Figure 56

Out-of-pocket expenditure as % of private expenditure on health, 2003–2007



Source: World Health Organization Data, NHA Ratios and Per capita levels, http://www.who.int/entity/nha/country/nha_ratios_and_percapita_levels_2003-2007.xls [20. 05. 2010.]

Whilst the magnitude of the impact of these factors differs across the countries of the Western Balkans, with Croatia notably having the lowest level of out-of-pocket expenses in the region, their importance lies in the potential impact on those people who are already living in poverty or who are vulnerable to poverty (European Commission, 2008f). Some people will be pushed into poverty as a result of ill health, whilst others may be discouraged from accessing, or limit their use of, health care because of such costs (*Stubbs,* 2009a). Even in Albania, where a central element of health care reform has been focused on improving access so as to ensure that the most vulnerable groups are able to utilise the health care system, it remains that the poorest groups within society are not protected from poverty as a result of spending on health care needs (European Commission, 2008a). Whilst across the region there are some exemptions from user charges (for example, in Kosovo those in receipt of bene-

fits, under 15 years of age, the disabled and their family and the family of the war dead are not required to make such payments) it nevertheless remains that, for those unable to pay, health care may be, as in the case of FYROM, 'inadequate' (European Commission, 2008c; 2008g). The consequences of this are not restricted to the potential for the health of the poor to be worse than other sections of the community, but should also be linked to wider issues including educational attainment, the ability of individuals to participate in the labour market, as well as poverty and social exclusion generally.

Perhaps the most crucial issues when considering the role of health in relation to poverty and social exclusion lie in the need to recognise the connections and to devise social inclusion strategies which integrate health care alongside a range of other measures. Access to health care – both financially and even spatially – is critical across the region for the poor and the vulnerable. The ageing population, of growing size and importance, in the region only further emphasises the need to develop health care systems which are sustainable and accessible.

5. The role of the social economy

Internationally, there has been a growing interest in the contribution which social economy organisations (co-operatives, associations, mutual funds, foundations, social enterprises etc.) can make both economically and socially. Operating in the market by providing goods and services, they do so with a social focus rather than one which is profit-driven. The social economy has a critical role to play in any attempt to address poverty and social exclusion (OECD, 2003; *Noya–Clarence,* 2007; *Noya* et al. 2009). The social economy's ability to improve social inclusion lies partially in the way in which social economy organisations are embedded in local communities. The social economy mainly operates at local level and is rooted in local communities, relying on, and contributing to, the development of formal and informal networks of people, knowledge and resources, and helping to build greater social cohesion. The potential comparative advantage of the social economy in combating social exclusion, therefore, lies in two distinct areas. Firstly, many social economy organisations have local roots which enable them to recognise and address local needs, and, crucially, to engage with 'hard-to-reach' people who may be otherwise unwilling to involve themselves with government agencies. Secondly, the social economy organisations have the potential to be conduits for greater participation, acting as advocacy and empowerment organisations for users (*Noya–Clarence,* 2007). By simultaneously addressing the tangible needs of

people, as well as less tangible issues, social economy organisations are able to enhance the development of social inclusion.

However, despite the potential benefits associated with the social economy, it frequently remains under-utilised and may also face significant obstacles to its effective working. Such obstacles may result from a failure to recognise the potential benefits of incorporating the social economy into the design and delivery of policies, or, alternatively, from a failure to develop coherent policies which enable social economy organisations to play an active role. It is important to identify the hindrances confronting the social economy, whether in terms of the legal framework and a failure to recognise the unique status of social economy organisations, or in terms of finance and contract requirements which disadvantage, even prevent, social economy organisations from participating in tenders. Although these organisations are commonly rooted in local communities, they still require support at national and regional levels.

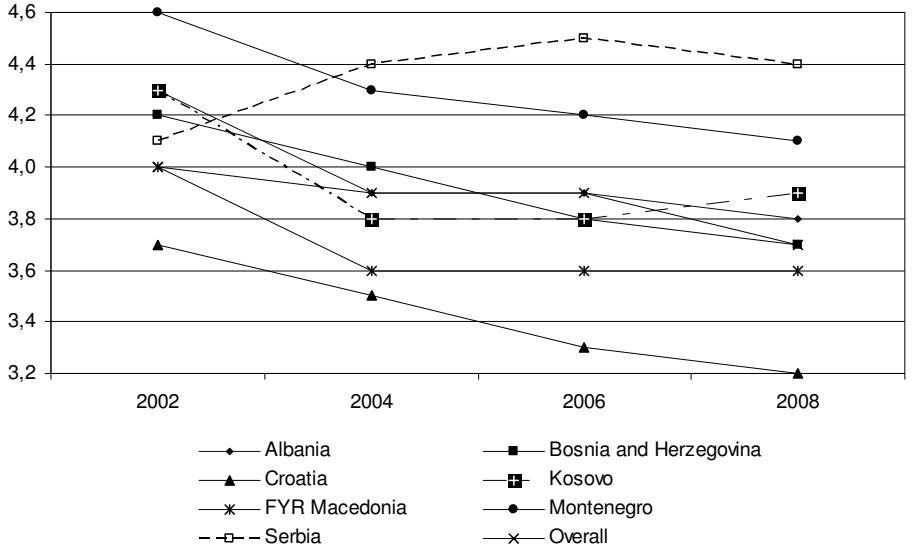
The social economy in the Western Balkans is at varying stages of development, a result of historical paths and the impact of external donor support. However, the further development of the sector is not without its challenges. USAID's NGO Sustainability Index is a useful tool for considering the development of the social economy. Inter-related dimensions, namely the legal environment, organisational capacity, financial viability, advocacy, service provision, infrastructure, public image, and the sustainability of the sector in countries are analysed (USAID, 2009a) and the trend over recent years shown in *Figure 57* (note that a lower figure is positive). Whilst overall the countries of the Western Balkans are showing slow improvement in the sustainability of the sector, significant challenges still remain. As the USAID report noted, in 2008 the environment in which non-governmental organisations operate deteriorated to some extent, although the story should be considered 'mixed'. For example, Albania introduced new taxes on grants to NGOs and relations with social economy organisations also declined with less dialogue in evidence. However, there were hints at improvements with social economy organisations in Albania increasingly working with government to provide services, for which the Albanian government made explicit financial provision in 2009. In Serbia, whilst the registration process remains problematic, there was also evidence of improved government and social economy organisation relations, with the social economy becoming more involved in service provision also.

A small number of Kosovan NGOs reported harassment after criticising the government. Indeed, as the 2008 UNDP Kosovo Human Development Report noted, "Non-governmental organizations in Kosovo are still considered the opposition, as if their activities were focused almost exclusively on monitoring the work of government institutions and pointing out and correcting their mistakes." Although this has been tempered by increased government funding

for NGOs from the Kosovan government, it nevertheless remains that, whilst in the Western Balkans there has been growing interest in the role of the social economy and its potential contribution to addressing disadvantage and social exclusion, there remain considerable challenges to enabling it to fulfil its potential. Indeed, Kosovo is possibly the one place in the region where interest in the sector has declined, with the growing involvement of government and a reduction in the role of NGOs (which had previously dominated social welfare provision) (European Commission 2008c).

Figure 57

NGO sustainability index (USAID)



Source: USAID, 2009a.

More positive notes can be found in Montenegro, where an office dedicated to NGO/government co-operation has been created, building on the need to create stronger links between non-governmental organisations and government in the area of social and child protection services, as articulated in the 2007 Strategy for Social and Child Protection. There has also been a recognition that there has been an absence of non-governmental organisations in the delivery of services. In Croatia, a similar office was created in 2009, which built upon the 2001 programme for co-operation and the 2002 Council for the Development of Civil Society (*Noya–Clarence,* 2007). In 2008 FYROM passed legislation allowing NGOs to provide services and the process of health care decentralisa-

tion being undertaken is increasing the opportunities for community organisations to become involved, including, potentially, social economy organisations in service delivery (European Commission, 2008g).

Other trends are also positive for the development and sustainability of the sector in the Western Balkans. For example, in Serbia, after a period of many civil society organisations being divided between those loyal to the government and those hostile to the government, there is growing government support for NGOs in general, and the private sector is also becoming an increasingly important partner of NGOs (*Fagan–Ostojic,* 2008). Indeed, in 2005 the Serbian government adopted the Social Protection Strategy which focused on the provision of social protection within local communities rather than in closed forms of care (UNDP, 2008). An important element of this approach was support for the non-profit sector as a provider of social services. At the same time, the infrastructure for NGO development is being increasingly developed and utilised – this includes networks and coalitions, training for NGOs and resourcing centres (USAID, 2009a).

The growing recognition of the social economy and its potential contribution is of significant importance. However, much still remains to be done to enable it to fulfil this role. This includes not only addressing the need for certainty and clarity in the legal and financial frameworks which exist, but also ensuring that there is transparency in dealings with social economy organisations, particularly service providers. As the USAID report (2009a) notes: some social services are more political than others. In Bosnia and Herzegovina (BiH) veterans' organisations receive a significant portion of the government's funding for civil society. The government's interest in funding veterans' organisations and their potential service provision is part of a complex balancing act that the state engages in to balance out ethnic constituency representation and access to resources of the state. Supporting various organisations associated with the three primary ethnic groups helps to cement together various social interests and thereby contributes to both the preservation and the development of state structures.

However, it also raises the possibility for certain groups to be marginalised. Indeed, there is the threat, noted earlier, for social policy to be 'captured' by influential interest groups in a way which means the needs of other, less vocal groups are not fully acknowledged or recognised (*Stubbs,* 2009b).

The social economy has the potential to make an important contribution to meeting the needs of those in poverty and who are socially excluded, although it is not a 'panacea for all ills' or a total substitute for state provision of social welfare. Rather, it should be viewed as a potential partner who can contribute to policy and strategy design as well as implementation if appropriate support

structures are put in place and there is an understanding of their role and their unique focus.

6 Conclusions

This chapter has provided a broad outline of poverty and social exclusion and the provision of social and health care in the region. Indeed, there are important issues, such as pension provision and the development of adequate, sustainable pension infrastructure that are pressing in the region, and yet remain untouched in this chapter despite their potential contribution to poverty and social exclusion. Rather, what has been presented is an outline of the problems, challenges and opportunities that are present in the region in the areas of poverty and social exclusion.

With their levels remaining high across the Western Balkan region, and the opportunities offered by previous periods of economic growth untouched, the region continues to confront the complex and interlinked economic and social difficulties which poverty and social exclusion bring with them. The impact of the economic crisis on the region presents new threats. With poverty forecast to rise, the limited success already achieved in these areas could easily be undone, and those who never benefitted from increased economic prosperity confront the likelihood of poverty and social exclusion hardening and deepening. This will make them even more difficult to overcome when prosperity does return.

In the areas of social and health care, numerous challenges present themselves if poverty and social exclusion are to be addressed effectively. Targeting and adequate resources, both human and financial, are two key areas which have been identified as requiring urgent attention, as is the need to ensure a more integrated and better co-ordinated approach, one which draws on private sector and social economy actors, as well as governments ones. Wider issues, outside the scope of this chapter, also affect the ability of social and health care provision to meet the needs of the most disadvantaged, including the impact of the informal economy on resource availability and coverage.

The economic and social transformations which the region has undergone in the past two decades have been profound, and the significant progress made since the destructive wars which followed the break-up of the former Yugoslavia should not be underestimated. Nevertheless, it remains that there is much to be done. A targeted focus on poverty and social exclusion would reap significant economic benefits. The challenges confronted in seeking to do this, and the impact of the economic crisis, are not to be minimised, but the economic and social benefits which flow from low levels of poverty and high levels of social inclusion and cohesion are such that they are worth overcoming.

V.

ECONOMY

THE DISINTEGRATION AND REORGANISATION OF INDUSTRY IN THE WESTERN BALKANS

GÁBOR LUX

1 Introduction

The territory which we currently describe as the Western Balkans is a region seriously fragmented by old, historical and recent post-socialist divisions. The previous framework of a form of integration, the Yugoslav state, was unable to rid itself of major disparities in development and of cultural fault lines and so could not achieve the complete economic integration of the territory of the state. It has been shown that, in spite of regional equalisation policies mainly achieved through industrialisation, the relative economic performance of member republics saw no significant change between 1957 and 1988 (*Stiperski–Lončar,* 2008). The expenditure of the Federal Development Fund, which had redistributed 2% of the income of the developed member republics among Kosovo, Bosnia and Herzegovina, Macedonia and Montenegro, had not achieved the desired goals and had largely led to the establishment of "political factories" with no genuine economic foundations (*Illés,* 2007; *Gulyás,* 2009). Discussing the processes of regional fragmentation, Singleton–Carter (1982) and Mihailović (1985) had already drawn attention to the failure of market integration and the strengthening of internal borders, whilst Stiperski and Lončar note that, in 1987, 67% of goods and services produced on the territory of Yugoslavia were sold on the internal market of the producing member republic, 22% in other member republics and 10% outside the federation. The reports of the European Stability Initiative also emphasise the role of unemployment: by 1981, Yugoslavia had developed the highest unemployment rate in Europe – was especially severe in the poorest regions. In 1990, only 35% of the working age population in Bosnia held a job, whilst, in Kosovo, the official unemployment rate had reached 56% by 1987 (De-industrialisation and its Consequences, 2002; Governance and Democracy in Bosnia and Herzegovina, 2004).

The first decade of post-socialist transformation was characterised by a sharp increase in regional disparities. In some Western Balkan states, transformation-related recession was coupled with the destruction and other economic con-

sequences of the war (including the loss of Yugoslavia's internal markets), leading to accelerated de-industrialisation in states involved in protracted conflict (*Vojnić,* 1994). For different reasons, Albania, which had conserved its traditional underdevelopment during its long period of political and economic isolation, experienced the same problem.

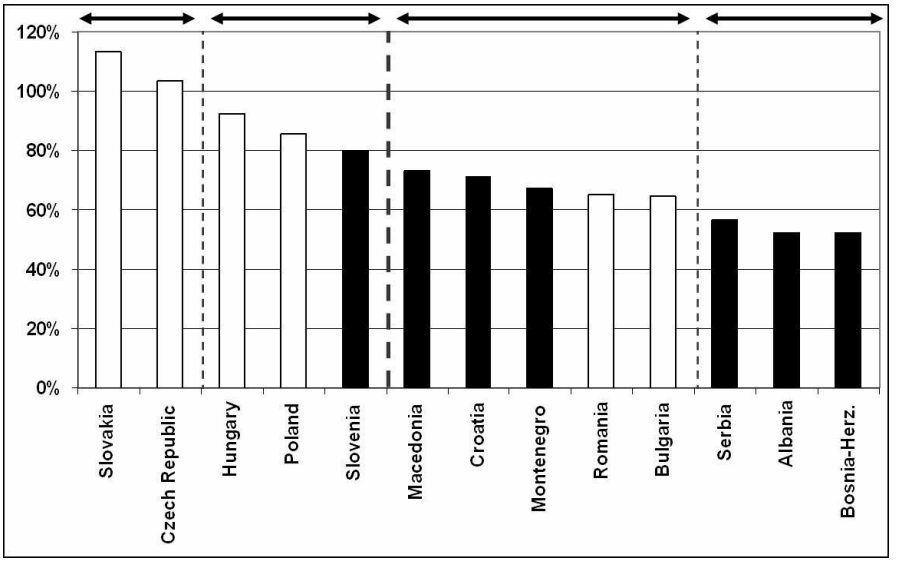
The development of the region after systemic change was paralleled by an increase in national and sub-national differences, the first of which has proved to be the more significant. De-industrialisation affected the economies of the Western Balkans to different extents, and the pace, as well as the degree of Western reorientation and world market reintegration has also shown considerable differences. In reviews of the post-socialist transition process, the question of the region's peripheral situation in Europe is often discussed: Sokol (2001) places the whole of post-socialist Europe on a geographical and economic "super-periphery", but, in respect of its internal division, considers the Western Balkans as favourably placed (next to Central Europe) in comparison with the Soviet successor states. Both Sokol and Petrakos (2002), who characterises the region's development trajectory as lagging, emphasise that the "creative destruction" of production systems in the Western Balkans has produced ambiguous results: the sharp initial fall in economic performance after 1990 was not always followed by substantial recovery. Bartlett (2009), who draws attention to the macro-level differences of spatial differentiation in the region, suggests that Slovenia and, to an extent, Croatia have successfully integrated into the European economic order as peripheral actors, whilst the other states have remained on the super-periphery. This duality has consequences for numerous further issues: the extent of industrial decline, the pace and degree of world market reintegration, domestic entrepreneurship and local development capacities are all influenced by geographical position, and, to a large extent, by historical traditions.

In this chapter, we examine the industrial development of the Western Balkans from the perspective of de-industrialisation and disintegration, as well as follow the re-industrialisation and reintegration processes. These phenomena of transition, which may generally be interpreted as consecutive phases each covering a decade, have become significant driving forces in post-socialist spatial restructuring. The statistics used do not always divide Central European space into the Western Balkans and the rest. Where it made sense due to structural similarities (e.g. following the logic of *Figure 58*), we have, instead, drawn attention to development differences between a Northwestern group of countries (the Czech Republic, Poland, Slovakia, Hungary and Slovenia) and a Southeastern group (Romania, Bulgaria, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Macedonia, Kosovo and Albania), going into further discussion

where notable differences exist between the Southeastern group and the Western Balkans proper.

Figure 58

Employment changes in industry and construction, 1990–2008



Source: Author's construction based on national statistical yearbooks and EUROSTAT.

2 The dimensions of de-industrialisation

The fall of industrial production and employment, as well as the tertiarisation of the economic structure has played a considerable role in post-socialist spatial restructuring. These processes were not entirely specific to transition countries, as they had also taken place in Europe's core regions as well as on its southern periphery; the main differences could instead be found in the severity and breadth of structural problems, as well as in the new conditions of systemic change. Without the financial and political capital to undertake complex restructuring strategies, the main feature of transition was passive, market-led adaptation instead of active intervention, and was accompanied by a territorially uneven tertiarisation process widening both national and sub-national disparities (*Lux,* 2009). In Central Europe, this tertiarisation has at the same time signified the structural adaptation of economies with an artificially underdeveloped ser-

vice sector to European trends; modernisation and post-industrial growth with the spread of advanced business services; but in places where the decline of industry was not followed by the emergence of competitive tertiary functions, it can be seen as "destruction without creation", the disappearance of previously existing regional specialisation and productive traditions. Whilst the first component of tertiarisation is spatially even, the second is more closely tied to the urban hierarchy (especially national capitals and metropolitan areas) and the third to the transformation of industrial crisis regions and traditionally underdeveloped peripheries.

In the period immediately following 1990, all states in Central Europe experienced a fall in industrial employment, but the loss of industry over the two-decade transition period differed significantly among national economies (*Figure 58*). Long-term decline was much less prevalent in the northwestern than in the southeastern states. Within the Western Balkans, Slovenia falls into the group which has seen relatively modest de-industrialisation, whilst Serbia, Albania and Bosnia and Herzegovina were the most deeply affected in the entire region. These differences can be traced back, not just to the common features of transformation-related recession, but also to the poor results of previous development campaigns. Underdeveloped states were more affected by the destructive forms of de-industrialisation, whilst they saw fewer of the advantages than did the developed states.

The drastic increase in regional differences, which had been stable for some time, quickly became a key problem in the first phase of transition. Transformation recession was relatively limited and similar to that of the northwestern states of Central Europe in its progression in Slovenia and Croatia. In Serbia, it was rapid and deep; in Macedonia, relatively slow-paced but protracted, and in Bosnia and Herzegovina, sudden and catastrophic. Between 1990 and 1995, industrial production declined by an annual average of 5% in Slovenia, 10% in Croatia, 14% in Yugoslavia, 13% in Macedonia and (until 1994) 34% in Bosnia and Herzegovina. Of all states in the region, only Slovenia was capable at the time of reorienting its industry towards western export markets and of increasing its exports – even if we take into account the "new", post-Yugoslavian export markets (*Büschenfeld,* 1999b).

The early phase of economic and industrial transformation was strongly tied to the conflicts accompanying the dissolution of the Yugoslav federal state, as well as the questions of nation-building and territorial integration within the new borders. In the socialist period, in spite of isolationist tendencies among member republics, there emerged, nevertheless, a sort of federal-level economic specialisation: Slovenia's machine industry, the Vojvodina's agriculture, Bosnia and Herzegovina's mining and defence and Serbia's automotive and defence industry complexes represented the combined results of historical heritage and

socialist industrialisation based on resource proximity and social considerations – which, to some extent, could be called a form of regional policy. After 1990, as market relations turned from internal to external, co-operation fell to its lowest point for years, leading to the collapse of the federal market, the weakening of previous specialisations and the disintegration of product chains. The war and the international embargo hampered the reorganisation of economic relations and, ultimately, the entire transition process. Slovenia was able to avoid this problem, but Macedonia and Albania, although having been able to stay out of the main conflict, were not. As a landlocked country, Macedonia had to cope with the embargo against its main trading partner, Serbia, whilst, until the 1996 resumption of diplomatic relations, it was itself blockaded by Greece from the south. Attempts to trade through Bulgaria achieved little due to the underdeveloped transport infrastructure, to a similar export structure and to their own lack of genuine export experience. Although the country started its orientation towards the European Union relatively early and could benefit from PHARE funds from 1996, the 2001 ethnic conflict between Albanian and Serb citizens had introduced a new uncertainty factor into development (*Büschenfeld,* 1999a; *Labrianidis–Kalantaridis,* 2004; *Pámer,* 2007). Albania, a traditionally underdeveloped state with low value added production and decades of isolation under state socialism, had already started from an unfavourable position for industrial development. The belatedness of transition and the instability of the state resulted in a slow and protracted emergence from a deep transformation recession; informal trade with Greece became instrumental in the economy, whilst industrial employment was effectively halved.

The Yugoslav conflict and the withdrawal from economic co-operation had an effect on industrial transformation over an entire decade, slowing the pace of transition (*Vojnić,* 1994; *Schönfelder,* 2005; *Miletić,* 2006; *Bartlett,* 2009). In all the successor states, economic policies striving for gradual transformation became prominent. In Slovenia, the emphasis was placed on the slow reconstruction of an already developed and western-oriented industrial sector, whilst, elsewhere, the perceived need to maintain an operational national industry was linked to concerns of state security and defence. Only the former strategy was successful: outside Slovenia, the survival ability of derelict industries could not be guaranteed, and the introduction of non-economic rationality ended up distorting transition as hard defence-related interests prevailed over soft efficiency-related ones in public decision-making. It was not gradualism itself that proved unsuccessful, but rather the neglect of efficiency criteria.

During the conflict, defence expenditure did not result in the state's redistribution function becoming total (in Croatia, this fluctuated between 7 and 10% of the annual budget, and was mainly financed by an increase in public debt and cuts in other budget items), but in the first period of transition, advocates of

strong government control over the economy were placed in a dominant decision-making position. Large state-owned companies were given a responsibility for financing the war effort and some public functions, continuing a tradition that was also prominent under central planning (*Schönfelder,* 2005).

War damage did not simply result in the destruction of physical assets and a slowed-down transition, but also in the degradation and destruction of human capital, not to mention the institutional and professional milieux that are crucial components in higher forms of industrial competitiveness. These costs can hardly be overemphasised, since their long-term consequences are even more significant than material destruction. In addition to the casualties, we must mention losses due to displacement and mass migration, even long breaks in the production of industrial complexes. These situations are similar to long-term unemployment in that they lead to the decay of professional skills, a decrease in the ability to work and the obsolescence of technical know-how in the workforce, including the technical and managerial elite. Individual and collective survival strategies, mainly involvement in grey and black markets, have mitigated the worst social consequences, but in the transformation of industrial spaces, even the best outcomes represented decline, and more often, the result was the loss of industry and destructive de-industrialisation. In the structure of employment and production, tertiarisation and to an extent, post-traditional ruralisation (*Kovács,* 2003) took place. Both of these mean a significant fall in economic performance. The temporary spread of subsistence farming could be seen in all countries except Slovenia, Croatia and Macedonia, and was most significant in Albania, where, according to data from Petrakos–Totev (2000), it grew from 38 to 55% of the GDP between 1990 and 1995 whilst industry saw a drop from 48% to 22%. Nevertheless, as Büschenfeld (1999) proves, tertiarisation was both more significant and more long-lasting in the region.

At the sub-national level, the harshest examples of de-industrialisation (close to total collapse) were seen in Bosnia and Herzegovina, Northeastern Montenegro, Southern Serbia, Northeastern Macedonia and Kosovo; later research on labour markets have shown a very limited return towards the formal economy (*Bartlett,* 2009). This means the disappearance of complete industrial centres. In Serbia, between 1996 and 2008, the number of industrial centres employing 20–50 thousand people fell from eight to one (Novi Sad), those employing 10–20 thousand from 17 to four (Subotica, Pančevo, Kragujevac and Niš), those employing 5–10 thousand from 26 to 18, and those employing 1–5 thousand from 125 to (not counting Kosovo) 55 (*Zeković,* 2009). The worst losses, however, occurred in conflict zones. In Bosnia and Herzegovina, much of the arms industry, which had been built in a well-protected geographical position during the socialist period, but was consciously based on the mutual dependence of Bosnia and Serbia and employed significant "imported" labour,

was dismantled and transported to Serbia in 1992; the rest was later destroyed in combat and lost its professional staff. Similar destruction hit most of the chemical industry, while metallurgy, metal processing, light industry in general and the food industry operate at a lower level than previously. In 1996, only 10% of the pre-war industrial capacities of the now-divided state were in operation; in spite of optimistic expectations from government forecasts and a succession of development documents, there was no substantial recovery, and favourable growth indicators paradoxically owed more to international transfers into the public sector. A publication by the European Stability Initiative paints the picture of a genuinely "post-industrial" region, which merits the term "post-industrial" for having lost the majority of its industry: "…regional variations are significant and widening. The most prosperous parts of post-war Bosnia are the administrative centres, which host both international and domestic public institutions. The regional economic "success stories" are those with a bureaucratic growth pole: Sarajevo, Mostar and Banja Luka. … This arrangement works well for the administrative centres but is highly disadvantageous for other parts of the country, squeezing service delivery in most other municipalities and federal cantons." (Governance and Democracy in Bosnia and Herzegovina, 2004, 19.).

The most accurate summary on the collapse and de facto disappearance of industry created for ostensibly political and social purposes in super-peripheral areas might be this description of Kosovo's experiences with de-industrialisation: "When economists talk of "de-industrialisation", they normally mean the shift from industry to the services sector, which is characteristic of the most advanced economies. According to a recent IMF study, de-industrialisation is "a feature of successful economic development", where high productivity growth in industry and agriculture leads to a shift of employment towards the service sector, accompanied by a general rise in living standards. In Kosovo, de-industrialisation refers to a very different phenomenon. It means the collapse of industry and a return to the pre-industrial past" (De-industrialisation and its consequences, 2002, 5.). In the city of Peć (Peja) analysed in the document, socialist plants were established to solve problems of chronic under-employment. Over several decades of decline, due to missed investment opportunities, disinvestment and the Kosovo conflict, even this industrial heritage was destroyed. In the industrial structure, it was the traditional branches with pre-socialist roots which survived (the milling, baking and small-scale artisans), whilst the food and processing industries (including a Zastava automotive component plant, a shoe factory, a battery manufacturer, a metal processing plant and a bicycle manufacturing company) disappeared. In 1999, the 12 largest enterprises in the 113 thousand-strong city collectively employed only 1254 people, a mere 12.3% of the 10,200 in 1990. However, it is notable that this is not simply an outcome of the conflict: even when they were operational, none

of the companies established under socialist development policy had ever made a profit, and their production of uniformly substandard products could only be maintained through continuous public subsidies.

3 The regional restructuring of industry

The structure of industry in the Western Balkans is made up, at one and the same time, of national and sub-national differences. As the previous section showed, the processes of de-industrialisation affected the whole of space, but their degree, not to mention the real meaning (the effect on development and regional competitiveness) varied widely. This part of the chapter aims to distinguish the differentiating role of industry at the level of country groups (Northwest vs. Southeast) and regions (among different region types) on the basis of cross-sectional data. This image, of course, has to be considered carefully due to the following statistical problems:

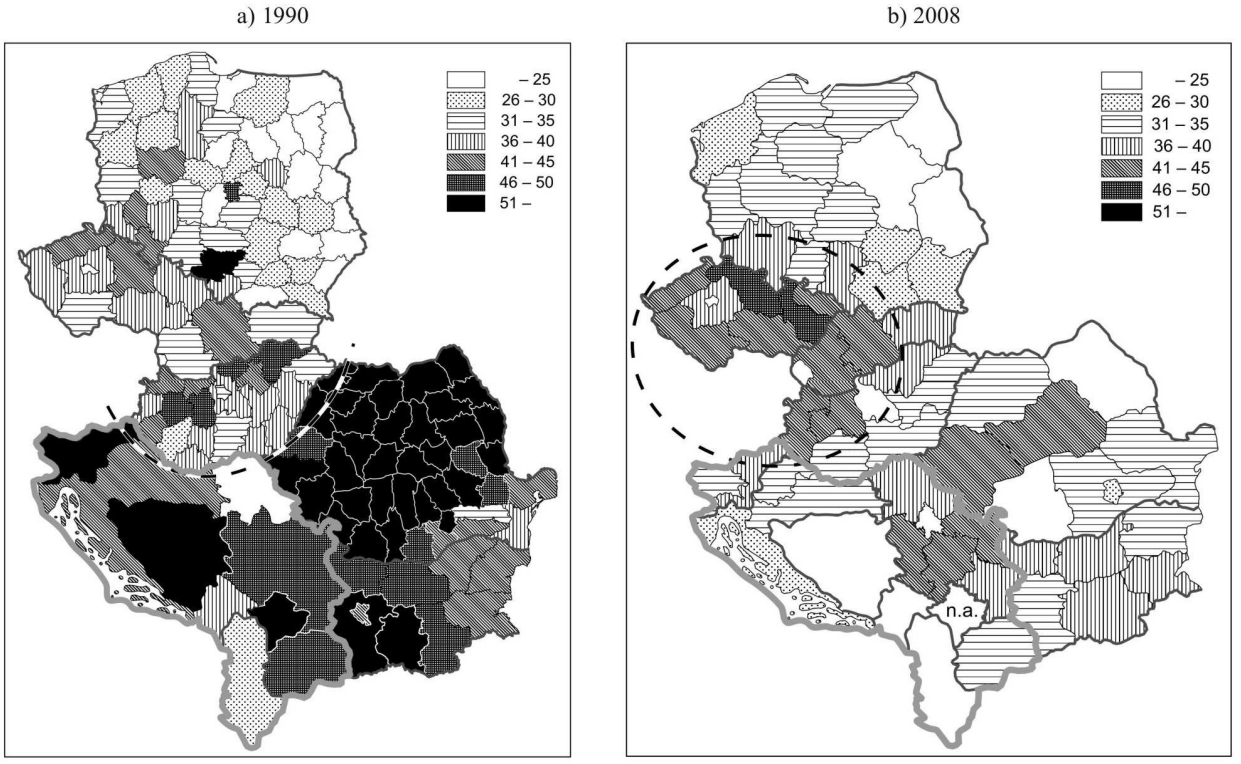
- available data often have gaps, and so up-to-date sub-national GDP for Serbia and Bosnia were not available, while statistics from Kosovo do not extend to agriculture, making an exact structural comparison impossible;
- data sources employ different methodology; e.g. Serbian employment figures treat the small enterprise sector (about 26% of all employees) separately from larger companies;
- data are not always representative, as informal employment in some countries is estimated at 40–50%, and transfers from immigrant workers also play a significant role in national economies, although they do not appear in the statistics examined.

Data can be expected to show the most accurate picture in Slovenia and Croatia and the least reliable in Albania, Bosnia and Herzegovina and Kosovo. To some extent, we can draw conclusions for the Western Balkans from findings on the broader group of Southeast European countries (including Romania and Bulgaria), or use these findings to confirm or reject hypotheses, but their correspondence is not exact. For these reasons, industry plays a lesser, and services a greater role than may be apparent from the following statistics.

The results of two decades of industrial restructuring are shown in *Figure 60.* In this period, de-industrialisation processes had redrawn industrialisation differences among countries, whilst they had had a comparatively weaker effect on sub-national structures. The most relevant change is the realignment of the dividing line between the northwestern and southeastern country groups. In 1990, industrialisation in the Southeast exceeded that in the Northwest due to

Figure 59

The share of employment in industry and construction in Central Europe, 1990 and 2008, %



Note: Regional data for Serbia are from 2009.
Source: Author's construction based on national statistical yearbooks, EUROSTAT and Serbian employment statistics.

extensive development campaigns; the ratio of industrial employment was the highest in Romania, Bulgaria and Yugoslavia (in the first two, the total underdevelopment of the service sector, and in the latter, steep unemployment played a part). This industrialisation did not correspond to a high development level; it had, in fact led to the establishment of capacities which were already obsolete and inefficient at the time of their foundation, and, consequently, exposed to the subsequent crises. A high level of industrial employment had simultaneously existed in relatively advanced core regions as well as in newly industrialised peripheries.

By 2008, the macro-regional dividing lines had been redrawn, and the emerging structure reflects the outcome of a long and varied transformation process: the decline of transformation recession, the long-term restructuring of industry through creative and not-so-creative destruction, as well as the slow re-industrialisation and industrial reorganisation processes generated by the spread of Foreign Direct Investment (FDI). As already seen in *Figure 58,* the south-eastern countries, especially Bosnia and Herzegovina, Serbia, Albania and Kosovo, had seen a much worse industrial decline than those in the Northwest, whilst the inflow of FDI remained much more limited. A significant share of industrial capacity was lost without any effort to rebuild. In this respect, Slovenia has separated totally from the rest of the Western Balkans and shows a better position in all its indicators than all other post-socialist regions except the most successful ones in the Visegrad group.

The major concentrations of industry are, on one hand, found in a zone encompassing the Czech Republic, southwestern Poland, Western Slovakia, Northwestern Hungary and Slovenia, and, on the other hand, in another zone covering industrial centres in Southern Transylvania (Romania) and Serbia. Both core regions are formations with traditions stretching back before World War One. The first is the main hub of modern, competitive processing industry in post-socialist Central Europe, and is almost completely identical in shape to the zone where the most significant centres of machine industry are located. The second, which extends to territories of the Western Balkans, is in a less advantageous position, still struggling with serious structural problems and characterised by the greater presence of capacities in the light and food industry sectors. Even so, it is in a relatively favourable position, since surviving professional milieux, knowledge and institutions can provide better conditions for new investment than areas which, through long de-industrialisation, have also lost much or all of this potential.

Another characteristic of transformation is the role of industry in shaping sub-national differences. Before 1990, there was no clear correlation between the level of industrialisation and economic development; for different reasons, the share of industry in the employment structure was very high in both highly

developed and extremely disadvantaged regions. By 2008 the picture had changed. First, differences and proportions of industrialisation within individual countries largely remained in place, and, beyond the investment advantages seen in western border regions, there was no radical territorial reshuffling of industrial capacities, showing a high path-dependence in development. However, in the Northwestern country group (the Visegrad Four and Slovenia), industry, and especially the machine industry, was the strongest sector influencing regional differentiation outside the service-dominated capital regions and their agglomerations. At this time, the correlation between the share of employment in industry and construction, and per capita GDP was –0.58 in capital regions and surrounding agglomerations, but a very significant 0.71 outside them: the source of competitiveness in these non-capital regions was overwhelmingly industrial, and not tertiary. Due to the lack of appropriate, comparable sub-national data, only the regions of Romania, Bulgaria, Croatia and Macedonia could be included in the calculations for the southeastern group (and central agglomerations could not be measured separately due to the very small sample). The results were rather different at a fairly indecisive –0.14. This difference between the two groups shows a considerable difference: in Southeastern Europe, and, especially in the Western Balkans, the structural modernisation of industry which characterised the northwestern group from the second half of the 1990s is still to take place. Both the internal structure of industry (the weak presence of high value added branches and production forms) and its corporate system (the lack of efficient management) are less developed, and simple labour cost advantages still play a disproportionate role in industrial competitiveness.

The differences between Northwest and Southeast are illustrated in *Table 42*. In southeastern countries, the contribution of industry is much lower in the production of Gross Value Added than in the more developed Northwest, whilst agriculture also has a stronger role. If we only look at the significance of industry, it becomes apparent that there is a similarity between these southeastern states and the EU average. Naturally, this is not a structural equivalence, but rather a combination of traditional underdevelopment and destructive deindustrialisation phenomena, showing a lack of competitive industry; by contrast, the northwestern group's strong industrial specialisation shows some similarity to the economic development of southern Germany (*Czirfusz,* 2007; *Paas–Sepp–Scannel,* 2010), but may also signify a development lag in modern, high value added service activities in comparison with advanced EU economies.

The data of Serbia serve as a good example of the sub-national differences in industrial structure and performance and confirm the previous findings (*Figure 60*). On the basis of Gross Value Added per person, Belgrade, the Southern Banat, Western and Southern Bačka, as well as the south-eastern Pirot district

show the highest figures, but, on looking at their finer industrial structure, it becomes apparent that, unlike Belgrade and Novi Sad, which have the innovative industrial branches typical of metropolitan agglomerations, the Vojvodina achieved its relatively good performance in low-technology industries (*Belanka,* 2007). This is not a sign of high competitiveness in these specific industry types, but rather that industries classified as medium and high tech were even less able to produce added value; that is, Serbian industry can be said to be in an early phase of the structural changes which had already taken place in the Visegrad Four and Slovenia.

Table 42

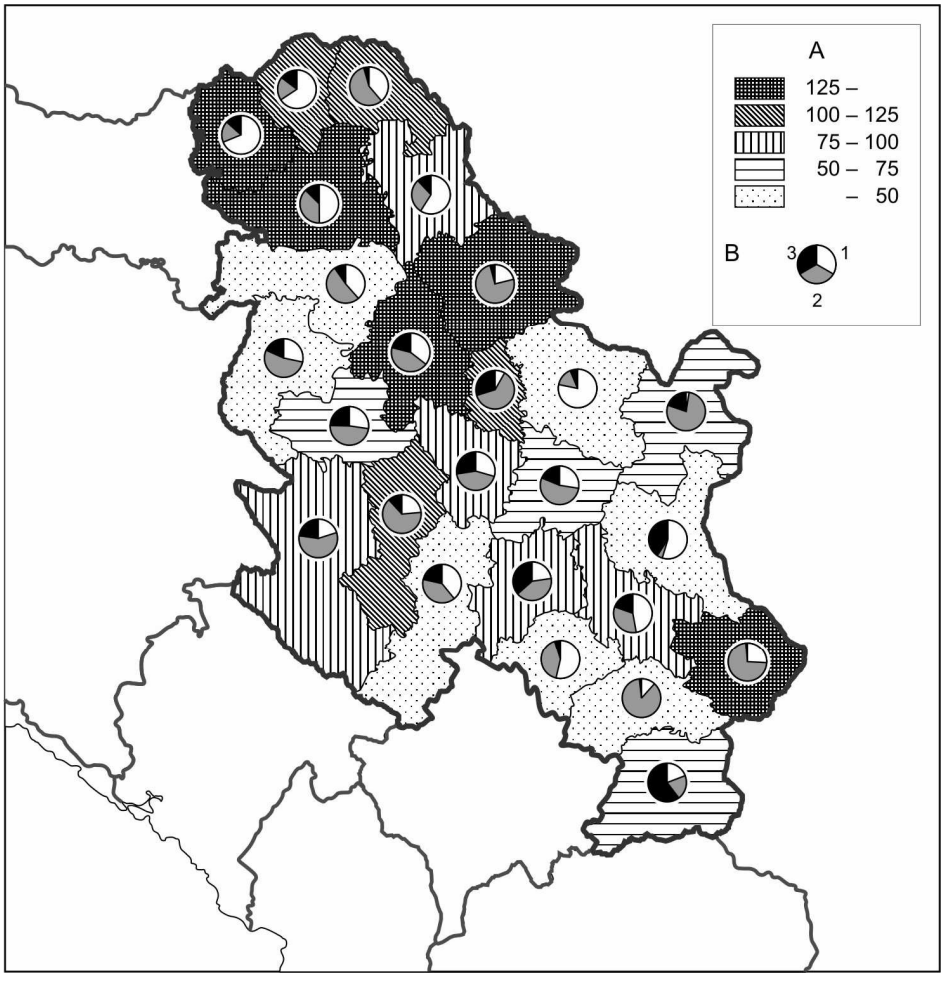
The sectoral structure of Gross Value Added (GVA), 2007–2008, %

Country	Agriculture, forestry and fisheries (NACE A–B)	Industry (NACE C–E)	Construction (NACE F)	Services (NACE G–Q)
Albania	19	9	15	57
Bosnia and Herzegovina	9	21	6	64
Bulgaria	7	22	9	62
Croatia	6	20	8	65
Czech Republic	2	31	7	60
Hungary	4	25	5	67
Macedonia	11	26	7	56
Montenegro	9	14	4	74
Poland	4	24	8	64
Romania	8	26	12	55
Serbia	10	24	5	61
Slovakia	3	30	8	59
Slovenia	2	26	8	64
CE-Northwest	3	27	7	63
CE-Southeast	10	20	8	62
Western Balkans	9	20	8	63
EU25	2	20	6	72

Source: Author's calculations and construction based on EUROSTAT.

Figure 60

The regional differences and internal structure of industrial Gross Value Added (GVA) in Serbia, 2005



Key: A – Industrial Gross Value Added per capita as % of the national average; B – Technological structure of industrial Gross Value Added; 1 – Low (food industry, textiles, leather and leather goods); 2 – Medium (paper products, coke and oil derivatives, chemicals, rubber and plastics, non-metallic mineral products, metals); 3 – High (machinery and equipment, electronic and optical products, vehicles).

Source: Author's construction based on data from Strategija Prostornog Razvoja Republike Srbije 2009–2013–2020, 2009.

4 Forms of reorganisation: a return to normality?

Whilst the decade following systemic change most often meant the disintegration of former productive structures and organisational forms for the industrial areas of the Western Balkans, following the turn of the millennium the processes of reorganisation and reintegration into European economic space have at last gained some momentum. In reintegration, which has occurred within the framework of smaller states, the common characteristics of Central European industrial development became typical: the inflow of Foreign Direct Investment, industrial upgrading (*Guerrieri,* 1998; the shift from resource-intensive and labour-intensive towards scale-intensive, specialised supplier and, to some extent, science-based industrial activities) and the spread of new industrial formations (industrial estates and clusters) with support from public development policy. Naturally, all of this has taken place under different national or subnational contexts, with a strong path-dependency between the new processes and both the transformation of previous years and historical heritage: there was no significant decline in regional disparities.

With the partial exception of Slovenia, FDI has appeared as the most significant factor of reindustrialisation in post-socialist Central Europe, and its location decisions have had a far-reaching effect on the spatial structure of industry. In the case of the Western Balkans, Slovenia and to an extent Croatia had enjoyed an advantageous early position; Macedonia, Serbia and Montenegro could only benefit post-2000 in the second wave of the regional dissemination of FDI. The effects so far have also been less significant than in the North-western country group (*Table 43*). Until 2000, the Southeastern countries had experienced a relative lag in terms of FDI investment, but this has been followed by a gradual catching-up process. There is a definite and strong link between FDI inflow and export potential, as well as economic performance. A correlation analysis between Table 2's 2008 values for FDI stock and Kovačević (2009)'s data on the share of exports in GDP reveals a very strong link at 0.88; between FDI stock and GDP per capita, the figure being 0.85 for the whole of post-socialist Central Europe.

The industrial areas of the Western Balkans are integrating into the European division of labour in different positions. Slovenia represents a special case of transformation, different from even the Visegrad group, since it has achieved this integration whilst relying less on FDI and more on high value added domestic industries. Developed export traditions from pre-1990 and highly processed industrial products that could compete successfully on EU markets have helped industry seize an early opportunity to gain a foothold in specialised product niches, and, whilst a degree of duality could be observed between

domestic and foreign manufacturers, these differences remained well below the Central European average. Among location factors for foreign investment, qualitative advantages were already more important than low wages in the 1990s, leading to the rapid spread of scale-, later also knowledge-intensive activities (*Rojec–Jaklic,* 2002). An emphasis on knowledge-based development has been part of the development policy mainstream since the 2000 industrial policy strategy (*Kavaš–Koman,* 2003), and supported by strong traditions of polycentric development (*Marot,* 2010), is characterised by a striving for territorially balanced endogenous growth and high innovation content. In addition to industrial sites, four technology parks (Ljubljana, Maribor, Murska Sobota, Šempeter pri Gorici) and six technological incubators (Celje, Ljubljana, Maribor, Koper, Sežana, Zagorje ob Savi) operate in the country (http://www.stp.uni-mb.si).

Table 43

Foreign Direct Investment (FDI) per capita (USD)

Country	1995	2000	2005	2008
Albania	65	77	319	829
Bosnia-Herzegovina	n.d.	271	735	1,686
Bulgaria	53	330	1,785	6,022
Croatia	106	623	3,283	7,002
Czech Republic	711	2,106	5,936	11,017
Hungary	1,094	2,238	6,137	6,339
Macedonia	44	267	1,025	2,121
Montenegro	n.d.	n.d.	n.d.	5,158
Poland	203	885	2,377	4,235
Romania	36	310	1,192	3,338
Serbia	n.d.	n.d.	n.d.	2,225
Serbia and Montenegro	n.d.	96	592	n.d.
Slovakia	242	879	4,394	8,506
Slovenia	1,316	1,456	3,623	7,852
CE-Northwest	450	1,513	4,493	6,019
CE-Southeast	270	282	1,276	3,548
Western Balkans	383	465	1,596	3,839

Note: Data are available for Slovenia from 1992, the Czech Republic and Slovakia from 1993, and Bosnia-Herzegovina from 1998. Serbia and Montenegro include Kosovo's figures up to 2000; the fourth column contains data for 2006–2007, the last available. For Bosnia-Herzegovina, population figures are official, and so likely to be somewhat inaccurate due to conflicting political agendas involved in the varied estimates.

Source: Author's calculations and construction based on investment data from UNCTAD and population figures from EUROSTAT and national statistical yearbooks.

Slovenia has extraordinary potential for seizing the advantages of knowledge-based development, but the picture is far less rosy for the rest of the Western Balkans: not only innovative knowledge-based industries, but even the basic conditions for a functional knowledge economy are on a weak footing. Looking at the figures of the World Bank's survey on knowledge-development potential, it is apparent that relative performance in both exploiting knowledge (Knowledge Economic Index) and potentially useable knowledge (Knowledge Index), as well as their component indices – economic incentives and the institutional regime, the innovation system, education/human resources and the spread of info-communication technologies – show serious underdevelopment (*Table 44*). In the Southeastern group of post-socialist countries, only the supply of info-communication technologies was in a relatively good position. Altogether, the development gap between them and the northwestern country group was twice as large as the gap between the northwestern group and the EU15.

Table 44

Knowledge economy indices in Central Europe

Country	Knowledge Economy Index (KEI)	Knowledge Index (KI)	Economic Incentives and Institutional Regime	Innovation System	Education and Human Resources	Infocom-munication
Albania	4.0	3.9	4.1	2.8	5.0	4.0
Bosnia-Herzegovina	4.6	4.7	4.3	3.1	5.7	5.2
Bulgaria	7.0	6.9	7.1	6.4	7.7	6.7
Croatia	7.3	7.3	7.3	7.7	6.6	7.6
Czech Republic	8.0	7.9	8.2	7.8	8.2	7.7
Hungary	8.0	7.9	8.4	8.2	7.7	7.7
Macedonia	5.6	5.7	5.3	4.7	5.4	6.9
Poland	7.4	7.4	7.5	7.0	8.0	7.1
Romania	6.4	6.3	7.0	5.7	6.5	6.6
Serbia	5.7	6.3	4.0	6.2	5.8	7.0
Slovakia	7.5	7.4	7.8	6.9	7.3	8.0
Slovenia	8.2	8.2	8.1	8.3	8.3	7.9
EU15	8.7	8.7	8.7	8.8	8.6	8.7
CE-Northwest	7.8	7.8	8.0	7.6	7.9	7.7
CE-Southeast	5.8	5.9	5.6	5.2	6.1	6.3
Western Balkans	5.9	6.0	5.5	5.5	6.1	6.4

Source: Author's calculations and construction based on data from the World Bank's Knowledge Assessment Methodology.

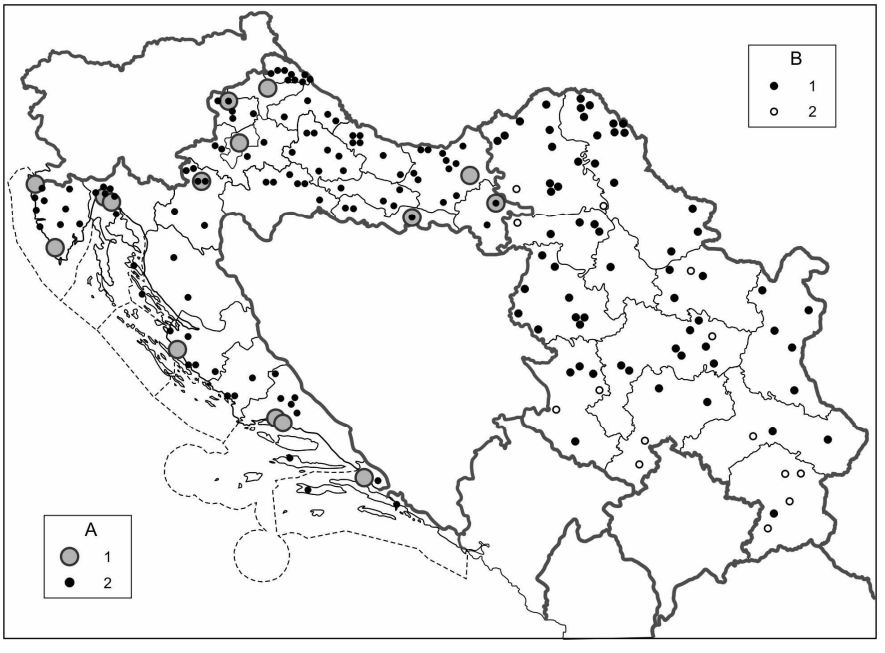
Croatia, although its indicators are somewhat below the northwestern group's average, demonstrates a greater structural similarity to them than the states in the Southeast. However, as a study surveying the whole group of foreign-owned SMEs (small and medium enterprises) operating in Croatia has shown, knowledge-intensive industry does not have a significant presence even in this otherwise well-capitalised sector. In the international division of labour, Croatian subsidiaries have typically been assigned manufacturing capacities, whilst parent companies retained knowledge-intensive product development, process development and R&D. Innovation did not usually occur through formal research, but rather very modest incrementalist improvements often based on co-operation among companies (*Aralica–Račić–Redžepagić,* 2009). The technological level of industry shows notable regional disparities: some high-tech branches which have taken a foothold in Zagreb, Central and Northwestern Croatia are characterised by a balance between medium-high, medium and low technologies, whilst Dalmatia and Eastern Croatia are dominated by low-tech. Between 2001 and 2005, industrial growth was the most rapid in low-tech branches and the weakest in high-tech ones, signifying reindustrialisation but a deteriorating qualitative structure and the increase of territorial disparities (*Mikulić,* 2009).

The industrial policy of the Western Balkans states outside Slovenia follows the typical Central European trajectory, albeit with some delay. The foundations of capital attraction were originally general macroeconomic advantages (investment freedom, the legal environment and tax benefits), market access and low wages (*Radenkovic-Jocic,* 2004), and only the second half of the 2000s saw a growing emphasis on targeted and network-based system development, whose most important instruments, special economic zones, industrial estates (industrial parks) and clusters have become generally used means of reindustrialisation (*Zeković,* 2006, 2009; *Zeković–Spasić–Maričić,* 2007). Following Slovenia, both Croatia and Serbia have built a network of industrial estates covering their entire state territory (*Figure 61*). The network is more concentrated in Serbia, where there are 64 units; the national regional development strategy also encourages the use of public funds for the establishment of 14 new industrial estates in underdeveloped areas, mainly in Southern Serbia (Strategija Prostornog Razvoja Republike Srbije 2009–2013–2020, 2009). In Croatia, a total of 106 entrepreneurial zones providing services typical of industrial estates are in operation, but an additional 15 free trade zones have also been created near sea-, river- and airports as well as some of the main transport routes. These zones are mainly found next to the Croatian-Slovenian and Croatian-Serbian borders as well as on the Dalmatian coast. The advantages of free trade zones include tax benefits and partial tax exemption for investing enterprises. In 2006, the zones of Osijek, Slavonski Brod and Split were involved in industrial production, but,

whilst the first two employed 900 and 1200 people, respectively, the third only had 220 (http://zone.mingorp.hr; *Sheane,* 2006).

Figure 61

Entrepreneurship zones and industrial parks in Croatia and Serbia



Key: A – Croatia, 1 – Free trade zone; 2 – Entrepreneurship zone; B – Serbia; 1 – Industrial park, 2 – Planned industrial park.
Source: Author's construction based on data from http://zone.mingorp.hr and Strategija Prostornog Razvoja Republike Srbije 2009 – 2013 – 2020, 2009.

Contrary to the pessimistic expectations of Guerrieri (1998) and Sokol (2001), FDI-based growth in post-socialist states did not lead to the preservation of an industrial structure only able to maintain its competitiveness through low wages and trapped at a low technology level. Industrial integration in the broader Central European space and in the Western Balkans has led to a general increase of factor intensity. However, both lower and higher value added industrial forms are present. The differences between industries which encourage the development of human resources and the spread of high technology, and those which represent peripheral modes of integration with low technological and knowledge content are still in danger of preserving or even radically increasing development gaps; regions which can only supply an uneducated

labour force may not be able to attract high-grade investment or benefit from endogenous growth and may retain their underdevelopment. The relevance of these questions for Serbia has been discussed in papers by Bartlett (2009) and Kovačević (2009). Similar dilemmas can be raised with respect to Croatia: apart from a few success stories, the external trade deficit was highest in high value added industrial branches and lowest in low value added (resource- and labour-intensive) ones. Post-1990, even previously successful, relatively advanced industries experienced "de-specialisation', the loss of their potential competitiveness (*Buturac,* 2009).

These differences may be seen not just at sectoral, but also at regional level. The most successful locations of European reintegration are capital cities and their agglomerations, and, to a much lesser extent, regional centres, whose economy is mainly tertiary, but which occupy favourable positions in advanced industrial functions (*Pavlaković-Kočí–Pejnović,* 2005; *Zeković–Spasić–Maričić,* 2007; *Zivanovic,* 2009). Old Industrial Regions (mining areas, heavy industrial and some processing industrial centres) are still struggling with problems of their mono-functional economic structure, persistent social ills and the inadequacy of investment (*Stiperski–Lončar,* 2008; *Spasić–Jokić–Maričić,* 2009; *Marot,* 2010). For example, Sisak, the centre of Croatian metallurgy, employed 14 thousand workers in its steelworks in 1988, of whom only 4,800 remained in 1990 and a mere 1,300 in 2003 (*Braicić,* 2005). The centres of Serbia's heavy industry, Kragujevac (automotive, machine and defence industry), Bor and Majdanpek (non-ferrous ore extraction and metallurgy), Priboj (bus, truck and military vehicle manufacture) and Loznica (chemical industry, vehicle production and defence industry) have gone through a similar decline, whilst the most successful transformations were those of the Belgrade agglomeration and Novi Sad. In the Vojvodina, where industrial production had been reduced to 47% of the 1989 peak by 2002, the new millennium brought industrial growth higher than the national average, but this was dominated not by modern processing industries, but by low-technology branches selling two thirds of their production in Former-Yugoslavian markets (*Belanka,* 2007; *Nagy–Miletić–Todorovic,* 2009; Strategija Prostornog Razvoja Republike Srbije 2009–2013–2020, 2009).

The greatest problem of Croatian industry, metallurgy apart, is its still significant shipbuilding industry, which experienced a serious decline during the war, but still employs some 16,500 people in 7 large, 14 medium and 352 small shipyards. On the basis of Compensated Gross Tonnage, which also takes into account labour intensity in addition to hull size, the 2008 production of the largest shipyards was split between sites with 52% in Kraljevice (near Rijeka), 15% in Split, 13% in Rijeka and 6% in Trogir. There have been two attempts at consolidating the loss-making industry. The 1999 capitalisation and modernisation programme did not make large state-owned companies profitable and so, in

2006, further resources were committed and individual shipyard restructuring strategies elaborated in preparation for privatisation. However, by the 2010 target date, due in part to the world recession, there were too few orders, or even enquiries, and numerous shipyards have to face the threat of bankruptcy in absence of buyers or capital injection (*Kersan-Škabić,* 2009; Pretpristupni Ekonomski Program, 2007; Kraljevica Shipyard Ltd., 2010).

In the case of Bosnia and Herzegovina and Kosovo, recovery is still hindered by the problems of conflict management and the bureaucratic decision-making process of international organisations. However, the energy sector of Bosnia and Herzegovina has become an investment magnet, and, in Kosovo, significant yet unexploited mineral deposits may become a factor in attracting capital (*Spasić–Petovar–Jokić,* 2009).

One of the most interesting, but in the long term most problematic, industrial problems is the issue of traditional light industries. These represent a large part of the industrial structure in the least developed peripheral areas, but are also traditional engines of world market integration. The textile and clothing industries show especially strong internationalisation and a division of labour straddling the core and peripheral regions of European space (*Kalantaridis–Slava–Sochka,* 2003; *Smith* et al. 2005). Industrial co-operation encompassing different parts of the value chain (assembly/contract manufacture/own brand manufacture/own design and marketing on domestic/international markets) has typically integrated producers from Southeastern Europe in smaller production segments, whilst intermediary functions are often supervised by Greek or Turkish companies operating a form of triangular trade (*Labrianidis–Kalantaridis,* 2004). At the turn of the millennium, Yoruk (2001) anticipated the increasing coverage of the value chain, but evidence so far has been mixed. In Bulgaria, there were no strong signs of textile companies expanding into higher value added production (*Evgeniev,* 2008); in Croatia, producers focusing on the whole value chain have achieved better sales but, due to increased R&D and sales expenses, have not been more profitable than simple subcontractors (*Anić–Rajh–Teodorović,* 2008).

5 Summary

The industrial transformation of the Western Balkans after systemic change was characterised by an increase in already significant regional differences which had failed to improve under state socialism. In the period when politico–economic space was characterised by fragmentation processes, national differences proved more significant. In the economic sense, the Western Balkans cannot be seen as a single space: Slovenia and, to a lesser extent, Croatia show transfor-

mation processes typical of the Visegrad countries, while super-peripheral areas (Albania, Bosnia-Herzegovina and Kosovo) are lagging even compared with the other states of Southeastern Europe. In sub-national terms, historical development gaps and core areas have re-emerged: territories with stronger industrial traditions were more resistant to decline and benefited more from the benefits of re-industrialisation than did their peers.

In the restructuring of industry, certain de-industrialisation phenomena – a drastic fall in employment, an industrial collapse with no recovery, the loss of professional milieux, institutions and human capital – have proved to be the most serious, as yet untreated consequences. Traditional peripheries with collapsed industries are in an even more hopeless situation than Old Industrial Regions struggling with structural crises, as even the potential for rebuilding seems to be inadequate. In the post-socialist sphere, where reindustrialisation is most closely tied to Foreign Direct Investment, its absence can preserve underdevelopment: whilst the Western Balkans received its share of industrial investment after the turn of the millennium, this share is still low, and has not been able to play the dynamising role which it has played in North-western countries.

The emerging, and probably most durable, national and sub-national differences of industry are leading to different forms of European integration. The conditions for knowledge-based industry are best in Slovenia and similar to those in the Visegrad countries in Croatia, but elsewhere they are extremely weak. Neither knowledge-based, nor endogenous growth seems to hold possibilities which could benefit wider regions beyond a few privileged centres. Among the sources of competitiveness, costs dominate, which also contributes to the greater share of low value added resource- or labour-intensive branches in the industrial structure. With the spread of FDI, there have been signs of improvement and the Western Balkans states have seen convergence towards the growth trajectory of Visegrad countries, but, due to the above reasons, the degree of improvement has so far been inadequate. There is a need not only for general investment promotion, but for the concentrated instruments of industrial policy to improve the closing-up process and to bring to an end the problems which are still visible in the overall restructuring process.

AGRICULTURE IN THE BALKANS

TERÉZ KOVÁCS

Yugoslavia, although then a socialist state, followed an agricultural policy post-1948 which differed from both Western European and Soviet-style agriculture. Although agriculture was also fully collectivised in Yugoslavia by 1948, this situation did not last long (in fact, only until 1953). In that year, peasants who had earlier been forced to join co-operatives were given back their land – up to a maximum of ten hectares. This meant that, in Yugoslavia, full-time farmers could have up to ten hectares of land and part-time farmers up to three hectares – all as private property. The reason why Tito did not want to collectivise agriculture fully was due to the fact that the majority of Party members were peasants.

During the socialist era, 83 percent of the arable land in Yugoslavia was in private ownership and only 17 percent was actually owned by the state, as "community property" (the official term). This national average, however, hid considerable spatial disparities. Lands that were "community property" could be found mostly in those regions where large estates had dominated the scene before 1920. This is most characteristic of the Vojvodina region, where only 60% of the land was private property, the remaining 40% being state-owned "community property". By way of contrast, the private ownership of land prevailed in regions which had had small peasant holdings pre-1920: mainly in Kosovo, Montenegro, and Bosnia and Herzegovina.

On privately owned land, family holdings were organised, cultivating, on average, three hectares in 1970. These family holdings were largest on average in Slovenia (4.78 hectares), whilst the smallest (an average of 2.55 hectares) were found in Kosovo. The small size of these holdings, the excessive numbers of the agricultural population and the fact that the Party did not allow farmers to purchase agricultural machinery preserved the pattern of low-efficiency peasant farming.

The lands in "community property", i.e. in state ownership, were cultivated by farmers co-operatives (to a lesser extent) or by agro-industrial holdings (the larger). These agro-industrial holdings integrated agricultural production (the raw materials), industrial processing and marketing. In 1970, the 100 largest production companies of Yugoslavia included fifteen agro-industrial holdings.

Their headquarters were located in the major cities of the more advanced regions of the country (Belgrade, Osijek, Zagreb, Zrenjanin, Sombor, Srenska Mitrovica, Belje, Bačka Palanka, Vinkovci, Murska Subota, Pančevo).

In 1970, 50% of the labour force in Yugoslavia worked in agriculture, and the sector produced 29% of GDP. Agricultural output increased by 3.5–4.0 percent annually until 1980 and then stagnated through the 1980s. In 1991 Yugoslavia still had a high agricultural labour-force (17.2 percent), and agriculture represented 17 percent of GDP.

In Albania, half of the land had belonged to large, semi-feudal holdings before World War II, 28 percent was cultivated by smallholders and 19 percent belonged to the state. Two land reforms were implemented post-1945, after which 92 percent of holdings were less than three hectares in size. Eighty-five percent of the population worked in agriculture.

From 1946 to 1954 (mainly on the plains), and post-1954 (in the highlands), forced collectivisation was pursued, combined with Chinese-supported soil improvement and the establishment of terraces. Collectivisation was completed by 1967. Following this, co-operatives cultivated 74 percent and state farms 26 percent of all land. Private farming was unknown and, in fact, co-operative members were not even allowed to have their own plots until 1989. As a first step, in 1989 co-operative members could be given 0.2 hectares in the plains and 0.3 hectares in the highland areas for private farming. One effect of this was that 21 percent of agricultural output was produced by these "private plots" which only covered three percent of the agricultural land (*Burgerné,* 2001; *Hall,* 1999). Albania remained the poorest country in Europe in 1990, which also impacted on the transformation of the agricultural sector of the country. In the urban areas, the average per capita monthly income is spent on food.

1 The de-collectivisation of agriculture post-1990

In Yugoslavia agriculture had not been fully collectivised in the socialist era, and so the demand for the restitution of ownership was not as important an issue from the emotional point of view as in Central Europe.

The pressure for land privatisation was weakened in Slovenia by the fact that 92 percent of the land had formerly been privately owned, and only eight percent had been "community property". As there was no civil war in Slovenia, restitution, as in the other post-socialist states, was implemented in the 1990s, and this had a negligible impact on agriculture.

In Croatia, the Act on Compensation for the property nationalised by the Communist government in Yugoslavia was passed in October 1996. On the

basis of this Act, the return to the former owners of nationalised agricultural land and forests was started in January 1997, and approximately ten percent of the land was given back to the original owners or their descendants. Those who (physically) could not be given back their land (this concerned three percent of all arable land) were given shares up to a value of ten percent of that of the nationalised land, based on a Decree issued in 2004.

In Serbia the restitution process only started in 2001 and was limited to the return of Church properties. In respect of land, an Act on registering previously nationalised property was passed in June 2005 [(the Act on the Registration and Record-keeping of Confiscated Property – also known as the "Denationalisation Act") (Public Gazette RS 45/2005)]. This Act regulated the registration of nationalised land, but did yet deal with compensation for financial losses. The legislators were only interested in assessing the amount of compensation required in the territory of the Republic of Serbia. There exists the promise of another Act which will ensure that land will be returned wherever possible, and part-compensation will be paid for land that cannot be returned. This is an especially important issue in the Vojvodina, since 40% of the land is still state-owned in this region. The privatisation of the agro-industrial holdings started, and, in 2006, an Act was passed concerning agricultural land.

In Macedonia, the privatisation of the agro-industrial sector started in the late 1990s and half a decade later 95 percent of it had been completed. Private owners occupied 80 percent of the agricultural land and 90 percent of the livestock in 2003.

In Albania, land occupation started spontaneously in 1990, and then an Act was passed in 1991 under which the lands of co-operatives had to be distributed among the families working in those co-operatives, proportionately per capita. Within one year, 76 percent of the land had been privatised. (Today the proportion of privately owned land is much higher in the hills and mountain areas than in the coastal plains.) By the mid-1990s, 95 percent of land was in private hands. This was the way in which small-holder farming returned to Albania, and it was both attractive for the population and successful economically. Agricultural GDP and employment increased, and, in 1992–1998, 70–80% of the GDP of Albania was produced by agriculture and the Albanian workforce employed abroad (principally in Greece and Italy).

Although agricultural production considerably increased in Albania during de-collectivisation, the century-long shortage of food and the collapse of nationnal trade decreased the amount of produce on the market. The output of produce for the direct self-support of families – grains, vegetables, livestock, fodder – increased, but that of products for processing – sunflower seeds, soya beans, sugar beet, tobacco, cotton – decreased.

2 Agriculture's role in GDP

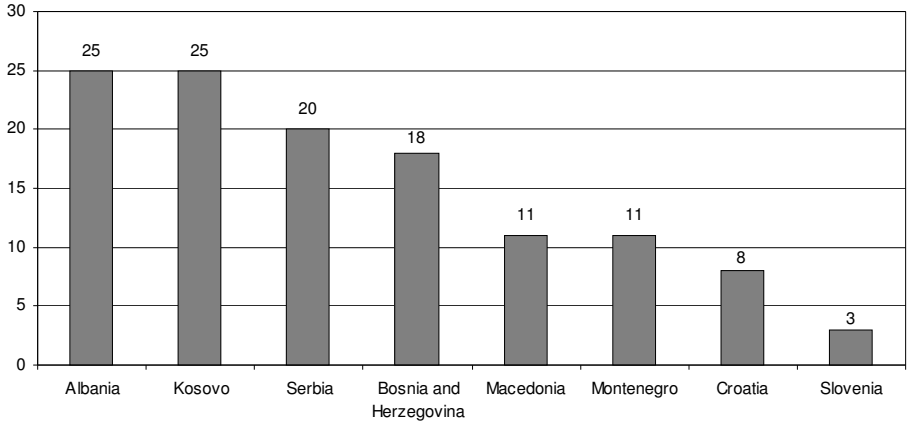
In this present work, the term agriculture includes the product of the cultivation of land, forestry, fisheries and game. The contribution of agriculture to GDP in the EU-15 is very low (some 1.8 percent), a figure which is no longer in decline but remains stagnant. In the post-socialist countries, the decrease of agricultural GDP post-1990 is typical. In the Balkan countries it has fluctuated, although this is principally due to weather conditions. In these countries, the use of agro-technology is less common than in Western or Central Europe, and so yields depend more on weather conditions. On the other hand, these countries did not experience a decline in production as serious as in the post-soviet countries post-1990.

In Albania and the ex-Yugoslav member states, the contribution of agriculture to the total national income was, on average, 14 percent in 2005, albeit with considerable variations.

In the whole of Europe, the contribution to GDP from agriculture is the highest in Albania (*Figure 62*), with an increase of 4.7 percent per annum in 1990–1998 and five percent in 1998; in that year agriculture achieved 54.4 percent of the total national product, although subsequently the pace of growth slackened to an annual level of 2.2 percent in 2001–2002.

Figure 62

The contribution of agriculture to GDP in 2005, %



* 2003

Source: Synthesis Report 2006; The Europe World Year Book, 2005.

Agriculture contributed 13 percent to GDP in Bosnia and Herzegovina in 1997 and a much higher share, 32.7 percent, in the Republic of Serbia.

Agriculture-derive GDP in Croatia decreased in real terms by an average of 1.9 percent annually in 1990–2002, a decrease which was especially large in the early 1990s, but in 2002 the figure increased by two percent.

According to World Bank estimates, agriculture-derived GDP was unchanged in Macedonia in 1990–2003, although in real terms it increased by 2.1 percent.

Until 2006 Serbia and Montenegro were one single federal state, and the World Bank estimated GDP from agriculture to be 27.3 percent. In Serbia the figure is lower – at 16.6 percent. (In 2005, the combined agriculture and food processing industries accounted for 25% of the total national product).

Slovenia, which was the most developed member state of the former Yugoslavia and also the most advanced of the states admitted to the EU in 2004, already had the lowest contribution by agriculture to the national GDP and has shown the steepest decline in this figure for the last twenty years. In 1993 the sector contributed 6.3 percent to GDP, 3.9 percent in 1998 and 2.6 percent in 2003 (*Erjevic,* 1998).

3 Agriculture and employment

Statistics concerning employment in agriculture in the region are very unreliable, and cannot be compared either to other countries in general or specifically to those within the region. The key lies in defining who is an agricultural employee according to the relevant national statistical office. It can, of course, be asserted with confidence that, as with agriculture and the GDP, employment in agriculture is high in the Balkan countries in comparison to Europe. There are, moreover, large spatial disparities in this respect over the Balkan region (*Figure 63*).

In Albania, 48.5 percent of employees worked in agriculture in 1990, and the de-collectivisation of land resulted in a further increase. More than half of the one million-strong active labour force is still employed in agriculture.

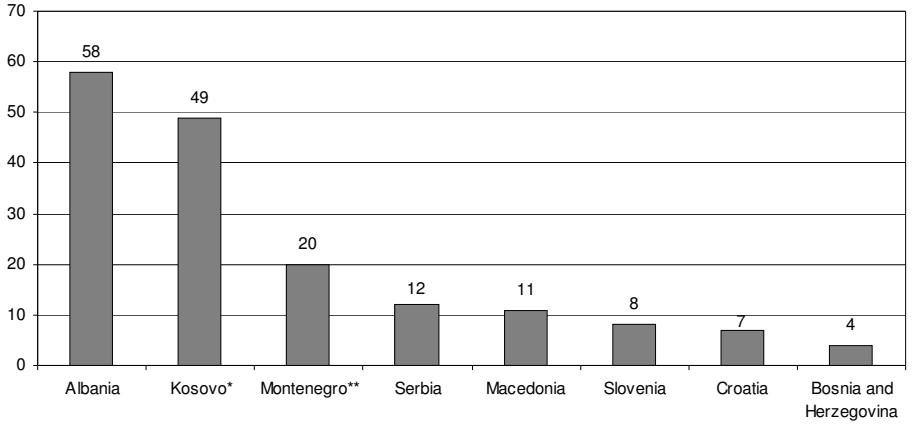
In Kosovo, the proportion of employees in the agricultural sector has almost reached the figure for Albania.

Agricultural employment is relatively low in Bosnia and Herzegovina, due to the very high level of natural forest and the low proportion of arable land.

In Croatia, some 303 thousand people worked in agriculture in 1996 and 255 thousand in 1998, whilst the total number in employment was unchanged at approximately 1.5m.

Figure 63

Employees in agriculture as percentage of total employment, 2003, %



*2005; **Including employees in the food industry.
Source: The Europe World Year Book, 2005; Country Report Serbia, 2006.

In Slovenia, although it is a country with a much more developed economy than the other countries in the region, both the number and proportion of agricultural employees are high. After the collapse of Yugoslavia, Slovenian industry lost its former main markets, and this produced a massive reduction in active employees. This meant that many people temporarily turned or returned to agriculture. In 1996, 89 thousand people worked in the sector and in 1998 the number had reached 109 thousand, which meant 12.1 percent of the total number of those employed. It was not until 2002 that the figure decreased again to the 1996 level, and in 2003 only 75 thousand people were employed in agriculture – that is, 8.4 percent of the total in employment.

In Serbia, in 2005 the number of agricultural employees was 150 thousand, and approximately 90 thousand people worked in the food processing industry. This means 11.5 percent of the total active labour force. In 2002 there were 450 thousand economically active farmers in the country (*Table 45*), or 13.4 percent of the economically active population of the country which stood at 3.4 million in 2002. (Country Report Serbia, p. 12.). The same document also states that "the number of employees in agriculture, forestry, 'the game economy' and fishing was 581 thousand, i.e. 17.1 percent (Country Report Serbia, p. 55.).

The decrease and transformation of agricultural employment has also reached this region in the last twenty years – clearly seen in *Table 45.*

Table 45

The economically active % of the total agricultural population of Serbia

	Total number of family members living on farms*	Economically active		Employed outside the farms		With personal income		Inactive family members	
		Number	%	Number	%	Number	%	Number	%
1991	3,557,867	816,200	22.9	799,926	22.5	354,484	10.0	1,289,369	36.2
2002	2,536,378	454,732	17.9	705,070	27.8	526,232	20.7	845,238	33.3
Index 1991 = 100%	71.3	55.7		88.1		148.5		65.6	

* The census of 2002 in Serbia considers as farms each household which uses at least 0.1 hectare of arable land as an economically separate production unit and keeps at least one large unit of livestock (5 sheep, 3 pigs, or 50 birds (=poultry). Further, everyone living in such households is considered by statistics as part of the agricultural population.

Source: Country Report Serbia, 2006. p. 13.

In Serbia an agricultural exodus took place in 1991–2002, when more than half of the economically active farmers left agriculture. This process led to a considerable demographic transition within the agricultural population, which is evident in the ageing of the population and in the highly unfavourable change in the education level. Parallel to the drastic decrease in the economically active population, the number of farmers with other income doubled and the weight of employment outside farms also grew in relative terms. The economically active private farmers do not have income from sources other than agriculture.

In the Balkan countries, agriculture plays a buffer role: when industry and services fail to absorb labour made redundant in agriculture, then the labour force does not leave agriculture. In other words, agriculture has in itself a degree of hidden unemployment.

4 Land use

Land use primarily depends on natural conditions (geography, orography, climate). Two-thirds of the territory of the whole of the Balkans is mountainous or hilly, largely covered by forests and the total of agricultural land amounts to 14 million hectares (*Table 46*). This is less than the total in Italy alone. The smallest proportion of agricultural land in the whole region is found in Albania, whilst Serbia has the highest. The majority of agricultural land (53 percent on average) is arable.

Table 46

A few indices of land use, 2005

Country	Total area, hectares	Agricultural area, hectares	Arable land, hectares	Agricultural area, in % of total area	Forested area, in % of total area
Albania	2,875	700	400	24.3	55.7
Bosnia and Herzegovina	5,113	2,444	1,028	47.8	46.0
Croatia	5,664	2,695	1,110	47.7	39.2
Macedonia	2,570	1,260	560	49.0	37.0
Montenegro	1,381	518	58	37.5	46.5
Serbia	7,747	5,112	3,639	66.0	21.0
Kosovo	858	369	146	43.0	54.0
Slovenia	2,025	863	177	42.6	63.2
EU25	397,504	162,393	108,659	40.9	n.d.

Source: Synthesis Report, 2006; kvvm.hu; FAO.

The largest part of Albania is mountainous, but the country also has hills and plains. The coastal area's climate is Mediterranean and of the other regions mostly continental.

In Bosnia and Herzegovina, practically all regions are mountainous areas, except the plain along the Sava River and the valley of the Neretva River. The ranges of the Dinaric Alps, divided by several small river valleys, dominate the territory of the country. In the areas with a wet continental climate the average annual precipitation reaches 1000 millimetres. The mean temperature of the winter months, despite the southern geographical position of the country, is low. The natural vegetation is deciduous forest, which covers 46 percent of the territory of the country. Over the major part of the agricultural land in Bosnia and Herzegovina (88%), meadows and pasture-land predominate (*Figure 64*).

Croatia is characterised by diverse orographic and climatic conditions, due to the special geographical location of the country. Its plains can be found in the area between the Kulpa–Sava and the Drava Rivers, with a moderate continental climate. In the mountainous areas, a mountain climate (cool summers and long, wet winters) is typical, where the natural vegetation is deciduous forests. Four of the Balkan countries have access to the sea, but Croatia has by far the longest coastline. The Dinaric Alps, consisting of bare limestone, are located parallel to the coast. The former, intensive wood extraction resulted in mass soil erosion and the bare hillsides can hardly support any shrubs. In the vicinity of the coast, many islands and archipelagos of various sizes can be found in the Adriatic with its strongly indented coastline. The climate of the region is Mediterranean (hot and dry summers and mild winters with heavy precipitation).

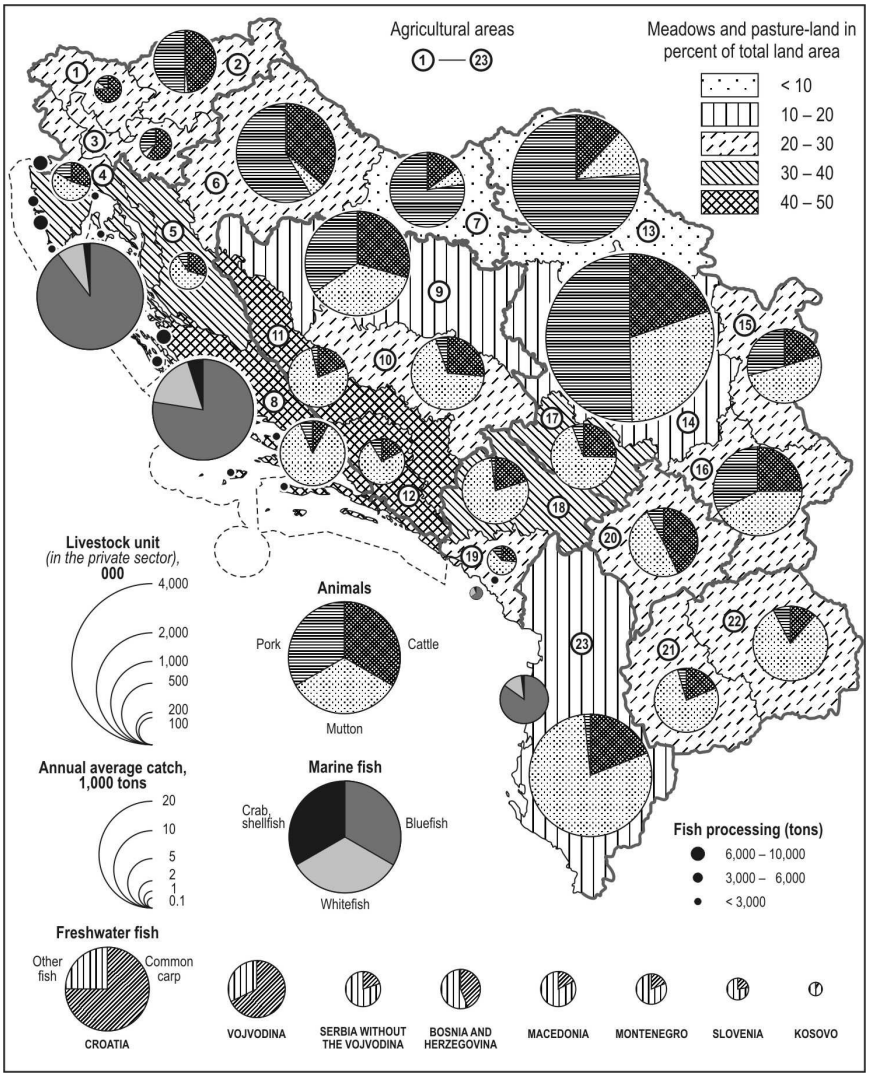
Macedonia is basically a mountainous country, apart from the plain of the Vardar River valley. Its western areas are home to the Dinaric Alps, whilst in the east we find the Balkan Mountains. The climate is wet continental, with one thousand millimetres of annual precipitation. The natural vegetation of the area is deciduous forest, and a considerable part of its agricultural land consists of meadows and pasture-land.

Montenegro was the smallest republic in Yugoslavia, but now it is the second smallest, in Western Balkans following Kosovo. It is a sparsely populated mountainous country, with a narrow coastal zone. Only 11 percent of its agricultural land is arable – a severe problem for the country.

Kosovo is the smallest state in the Balkans, but it is a densely populated country (182 persons/km^2) and also the poorest of the countries of the region. More than half of Kosovo is covered by forests. Irrespective of its natural endowments, agricultural production plays an important role. Fifteen percent of arable land has excellent soil, whilst twenty-nine percent is of medium quality. Only ten percent of the country is plain, and, even if we add valleys and basins, the total proportion is no more than 18 percent.

Figure 64

Meadows and pasture-land, livestock, fishing and fish processing



Key: 1 – Sjeverozapadna Slovenija; 2 – Sjeveroistočna Slovenija; 3 – Južna Slovenija; 4 – Sjevorno Primarje; 5 – Gorska Hrvatska; 6 – Središnja Hrvatska; 7 – Istočna Hrvatska; 8 – Srednje Primorje; 9 – Peripanonska Bosna; 10 – Srednja Bosnia; 11 – Bosansko-hercegovački visoki krš; 12 – Niska Herzegovina; 13 – Vojvodina; 14 – Panonska Srbija; 15 – Istočna Srbija; 16 – Južno Pomoravlje; 17 – Jugozapadna Srbija; 18 – Planinska Crna Gora; 19 – Južno Primorje; 20 – Kosovo; 21 – Istočna Makedonija; 22 – Zapadna Makedonija; 23 – Albania.

Source: Bertić, 1987; Statistical Office of Albania, 2008.

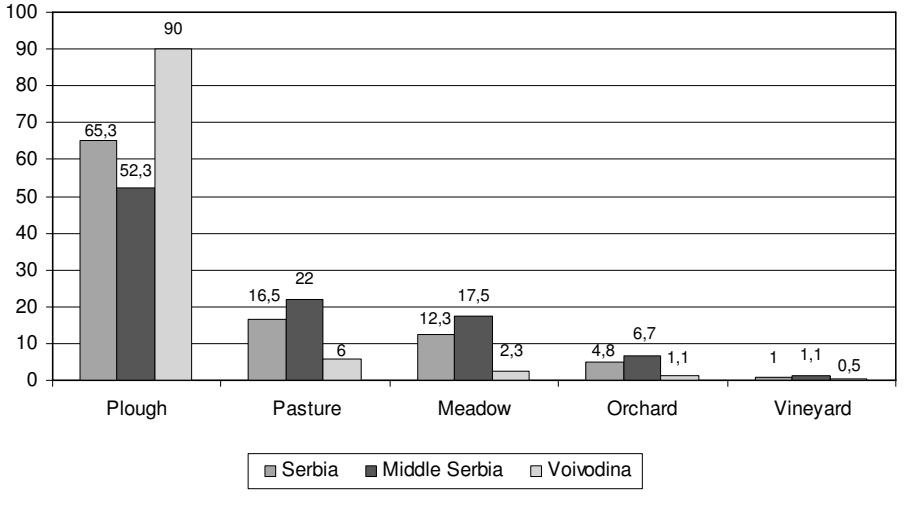
Serbia has a diverse agricultural sector. The fertile soil in the country, the favourable climate and the traditionally developed agricultural technology make land cultivation an important sector of the economy. The proportion of arable land (65 percent) is the highest of all Balkan countries. The proportion of agricultural land is extremely high in the Vojvodina region (83 percent), 90 percent of which is arable land (*Figure 65*).

The Vojvodina, in the northern part of Serbia, has excellent conditions for agriculture. The plain, which is a continuation of the Great Plain of the Carpathian Basin, is only interrupted by the low mountain ranges of the Fruška Gora situated between the Rivers Sava and Drava. It is a huge plain, covered largely by loess, on which very fertile humus soils can be found. In the former Yugoslavia, the Vojvodina region was referred to both by state organs and the inhabitants of Yugoslavia as the "larder" of the country. It is still the most developed agricultural region in the Balkan area.

In 25 percent of Albania, 20 percent of Bosnia and Herzegovina and 10 percent of Kosovo, is unused (fallow) agricultural land. There are several reasons for this: low profitability, unclear title, land owned by uninterested urban residents, or it is still to be privatised. In Croatia, half of the usable land is not continuously cultivated. Another reason for this sad phenomenon is that the former owners fled.

Figure 65

Structure of agricultural land in Serbia, Central Serbia and the Vojvodina, 2008

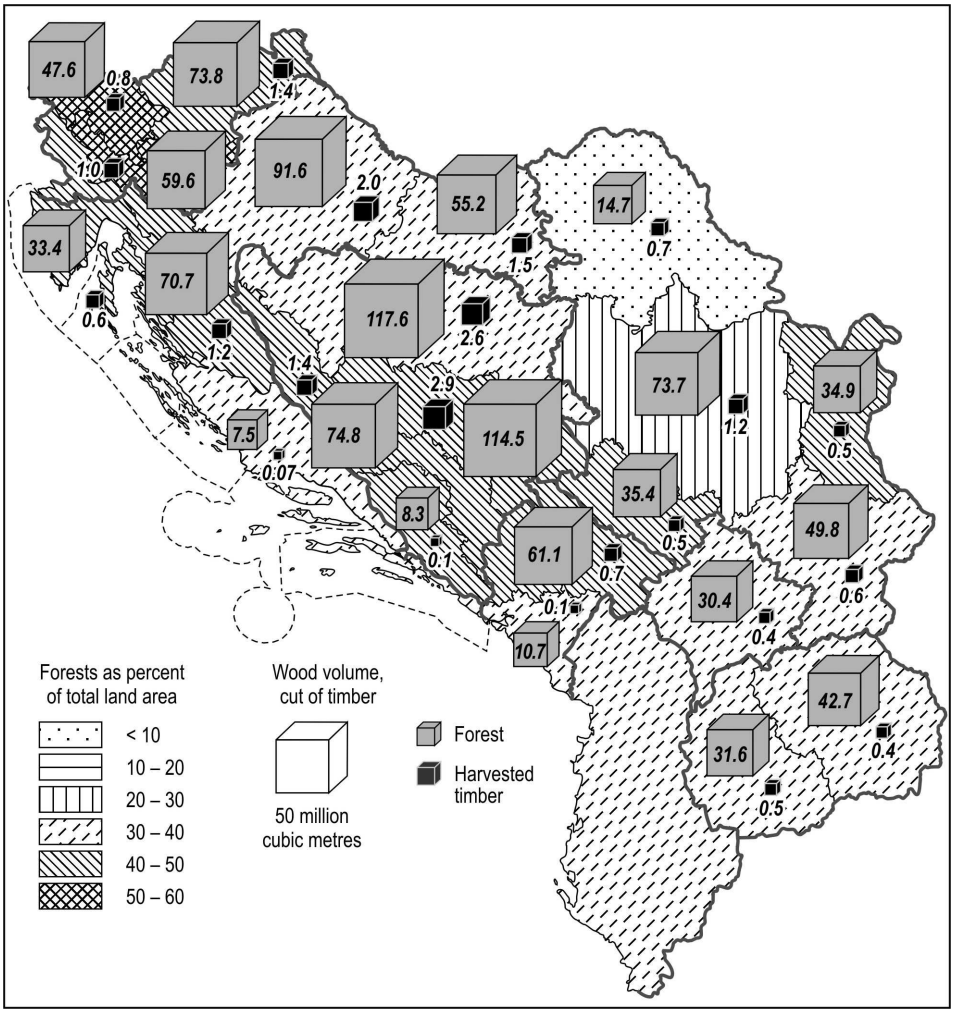


Source: By the author, based on Statistički godišnjak Serbije 2009.

A considerable part of the Balkan region is forested: in Slovenia 63 percent and in Albania 56 percent of the total territory. On the other hand, in the Vojvodina only five percent of the lands is forested, for the reasons mentioned above (*Figure 66*).

Figure 66

Percentage of meadows and pasture-land in the total land area



Source: Bertić, 1987; Statistical Office of Albania, 2008.

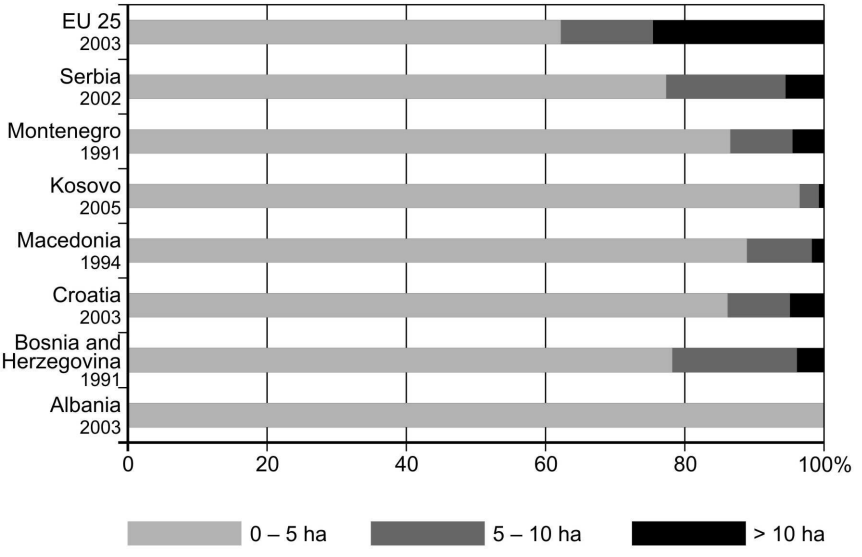
5 Farm and holding structure

Agricultural production in the region mostly takes place in the form of private farming. Production is typically carried out by a large number of small, fragmented family farms. The main reason for this is the fact that, in the former Yugoslavia, a full-time farmer was only allowed to have land to a maximum of ten hectares, whilst part-time farmers were limited to three hectares.

In Albania the holding structure is the result of privatisation (*Figure 67*). The smallest average size of holdings is typical of Albania (1.4 hectares), whilst the largest farms can be found in Slovenia (4.8 hectares average). Holdings of less than five hectares are most frequent in Albania and Kosovo. It is only Serbia and Slovenia where the proportion of holdings larger than ten hectares reaches five percent; in the EU25 one-quarter of all farms are in this category.

Figure 67

Structure of agricultural holdings, %



Source: Synthesis Report 2006, p. 12.

In the Balkan countries, agricultural holdings can be divided into two categories, the larger of which produces wholly or mainly for subsistence or near-subsistence whilst only the smaller category comprises profit-oriented holdings. The largest proportion of subsistence farms can be seen in Albania and Kosovo. In the latter country, where the typical family size is 6–8 persons, "…the aver-

age size of agricultural land per family is 3.2 hectares, of which 1.6 hectares are arable. These holdings are typically divided into 6–8 plots" (Kosovo Report, 2006. p. 8.). In other words, the integration of plots of land has not occurred.[1] This integration is a necessary pre-condition for the development of agriculture; it was done in Western Europe centuries ago after the liberation of the serfs and the abolition of the feudal system, but it has still not yet been done in some Balkan states which were long under Turkish occupation.

As opposed to the economically backward Balkan states, in the more developed countries of the region, i.e. in Slovenia, in Croatia and in the Vojvodina region of Serbia, the proportion of profit-oriented farms is higher and the proportion of subsistence holdings lower. However, in Serbia only a minority of the economically active farmers, 40 percent, pursue profit-oriented agricultural production, 60 percent do otherwise (*Table 47*), and this latter group has a very low standard of living. The more detailed data available for Serbia allow us to see how different the role of agriculture is in the subsistence of populations than in Western Europe or even in Central Europe.

Table 47

Proportion of subsistence and near-subsistence farms (%) within the total of farms in the Balkan countries

Subsistence and near-subsistence farms (in %)	Albania	Bosnia and Herzegovina	Croatia	Macedonia	Montenegro	Serbia	Kosovo
	89.81	53.97	66.63	48.49	65.89	60.24	77.69

Source: Synthesis Report, 2006, p. 47.

Cereals for bread, vegetables, fruit and meat are produced for family consumption in these farms and a negligible part of the products (perhaps poultry or lamb) is marketed.

The high proportion of farms producing for subsistence is also highlighted by the sources of income of the households (*Table 48*).

In Serbia the "non-agricultural households (holdings)" have become dominant. At the time of the population census in 2002 they comprised 62 percent of all farms and number almost half a million. Of those who do not have land, or have less than one hectare, 75 percent and 84 percent, respectively, are

[1] Integration in this case means that plots of land owned by a farmer, located on the outskirts of a settlement, are drawn together into a few larger plots, or occasionally into one single piece of land, on the basis of an agreement by all land-owners in the settlement, or a decision made by some legal forum. In this way the ownership structure of the land is rearranged.

Table 48

Households (holdings) by sources of income and the size of land in Serbia, according to the population census of 2002*

Size of holding	Total	Households (holdings)							
		agricultural		in mixed		non-agricultural		without income	
		number	%	number	%	number	%	number	%
Without land	6,288	762	11.5	503	8.0	4,684	74.5	375	6.0
Below 1 hectare	208,100	12,987	6.2	11,613	5.6	174,781	84.0	8,719	4.2
1.01 – 3.00 hectares	254,832	36,715	14.4	35,291	13.8	173,257	68.0	9,569	3.8
3.01 – 5.00 hectares	135,161	31,306	23.2	30,503	22.6	68,993	51.0	4,359	3.2
5.01 – 8.00 hectares	96,842	28,644	29.6	26,573	27.4	39,011	40.3	2,615	2.7
8.01 – 10.00 hectares	34,595	12,003	34.8	10,220	29.5	11,519	33.3	823	2.4
10.01 – 15.00 hectares	27,731	10,269	37.0	8,470	30.5	8,500	30.7	492	1.8
15.01 – 20.00 hectares	9,041	3,403	37.6	2,867	31.7	2,607	28.8	164	1.8
Above 20.01 hectares	6,300	2,655	42.1	1,950	31.0	1,609	25.5	86	1.4
Total	778,891	138,738	17.8	127,990	16.4	484,961	62.3	27,202	3.5

* Source of income is based on the main occupation of the members of the household (holding). Categories in the table:

- Agricultural households (holdings) are those farms where incomes come from private farming, members work for their own farm and produce for the market.
- Non- gricultural households (holdings) are those farms where members do not have an agricultural occupation, or, if they have, they do not work on their own farm but outside. Their income is either from a pension, or other property assets, or social benefit.
- Mixed households (holdings) are those farms where incomes come from both agriculture and activities other than agriculture.
- Households without income: the source of income is unknown.

Source: Country Report: Serbia, p. 14.

from these households. It is typical in Serbia that more than 80 percent of farms of less than one hectare have no income from agriculture. The number of agricultural and mixed households (holdings) is almost the same, but almost half of the farms over 20 hectares are used by agricultural households.

In Serbia, therefore, as in other Balkan countries, the majority of the holdings are farms (households) cultivating a small piece of land for subsistence, where the existence of alternative source(s) of income is typical. If a dynamic economic development were to start in these countries, these holdings – except for those owned by the older generation – would abandon subsistence farming. On the other hand, if the economy stagnates or declines, these subsistence farms will survive for the longer term.

6 Agricultural production

In some of the Balkan countries we still can find extensive and traditional, and also intensive or modern agricultural production more or less together. Traditional agriculture can no longer be found in the more developed part of Europe. Skills are important both in traditional and in modern agriculture, but, in addition to skills, the amount of production in traditional agriculture depends primarily on natural conditions, whilst the output of modern agriculture is a function of applied agricultural technology and the amount of capital invested. Among the Balkan countries, Slovenia, Croatia and Serbia – in the latter especially the Vojvodina region – have for the most part modern agriculture, whilst agriculture in Bosnia and Herzegovina, Macedonia, Montenegro, Central Serbia, Kosovo and Albania is more traditional. Within the individual countries of the Balkans there are further large disparities among the respective regions.

The production values of agricultural sectors vary within the region (*Table 49*).

Table 49

The sectoral proportion of agricultural output

Country	Plant cultivation	Animal husbandry
Macedonia	77	23
Serbia	65	35
Croatia	59	41
Kosovo	59	41
Albania	54	46
Montenegro	43	57

Source: National Statistical Offices.

6.1 Plant cultivation

The largest agricultural areas of the Balkan countries are used for cereal production. The land sown with cereals make up seven percent of the total cereal production area of the EU25 (*Table 50*), and the amount of cereals produced is six percent of the same (*Figure 68*). All Balkan countries produce some cereals, but in very different quantities. Of the 16 million tons of cereals produced annually, 60 percent is harvested in Serbia and 23 percent in Croatia (*Figure 69*). Areas sown with oilseed plants make up four percent of the respective areas of the EU25. The production of oilseed plants is, however, very important, since the EU is not self-sufficient in this respect. In the Balkans, 77 percent of oilseed crops are grown in Serbia. The area where leguminous plants are grown make up five percent, and, in terms of quantity, three percent of the EU25's total. The same figures for potatoes are five percent and four percent, respectively. In potato production it is Serbia again which is the most important. Tobacco production is also very significant in the region: the amount of tobacco produced in the Balkans is 15 percent of the production of the EU25.

6.2 Livestock

As regards livestock (*Table 51; Figure 70*) the Balkan countries are even less significant compared to the European Union than their weight in plant cultivation suggests. The number of cows in the region is only 4.5 percent, milk produced is just four percent and beef and veal production is 3.5 percent of EU 25 production. The number of pigs is 4.3%, and pork production 2.1 percent of the same total. It is only with sheep and goats that the region is significant in terms of livestock: compared to the EU 25, 7.4 percent of sheep and goats are kept in the Balkan countries, and the production of lamb/mutton and goat-meat is the same. Sheep and goat husbandry is also important, since the EU is a net importer, and it is also highly significant in Albania, Macedonia, Kosovo and Serbian areas south from the Sava River.

Serbia is the most important Balkan state in animal husbandry and meat production, but its leading role is not as evident – except for pork production – as in plant cultivation. In addition, animal husbandry is very significant in Slovenia, as regards cattle, pigs and poultry husbandry, and milk production.

Table 50

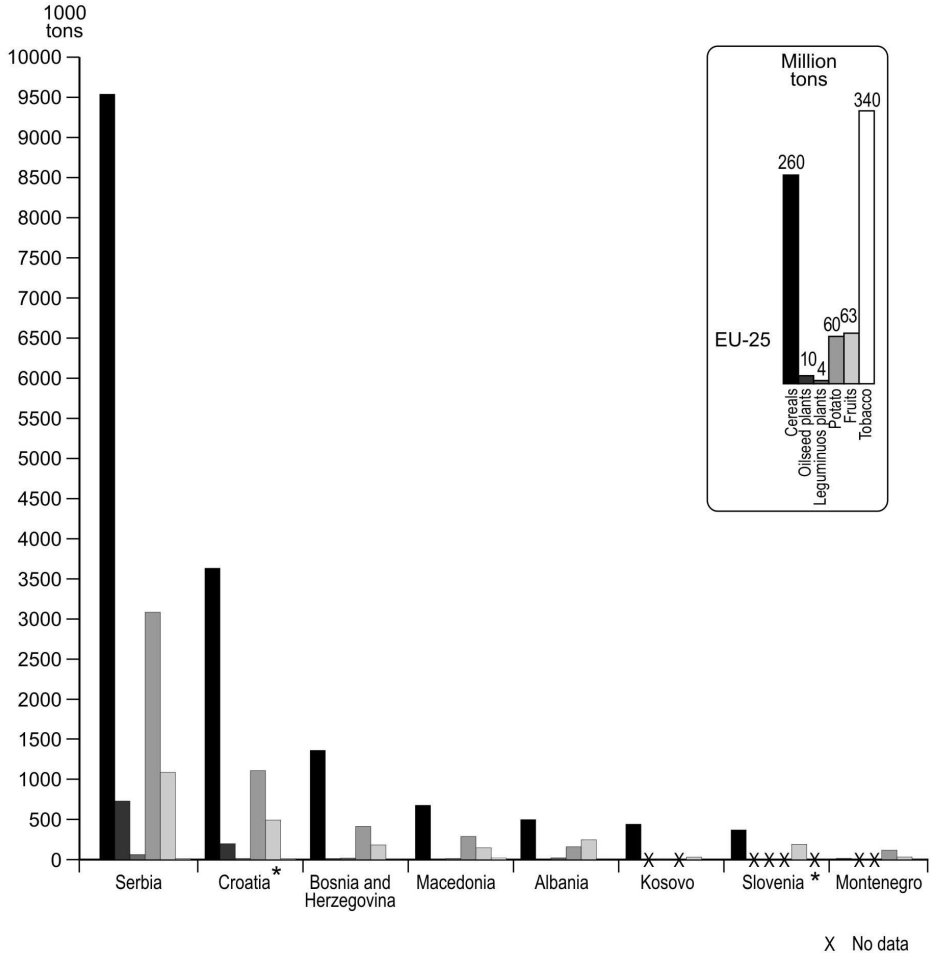
Plant cultivation, area and yields, 2005 (2004)

	Albania	Bosnia and Herzegovina	Croatia	Macedonia	Kosovo	Montenegro	Serbia	EU25
Area of production, 1,000 hectares								
Cereals	143.9	321.0	708.0	189.3	233	4.9	1,972.0	52,014
Oilseed plants	3.1	6.1	80.0	5.2	n. a.	n. a.	331.7	11,349
Leguminous plants	17.2	11.3	8.0	17.4	6.0	n. a.	35.1	1,868
Potato	10.7	41.5	87.0	20.4	5.4	10.4	154.7	2,037
Fruits and table grapes	n.d.	34.9	42.0	15.0	5.0	9.7	244.0[b)]	5,838
Wine grapes	7.6	3.6	50.0	24.8	4.9	3.5	66.0[b)]	3,400
Vegetables	32.0	31.3	76.0	52.0	13.0	18.2	140.0	2,460
Yields, 1000 t								
Cereals	498.8	1358.3	3,633.0	676.6	441.0	15.9	9,539.1	260,561
Oilseed plants	2.6	13.6	198.0	7.8	n.d.	n.d.	7,539.1	10,021
Leguminous plants	22.4	18.4	14.0[a)]	14.3	8.2	n.d.	62.8	4,486
Potato	160.0	413.5	1,106.0[a)]	288.5	n.d.	117.0	3,085.0[b)]	59,599
Fruits	246.0	182.9	492.0	147.7	29.6	33.6	1,085.0	63,001
Tobacco	2.1	4.4	10.0[a)]	21.6	0.1	0.4	11.0	340,000[c)]

Key: a) – 2003; b) – 2004, c) – 2001.
Source: Synthesis Report 2006, p. 15.

Figure 68

Plant cultivation/yields, 2005

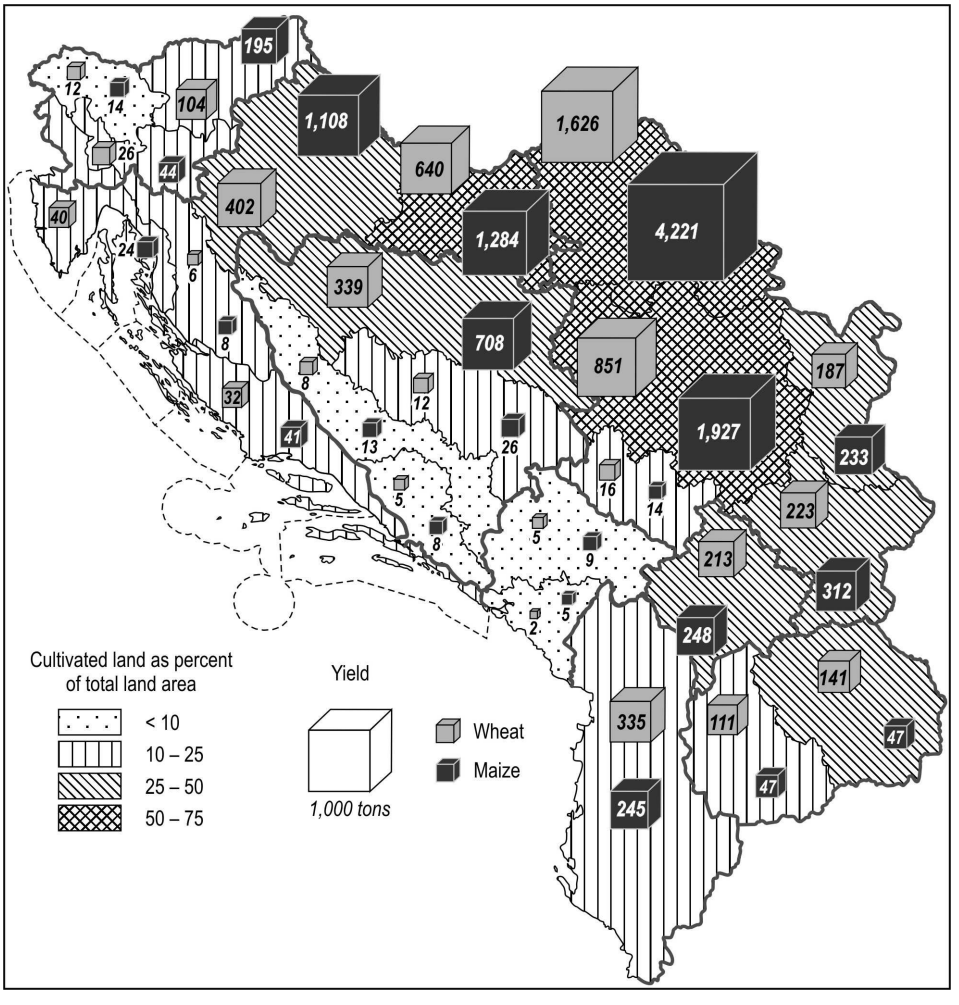


* 2003

Source: By the author, based on Synthesis Report 2006; The Europe World Year Book, 2005.

Figure 69

Cultivated land, arable land, cereal and maize production, 1981–1983 average



Source: Bertić, 1987; Statistical Office of Albania, 2008.

Table 51

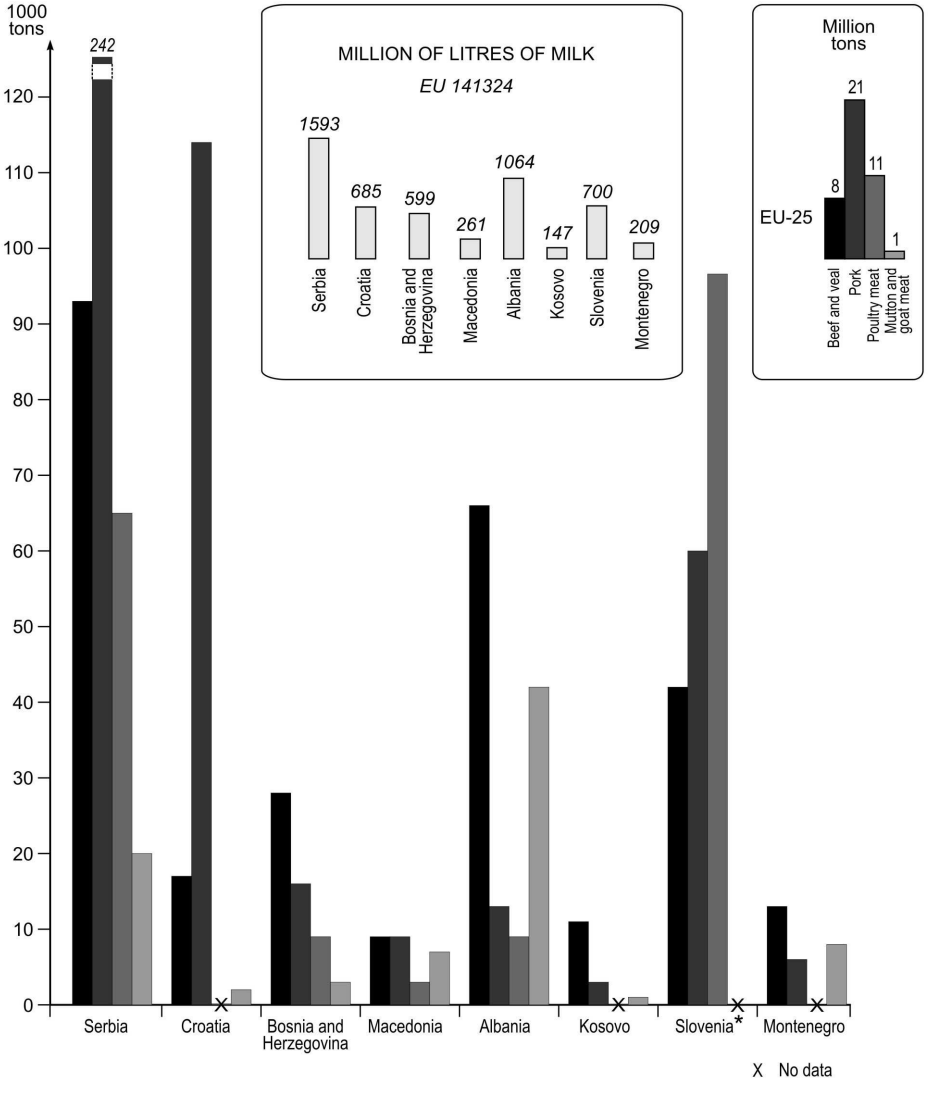
Livestock numbers and production of animal products, 2004

	Albania	Bosnia and Herzegovina	Croatia	Macedonia	Monte-negro	Serbia	Kosovo	EU25
Livestock, '000								
Cattle	654	453	466	255	175	1,102	335	86,411
Sheep and goats	2,292	745	848	1,432	254	1,685	107	101,309
Pigs	143	595	1,489	158	24	3,349	55	151,143
Poultry	6,275	n.d.	6,447	2,725	890	16,280	2,382	5,311,391
Production (1000)								
Cattle meat, veal	66	28	17	9	13	93	11	8,084
Sheep and goat meat	42	3	2	7	8	20	1	1,058
Pork	13	16	114	9	6	242	3	21,194
Poultry	9	9	n.d.	3	n.d.	65	n.d.	10,990
Milk (million litres)	1,064	599	685	261	209	1,593	147	141,324

Source: Synthesis Report 2006, p. 16.

Figure 70

Production of animal products, 2004



* 2003

Source: Synthesis Report 2006; The Europe World Year Book, 2005.

6.3 Fishery

Certain coastlines of the Adriatic sea belong to four Balkan countries (Albania, Croatia, Montenegro, Slovenia). Fishery occupies a different role in the agriculture of these countries (*Table 52*).

Table 52

Data on fishing in coastal countries

	Albania	Croatia	Montenegro	Slovenia
Length of coastline, km	362	1,777	199	47
Total fisheries production, t	7,699	52,570	911	2,500
Capture production, t	5,729	37,853	900	1,313
Aquaculture production, t	1,970	14,897	11	1,369
Per caput fish supply, kg/year	4.5	14.2	4.1	7.0
Imports, US $1000	16,347	112,487	69,927	66,353
Export, US $1000	23,914	159,382	3,043	20,362
Net balance	7,567	46,895	–66,884	–45991
Fishery exports as a percentage of agricultural exports, %, 2003	32.5	14.6	5.6	4.0
Fishery exports as a percentage of total merchandise exports, %, 2003	1.8	1.5	0.0	0.1

Source: www. faoadriamed.org.

Croatia has the longest coastline among the Balkan countries, with 4058 islands. Besides tourism and agriculture, fishing is the main source of income for the population of coastal areas and islands. Croatian fishing has significant foreign trade surplus and per caput fish supply is also high (an annual 14.2 kg/capita). From among marine fish species, the so-called small bluefish (sardine, mackerel), big bluefish (tuna), and the so-called whitefish (sea bass, tongue soles, black scorpionfish) are captured. Only tuna fishing is regulated by quotas. The effective fishing legislation distinguishes three types of marine fishing: economic, recreational and sport fishing.

As regards to freshwater fishing, Croatia and the Vojvodina occupy a predominant position. Carp is most the frequent species in freshwater fish stocks.

From among coastal countries of the Balkans, Albania also shows remarkable production values besides Croatia. Its foreign trade balance of fishery products is positive and the fishery sector accounts for about one-third of the total agricultural export.

In collaboration with Italy, Albania, Croatia, Montenegro and Slovenia established the AdriaMed in 2000. The objective of this organisation is to support the publication of scientific studies about the Adriatic sea. AdriaMed is a member of the ASFA international organisation.

6.4 The specific features of agricultural production in the Balkan countries

In agricultural production there are considerable disparities among the countries of the region. In Albania, due to the small average size of holdings, the dominant sector is animal husbandry (sheep and goats) and fishing in coastal areas. At the same time, despite the fact that each family keeps, typically, one to three cows, milk production is significant. In regions nearer to sea-level, wheat, maize, oats, sugar beet, olives, fruit and vegetables are grown. On the Bosnian plains cereals are the main crop, and, in addition to cereals it is potatoes, tobacco and fruit that are grown.

The main products of Croatia are maize, wheat, potatoes and sugar beet. The coastal regions have a significant fishing sector, and wine production is also strong. In order to avoid the danger of erosion, terraces were built on the plantations and steep hillsides.

In the agricultural production of Macedonia, vegetables dominate (tomatoes, paprika, cabbage) together with fruit (table grapes, plums), wine production, tobacco growing and sheep husbandry (milk and lamb/mutton).

In Slovenia, the sector is a serious employer, among other reasons, since animal husbandry is very important, as are the processing of animal products, viticulture and wine production on the smallholdings. On these holdings, both tradition and innovation combine in a healthy and productive partnership.

Serbia is the most important plant cultivator in the Balkans and, within the country, it is the Vojvodina that shows outstanding production figures. In 2008, 56 percent of wheat produced in Serbia came from the Vojvodina, while the region's share of national maize production reached 64 percent. The average yield of wheat in the Vojvodina was 4.8 tons per hectare and of maize 5.5 tons per hectare. These figures contrast with the 2.4 and 4.0 tons per hectare figures, respectively, of Central Serbia. The yields of the Vojvodina are nevertheless below those in Western Europe, but similar to the average yields typical of Hungary.

In some of the Balkan countries, yields are lower than in Central Serbia. For instance, the average wheat production is estimated at 2,1t/ha in Macedonia. Cereal yields in the area in an average of five years (3,7t/ha) have remained

below the EU25 average (5,8t/ha), which can be explained by the low level of input and the poor quality of sowing-seeds, the poor technical and technological equipment of farms, the underdeveloped sowing and cultivation methods; the lack of efficient professional consulting network; limited possibilities of irrigation; the restricted access to favourable areas for cereal production; and finally, the high rate of subsistence holdings (which do not aim at yield maximisation, but subsistence with a minimum level of inputs).

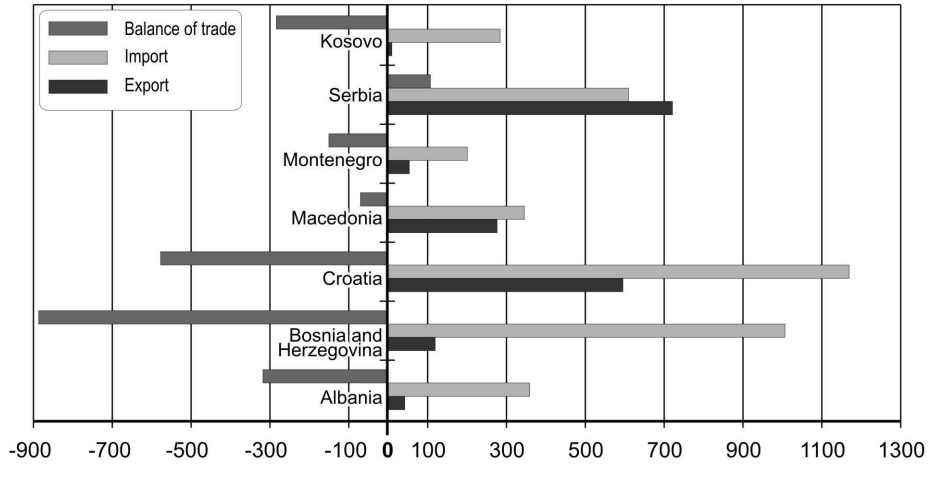
In Central Serbia sheep and goat husbandry are significant, but smaller flocks are typical (farmers usually have 15–50 animals). In terms of fruit, in Central Serbia it is plums, whilst in the Vojvodina region peaches and apricots which are significant.

7 Agricultural and food products trade

Despite the extreme importance of agriculture in the region, all Balkan states – except Serbia – were net agricultural importers in 2005. The deficit in agricultural and food industry products was lowest (€70m) in Macedonia whilst the highest (€888m) was registered in Bosnia and Herzegovina (*Figure 71*).

Figure 71

Agricultural exports and imports, and the balance of agricultural trade by country (2004/2005), in €m



Source: Synthesis Report 2006, p. 22.

The largest exporters are Serbia and Croatia, while the biggest importers of agricultural and food industry products are Croatia, and Bosnia and Herzegovina. The major trade partner is the EU; 18 percent of exports go to the Union and 49 percent of imports come from the same source. Of Croatian agricultural and food industry imports, 68 percent is from the member states of the EU, while this figure is only 30 percent in Kosovo. The extreme figures of agricultural exports to the Union can be seen in Albania (71 percent) and Kosovo (31 percent).

The second most important trade partnerships in the agricultural sector, after the EU connection, are among these same states of the region.

The order of agricultural export/import products shows differs from country to country. In Macedonia, for instance, the most significant export product is tobacco, followed by wine, beverages, cigarettes and lamb. Cattle and veal rank first among import products, followed by cereals, chicken and sunflower oil. The main agricultural export products of Serbia are sugar and sugar products, dried fruits and cereals. Dried fruits and walnuts rank top of the list of import products, followed by beverages, tobacco and tobacco industry products.

8 Conclusions

It is very difficult to draw exact conclusions of the agriculture in the Balkan countries, since statistical data are lacking and classifications differ, not being identical with EUROSTAT definitions.

Agricultural production has considerable traditions in the region, and the sector has a very important role in the economy and employment. The contribution of agriculture to GDP and employment exceeds EU levels. Subsistence and near-subsistence farms play an important role in the food supply, and also in the economic stability and social security of the rural areas, and subsistence farms are hardly affected by economic crises.

The transition to the market economy is underway in the Balkan countries. Agriculture, due to the dominance of the subsistence farms, is only in the initial phase of this process. The shift to the market economy is hindered by several factors: the fragmented holding structure (most small-holdings consist of several plots of land), the lack of (or the deficiencies in) the institutional system of the market economy; and the lack of adequate professional skills, an entrepreneurial attitude, capital, bank finance for agriculture and the low level of competitiveness in the sector.

The agricultural production of these countries – with the exception of tobacco and sheep and goats – is no more than a few percent of the output of the

EU, and the countries are net agricultural importers – except for Serbia. However, the increase in production in some sectors is dynamic, and lower production costs may also be a competitive advantage in some cases. In summary, Balkan countries may access the EU's agricultural market as potential receiving markets or competitors.

TRANSPORT IN THE BALKANS

FERENC ERDŐSI

In respect of connections at intercontinental level and those of a single trans-continental infrastructure to a major system, the Balkans is perhaps the most problematic region of Europe. In peacetime the Balkans acts as a gateway to a thousand year-old corridor linking Central and Western Europe with Asia Minor and the Middle East, and its shaping was a natural result of the international flow of people and goods. However, interruptions to international transport caused by natural difficulties in traversing the Balkans (the mountain range rather than the region) and by all-too-frequent political conflict, the Balkans have often seemed more like an insuperable barrier.

With the exception of the (roughly one-eighth) developed western area of the Balkans, the low level of economic efficiency, the general backwardness (caused partly by the peripheral situation) and the recession (due to the events of the '90s) afforded little opportunity for an efficient and reasonably up-to-date transport system to develop. At the same time, the repeated restructuring during recent years of this economic/social/transport area into different administration units and/or countries – sometimes larger; sometimes smaller – has had at least the same negative effect.

At the beginning of the 20th century, the border changes brought about by the Balkan Wars essentially disrupted the operation of the network which had developed in the eastern part of the peninsula, and, in this respect, the first serious task to be undertaken post-1918 was to expand and reorganise the network to accord with the new national borders. The subsequent collapse or fragmentation of networks after the disintegration of Yugoslavia, conflicts between the countries involved, isolationist efforts and civil wars from the point of view of accessibility to economic centres, seaports and airports brought their own problems – different, but not smaller.

In relation to Europe, the whole of the Balkan Peninsula shows a moderate, horizontally laid out structure. Each country, except for Macedonia (and Kosovo), has a coastline but there is a huge difference between the length of the coast of Bosnia and Herzegovina and that of Croatia.

The Adriatic (Dalmatian) and Greek coastlines, deeply indented by gulfs, peninsulas and islands, are ideal for maritime transport and shipping. The significance of tourism is also due to this fascinating coastline and this was also exploited by various forms of traffic-flow in local, air, coastal and deep-sea transport (by moving tourists and supplying them with goods). An attractive environment can be a huge factor in increasing income, although one condition which is vital if this is to be realised, is adequate transport.

Most of the Balkan land-mass shows a very rugged surface which clearly offers very poor conditions for inland transport. The primitive road system before the railway age had to follow topographic reality in a very flexible way and long–distance roads followed valleys and passes.

Building roads for motor transport required a great deal of planning and expensive construction – especially at elevated heights. Building railways met still greater problems with inclines, needed huge amounts of capital to meet labour costs and also involved major compromises. As a result, most branch–lines were built on narrow-gauge track (even most of the main lines in Bosnia and Herzegovina). Long stretches were laid along the valleys, which gave their names to the most famous railways. Companies, lacking resources, tended to avoid building long tunnels before the 1950s. Instead, they chose to extend the length of track with many long bends and curves to by-pass any hills in their way. By contrast, railways built between 1950 and 1980 show the cost–insensitivity of the old socialist countries: they redesigned tracks in straight lines with huge construction work and replaced narrow-gauge by standard-gauge track. (They 'especially generously' inserted tunnels on the Belgrade–Bar railway line.) Similarly, very intensive construction also took place in building Greek high–speed railways. The oldest constructions in Balkan culture are the old Gothic bridges traversing narrow but fast-moving rivers (the Mostar or Drina bridges). In addition to the extremely unwelcoming nature of the terrain, road and rail traffic in particular are delayed by long–term snow–cover in the mountains in winter.

Quite simply, natural conditions for inland transport in the Balkans are satisfactory only for a few, well-known routes and corridors. On the other hand, huge investment is needed to be able to resist Nature in the mountains. Euphemistically speaking, most areas of the Balkans are not 'traffic–friendly' and so Balkan backwardness is due in part to bad transport. During World War II, strategic planners controlling mechanised armies also had to face the poor technical condition of the Balkan road system.

1 The Balkans in the global, intercontinental and European traffic area

Air- and sea-routes connecting power centres of the global economy (Western Europe and North America with East and South-East Asia) have special importance in world trade, defining, as they do, mega-traffic channels. In addition, the significance of the continental corridor (the New Silk Road) connecting Western Europe with East Asia through Siberia and Central Asian countries, continues to become more significant in terms of intercontinental relationships. In respect of participating in world trade, the Balkans' transport–geographical situation which defines its spatial relationship to these global mega corridors is relevant, but its situation in the European transport area, especially in respect of accessibility to Western Europe and its position in Southern Europe is even more important (*Erdősi–Komlós,* 2001).

In terms of geographical location, the Suez Canal is a sea-level waterway which connects to the global network of maritime transport. However the Balkan countries have exploited this possibility only moderately (*Table 53*). Access to a continental mega-corridor (for the Trans-Siberian and the New Silk Road) is the most difficult, and currently the best opportunity for combined freight to the Far East is provided by ferries carrying trucks across the Black Sea (*Erdősi,* 2009).

International trade within the Balkans is not intensive except for relationships based on historical tradition (e.g. trade between Bosnia and Herzegovina and Serbia and Montenegro). The level of trade among the region's countries is, on average, no more than 10–20%. On the other hand, the EU is the largest market (for both exports and imports) with an average of 50–55%. The main foreign trade partners of the CIS are Bulgaria, Serbia and Montenegro and Macedonia (an average of 15%). Bulgaria and Romania show an average 14% in their relations with Greece, Turkey and countries of the Middle East, but Albania's are still stronger.

Although foreign trade with Asia is increasing, for each Balkan country the West European economic relationship is the most important. For the Balkans, access to the Atlantic and Western Europe is the key issue from the twin perspectives of integration in the European transport area and economic and cultural foreign relations. The shortest sea–route from Rotterdam (the largest North Sea port) to a Balkan port leads to Vlorë in Albania. Thracian ports in the Aegean can be reached only after a voyage of 5,300–5,400 km from Europort (even via the Corinth Canal). Bulgarian and Romanian Black Sea ports are, at 6,300–6,500 km distance, the worst situated.

Table 53

Main indicators of foreign trade of the Balkans countries (%)

Country	With other ex-socialist Balkan countries	With Greece	With Western Europe	With the Far East	With North America	With other parts of the World	Main foreign partner and its proportion in foreign trade	
							Country	%
Albania	8	24	58	2	3	5	Italy	30
Bosnia and Herzegovina	38	1	53	1	3	4	Croatia	24
Bulgaria	4	2	56	9	7	22*	Germany	29
Croatia	11	2	63	8	6	10	Germany	19
Macedonia	26	8	50	7	3	6	Germany	18
Romania	2	0	56	13	10	19**	Germany	20
Serbia and Montenegro	15	4	40	18	3	20***	Germany	17
Slovenia	7	1	76	5	5	6	Germany	35

*Of which 18% is with states of the CIS; **Of which 13% is with states of the CIS; ***Of which 12% is with states of the CIS.
Source: Calculated by the author on the basis of Europe World 2008.

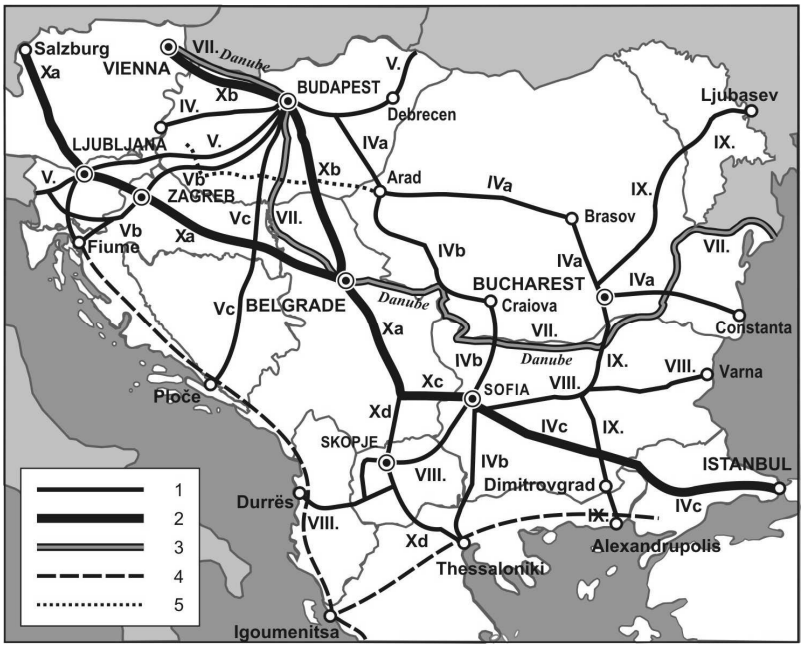
The Danube, as a long–distance/international inland waterway (PEN Corridor VII) has a shipping capacity theoretically equal to 8–10 motorway lanes and provides access to Western Europe for five Balkan countries (Romania, Bulgaria, Serbia, Croatia and Bosnia and Herzegovina) as well as to a group of major ports via navigable tributaries such as the Main and the Rhine. In practice this potential has seldom been used since the '90s – for economic, transport-structural and political reasons (Status of the PAN-European Transport Corridors and Transport Areas. – TINA office Vienna, February 2000).

From the latter part of the 19th century, the Balkans were connected to Western Europe by international railways – part of the PEN/TEN Corridors No 4 and 10 (*Figure 72,* reaching north and northwest parts of the peninsula and main roads (close to motorways in some places).

From Dutch ports, however, the interior of the Balkans can only be reached after at least 2–4 days transit time by the quickest inland traffic vehicles.

Figure 72

Pan–European/Trans–European corridors



Key: 1 – Inland transport corridors, 2 – Danube waterway (corridor VII).

Source: Status of the PAN-European Transport Corridors and Transport Areas. – TINA office Vienna, February 2000.

The time needed to reach any Western European airport from the capitals of the Balkans varies only by 30 to 60 minutes.

There are some specific characteristics of the transport–geographic situation of the Balkans in the South European context, such as the following:

- In terms of the three large peninsulas of Southern Europe, mechanised transport (road and rail) routes in the Balkans were built late. Their efficiency, technical standards and traffic load lag far behind those of the Iberian and, particularly, the Italian peninsula. This is evident in the nature and strength of economic and historical–political motivations which create or boost remote connections and which emanate from territorial differences in terms of power and the economy.
- Motivation for building Trans-Dinaric connections (that is, across the Dinaric Alps between the Mediterranean zone of the Balkan Peninsula and the heart of Europe) was much weaker than with Transalpine links. One of its reasons is the underdevelopment of the territorial division of labour caused by the general backwardness of the Balkans and of the Carpathian Basin as a whole. This also restricted the volume of freight required. Transit is also hampered by disunity, the isolation of political/administrative territorial units in the Balkans, the strong adhesion of most inhabitants to native culture and socio–economic relations and to a distrust of foreigners.
- The gateway role (from the Dalmatian coast towards its natural hinterland) was also reduced for a long period, since the commercial connections of its Italian-speaking ports were oriented towards the Mediterranean. Ports in the Northern Aegean (primarily, richly endowed Thessaloniki) were unable to develop their gateway role under the Ottoman Empire prior to 1912. The Southern part (or rather the coast) of the Balkan Peninsula existed more as a gateway for minor local traffic than as a destination in itself and this remains unchanged. Certainly, interregional traffic within Yugoslavia (which survived for nearly three-quarters of a century, created something new, although it must be said that overseas locations were more important for the Dalmatian coast's food- and raw-material supply than were the Vojvodina and the Carpathian Basin, Likewise, Bulgaria has not supplied Greek Thracian markets for a long time.

In recent years – due mainly to international tourism – Italian connections have flourished to an extent which gave a great boost to Trans-Adriatic ferry–lines. Most of this still focuses on the short crossing (between Split and Ancona) but traffic between other Croatian and Italian ports (Zadar and Dubrovnik to Bari, Pescara, Ravenna etc.) is growing rapidly (*Table 54*).

The busiest ferry–lines in the South are the Durrës–Bar–Bari routes serving Albania, Montenegro and Italy.

Table 54

Trends in maritime ferry–traffic between Croatia and Italy

Route	Year	No of passengers, ('000s)	No of vehicles, ('000s)	Incl. trucks ('000s)
Split–Ancona	1990	184	50	18
	1996	175	45	16
	2002	260	70	29
	2010*	917	180	46
Other ferries between Croatia and Italy	1990	11	2	1
	1996	44	9	4
	2002	91	27	10
	2010*	483	110	47

* Forecast.
Source: REBIS, 2003.

2 External powers and economic centres, and the national interest role in building transport networks

The biggest paradox of Balkans traffic lies in the contradiction between the highly exposed location in geopolitical/transport–geography terms and difficulties of access due to natural factors. Only external powers much wealthier than local society (which is also ethnically fragmented) could solve this by establishing transport routes well-known from early history.

West-to-east was the dominant direction from ancient times until late Ottoman times.

In the Middle Ages, there were no significant transit–routes from the Carpathian Basin across today's Bosnia–Herzegovina to the wealthy Venetian colonies along the Dalmatian cost. Under the Ottoman Empire, the directional flow of Trans-balkan traffic in eastern and central areas (Istanbul–Sofia–Niš, Thessaloniki–Belgrade etc.) changed to south-and-east to north-and-west. This accorded with the interests of Western Europe's major powers who were eyeing Asia Minor, the Near and Middle–East and the Suez Canal in the 19th century.

In the Western Balkans, transport in the south-to-west direction was revived by the expansion of the Hungarian Kingdom and trade with Italy. Here, even railway lines were built (in the national interests of Hungary) and in this way

Fiume (Rijeka) had an opportunity to compete with the port of Trieste. Similarly, Hungarian policy also prevailed in establishing transport nodes in Transylvania, so linking main thoroughfares in Romania and routes crossing the Carpathians. At the formation of Yugoslavia, the main direction changed again to northwest to southeast (*Martin,* 1937). The users of the main traffic corridor in the North of the Southern Slav state of Yugoslavia were the cities directly linked by this route (Maribor, Ljubljana, Zagreb, Belgrade), the more developed areas in the North (Slovenia and Slavonia) and territories along the Sava, Drava and Danube. Traffic along the corridor declines after crossing the Morava basin and drops even more after Niš (partly due to a fork in the road).

The main international requirements were that Yugoslav railways should ensure the appropriate level of speed and continuous flow of traffic and establish connections with the networks of neighbouring countries.

The main international transit links between Central and South–Eastern Europe had to be created first in order to ensure access to the territory of the new country (e.g., the main route between Zagreb and Belgrade did not exist before World War I) After this re-orientation and structural change, some old main–lines were down-graded to branch–lines (e.g. Maribor–Bleiburg–Franzenfeste and into Austria); on the other hand, however, some branch-lines were designated as main-, or even international, lines.

The international railway–geographical situation of Yugoslavia (which has a greater territory than that of pre-WWI Serbia) became better with expansion towards the Carpathian Basin and the Eastern Alps (which have a much denser railway network). The change can be measured by the increase in the number of railway frontier-crossing points (*Table 55*).

Within Yugoslavia, Belgrade and Niš became more and more the prime connection centres for international transport to the East.

The other fundamental requirement was to establish the missing rail network connections between the member–states of the former Yugoslavia. The structure and network of rail transport in the new country were strongly segmented due to the fact that the country was put together from more than one state and parts of states with different interests. From the very beginning, the Kingdom of the Serbs, Croats and Slovenes was forced by its economic interests and internal situation (i.e. being threatened by separatism) to strengthen internal cohesion by making the transport network more organic as opposed to regional and to explore territories approachable only with difficulty. Whilst railways were built in Western and Central Europe, connecting sub–networks was underway in Yugoslavia. The expansion of rail networks between the two World Wars totalled one thousand kilometres, and only the USSR with its huge territory led Yugoslavia in railway-building in Europe.

Table 55

Number of railway frontier crossing points of Serbia and Yugoslavia between the two World Wars

Neighbouring country	Number of crossing points		
	in 1914	in 1923	in 1935
Hungary	1	17	7
Romania	–	14*	3
Bulgaria	1	1	1
Greece	2	2	2
Italy	–	4	4
Austria	3	5	5

* 14 frontier crossing points could not exist even in 1923. This is also the case even if narrow gauge tracks are included here too (Erdősi).

Source: Vásárhelyi, 1934; Imrédy, 1943.

On ex-Serbian territory, more Belgrade–centred railways were visible among standard-gauge tracks due to their economic significance and their role in linking remote locations. The most important of these was the Ibar Basin Railway which connected Kragujevac and Mitrovica through Krajlevo by 1932 and soon became busier than the international main line from Morava to Vardar.

It was a problem for Belgrade that nearby there was neither a domestic seaport for Serbian foreign trade nor any reasonable connection towards Sarajevo – which was/is the official home of the head of state of Bosnia. Between the two World Wars, the large part of the most significant network supplementations in Yugoslavia and even in Bulgaria focused on the development of access to main sea ports (Burgas and Varna) in order to enjoy the advantages of independent foreign trade.

To partition the territory more equitably, in 1960 a port was built for Serbia and Montenegro (and part of Macedonia) next to Bar, near the Albanian frontier – at Montenegro's expense.

The role of the Trans–Yugoslav line (Belgrade to Bar) was to serve Serbian centralist policy and the economy's efforts for independent development. Included in this were:

- Exploiting the rich mineral quarries and forests and facilitating the modernisation of the scarcely accessible southern mountain areas; and
- attracting profitable transit traffic generated by the countries of the Carpathian Basin or possibly even more remote areas.

In addition, we can assume that the main motivation for attempting to bring the sea closer, as it were, had a strategic origin. Before the civil wars in Yugoslavia, the, mainly Serb, general staff had to face the collapse of the Federation, leaving Serbia and Montenegro alone.

3 The Balkans as an important transit area between Western Europe and Turkey (Asia Minor/Middle East) – current and planned transit routes

Turkey, in strategic/geopolitical terms the top priority Southeastern wing of NATO (and also a huge market) has a population close to that of Germany and plays a dominant part in the labour supply of Western Europe. It can, however, only be accessed overland from Western Europe through the Balkans.

Transit became discouragingly time–consuming due to the segmentation of the Balkans as there are five frontiers instead of the former two to be crossed in the PEN No 10 corridor between Austria and Greece. For instance, in 1990 the rail journey between Munich and Thessaloniki (Salzburg–Ljubljana–Zagreb–Belgrade–Skopje) took 36 hours, 1.5 of which were taken up by administrative delays at frontiers – or 4.16% of the whole travelling time). In contrast, in 1999, 45 hours were needed for the same journey, of which 10 hours (22% of the total) were spent at frontiers (*Voivodic,* 2003). The longer internal transit–time has also contributed to diverting some transport on to sea-routes. That is why, for example, Ro-Ro lines operate between Turkey and Italy.

Inland transit (road and rail) with the main destination Istanbul has been operating since the return of relative political stability and the reconstruction (to some extent) of international traffic connections within the Balkans (*Nowosad–Rodik,* 2008).

However road traffic along the PEN 10a/4/8 corridor, linking Graz–Ljubljana/Maribor–Zagreb–Belgrade–Niš–Sofia–Istanbul reached 60–65% of the ‘80s total, whilst rail traffic reached only 30–40% – in spite of increasing demand. The low efficiency of lines leading through the Western and Central Balkans and, in addition, the frustrating and time–consuming border crossings forced shippers to cross Hungary and Romania using trains carrying trucks from Germany to Istanbul (*Figure 73*). Well–known logistics companies consider this “by-pass” as no more than temporary (as in the case of maritime Ro-Ro services by-passing Greece from the south). BAC (Business Advisory Council South–East) has already worked out a schedule for a rapid rail-freight service (only 25 hours transit time) connecting Asia–Europe–Link Express–Hakali [Istanbul] – Ljubljana (*Figure 74*). This would be much better than other

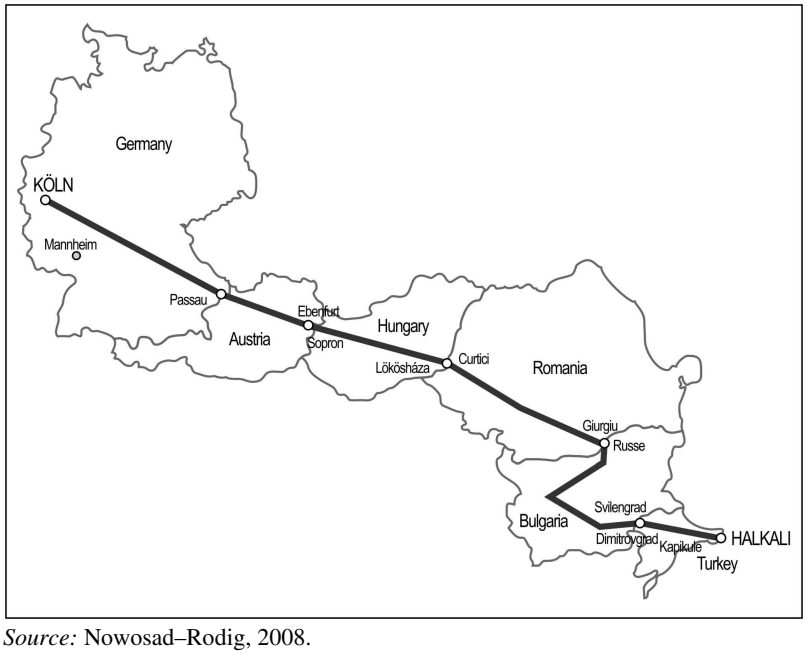
options, but significant financial support would be needed from the EU in order to upgrade the line technically and to minimise potential delays at frontiers – not only by radically rationalising administration, but also by solving technical interoperability problems between national networks – although there can be no guarantee of this.

4 International traffic connections within the Balkans

Before WWI, transport between the different entities of the Balkans was very poor due to acute political conflict (involving Serbia, Bulgaria and Romania) culminating in the Balkans Wars (circa 1910), other political conflicts (e.g. Serbia and the Austro–Hungarian Empire), the limited mobility of the population caused by general backwardness and underdeveloped trade between neighbours. Between the two World Wars, the situation was changed somewhat by reducing frontier problems following the formation of the Kingdom of the Serbs, Croats and Slovenes, but the frequency and volume of traffic-flow through frontiers increased only slightly.

Figure 73

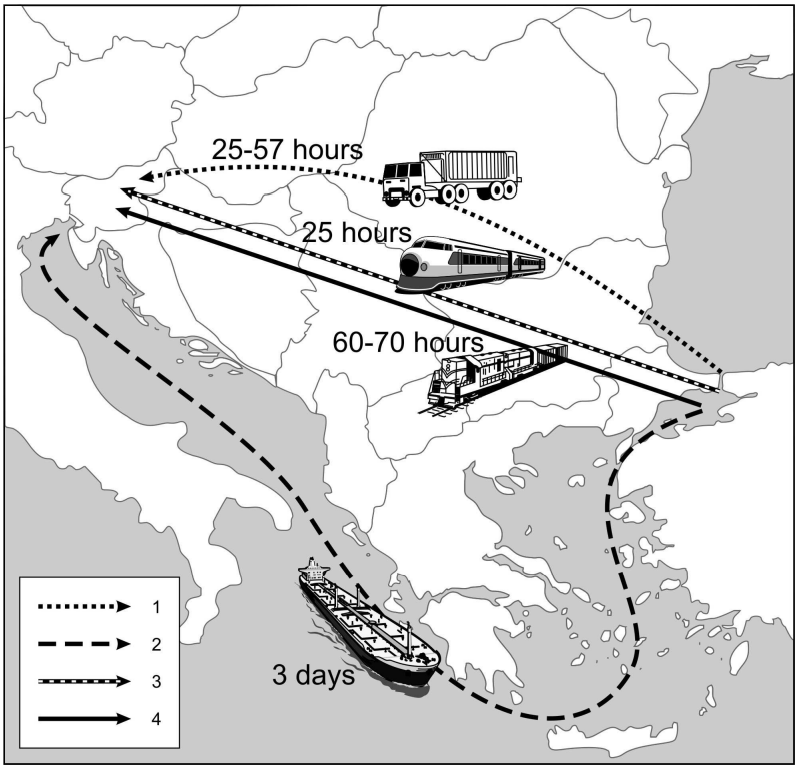
Rail routes between Köln and Halkali (Istanbul)



Source: Nowosad–Rodig, 2008.

Figure 74

Transit options Ljubljana–Halkali (Istanbul)



Key: 1 – Road transport (min. 2–3 days); 2 – Road/sea transport (Istanbul–Trieste) under 3 days; 3 – Rail transport (container–terminal Halkali–Ljubljana); 4 – '25' Asia–Europe Express Project (25 hours).
Source: Nowosad–Roding, 2008.

Cross-border movement revived between the satellite states of the Soviet Union after WWII, but the isolation of Yugoslavia between 1949 and 1953 blocked cross–border traffic connections. The same happened – a decrease in the number of frontier crossing-points – in Albania in the aftermath of its isolation in 1960.

The collapse of Yugoslavia and the formation of new states resulted in some 5,000 km of new frontiers and many more border-crossings. The segmentation process and the opening of the borders of the ex-socialist countries led to 54 rail- and 181 road-frontier crossing-points in the Balkan countries by 2010. Slightly more than half of the rail and 55% of the road crossing-points are be-

tween Balkan countries. Considering all (rail and road) crossing-points, the densest frontier is on the western side (due to traditionally dense and developed networks, larger populations, better political relations and closer location to the European central area). For the same reasons, more crossing-points on external borders can be found than between individual countries inside the Balkans. There are, however, still very few border-crossings located in the most depressed countries in the south/southeast part of the Balkans. There are no rail crossing-points on three borders (between Bulgaria and Macedonia, Albania and Macedonia and Albania and Greece), and there are also very few on the Bulgaria–Greece, Bulgaria–Turkey and Albania–Greece borders. As *Table 56* shows, there are significant differences in the types of road border-crossing. With E-roads and other top-ranking main roads, one clear result emerges: the border-crossings (two-way) set up exclusively for neighbouring states' citizens operate only in the Western Balkans and on the Romanian–Hungarian border.

Table 56

Motor–vehicle traffic crossing different frontiers in the Balkans in 2000

State border	Cars, ('000s)	Trucks, ('000s)	Within 100 km long frontier		
			Cars	Trucks	Total
Croatia–Slovenia	21,250	952	4,241,517	190,020	4,431,537
Bosnia-Herzegovina–Croatia	11,321	582	1,214,700	62,446	1,277,146
Croatia–Hungary	5,145	335	1,563,829	101,824	1,665,653
Croatia–Serbia-M.	1,295	180	537,344	74,689	612,033
Serbia-M.–Hungary	930	155	38,589	64,315	102,904
Romania–Hungary	5,300	724	1,183,040	161,607	1,344,647
Romania–Ukraine	43	28	7,832	5,100	12,932
Romania–Albania	444	60	65,198	8,811	74,009
Romania–Bulgaria	232	331	38,095	54,351	92,446
Bulgaria– Turkey	264	231	101,930	89,198	191,129
Bulgaria–Greece	268	213	54,361	46,856	101,217
Bulgaria–Macedonia	219	82,5	132,727	50,000	182,727
Macedonia–Greece	400	120	152,672	45,802	198,474
Albania–Greece	45	0,3	15,306	11,565	26,871
Macedonia–Albania	13	16	6,806	8,377	15,183
Serbia–Albania	24	270	10.909	123	11,032
Buglaria–Serbia	167	94	33,004	18,577	51,581
Serbia-M.–Romania	860	10	157,509	1,831	159,340
Serbia-M.–Bosnia-Herzegovina	1,800	115	473,684	30,263	513,947
Serbia-M.– Macedonia	107	100	46,120	43,103	89,223

Source: Calculation by the author on the basis of data by Rebis and Berger.

Different studies estimate the number of new crossing-points needed as between 14 and 58. However, it is clear that traffic flows vary and that there is no need for each to be built to handle the same density of flow.

In respect of road transit flow between borders, the differences are greater than in the density of crossing points. In this view, the frontiers of Western Balkan countries are, in general, busier than those on the eastern frontiers. According to data from 2000 (*Table 56* and *Figure 75*), it is obvious that the majority of freight traffic linking Austria/Italy–Slovenia–Turkey/Greece flowed through Hungary and Romania (Bulgaria to a limited extent) avoiding Serbia, whilst a minority took the classical Zagreb–Belgrade–Morava–Vardar corridor.

Due to the Yugoslav Civil War, transit traffic was diverted from Serbia to Romania and Bulgaria, so demanding increased crossing capacity of the Lower Danube, namely the building of a second bridge, since ferries did not satisfy the need (*Tabakov,* 2000). The opinions of the governments of the riparian countries concerning the location of the bridge differed.

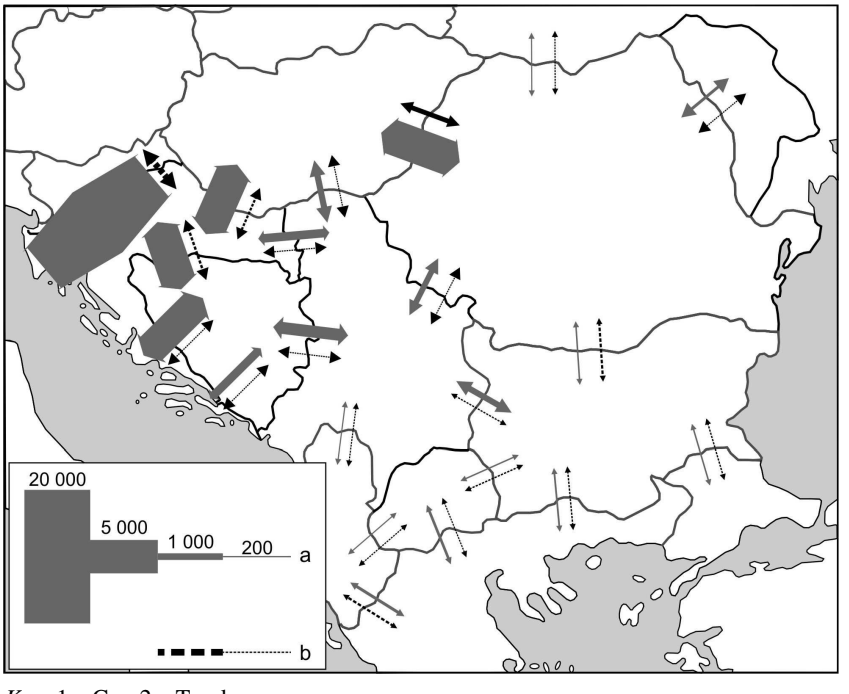
Romania preferred the concept of linking capitals, and so it wanted to link Turnu Mägulere and Nikopol. (On the one hand, centralist thinking is evident in this proposal, but, on the other hand, trucks crossing the Eastern bridge must travel longer distances on Romanian territory and so pay more road charges). Romania was also afraid of losing income for the port of Constanța if the bridge were built on the western part of the common border. However Bulgaria wished to reach Central and Western Europe by the most direct route and so they preferred Vidin, situated close to the Serbian frontier. As there was no prospect of these differing opinions coming closer, an independent English Consulting Firm was asked to make a proposal. It offered a compromise solution linking Sofia and Craiova by the shortest route. Finally, in the light of possible EU support, the location of the bridge was integrated into the PEN Corridor No 4 (E79) and it was decided to build it between Vidin and Calafat where ferries carrying trains and buses etc had been operating for a long time (*Erdősi,* 2000a).

The EU supported relieving the capacity problems of ferries caused by the sudden increase in transit traffic by millions of Euros. (A truck parking area was built at Calafat and a slip-road at Vidin) In spite of this, in 1992, Romania – referring to the decline of rail freight and to the parallel increase in road traffic – discontinued ferrying trains (since this slowed traffic down) and operated ferries only for road vehicles (*Máté,* 2000). The new, 1,275 m bridge was planned for mixed traffic – for both road and rail. Starting the construction of the bridge was included as a priority in the Balkans Stability Programme and in PEN and cost €225.8 million (including the cost of 15 km of rail-track and road) but was delayed for almost a decade. At the end of the ‘90s, Romania opposed the bridge (essentially making no contribution to its financing) and, instead, suggested a new ferry–crossing between Nikopol and Turnu Măgurele. However, the crisis

in Kosovo and NATO intervention raised the value of the bypass through Bulgaria again. Fortunately, in the light of the new situation, the EU was involved in the issue and so the Romanian view was changed positively. The two countries signed the financial agreement in the spring of 2005. Most of the cost of construction was financed from EU funds and loans provided by the EBRD and German–French commercial banks, whilst the contribution of the two countries amounted to only 15%. One part of the transit traffic towards Thessaloniki, however, would re-route itself to Serbia, although the bridge was needed, due in part to the traffic generated by Bulgaria and by traffic towards Turkey and the Middle East.

Figure 75

Number of motor–vehicles crossing frontiers daily in 2000, '000s



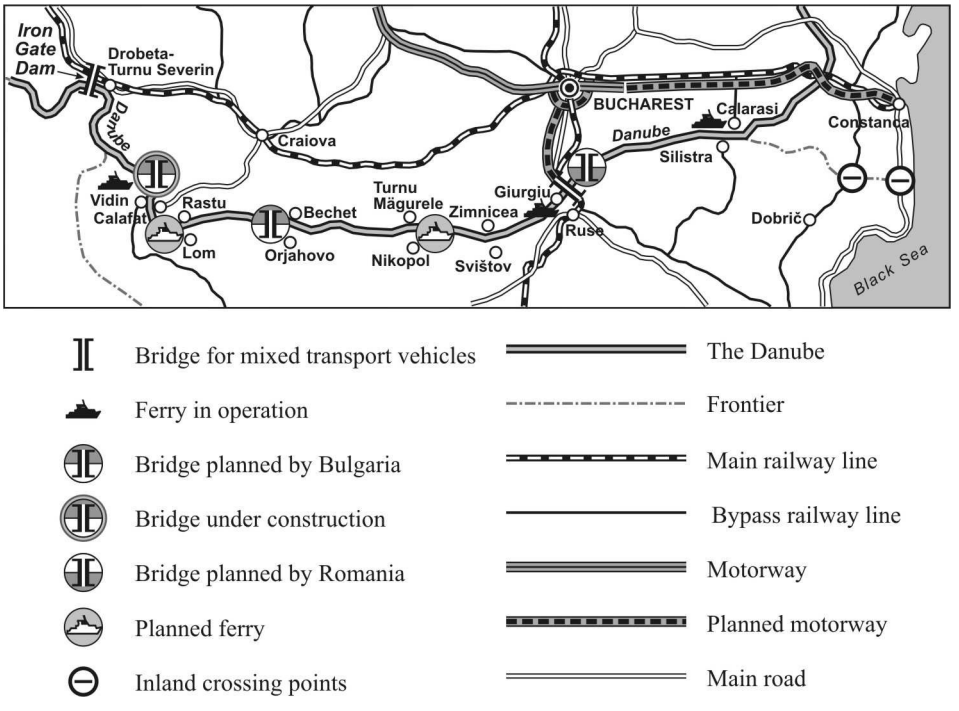
Key: 1 – Car; 2 – Truck.
Source: Berger, 2002.

In 2005, there was only one bridge used by trains and road vehicles on the Romanian–Bulgarian Danube–frontier (Giurgiu–Ruse). A ferry crossing operated at Calafat between Silistra and Călărasi and at Orjahovo. Bulgaria expects to build another bridge in the future between Orjanovo and Bechet, and Romania also plans a new bridge between Giurgiu and Ruse or Cioara and Belenc. In addition, new ferry services will start to operate between Nikopol and Turnu Mägurele and between Lom and Rastu (*Waack,* 1996); (*Figure 76*).

Two road frontier crossing points are open on the eastern part of the Bulgarian – Romanian border (Vama at Veche and Negru at Voda).

Figure 76

Frontier crossing points between Romania and Bulgaria



Source: Waack's map (1996) updated by the author.

At the beginning of the '90s, after the political crisis, frontier crossings became freer, although bottlenecks due to increased traffic made the actual crossing very time–consuming. The enlargement and modernisation of many border-crossings was started with financial aid from the EU. Due to transit traffic,

border-crossing capacity in Bulgaria proved particularly inadequate, especially at the two Greek frontier points open before 1990. At first, the most westerly crossing (at Kulata in the Struma valley) was enlarged to six lanes, allowing 600 trucks and 4,000 cars per day – financed by PHARE at a cost of €1.1m – then Écus).

The EU prioritised Bulgaria for reasons of urgency, and transferred €/Écus 160 million from the INTERREG Programme to Greece in order to develop crossing points on the Bulgarian frontier. By 1996, Bulgaria and Greece had signed a contract to open three more frontier crossing points. The first, towards the Makaza Pass, is also a part of the road and rail network of Pan–European Transport Corridor No 9. Up to this point the line had followed the Turkish border and reached the Greek port of Alexandropoulos by taking a wide curve. However, the traffic situation at the traditional frontier crossing points remained unchanged for a long time. Greece, in fact, met her liabilities as expected, but, on the other hand, Bulgaria mismanaged the EU support, was unable to present a convincing development concept and so received only a part of the available finance (*Kovačevič,* 2000).

A few years ago, based on a bilateral agreement and on funds from the EU, it was agreed to build – rapidly – a rail link between Macedonia and Bulgaria (48 km long) as a part of the future corridor No 8. However, traffic was stopped on the Macedonian side at the Veles–Kocani line, which needed to be lengthened! A further priority task is to link rail networks between Istria and the heart of Croatia in order to avoid fees on the bypass through Slovenia. However, the construction of the new link is delayed due to financial problems and the high cost of construction work (including 10 km of tunnels).

The Una–railway along the Sava valley starts and ends in Croatia, although the curving track crosses the Bosnia and Herzegovina border twice, and so some 25% of the length of the line runs on the territory of its neighbour. Although the track was badly damaged in the civil war, it was reconstructed long ago. However, due to conflict between neighbouring countries, trains do not run along the complete length of the line, but only on short stretches (especially in the south).

There are current views and confident predictions concerning border crossing traffic in the more fragmented areas of the Balkans, following the creation of Kosovo.

The role of the railway is declining;

- only rail corridors No 10 and 4 play notable (but declining) roles in freight/multimodal transport (between Croatia and Serbia and between Serbia and Bulgaria), but
- passenger–trains in the Balkans are heavily under-used;

- these factors – in contrast with EU policy – hinder the development of railways, which are the subject of bilateral agreements;
- motorway construction continues.

Partly in line with the national interest (e.g. Dalmatia within Croatia),

- Partly in TEN-corridors (e.g. developing the Bačka road towards Belgrade to motorway standard on corridor No10b and the Osijek–Bosnia track in Croatia on corridor No 5c, building small sections of its continuation in Bosnia and Herzegovina towards Sarajevo and in corridors No 10c/8, 4c/4b and 9).
- The construction of some 50 km of motorway (in an extremely short period) at the end of 2009 can be considered as an ethnic–geographic unifying step driven by a strong national identity consciousness.

Inland waterways are used only occasionally in the ex-Yugoslavian area (between Serbia and Croatia/Bosnia-Herzegovina). On the other hand, inland waterway traffic runs regularly between ports in Serbia and Bulgaria/Romania.

Air passenger traffic exceeds 8,000 passengers yearly only between the most distant capitals (Bucharest/Sofia and Ljubljana/Zagreb); for other routes the number is between 1,000 and 6,000. There is more potential in the planned charter flights from Bucharest/Belgrade to Dubrovnik/Split – limited to the summer season.

5 Transport between Hungary and the Balkans

In this connection, two basic transport needs are evident:

- rapid access to large capacity resorts on the Adriatic and Black Sea (as well as in Greece) for tourists and summer visitors;
- rapid access to Balkan markets in cooperation with foreign companies by reliable freight carriers with sufficient capacity.

These demands are to some extent satisfied by identical means of transport and services.

- The importance of access by road for tourists is inversely proportionate (but not linearly) to travelling distance and time. Even under the road circumstances of 2010, Istria and the Dalmatian and Montenegrin coasts lie close enough to be reached within a day.
- Opening the M6 Motorway improved access to Dalmatia near the Neretva Delta. The Motorway between Bóly–Beli Manastir–Osijek–Sava is ex-

pected to be finished by 2015. This will further reduce the transit time by 40–60 min (still including possible delays at the border which depend on Croatia's EU accession). The construction of a motorway between Ploče and Mostar on corridor No 5c will be finished soon, the likely completion date for the remainder being 2015–2020.

– A motorway (or main road) chain reaches North Dalmatia and Istria via Croatia and Slovenia and then offers links to Split and Trieste (very close to Istria). Motorways to Rijeka and from Split to Dubrovnik are under construction. These new routes will provide further options to reach the Adriatic.
– According to current news, the Croatian government has adopted a decision to start the planning and construction of the Zagreb–Belovar–Virovitica–[Barcs] motorway in 2010 (*Győrvári,* 2010). It will, therefore, be necessary to build the connecting motorway from Pécs via Szentlőrinc to Barcs. After its opening, this new route will be a favourable alternative for transit from South Transdanubia and the Southern Great Plain to the Alpen/Adria area and Italy very easily.

Approximately 93–95% of tourists travel to the Adriatic by car, 4–6% by bus and 1% by train or air.

Northern Greece and, especially the Bulgarian and Romanian coastlines lie in the zone which can be reached within two days by car.

There is an express route (mainly motorways) from Hungary through Serbia and Macedonia to Northern Greece, and travelling time can be reduced to under 24 hours by changing drivers (depending also on the time needed to wait at frontiers). Air and rail passengers between Budapest and Thessaloniki together amount to less than 1% of the total number of passengers travelling by road.

Three-quarters of the route between Budapest and the Bulgarian coast (via Serbia) is expressway. According to plans, the missing Bulgarian, and perhaps Serbian, sectors (from Niš to the frontier) will be completed by 2015–2018.

In 2010, only 23–24% of the Budapest (Szeged–Piteşti)–Constanța line is used as an expressway, and so transit is more time-consuming than the longer Bulgarian route. It is possible that the construction of North–Transylvanian motorway between Cluj–Napoca and Borş will be finished by 2016/18.

Both holiday zones at Black Sea can be reached by rail but the journey time is extremely long and involves changes in Sofia and in Bucharest – and so very few Hungarians use this mode of transport. During recent years, air traffic has revived. Charter flights depart not only from Ferihegy (Budapest) Airport, but from other local airports also – e.g. from Pécs to Burgas in the summer season, 2010.

Besides tourism (historical and sport) the main reason for Hungarians to visit the inland areas of the Balkans – excluding the edges of the Balkans where Hungarian minorities may live (Transylvania and the Vojvodina etc.) – is business-oriented. Within this group many more people fly, especially to farther destinations which cannot be accessed easily by car (e.g. to Tirana, the Plovdiv International Fair, Craiova and Greek cities).

Freight transport between Hungary and the Balkans:

- The role of the railway has declined seriously due to the limited infrastructure, the low level of service and a lack of safety. The number of mass products for which rail freight was suitable has decreased since the structural change of the economy (mainly in respect of industry). (It is typical that our grain exports to Slovenia and non–ferrous metal imports from Serbia are carried by road.)
- Compared to others, the Hodos–Murska Sobota–Ljubljana–Koper line has the best potential from the technical point of view. However from a bilateral perspective, only truck traffic approaches the minimum level needed to justify the cost of direct trains carrying only one type of freight between two points (*Erdősi,* 2005).
- According to Croatian Railways' (HŽ) plans, the mountainous part of the track between Gyékényes, Zagreb, Karlovac and Rijeka will be rebuilt completely and the track will also be replaced in many places – although even then, it cannot become the major route for Hungarian–Croatian rail traffic.
- The traffic from Hungary to Serbia/Macedonia/Montenegro on the main railway line between Kelebia, Belgrade and Skopje/Bar does not even reach the level of traffic on the branch-line between Székesfehérvár and Tapolca.
- The busiest bilateral rail traffic runs on the main line between Lökösháza and Bucharest (in addition to containers, the freight carried includes grain, timber and building materials, machines, vehicles etc.).

TOURISM

ZOLTÁN RAFFAY

1 General features of tourism of the Balkans states

The Balkans region (or, more precisely, the region according to the designation used in the book) is one of the most versatile, most changeable areas of the continent, both in respect of its physical geography (tourism relevance: the traditional 4 S-factors – sun, sea, sand and sex, i.e. the sea and beaches perfect for recreation; high mountains suitable for hiking and mountain sports; tranquil rural areas good for agro-tourism and other forms of rural tourism; rivers perfect for active recreation including rafting and canyoning; national parks and other natural values for ecotourism lovers) and the socio-economic versatility coming from the ethnic composition of the multi-ethnic and multi-religious region (which is manifested in, among other things, the large number of World Heritage sites – for those interested in culture). The increasing popularity of medicinal and wellness tourism, experienced all over the world, may result in the growing demand for the climatic health resorts of the area.

The countries of the region have a considerable share of the tourism sector of the European continent (*Table 57*), although the performance of the respective countries in the field of tourism is far from being homogeneous: Croatia is the major tourism destination in the Western Balkans, whilst the travel industry in Albania or Kosovo is much less developed and flourishing (at least for the time being).

We can see that the volume of tourism in the ten years between 1995 and 2005 grew almost sixfold in Croatia (a growth of 570%), more than doubled in Slovenia (a growth of 212%) and more than tripled in Serbia and Montenegro (318%). The increase in tourism volume was less spectacular in Macedonia in the same period, whilst tourism in Bosnia and Herzegovina showed a 124% growth (although only calculated for the first five years of the new millennium).

The share of the Balkans from the South European Union or Mediterranean region is continuously, albeit only slightly, decreasing in recent years, excluding the incoming tourism in Albania (which was practically non-existent twenty years ago); the then single Yugoslav state had a 3% share of the tourist arrivals in Europe – which had fallen to 2.5% by 2005 (*Figure 77*). The reasons behind the figures are the drastic decline of tourism in the years of the civil war, and

Table 57

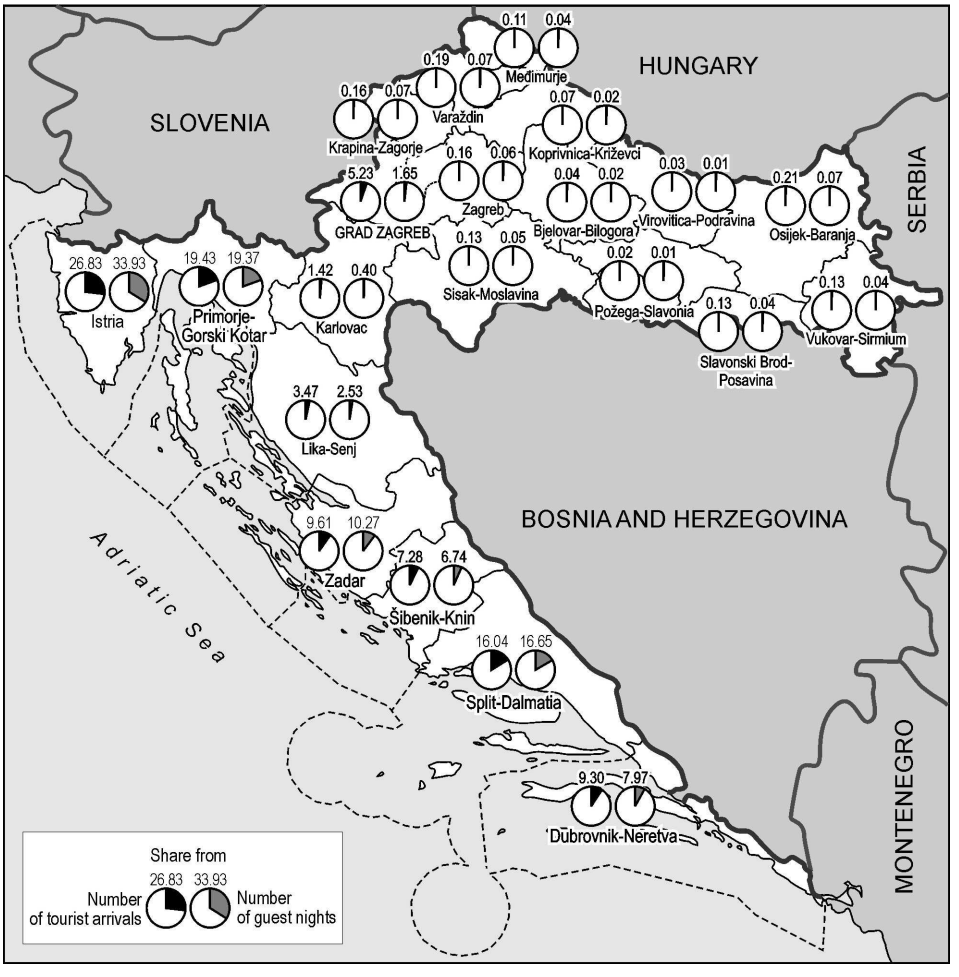
The rankings of the Balkans countries in international tourism

Country/region	Number of international tourist arrivals, in '000s						Market share in the region, %			Change, %		Average annual growth, %	
	1990	1995	2000	2003	2004	2005	1990	2000	2005	04/03	05/04	90–00	00–05*
Albania	30	40	32	41	42	46	0.0	0.0	0.0	2.4	9.5	0.6	7.5
Bosnia and Herzegovina	...	...	171	165	190	213		0.0	0.0	15.0	11.8		4.5
Croatia	...	1,485	5,831	7,409	7,912	8,467		1.5	1.9	6.8	7.0		7.7
Macedonia	...	147	224	158	165	197		0.1	0.0	4.8	19.3		–2.5
Slovenia	...	732	1,091	1,373	1,499	1,555		0.3	0.4	9.2	3.7		7.4
Serbia and Montenegro	...	228	239	481	580	725		0.1	0.2	20.6	25		24.8
Yugoslavia	7,880						3.0						
Southern Europe / Mediter.	93,907	102,720	140,756	146,766	149,488	158,043	35.4	35.6	35.8	1.9	5.7	4.1	2.3
Europe	265,647	315,009	395,894	407,113	424,449	441,528	100.0	100.0	100.0	4.3	4	4.1	
World	457,306	532,500	682,000	691,000	760,000	801,000							

Source: www.unwto.org

Figure 77

Spatial concentration of tourism in Croatia, 2008



Source: Statistical Yearbook of Croatia, 2009, Central Bureau of Statistics of the Republic of Croatia.

the destruction caused by the war. It is, however, promising that, after the end of the war, the sector in most countries quickly recovered and has shown a growth rate well above the average growth rates of the Mediterranean region. It is true, however, that it is only the Mediterranean where no less then four of the world's top fifteen tourist destination countries can be found, and where major growth in the more or less saturated tourism market is hardly possible. According to the

most recent data available[1], France – the country that has had the highest number of visitors in the world for decades – attracted 67.3 million visitors, Spain was in position 3 with 43.2 million visitors, Italy's 34 million tourist arrivals meant position four for the country, and Greece, 14th in the world ranking in this respect, receives 10 million inbound tourists annually (*Table 58*).

Table 58

Positions of the Mediterranean and the Balkans regions in world tourism

Country	Number of tourist arrivals, in '000s*	World ranking	Country	Tourism receipts, US$ m, 2005	World ranking
France	67,310	1	Spain	59,260	2
Spain	43,252	3	France	42,167	3
Italy	34,087	4	Italy	38,264	6
Greece	10,170	14	Greece	13,697	13
Croatia	3,834	27	Croatia	7,625	26
Serbia	2,021	n.d.	Slovenia	1,894	56
Slovenia	974	52	Albania	880	79
Macedonia	121	111	Serbia	865	n.d.
Bosnia and Herzegovina	100	115	Bosnia and Herzegovina	604	95
Albania	19	141	Macedonia	92	145

*Latest data available as of 8 June 2010.

Note: the data for Serbia and Montenegro and for Kosovo are not included in the statistics. The data for Serbia are from the Ministry of Economy and Regional Development of Serbia: data of 2008 for tourism arrivals and of 2009 for tourism receipts. According to the wikipedia.org internet encyclopaedia, Montenegro is one of the world's fastest growing tourism resorts, with over one million visitors in 2007. However, since only those are, statistically, tourists who spend at least one night in the given destination, it is unknown how many of these people were actually tourists and how many were simple visitors – and € 248 million tourism receipts.

Source: Nationmaster.com, turizam.merr.gov.rs, date of download: 8 June 2010.

On the basis of the recent figures, Croatia and Slovenia are important tourism destinations in the region. The situation, however, may change, since, for example, according to the estimates of the United Nations World Tourism Organisation (UNWTO), Bosnia and Herzegovina will show the third highest growth rate of all countries in the world in the tourism sector in the years between 1995 and 2020.

[1] The author used the data available at the nationmaster.com internet database; date of download: 8 June 2010.

Looking at the number of tourist arrivals per thousand inhabitants, the outstanding significance of tourism in the economies of the region is even more striking (*Table 59*).

Table 59

Rankings of Mediterranean and Balkans regions in world tourism (in relation to population)

Country	Number or tourist arrivals per thousand population	Ranking in country order
France	1,109.8	17
Spain	1,072.2	19
Greece	943.9	21
Italy	586.7	27
Croatia	852.8	23
Slovenia	484.4	35
Macedonia	59.2	88
Bosnia and Herzegovina	22.6	110
Albania	5.3	137

Source: Nationmaster.com, date of download: 8 June 2010.

1.1 The highest state level of representation of tourism in the Balkans countries

According to the importance of tourism, in most countries there is either a separate Ministry for Tourism Affairs or a ministry that is responsible for tourism and has the word tourism, amongst others, in its name. There is a Ministry of Tourism in the Republic of Croatia, in Serbia and in Montenegro; the state organ responsible for tourism in Bosnia and Herzegovina is the Federal Ministry of the Environment and Tourism. In Slovenia, Macedonia and Kosovo there is no ministry with "tourism" in its name and in these countries it is the Ministries of the Economy (in Kosovo the Ministry of Finance and Economy) which deal with tourism affairs. In Albania tourism shares a ministry with Cultural Affairs, Youth and Sport – featured in this order in the name of the ministry (source: government portals of the respective countries).

Each country runs an official tourism propaganda organisation, and country information is also available on the official tourism websites (*Table 60*). Several countries, especially the states which have recently gained sovereignty, are now trying to attract the attention of the world – and of the tourists – by intensive marketing campaigns.

Table 60

Tourism portals of the Balkans countries

Albania	www.albaniatourism.com/
Bosnia and Herzegovina	www.bhtourism.ba/eng
Croatia	www.htz.hr/English
Kosovo	www.visitkosova.org/english*
Macedonia	www.exploringmacedonia.com
Montenegro	www.visit-montenegro.com
Slovenia	www.slovenia.info
Serbia	www.serbia.travel

Note: Not available at the time of writing the study (June 2010).

1.2 World Heritage sites in the Balkans countries

The UNESCO World Heritage list presently includes 890 protected sites of natural or cultural value that the World Heritage Committee considers as unique and worth preserving: the list now contains 689 cultural sites, 176 natural and 25 mixed World Heritage sites in a total of 148 countries. The Western Balkans are home to 19 World Heritage sites, the majority of these being of cultural value (15), complemented by three natural sites and one mixed site. The tentative list (of sites which merit the award of World Heritage status (in the opinion of the respective countries) includes 43 locations in the Western Balkans; approximately two-thirds of these are of cultural significance (*Table 61*).

1.3 The destruction caused by the civil war

Tito's Yugoslavia, the most liberal country of the socialist bloc not only boasted considerable inbound tourism but also allowed it own citizens to travel much more freely than did the other socialist countries of Eastern Europe. Tourism in the federal state, however, suffered a lasting decline after the Yugoslav civil war broke out in 1991 – or almost completely stopped for years. The Croatian Adriatic region started to develop again after the end of the war, but in Montenegro it took ten years for tourism to recover, whilst in Serbia and Macedonia it may be even longer before inbound tourism reaches its pre-war level (www.turizmusonline.hu).

The war brought endless destruction and, of course, cost much in the way of revenue for the belligerents, but the tensions and, on occasion, the territorial disputes among the new states resulted in a drastic decline in the volume of

what had been domestic tourism before the disintegration of Yugoslavia. (In fact, the destabilisation of the region had a negative impact on tourism even in Hungary). Several valuable monuments generating significant tourism flows were destroyed in the war (the Old Bridge in Mostar, the inner city of Dubrovnik, all the cloisters and churches of Vukovar and large parts of Sarajevo), but the war also had a very bad effect on the infrastructure, and this damage also set back (amongst other things) tourism in the region.

It is sad that the end of the war did not mean the end of the destruction of monuments; even recently, ethnic Albanian extremists attacked (and in some cases destroyed) Serbian Orthodox churches in Kosovo (hvg.hu, 30 May 2004).

Table 61

World Heritage sites in the Western Balkan countries

Country	Number of World Heritage sites, in cultural (c), natural (n), and mixed (m) categories	Number of potential World Heritage sites
Croatia	1 (n), 6 (c), total: 7	2 (n), 12 (c), 1 (m). total.: 15
Slovenia	1 (n), total: 1	5 (c), total: 5
Macedonia	1 (m), total: 1	2 (n), 1 (c), total: 3
BiH	2 (c), total: 2	2 (n), 2 (c), 4 (m). total.: 8
Serbia	4 (c), total: 4	5 (n), 4 (c), 1 (m). total.: 10
Montenegro	1 (n), 1 (c), total: 2	–
Kosovo	–	–
Albania	2 (c), total: 2	2 (c)
Total	3 natural, 15 cultural, 1 mixed, total.: 19	11 (n), 26 (c), 6 (m), total.: 43

Source: whc.unesco.org.

1.4. Transit tourism

The region handles considerable transit traffic, as roads linking Central and Western Europe to Eastern Europe and to the Middle East run across the territory of the Western Balkans. This is partly an explanation for the significant number of border crossing-points and tourist arrivals, and also explains why the volume of tourism in the statistical sense (e.g. the movements of people spending at least one night in a given destination) is relatively low compared to the number of arrivals. Transit passengers, however, may be served by special tourism services such as motels and motorway restaurants, and we can see examples of this in Serbia.

2 Tourism in the individual countries of the Western Balkans

This chapter introduces, in "order of importance" (more precisely, in the order of ranking in terms of the number of international tourist arrivals), the most important tourism features of the countries of the region.

2.1 Croatia ("The Mediterranean as it once was")

In the 1980s, among the republics of Yugoslavia, Croatia provided 80% of the tourism receipts of the country. During the civil war Croatia and its tourism sector suffered a huge loss, but the long coast has slowly regained its popularity, and tourism is now again one of the most important economic activities of Croatia, mostly due to the Adriatic area.

The number of tourist arrivals and guest-nights showed dynamic growth in the years before the civil war, but during the war years they declined to a small part of what had been typical in peacetime. They did, however, show spectacular growth again in the new millennium, almost reaching the level of the later 1980s, the time when Croatia realised its peak tourism volumes (*Table 62, Figure 78*).

The reasons why the figures of 1986 and 1987 could not be reached may be the increased price levels in Croatia and the concomitant decrease in the competitiveness of the Croatian tourism sector compared to the lower priced countries in the wider region. There may, however, also be a reason in the fact that the ex-socialist countries of the region also opened up to the world and have more intensively joined world tourism. Nevertheless Croatia is still the major destination in the Western Balkans, capturing approximately three-quarters of the market in tourism in the region alone, according to UNWTO data (*Table 57*).

Croatia has varied physical geographical endowments but only a smaller part of the country participates intensively in tourism – in particular, of course, the coastal areas, and occasionally, the towns and natural attractions of the inland areas. Apart from the capital (Zagreb), the baroque city of Varaždin and some medieval castles and fortresses, the inland areas of Croatia do not abound in tourist attractions.

The preservation of the most important natural attractions of Croatia is served by eight national parks, among which the Plitvice Lakes are on the UNESCO World Heritage site list.

Other natural beauties of Croatia include the Krka River, the most picturesque karst river in the country; the island of Mljet southwest of Dubrovnik; the

North Velebit dotted with high mountain peaks (with its highest elevation at 1,757 metres); on the south side of the Velebit we find the Paklenica National Park, the largest contiguous mountainous area in Croatia; the forested mountains of Risnjak located north of Rijeka; or the spring area of the Kupa River, an object of hydro-geomorphology interest. The Lonjsko polje is the largest protected wetland of the Danubian area, a Ramsar site (a wetland of International Importance), the Medvednica mountains north of the capital; Papuk, the most beautiful part of Slavonia, is a member of the European geoparks and the global geopark network of UNESCO. Visitors are also fascinated by the narrow cove named Telascica in the vicinity of the Kornati National Park; the Ucka mountains of the Istrian Peninsula; the Velebit, featured among the UNESCO international biosphere reserves, also the largest protected area in Croatia; or the mountainous areas named Zumberak, situated southwest of the Zagreb.

In addition to the seaside holidays for which Croatia is most famous, the county offers wonderful possibilities in several fields of tourism other than the 4 S-factors.

Table 62

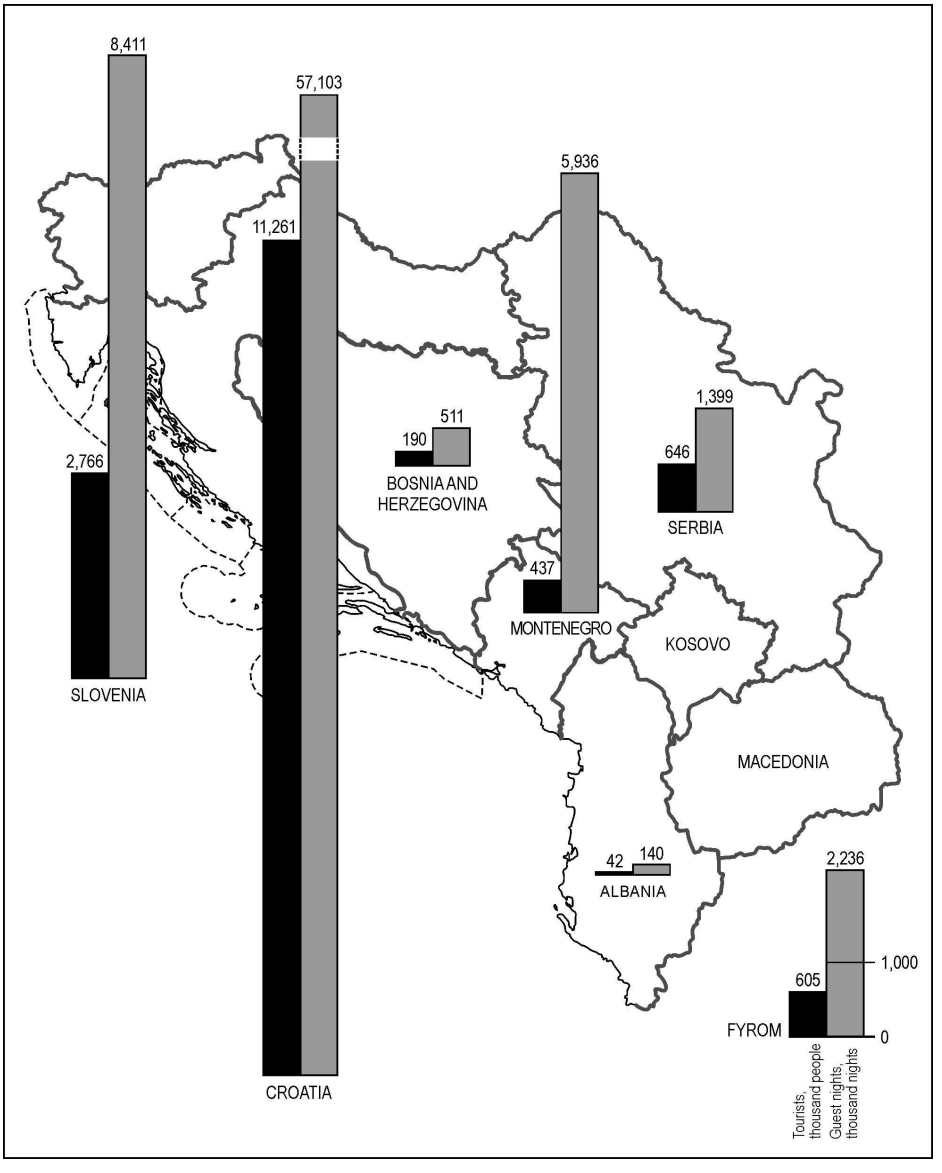
Number of tourist arrivals and guest nights in Croatia, 1985–2008

Year	Arrivals	Guest nights	Year	Arrivals	Guest nights
1985	10,125	67,665	1997	5,585	30,775
1986	10,151	68,216	1998	5,852	31,852
1987	10,487	68,160	1999	5,127	27,126
1988	10,354	67,298	2000	7,137	39,183
1989	9,670	61,849	2001	7,860	43,404
1990	8,497	52,523	2002	8,320	44,692
1991	2,297	10,471	2003	8,878	46,635
1992	2,135	11,005	2004	9,412	47,797
1993	2,514	13,208	2005	9,995	51,421
1994	3,655	20,377	2006	10,385	53,007
1995	2,610	13,151	2007	11,162	56,005
1996	4,186	21,860	2008	11,261	57,103

Source: unwto.org

Figure 78

Number of tourists and guest nights in the Western Balkans countries, 2008, thousand



Source: Compendium of Tourism Statistics, data 2000–2004, 2006 edition, World Tourism Organisation; statistical yearbooks of the respective countries.

2.1.1 Special touristic acctivities in Croatia

The varied history of Croatia and the large number of World Heritage sites may be the strongest attraction for visitors apart from the coast. The diversity of the Croatian culture reflects the rich history of the country with impacts from the Roman Empire, the Ottoman Empire and the Austro–Hungarian Monarchy.

The domestic and foreign guests have many opportunities in Croatia to test their abilities and endurance, at different levels (from beginners to pros) and in different areas (forested areas, seaside, islands, rivers). The varied landscape and the environment preserved in a quasi-natural state offer a variety of hiking tours and other outdoor activities including rafting, kayaking, mountain biking, orienteering, gliding, rock-climbing, marathon, triathlon. The tours are led by professional tour guides on request.

The Adriatic Sea, part of the Mediterranean, cuts deeply into the central areas of Europe, and this makes it one of the seas closest to the largest sending countries in the continent. The Croatian Adriatic has an extremely varied coastline, with a total of 1,185 islands and reefs, almost 6,000 kilometres of beach, and, what is especially important for diving, with exceptionally clean and transparent water where divers can see even at depths of 50 metres. At 20–30 metres below the surface the sea has a pleasant temperature of 17 ºC all year round, and the maximum tidal range (the vertical difference between the levels of low and high tide) is less than one metre – in some places less than half a metre. The Adriatic is a relatively calm sea, without strong currents and high waves to endanger bathers and divers.

The northern part of the Adriatic (especially the Istrian Peninsula and the Kvarner Gulf) is popular year-round with divers, whilst the southern, Dalmatian part of the Adriatic has its peak diving season in July and August.

In the neighbourhood of Osijek we find the Bizovačke toplice, whose water comes from approximately 2,000 metres below the surface. The water is of Pannon Sea origin and its salt concentration is close to that of the Adriatic; the water is also extremely rich in minerals and hotter than any other known medicinal spa (96°C at the spring). The spring was discovered accidentally in the summer of 1970 during drilling for hydrocarbons. Besides the medicinal services, the "Aquapolis" leisure park – completed in 1997 – attracts the largest number of guests (www.generalturist.com/hu).

In the village of Aljmas, in the vicinity of Osijek at the meeting point of Slavonia, Bačka and Baranja, the shrine of Our Lady of Sanctuary (or Our Lady of Aljmas) is a well-known pilgrimage place. The main altar of the pilgrimage church contains the statue of the Blessed Virgin, carved of wood, whose origin was written down by the Franciscan monks. After the end of the occupation of Osijek by the Ottomans, András Horváth, the Franciscan father, had the statue

carved in Osijek, and transported to the Chapel of Laško on the Feast of the Assumption. Later, in 1704, the statue was transported to Aljmas. In 1706, the day of the Visitation of Our Lady was the first time when the religious festival was held. This is still a tradition on this day, when a large number of pilgrims arrive from Osijek. In 1846 the church, including the statue of the Blessed Virgin, was destroyed in a fire, but the replica of the statue was saved. In 1857 the bishop donated a new statue of the Blessed Virgin to the place of pilgrimage, which had been made in Vienna; this is the statue still in the church. In the early 1990s, during the Yugoslav civil war the church was robbed and destroyed, but, due to special circumstances, among the ruins the statue of the Blessed Virgin was later found (damaged) and transported to Osijek. In 2001 the construction of the church was started, for the fourth time in the three-century history of the place of pilgrimage of Aljmas. In 2003, John Paul II on his third pastoral visit to Croatia crowned the statue of the Blessed Virgin of Aljmas in Osijek.

The karst areas of Croatia abound in caves and the mainland and islands have, together, over 1,000. Half of these are only known to exist but have not yet been explored. Some of the explored caves – for example in the Istrian Peninsula, in the Medvednica mountains near Zagreb and in the Kordun, Lika, Dalmatia and Zagora regions – are open to visitors with no experience in caving whatsoever. In addition to stalactite formations, other geological beauties await visitors who can walk in organised tours through the subsoil systems, lit and equipped with safe traffic corridors. Cave diving is becoming more and more popular with tourists.

Besides the above activities, Croatia has a developed congress tourism sector, but hunting and angling tourism, golf tourism, equestrian tourism, ski tourism (especially on the north side of the Medvednica mountains) are also popular activities, both with domestic and foreign guests.

2.2 Slovenia

Despite its relatively small territory, Slovenia has a variety of physical geographical endowments: in its north-eastern corner the country is Alpine, in the south-west we find Mediterranean areas, in the northeast we have Pannonia (in the physical geographical sense), and in the southeast it is the Dinaric mountains which make up Slovenia.

The capital, Ljubljana, awaits visitors with several baroque and Art Nouveau buildings. The old downtown is a protected site, with monuments such as the St. Nicholas Cathedral or the Dome, the Roman wall – the remains of the wall that

emperor Augustus had had built –, several churches (the Franciscan Church, St. James Church, Trinity Church), the Dragon Bridge, the Town Hall or the Tivoli Castle and park.

Slovenia boasts several medieval cities, some of which are important tourist destinations, such as Ptuj, Škofja Loka and Piran. Especially in the western part of the country we find fortified villages (Štanjel, Vipavski Križ, Šmartno) that also attract a large number of visitors, especially to the cultural events organised in the beautiful environment.

The most famous sights of interest in Slovenia include the Julian Alps, with the peak, Triglav (at 2,864 metres above sea level), and the Karst Plateau (in Slovene: Kras, whose German name, Karst is where the specification of the karst phenomenon used in geography comes from). In the Karst region we find the Postojna Cave; it has attracted over 28 million visitors so far. Tourists can enter the cave with a small train, and then, after a walking tour, they rejoin the train to return to the surface.

In the vicinity of the cave there is another cave, more precisely a cave system, the Škocjan Caves, part of the World Heritage since 1986. This is the best place in the whole world for the study of karst phenomena. In the Mušja ("Fly") cave a cave temple was found. This region was one of the most important places of pilgrimage in Europe, where the cult of life after death was practised, and the spirits of the ancestors were contacted.

The Adriatic coast of the country is where the town of Piran can be found. It is a relic of Venetian Gothic architecture, which almost seems like a giant open-air museum with its medieval architectural style and large number of monuments. This city is the most visited tourism attraction in Slovenia. Nearby Portorož is also a popular touristt paradise, famous in the first place for its entertainment industry and gambling. Other seaside resorts popular with tourists are the former fishermen's village of Izola, and the city of Koper.

The second largest city in Slovenia, Maribor, is an economic and cultural centre nearly as important as Ljubljana; it is rightly called "the second capital". Besides the Mariborski Grad (the 15th century castle in the inner city), the Cathedral of St. John the Baptist, the city hall and the water tower, viticulture and wine production on the mountains around the city are also worth mentioning.

The north-western part of the country is rich in thermal and medicinal waters; among the best-known waters world-wide are the mineral waters Donat MG and Radenska. Other tourism attractions of Slovenia include the sea-water, saltwater, organic and inorganic pelloids, and the maritime, Pannon and Alpine climates. In the fifteen health and tourism resorts, the most up-to-date wellness offer has been developed under the slogan "With nature for health". The best-known health resort is Rogaška Slatina, which is almost a synonym for health

tourism in Slovenia (home of the Donat Mg mineral water), but Radenci, Čatež ob Savi, Dobrna, and Moravske Toplice are also important health tourism centres. Health tourism in Slovenia has increased in popularity a great deal in the last two decades, especially with German, Austrian, Italian and Russian visitors.

Slovenia is a popular congress tourism destination, and the main conference and congress venues for over two decades have been Ljubljana, Bled and Portorož, but many other congress centres of varying size can be found now in Slovenia.

An important part of tourism of Slovenia is gambling, with almost 40 years of tradition. It is completely built on gambling facilities for tourists, and the twenty Slovenian casinos, gambling facilities and entertainment centres now offer tourists, besides the casino services, high level hotel services, varied cuisine, leisure facilities, recreation and shopping, cultural and dance events, entertainment, fashion shows and beauty contests, and also congresses and business meetings. The supply of gambling facilities is mostly concentrated in the tourism resorts and the major cities. The first casino was opened approximately forty years ago in Portorož; the second was the casino in Bled.

Agrotourism is a significant part of the tourism supply of Slovenia, especially in the Karst Region, in Krajna and the northern part of the Istrian Peninsula, and also in the East Styrian areas. The farms that also offer tourism services in addition to agricultural production are marked with apples (similarly to the system of sunflowers in Hungary), where one apple means the most basic services, whilst accommodations offering the highest level of services are marked with four apples.

Besides the Triglav National Park established in 1961 (and enlarged in 1981), the Karavankas mountain range and the Karnian Alps are also important tourism destinations, as is the Pohorje Mountain. The latter mountain, as opposed to the Julian Alps, is more popular with domestic and (neighbouring) Austrian tourists.

2.3 Serbia

The varied landscapes of Serbia cover two cultural regions: Central Europe (the northern quarter of the country) and the Balkans Peninsula. As opposed to the northern quarter – the plains of the Vojvodina region –, most of the southern areas are mountainous; there are more than 15 mountain peaks in Serbia whose height exceeds two thousand metres above sea level. The foundations of tourism in Serbia are the varied landscape, cultural and historical monuments, health resorts, and hunting and angling. Serbia is an extremely important transit route from Western and Central Europe towards Greece, Turkey, the Middle East and

Asia. The country tries to exploit this situation by encouraging transit passengers to stop and consume in Serbia (in roadside motels, restaurants).

The Serb regions were also the meeting points and interfaces for different cultures in the past; several intellectual, architectural, arts and cultural impacts have reached Serbia during its history. Memorials from prehistoric and ancient times (e.g. Trajan's Bridge from the Roman era) can be found in Serbia as well as remnants from later periods.

East Serbia is home to mountains comprising part of the Carpathian and Balkan Mountain Ranges. The Kazan Gorge, the breakthrough of the Danube River, is of picturesque beauty. West Serbia is also a mountainous area, where, in addition to the gorges and forests it is the climatic endowments which offer a splendid basis for tourism, as do the varied inland waters of the country (rivers, natural and artificial lakes, mineral water springs). The Danube flows across Serbia for some 600 kilometres; the second largest river of the country, whilst the Sava flows into the Danube at the capital, Belgrade, next to the ancient fortress of Kalemegdan. The strong stock of games is a good potential for hunting tourism.

Currently there are approximately 125,000 beds in private commercial accommodation and a further 40,000 in hotels in Serbia.

2.3.1 The major tourism attractions of Serbia

Belgrade, a city of two million inhabitants, changed hands during its stormy history approximately sixty times, and on forty occasions the city was almost completely destroyed. The always reviving city now is a city of rich cultural, arts and sports life, museums and cultural and historical monuments. Also, Belgrade is one of Europe's most popular congress and conference venues.

MICE tourism (meetings, incentives, conferences, events/exhibitions), is, in addition to Belgrade, active in a number of cities and resorts such as Novi Sad, Niš, Subotica, Kragujevac, Leskovac, Kruševac, Užice, Valjevo, Vršac, Sombor, Sremska Mitrovica, and the mountain resorts (Kopaonik, Tara, Zlatibor, Divčibare, Brezovica), and bathing resort (Vrnjačka Banja, Niška Banja, Bukovička Banja, Soko Banja).

Among the relics of the Roman era, we should mention (in addition to Trajan's Bridge) the mosaics and palace of Romuliana/Gamzigrad; the remains of a Roman times city, Sirmium at Kostolac; the largest relic of Roman times in the region, Naissus; and Mediana, the birthplace of Constantine the Great, founder of Byzantium and Constantinople, the first Christian Roman emperor. The major medieval memorials include the fortress of the former Serbian capi-

tal, Smederevo; and Golubac, Ram and Fetislam. The Iron Gates Dam, built jointly by Yugoslavia and Romania between 1964 and 1972, is one of the great works of engineering in Europe.

The Fruška Gora Mountains, besides having the largest national park in Serbia, are home to a number of monasteries. This region is also renowned for wine production and hunting.

The medicinal waters were already used in Roman times, and they are still important attractions in Serbian tourism today. Almost all health resorts are located at the foot of mountains. The most famous of them is Vrnjačka Banja, with one thousand years of tradition, where organised tourism and health services go back 120 years in time. In the direct vicinity of the spa there are several monuments, some dating from the 14th century. Soko Banja is a well-known centre of balneology, which was already famous in the Roman era; the development of the modern spa started about a century ago. Another spa known for centuries is Banja Koviljača, one of the most up-to-date medicinal centres today, whose water has one of the highest sulphur contents in the whole world. In addition to these, Serbia has numerous other medicinal water springs and health resorts (Niška Banja, Bukovička Banja, Selters Banja, Ovčar Banja, Banja Junaković, Sijarinska Banja, Kuršumlijska Banja, Gornja Trepča – the Atomic Spa is the first privatised spa in Serbia –, Bujanovačka Banja etc.).

The oldest cultural heritage of Serbia is the seven-thousand year old Lepenski Vir, but, from Neolithic remains through Roman and Byzantine ruins to well-preserved medieval treasures, many sights of interest await visitors to Serbia. Perhaps the most important of these are the Serb Orthodox monasteries (Studenica Ras with its medieval city, Sopoćan, Visoki Dečani, Đurđevi Stupovi, Mileševa, Žiča, Kalenić).

Serbia is just as rich in natural resources as in ecclesiastical memorials. The mountains offer good possibilities for hiking in the summer months and for skiing in winter. The most visited mountain destination is Kopaonik (more than 2,000m above sea level) a renowned winter sports centre. Zlatibor is a traditional tourism centre, originally a climatic health resort but also becoming popular with lovers of other forms of tourism as well.

An important part of tourism in Serbia is agro-tourism, built on the agricultural traditions of the country. In this respect the Vojvodina province is the most significant, where several homesteads ("salaš") also offer tourism services, from accommodation through horse riding and other outdoor sports activities to demonstrating the traditional rural lifestyle.

2.4 Bosnia and Herzegovina

The tourism sector in Bosnia and Herzegovina has shown a considerable development in the recent years, not least due to the intensive marketing activity pursued by the state. From 1995 to 2000 there was an average annual growth rate of 24% in the number of tourists, and, according to UNWTO estimates Bosnia and Herzegovina will have the third most dynamically growing travel sector by 2020. The main sending countries are Serbia, Croatia, Germany, Italy, the USA, Australia, Poland, Great Britain, Austria, China and Spain.

In 2006 Lonely Planet (the largest publisher of travel books and digital media in the world) specified Sarajevo as the 43rd best city in the world, which is an especially good position if we consider that several of the renowned tourism destinations of the region were given poorer ratings (Dubrovnik: 59th, Ljubljana: 84th, Zagreb: 125th and Belgrade 143rd); in the wider Balkans region only Athens ranked higher than Sarajevo.

In 1984 Sarajevo was the place where the winter Olympic games were held – the largest event of this kind until then, both in respect of the number of participants and media attention. Sarajevo still attracts a large number of visitors.

Beside the city of Visoko north of Sarajevo, the Visočica hill was promoted to the world by the Bosnian authorities in an extended media campaign as the largest pyramid ever built in world history. Scientific research has proved that it was not a pyramid, although the shape of the hill much resembles a pyramid. Nevertheless even in the summer of 2010 official summer camps are organised for volunteers to the "Bosnian pyramids" (www.bosnianpyramid.com).

Bosnia and Herzegovina fortunately abounds in other beauties and sights of interest also The country has two sights which have been awarded World Heritage status, and, interestingly enough, both are bridges: the bridge over the Drina River in Višegradi (the bridge of Sokollu Mehmed Pasha), and the old city of Mostar with the Old Bridge. This latter bridge had already been mentioned in written documents in the middle of the 15th century but was destroyed by the Croatian Army on 9 November 1993 (one of the most barbaric acts and evoking the biggest outcry of the Yugoslav war). In 1995, after the end of the war, the reconstruction of the bridge was started, the works lasted for nine years and bridge was reopened in July 2004.

Currently there is no Bosnian Natural Heritage site on the World Heritage site list, but several sights of interest have been nominated for the title: the Vjetrenica cave, and the natural environment of Jajce, Blagaj, Blidinje and Stolac towns.

Further famous sights of interest of Bosnia and Herzegovina are Banja Luka, the capital of the Bosnian Serb Republic, famous for its arts, sports life and the

culture of three nations; Doboj with its fortress from the 13th century; Međugorje, where the Blessed Virgin is alleged to have appeared several times since 24 June 1981 and where approximately one million pilgrims have travelled so far; the city of Višegrad with the already mentioned bridge of Sokollu Mehmed Pasha; Tešanj, one of the most ancient settlements in the country and Tuzla, the city of salt (the name itself means salt in Turkish). Those more interested in the beauties of nature, hikers or ecotourism fans, can admire the forest of Perućica, one of the last remaing ancient forests of Europe, several waterfalls (Jajce, Bihać, Kravica and Kočuša), canyons (at the Neretva, Sutjeska and Tara rivers), while the lovers of active recreation can participate in rafting tours on the rapid-flowing rivers.

2.5 Montenegro

The basis of tourism in Montenegro, a country which only recently gained sovereignty, is primarily the coast and the mountains in the northern parts of the country. The tourism sector of the country received a considerable number of visitors in 1980 (as a the province of Yugoslavia) and it then declined due to the civil war; Montenegro must now rebuild its tourism image.

The sector started to develop rapidly in the new millennium, and since then there has been a steady growth both in the number of tourists and the guest nights spent in the country. In 2007 Montenegro received over 1 million tourists and these produced a total of 7.3 million guest nights (which was almost one-quarter more than in the previous year). In the same year, tourism revenues reached €480m, which represented a growth of 39% compared to the figure for 2006.

In government policy, tourism enjoys special attention, since it is considered as one of the strongest economic sectors – or the absolutely strongest branch – in the development of the Montenegrin economy. Foreign capital is keen on investing in tourism in Montenegro, and several projects have already reached the implementation phase, such as Porto Montenegro, a luxury yacht marina in the village of Tivat (in the Kotor Bay), which might be one of the most exclusive marinas in the whole Adriatic, accommodating ships up to 150 metres long. The complex will include a luxurious hotel, equally luxurious apartments, a conference centre, an art gallery, a museum, sport facilities and a large shopping centre, probably making Porto Montenegro competitive in several segments of tourism.

Such exclusive waterfront developments are also planned in other locations (such as Jaz, Buljarica, Velika Plaža and Ada Bojana). Of the almost 300 kilometres of coastline, 72 kilometres are beaches. The backwardness of the infra-

structure, however, still in many places holds back the development of tourism; in the north it is the road network and in the south the water and electricity supply which are the main bottlenecks.

Besides the varied orography, the relatively unspoilt natural beauties and the pleasant climate, it is the architectural and built heritage that is the primary attraction in Montenegro. Kotor is found in the northern part of the Adriatic coast, and the old city is on the UNESCO World Heritage list. The southern section of the coast is home to the already mentioned large-scale luxury investment; the southern part of the coast, especially the surroundings of Ulcinj, was mentioned by The New York Times as being among the "Top 31 destinations to visit" in 2010. The city is famous for its old downtown area and the longest beach in Montenegro. The city of Bar is home to the only deepwater port of the country.

The inland areas of the country are not so rich in sights of interest. Besides the Pravoslav monastery of Ostrog, a famous place of pilgrimage, we should mention Cetinje – the former capital of the country – and the Roman remains in the vicinity of Podgorica.

The northern part of the country is a paradise for skiers, with ski resorts and almost completely unspoilt areas in their pristine state. The most popular mountain resorts are Žabljak in the Durmitor Mountains, Kolašin, near the Biogradska Gora national park, and the canyon of the Tara River (the second deepest canyon in the world). The Tara River is a popular destination for white-water rafting.

2.6 Macedonia

One of the mot important branches in the Macedon economy is tourism. Figures show the growing popularity of the country as a destination: between March 2007 and March 2008 there was a near-45% growth in the number of foreign visitors; Lake Ohrid alone had a quarter of a million visitors. The number of foreigners travelling to Macedonia is now well in excess of half a million, and domestic tourism is also becoming more and more popular. In order to maintain, and possibly increase, this spectacular development, Macedonia started in 2009 an extensive marketing campaign in the international press, promoting the country with its natural beauties, villages, ancient monasteries, archaeological discoveries and wines. Compared to the weak tourism turnover of the previous years – when very few foreign guests visited the major tourism attraction of Macedonia, the city and Lake of Ohrid –, there was a large growth in the number of inbound tourists, especially to formerly less well-known destinations. The earlier typical or average 2 or 3 day stay was considerably extended as an

impact of the campaign. From Holland and Israel there are charter flights to Macedonia, and the intensification of the tourist flows from Austria, Germany, France and Slovenia also seems promising (www.neurope.hu).

The major sights of interest in Macedonia are:

The capital, Skopje, which is the largest city in Macedonia, in the valley of the Vardar River. Its history goes back to prehistoric times as proved by archaeological excavations – of, for example, the remains of aqueducts – a large number of Turkish monuments – he Old Bazaar, the Mustapha Pasha Mosque. The main attractions of modern Skopje are the museums and the sports events.

Ohrid is a World Heritage site, located in the southwestern part of the country, on the eastern shore of the lake named after the city. It may be the most popular destination in the country, due primarily to its beaches and environment, but its shore-line is also home to several buildings of great historical value – churches, Samuel's Fortress or the ancient amphitheatre – which are also worth a visit.

The second largest city, Bitola (the "most European" Macedonian city) is also rich in historical sites; one of the largest archaeological excavations in the country can be found here. In the eastern part of the country we find Štip, a city whose history goes back at least two thousand years and is also home to important archaeological sites such as Astibo, Bargala, or Estipeon. The city also has medicinal water in the form of the Kežovica Mineral Water Spring.

An interesting part of Macedonian tourism is archaeological tourism and it is planned to restore a complete Neolithic village in the vicinity of the capital. In 2008 an open-air archaeological museum was opened where reconstructed Neolithic homes can be seen. The settlement known as Tumba Madžari, discovered in 1961, is one of the most famous Neolithic archaeological sites. On the foundations of the village, houses identical in appearance to the original ones, made of wood, reed and clay have been built within the framework of the reconstruction project. The houses show replicas of the most beautiful artefacts with figures wearing authentic contemporary clothing. A similarly exciting archaeological rarity in the south-western part of the country is the exhibition featuring the ruins of the Neolithic settlement of stilt houses, discovered in Lake Ohrid (also a natural World Heritage site) (National Geographic Online).

The country is rich in sites o outstanding natural beauty, whose preservation (and tourism purposes) are served by three national parks and 33 protected areas in Montenegro. The largest national park, Mavrovo is most famous for its geomorphology, while the smallest, Pelister, is home to two glacial lakes. The Ezeren bird paradise is a popular destination for zoological tourism.

Further interests of Macedonia worth the attention of tourists include Stobe in the geographical centre of the country, the largest and, perhaps, most famous archaeological excavation where visitors can admire the remains of a complete

settlement (basilicas, streets, steam baths, mosaics and walls) and Kokino, featuring a near-4,000-year old stone-age construction similar to Stonehenge, the fourth oldest construction of this type in the world.

2.7 Albania (The "New Mediterranean Love")

Albania, not least due to years of isolation, abounds in natural beauty and quiet, not over-crowded beaches. The varied orography, the pleasant climate and the beauties of nature in Albania all mean that tourism has huge potential practically unexploited to date. Although tourism has gone through a spectacular development in recent years, it is far from being an advanced sector of the Albanian economy. Official data show that in the first half of 2008 approximately 2.1 million tourists arrived in the country, a growth of 23% compared to the same period in the previous year. In 2009 tourism showed a 39% growth, which was the largest among all countries of the world in that year.

The former communist regime isolated Albania from the world outside for decades, which made tourism practically impossible. The first western tourist groups were allowed to enter Albania only in the 1980s but now the country is open to all.

The history of Albania goes back to the times of the Illyrian, Greek and Roman civilisations, it preserves the ruins and memorials of ancient civilisations. The most visited cities include Berat (the "city of a thousand windows") which was declared a museum by Enver Hoxha in 1961, and in 2008 it was admitted to the UNESCO World Heritage site list; Durrës, the old port, which has several museums and a Roman amphitheatre built in the 2nd century B.C. (the latter was discovered by mere chance, in the last century when digging a cellar); and Gjirokastra, a city with a special atmosphere with its traditional slate-roofed, arched houses and narrow cobbled streets (the Bazaar built in the 17th century, and then reconstructed after a fire in 1872 is now a protected building. The house where Enver Hoxha was born is now a museum of ethnography. Most sights of interest in the capital, Tirana, can be found around the Skanderbeg square, in the heart of the city.

Although tourism has enormous potential in Albania, it also struggles with several problems in one of Europe's poorest countries. One obstacle to tourism is illegal construction, which may completely destroy some popular areas. Along the border in the north-east, in the direction of Kosovo, there are still landmines buried, endangering the life of the passers-by. A still greater problem is the general backwardness of the infrastructure: blackouts are everyday phenomena, but public transport is also quite erratic, bus and train timetables

are more useful as indicators of hope than of accurate information, and in the major towns and cities the large number of beggars is disturbing for tourists.

2.8 Kosovo

Tourism in Kosovo, the world's youngest state (July 2010) but still only recognised by 65 states as a sovereign country[2], is, in all probability, going to show considerable growth in the coming years. The country has so many attributes favourable for tourism: hospitable people, ancient buildings, landscapes of picturesque beauty. It is also true, on the other hand, that currently there is little more than attributes for tourism in this small country. The political situation is relatively peaceful and quiet, due to the international peacekeeping forces stationed in the country for more than a decade, but travelling to Kosovo was definitely not recommended only two years ago by, for example, the Hungarian Foreign Ministry. The situation has improved a little since then, but the general poverty and the political instability of the country still deter many from visiting Kosovo, an only a few "brave souls" dare to do so. The gradual withdrawal of the peacekeeping forces in recent years and the concomitant fall in the revenue of the country also has an impact on tourism.

Kosovo, as the least developed region in the former Yugoslavia, may attract a large number of tourists primarily with its unspoilt, wild nature, and the real sights of interest in Kosovo are to be found outside the capital.

Although the majority of the population of Kosovo is Albanian by ethnic origin, the most beautiful sights of interest in the country are the Serbian Orthodox churches. The most significant of these are under NATO protection since late 2004, because in March 2004, in the space of a very few days, at least 35 Serbian churches were damaged or completely destroyed by Albanian extremists. One of the most important values of Kosovo is the Visoki Dečani monastery, a Serbian Orthodox foundation of the 14th century.

Other sights of interest include mountains, which are suitable for skiing for one-third of the year. In the Šar Mountains we find brezovica, the popular winter sports centre and this mountain is also home to the highest peak in Kosovo, Mount Bistra (2,651m above sea level). Approximately two hours drive south of Pristina we find the city of Prizren, a city which attracts visitors by its beautiful and well-preserved Turkish era bath-house and other examples of the built

[2] The number of countries recognising Kosovo as a sovereign state may increase after 23 July 2010, when the World Court decided that Kosovo's unilateral secession from Serbia in 2008 did not violate international law.

heritage of the Ottoman Empire. In late 2009 Kosovo started an international marketing campaign in order to improve its tourism image and to attract as many tourists and investors as possible. Kosovo has had to fight serious economic problems after gaining its sovereignty, and tourism might be one of the future lead sectors of the economy. Naturally, much is still to be done before tourism can become the engine of the economy. The first and most frequent question asked is whether the country is safe enough, given that tensions and open conflict between Albanians and Serbs are still almost everyday phenomena in Kosovo.

THE BANKING SECTOR OF THE WESTERN BALKANS

ZOLTÁN GÁL

1 Introduction

The financial integration of the Balkan states coincides with two parallel integration[1] processes. One is the process of financial globalisation, which not only means the spatial and vertical expansion of liberalised financial markets, but can also be understood as the border-spanning spatial integration of the financial system's sub-systems, i.e. market and the monetary system, as well as fiscal and regulatory systems; resulting in the worldwide strengthening of interdependencies among national financial systems. The second process, which exceeds the global integration of the Balkan states in its importance, is the region's integration into the European Union. EU integration encompasses the acceptance of legal regulations and market liberalisation, meaning not only the liberalisation of capital accounts (capital balance), but also the investments of companies based in EU member-states in the financial sector, as well as increasing the competitiveness of the domestic investment environment and financial sector. For states in the region, the political framework of financial integration is established by the Stabilisation and Association Agreement, which was concluded on an individual basis with potential candidate countries by the European Council. The objective of the agreement is cooperation within the region, economic stabilisation and the encouragement of the transition to a market economy.

Strengthening regional cooperation contributes to stronger economic integration in the Western Balkans from a variety of standpoints. First, it encourages deeper cooperation among states in the region, and, second, it promotes economic stability and a smooth economic transition, whilst, third, it assists in preparing for EU accession.

[1] The balance of payments includes not only the current account but also the capital account (and, in IMF terminology) the financial account. While the capital account includes basic transfers of capital from the state and other sectors, the financial account includes the balance of direct and portfolio investments as well as other investments.

2 The postponed transformation of the financial sector in the Western Balkans

In all transitional economies, and especially in the Balkans, the weight and dominance of the banking sector in financial intermediation and capital allocation is more significant than in advanced countries. The share of the banking sector in the assets of the financial sector reaches 90% in the Western Balkan states (2007), in contrast with 80% in the EU's new Central and Eastern European member states, 48% within the Euro-zone and only 30% in the United States. Accordingly, the role of non-banking intermediary actors is marginal in Balkan states (*Müller-Jentsch,* 2007; *Gál,* 2010). In recent years, significant institutional reforms to modernise the financial sector have been encouraged through the active cooperation of numerous international financial organisations (IMF, EBRD, World Bank).

The long drawn-out transition of the Western Balkans through the 1990s was coupled with a prolonged crisis and led to the collapse of the region's financial system. The disintegration of Yugoslavia not only contributed to chaos within financial institutions, but also to the creation of monetary institutions (central banks and supervisory organisations) in the newly created nation-states. The stability of financial markets in the region was hindered by the absence of political stability, macroeconomic shock effects, high inherited debt, low market capitalisation, the burdens of wartime economies and the lack of appropriate regulations and also by the problems of distributing the total Yugoslavian debt and currency reserves among the successor states as well as of freezing the Belgrade-based foreign currency deposits held by citizens. Transition was smoothest for the financial sector of Slovenia, whilst elsewhere (in Bosnia and Herzegovina and Serbia and Montenegro), hyperinflation and bank defaults occurred and, in Albania, bank defaults caused by pyramid schemes led to the sector's near-collapse in the mid-1990s. The stabilisation of banking systems overloaded with bad debt and relieving states from huge burdens could only be effected by privatisation and the increasing involvement of foreign strategic investors. Privatisation reduced the proportion of public ownership in the region's banking sectors to an average of 20%.

The cause of the prolonged financial crisis – except in the case of Slovenia – can be tied to the slow reform process within the financial sector and the lack of significant privatisation in banking before the late 1990s. In the transformation of the banking sector, inherited structures play a relevant role. In this respect, the successor states of Yugoslavia differ from the other Balkan states where the central planning system dominated (Bulgaria, Romania, Albania) and where the first step in reforming the financial system was to establish a two-tier banking

system. In Yugoslavia's successor-states, the special two-tier banking system based on the Yugoslavian self-governance system, remained in place. Accordingly, the banks of the second tier (i.e., below central bank-level) were not state-owned, but in a form of "communal" ownership. Although in many respects the system showed similarities with Western, market-based two-tiered banking models, the main function of banks was, nevertheless, based on financing companies with the lowest possible interest burden rather than on generating profit based on optimal risk-taking practice. To this end, the state set up a binding interest-rate ceiling and obligatory interest-rates on loans (*Petrovski–Bishev,* 2004). The advantages of the special Yugoslavian banking system also included opening more liberalised foreign currency accounts and extending foreign currency loans, increasing the contribution of remittances from Yugoslavian guest workers and foreign currency accounts generated by tourism to two thirds of the liabilities held by the banking system, and allowing the central bank to finance the servicing of the state's debt. Slovenia and Croatia each operated one main bank. In Slovenia, the Ljubljanska Banka functioned as a form of umbrella bank for 13 smaller banks, concentrating 83% of the Slovenian banking system's assets in the 1980s in its orbit. From the 1970s, the number of banks in all member republics was increased by a number of small banks set up by large companies which operated rather imprudently.

The transition to a two-tier system took place not only in Yugoslavia, but in all Balkan states as they abandoned their central planning systems; the earliest was in Bulgaria (1987) and later on in Albania (1992). This also led to a wave of new banks being established. State guarantees (e.g. writing off bad debt) did not force banks to operate prudently and to avoid risk: public involvement stayed significant and shielded those banks accumulating bad debt from default.

3 Banking reform in the Western Balkan states

The initial phase of banking reform at the beginning of the 1990s was characterised by the establishment of the two-tier system and slow movement towards international risk management standards. In this period, the changes in the system could be said to be more quantitative than qualitative. The sudden proliferation of private banks led to over-banking in all states of the region, but their number was highest in Croatia: in 1995, 53 banks operated in the country, of which only one was in foreign ownership (*Golubović–Golubović,* 2005). At the end of the 1990s, the acceleration of banking reform was encouraged by several means:

- Financial institutions generally operated in an unregulated and inadequately controlled business environment, and the expansion of banks was followed by a series of scandals.
- The low reputation of financial institutions rendered it more difficult to attract deposits and increase their portfolio or clientele.
- Banks in state ownership continued to carry bad debt inherited from large companies, (lent irresponsibly originally).

Banking reform could only speed up at the turn of the millennium, parallel with the region's political consolidation. The peak of the economic crisis fell between 1996 and 1998, and at that point reform could be delayed no longer. Establishing an EU-compatible legal framework, the introduction of the Banking Act and regulating the financial markets were vital steps in this process. Acts setting out the main tasks of central banks and guaranteeing their status and independence were accepted in 1997 in Bulgaria, Albania and Bosnia and Herzegovina, in 2001 in Croatia and in 2004 in Macedonia and Romania. All countries in the region began the process of banking market liberalisation, initiating the appearance of the first foreign strategic investors (*Stubos–Tsikripis,* 2007).

As a result of the most rapid banking reform in the region and cautious early steps towards opening the market, the banking system has reached its highest level of development in Slovenia. After gaining independence in 1991, Slovenian deposits were frozen in the Belgrade central bank. The first steps in the consolidation process in 1993 were a full guarantee by the Slovenian state of these frozen assets, and the government's management of the mounting problem of bank liquidity which went back to the loss of 40% of the Slovenian corporate sector's market (*Stiblar,* 1997). Strong state involvement led to the nationalisation of the largest banks, such as the New Ljubljanska Banka and the New Kreditna Banka Maribor. In 1995, 39 banks operated in the country (only 6 of which were foreign green-field investments holding a mere 4% of bank assets). 43% were controlled by large state-owned banks and the rest spread among large domestic banks (*Bonin,* 2004). Consolidation in banking reduced the number of banks to 28 by 2000 and to 21 by 2007, three of which were foreign-owned subsidiaries and another three Savings Banks. Slovenian banking reform was characterised by the regionally unique initiatives to strengthen local banks which only later permitted foreign strategic investors into the market. In 2000, the share of foreign actors was only 5.5%, and, while it started to grow after the turn of the millennium, it fell far behind the regional average. Consequently, the share of foreign banks in Slovenia (29%) is the lowest not only in the Balkans, but also in the entire Central and Eastern European region (Bank of Slovenia, Financial Stability Review, 2008). Three quarters of the Slovenian banking

market is held by domestic, private or public banks (the share of public ownership was 15% in 2007). The largest Slovenian banking group, the New Ljubljanska Banka, consists of 13 banks and other financial service providers, and, outside Slovenia, operates in Bulgaria, Slovakia, the Czech Republic, Ukraine, Germany, Switzerland and Italy.

In Croatia, where an operating two-tier banking system was already in place before independence, the restructuring of the banking sector was characterised by a higher degree of adaptation to market conditions and international standards. In 1990, 26 banks operated in Croatia, and they were gradually privatised. The largest two, Privredna Banka Zagreb and Zagrebacka Banka were in state ownership. In 1997, the number of banks increased to 60, 60% of which were in private (majority) ownership. The majority of Croatian accounts and one half of banking assets were frozen in the Yugoslavian central bank, and, similar to Slovenia, remained as a claim on Serbia. To finance the newly created state in the absence of the foreign currency accounts blocked in Serbia and central bank reserves, government bonds were released on the international market (*Bonin,* 2004). In the 1990s, 23% of the GDP was used to write off bad corporate debt as well as to capitalise and consolidate banks. Actual banking reform and bank privatisation through the introduction of foreign capital was delayed until the turn of the millennium. This was preceded by bank consolidation amounting to 6% of GDP, re-capitalising the three largest banks and cleaning up their bad portfolios. By 2000, through consolidation and mergers, the number of banks decreased from 60 to 43. Consolidation following the conflicts of the region and banking reform provided an opportunity for the inflow of foreign capital into the Croatian banking system. The first foreign bank to appear in the country was Raiffeisen Zentralbank in 1995, to be followed by investments by German and Italian banks as banking privatisation started in 1998. In 2000, 20 of the 43 banks operating in the country had a foreign majority ownership, and only three remained in the hands of the state. Over the few years of bank privatisation, the share of foreign banks in assets increased from 7% to 91% between 1998 and 2004 (Financial Stability Report, OeNB, 2004).

Albania had one of the least integrated banking markets in the region. At the beginning of the 1990s, the country had only developed very low levels of financial intermediation; legal regulatory frameworks were not in place, and the black economy, with a series of speculative frauds and pyramid schemes were common in the embryonic market. In 1997, a series of pyramid schemes buried not only the political system, but also the entire financial institution system. Systematic reorganisation took place by means of strict banking regulation and strengthened legal guarantees. The capital adequacy ratio was higher than expected by international norms: in 2001, it had reached 32%, and, in 2005, 20%. The deposit insurance system introduced in 2002 was liable for up to US$5,000

for bank deposits, extending to a guarantee for 60% of total national deposits. The minimal capital requirements for establishing a financial institution was raised from 7,000 million lek to 1 billion; and in 2006, a framework Act on Banking Regulations was accepted with provisions for public banking supervision. The credit portfolio experienced growth, but, even in 2005, the index of GDP-based private sector loans remained the lowest in the Balkans region at 10.3%. By 2002, in a drastically transformed ownership structure, only one bank, the Savings Bank, stayed in public ownership from among the 13 operating financial institutions. However, this bank had by itself formed a sort of market monopoly, holding 59% of banking assets and 64% of total deposits. In 2003, the bank was privatised by the Austria-based Raiffeisen Zentralbank. The modernising influence of foreign ownership was especially impressive in the Albanian banking system. The consequences were not only apparent in the market environment and increased competition, but also in the significant increase in credit (*Stubos–Tsikripis,* 2007). The entry of foreign banks into the Albanian market took place within barely one year. By 2003, 14 of the 16 banks operating in the country were owned by foreign interests.

The banking system in Bosnia and Herzegovina remained de facto inoperative until the 1995 conclusion of the civil war, but the system of financial intermediation was in a dysfunctional state. The banking market was strongly fragmented due to the large number of local banks, which were not even required to maintain capital liquidity to sustain safe credit. This market was also divided between the two constituent republics. With the assistance of international organisations, the process of stabilisation led to the 1997 foundation of the Currency Council whose objective was to harmonise the legal framework and establish banking market cooperation and integration between the two member republics. The 1998 Banking Act aimed to create a legal framework for a functioning banking system, but what it achieved was questioned by the IMF, which drew attention to several systemic problems in public supervision. The 1999 and 2001 increase in minimal capital requirements (€7.6m) contributed to the rapid transformation of the banking system's structure of ownership. Bank consolidation started in two phases, creating the opportunity for foreign investors to enter the market. As a result of the consolidation process, the number of banks decreased from 55 to 33 between 2000 and 2005. However, strong differences are apparent between the Republika Srpska and the Bosnian Federation. Whilst, in the former, all banks are in private hands, the latter is dominated by the state. Over the entire state territory, 61% of the banking system's assets were held by foreign owners. Under pressure from foreign organisations and owners, numerous legal modifications were undertaken; mandatory bank auditing was introduced along with public deposit insurance and measures against "financial terrorism". Only a small number of banks could fulfil these prudence criteria (13

in 2002); deposit insurance amounted to €3,800 per account. The Monetary Council proposed the introduction of various measures against money-laundering, including the mandatory registration of bank accounts. Privatisation and the regulatory framework enabled the rapid growth of the Bosnian banking sector: between 2000 and 2005, credit stocks for the private sector increased from 7% to 22.6% of GDP. Private and corporate credit stocks in commercial banks grew by leaps and bounds, with an annual average of 30%. This result is all the more relevant because Bosnian culture has had no historical precedent for transparent lending activity. However, the same dynamic credit expansion required banks to raise their mandatory reserves from 10% to 15%. Deposits – to a large extent through remittances from deposits in foreign banks – also began to increase, showing a return of confidence among citizens towards the banking system.

In Macedonia, banking reform coincided with bank consolidation and privatisation. The central bank was responsible for laying down the legal and regulatory framework, while the public authority of banking supervision was given the task of purging balance sheets of bad debt and reinforcing bank capitalisation. Despite the 1999–2000 creation of the legal framework, the depressed economy did not encourage the system's fast consolidation. In 2004, raising capital requirements, prescribing reserve formation and measures against money-laundering, as well as establishing the system of SME sector loans, had a significant stabilising effect on the local financial market, which slowly started to attract foreign investors. In 2005, 8 of the 20 banks in the country had foreign majority ownership, with a total market share of over 50%. Although the liquidity and regulations of the banking sector became stronger, financial intermediation was among the least intensive in the region, shown by the fact that the market share of the two largest banks remains at some 50% of all assets.

Internal political and economic disintegration was perhaps at its most severe in Serbia and Montenegro. The quasi-two-tiered banking system's most important change occurred in 1989, when banks, formerly under collective self-governance, were placed under company management, and private banks were allowed to enter the market. Hyperinflation had a damaging effect on the sector by devaluing household savings. The reform process, postponed by the Milosević regime and involving privatisation and restructuring, could only pick up the pace post-2001 simultaneously with the process of political democratisation. In the 1990s, banks operated under strong state control and with soft budgetary constraints, required to finance loss-making state-owned companies. The entire sector experienced a liquidity crisis, with liabilities far exceeding their assets. The joint banking sector restructuring programme of the IMF and World Bank primarily aimed to treat the liquidity crisis, capitalise banks and prepare them for privatisation. Banks were placed into three categories on the basis of liquidity: healthy, solvent but under-capitalised and insolvent. Accordingly, in 2002,

28 banks, among them the four largest financial institutions, were placed in the third category and closed. A further 50 (12 foreign-owned) were identified as healthy and several received capitalisation. The privatisation process has made further contributions to prudential banking through the reinforced regulatory and supervisory system. In 2005, 17 of the 40 operating financial institutions were in foreign ownership, but their market share amounted to two-thirds, far in excess of the 13% of 2001. The accelerating privatisation process attracted further strategic investors in 2006: the Austrian Erste Bank, Italy's Sao Paolo IMI and new Greek banks entered the Serbian market (*Fink* et al. 2007).

4 Foreign bank investment in the Western Balkan states

The process of bank privatisation and opening the Western Balkans market to foreign investment was a rather sluggish process in comparison with the Central and Eastern European region, but significant advances were made after 1998 with respect to the market entry of foreign strategic investors (*Fink* et al. 2007).

According to foreign investment theories, foreign banks first of all encourage the global integration of local banking systems; secondly, they contribute to the local regulation and supervisory system as well as transparency, reducing black market transactions; thirdly, they improve the quality of the banking system, especially in respect of credit portfolios; fourthly, foreign investors not only reduce the degree of state involvement, but also significantly contribute to the modernisation of the banking system and the quality of banking services as well as improving the system of financial institutions and the competitiveness of the local market environment. They also improve the confidence of local actors in the banking sector, as they can provide a secure background of sorts through their parent banks with respect to capitalisation and the allocation of interbank funds (*Levine,* 1997).

On the other hand, the dominance of foreign ownership conceals several risks for local banking markets. First, foreign investment may become harmful for underdeveloped or medium-developed national economies, inasmuch as the inflow of FDI can stifle the emergence of domestic capital, and when repatriated profits are greater than the FDI involved in achieving them (*Balogh,* 1982, *Gál,* 2010). Moreover, these countries – in particular due to their macroeconomic imbalances and dependence on external sources of finance – are more vulnerable to shocks and contagions transmitted through the subsidiaries of parent banks.

Third, in the broader Eastern European region as much as the Balkans, foreign strategic investors have a preference for loans to the large enterprise sector

coupled with credit discrimination against locally owned SMEs, which also has detrimental consequences for other economic sectors.

Fourth, more competitive foreign banks have become the main beneficiaries of local market concentration; by relegating locally owned banks to a less favourable competitive position, the emergence of a dual banking system, or a monopolistic banking market might be the final result, with higher interest margins and credit rates. Fifth, the presence of foreign banks does not in itself prevent the outbreak of local economic and banking crises (*Agenor,* 2001).

In Southeastern Europe, but especially in the Western Balkans, international financial organisations – first and foremost, the EBRD (the European Bank for Reconstruction and Development) – have undertaken a pioneering role in attracting foreign investors and encouraging bank privatisation (*Stubos–Tsikripis,* 2007). The attractiveness of the region was particularly enhanced by relative geographical proximity (this was especially relevant for Greek and Slovene banks as well as Hungary's OTP), and by opportunities for expansion and profits exceeding average EU rates. The rapid progress of bank privatisation was primarily manifested in the decreasing role of the state and parallel increases in foreign ownership. By 2005, the market share of the state fell below 15% in Albania, Bosnia and Herzegovina and Macedonia. In Montenegro, the decrease was from 43% to 23% between 2001 and 2005; in Serbia, privatisation started late and only accelerated in 2005–2006, but, in the last year alone, four state-owned banks underwent privatisation.

The share of foreign bank ownership was 75% of assets in the countries of the Western Balkans (80% excluding Slovenia), and only 7% of assets remained in public hands (*Table 63*). In this respect, the scale of foreign ownership in Southeastern Europe exceeded that of the reference area of Central and Eastern Europe. Foreign ownership was at the highest in states with the least advanced banking market; Albania (93%) and Bosnia and Herzegovina (91%). In the most advanced country, Slovenia, the share of foreign banks was a mere 23% in 2005, and is approximately 29% currently. With late privatisation, the share of foreign ownership had reached two-thirds in Serbia by 2005, whilst approaching 90% in Macedonia. Greek banks, exploiting their geographical and cultural proximity, played a pioneering role in banking market investment in the region, to be followed by Austrian, German and Italian peers. The Bosnian banking system has attracted considerable investors from Turkey and the Gulf States (Dubai and Abu Dhabi). Increasing financial stability[2], improving corporate performance, growing incomes and the expansion of consumer loans all created

[2] The higher capital adequacy ratios of smaller or domestically-owned banks, even in comparison with Central and Eastern European banks, also point to improving financial stability and stronger capital and reserve situations for banks.

favourable environmental conditions for the expansion of, mostly European banking investors.

In the region, Italian (UniCredit) and Austrian (Erste, Raiffeisen) banks are the biggest actors, and in respect of assets, Austria is in the lead. Raiffeisen Bank held 32% of the region's assets, Erste 9% and Hypo-Alpe Adria 19% in 2007 (Deutsche Bank Research, 2007).

Table 63

The share of foreign banks (as % of banking assets)

Country	1998	1999	2000	2001	2002	2003	2004	2005
Albania	14.1	18.9	35.2	40.8	45.9	47.1	93.3	92.3
Bosnia-Herzegovina	1.9	3.8	21.6	65.3	76.7	79.7	80.9	90.9
Bulgaria	11.4	11.5	53.4	51.1	44.0	46.9	47.3	51.3
Croatia	n.d.	n.d.	n.d.	n.d.	73.1	62.8	62.0	70.0
FYR Macedonia	n.d.	n.d.	n.d.	n.d.	16.9	23.5	31.0	87.7
Greece	0.5	0.4	0.5	13.2	27.0	38.4	37.7	66.0
Kosovo	32.3	44.7	67.0	70.0	72.0	82.3	82.5	74.5
Montenegro	6.7	39.9	84.1	89.3	90.2	91.0	91.3	91.2
Romania	20.0	47.8	50.9	55.2	56.4	58.2	62.0	59.2
Serbia	n.d.	4.9	15.3	15.2	16.9	18.9	20.1	22.6
Slovenia	12.8	n.d.	12.3	n.d.	8.7	9.3	10.0	n.d.
Turkey	4.3	5.3	5.2	3.1	3.1	2.8	3.4	11.7

Source: EBRD 2006; Hagmayr 2007; RZB 2006.

The 2008–2009 financial crisis, and, more recently, the crisis in Greece has resulted in a slowdown of the integration process on the Balkans, and it is unlikely that the pre-crisis expansion of foreign banks is going to continue in the region under these conditions. The need to fortify local financial markets places a burden on both parent banks and international financial organisations, especially due to badly performing loans in financial institutions. From this respect, the parent bank exposure of Austria appeared the most risky with the escalation of the 2009 credit crunch. Fears of a contagious Greek crisis are not unfounded in 2010, since Greek banks maintain subsidiaries in multiple states in the region (Albania, Serbia, Macedonia, Montenegro). Factors encouraging growth in the region before the crisis, such as foreign capital inflows, will be modest for years to come. Nonetheless, the further development of local financial markets is essential, as the expansion of the financial sector has been extraordinary and has relied too heavily on external financing. Accordingly, in the future, it will be vital to base growth on broader foundations, supporting the growth of more rapidly expanding (even self-financing) undertakings and SMEs.

5 The structural and networking characteristics of the banking sector in the Western Balkans

Using standard international indicators of the structure and growth trends of the banking sector, this chapter provides a brief outline on the region's main characteristics.

With respect to creating the stability of the banking sector, increasing the capitalisation of banks has been a key issue. The protracted banking crises during transition have been partially caused by the fact that undercapitalised banks were unable to tackle the problem of insolvency arising from non-performing bad debts. Numerous banks which had undergone problems could not reach the 8% Basel I reference rate in their capital adequacy ratio. The privatisation of state-owned banks, as well as public bank consolidation have significantly improved capitalisation. Banks in the Western Balkans had better capitalisation after consolidation and privatisation than even their Central and Eastern European peers. In certain Balkan states, capital requirements exceeding international standards (12% in Albania and Bosnia and Herzegovina) can be seen from the perspective of supervisory authorities as natural caution after banking crises. However, with the progress of stabilisation, even these countries are seeing to reduce these to 8%, which can have a beneficial effect on lending activity (*Table 64*).

The asset-based (ROA) and equity-based (ROE) indicators of profitability have seen significant improvement over the process of bank privatisation, primarily by writing off non-performing debt, improvement in banking techniques and, post-2005, credit expansion in the entire region. In 2005, ROE exceeded the EU25 average (15%) in Albania (22.3%) and Bulgaria (21.6%), which shows an especially strong dynamism in profit creation in Albania when we compare it to the 1998 –83% ROE. Asset-based indicators also exceed the 0.6% EU25 average in almost all Western Balkan countries. Profit growth has been generated to a large extent by high interest margin-based credit expansion in retail banking, but decreases in credit demand further rationalisation in cutting operating costs, as well as the introduction of risk management techniques used in Western banks (*Stubos–Tsikripis,* 2007).

Increases in the intensity of financial intermediation are measured by a number of indicators. The size of the banking system is indicated by the assets to GDP ratio (*Figure 79*). In Slovenia and Croatia, which possess the most advanced financial sectors, the indicator stood at 115% and 124% respectively in 2007; in Bosnia-Herzegovina, where development was encouraged by international organisations, it stood at 80%; in Serbia, where reform came late, 61%, whilst in Albania, which had the lowest level of market development, the figure

Table 64

The structural characteristics of the banking systems in the Western Balkans

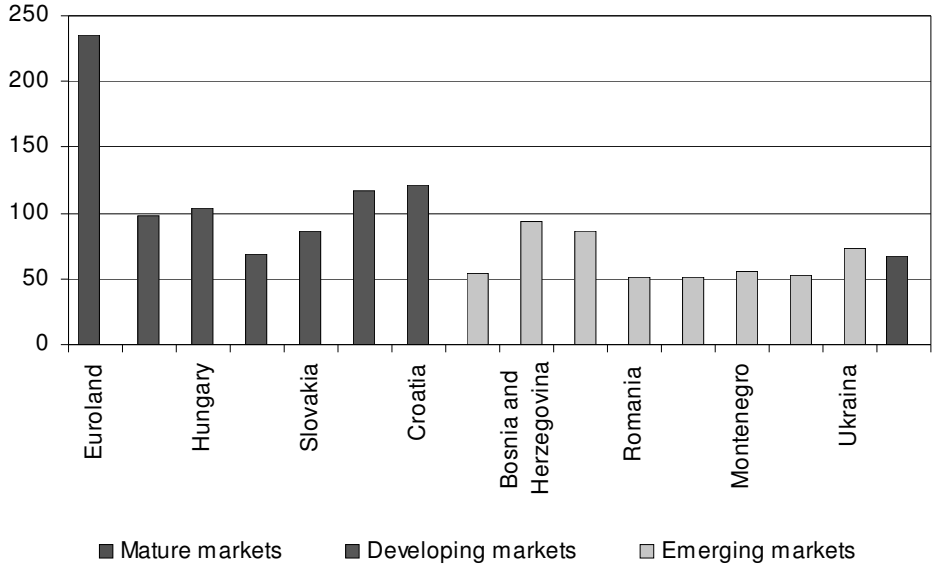
	Albania	Bosnia-Herzegovina	Croatia	FYR Macedonia	Serbia (with Montenegro)	Slovenia
Number of banks	16.0	33.0	34.0	40.0	20.0	20.0
Foreign ownership of banks (% of banking assets)	92.3	90.9	91.2	51.3	66 (88)	22.6
Bank assets/GDP	58.1	79.5	114.4	50.0	46.4	104.2
All debt/GDP	14.9	47.8	67.8	21.7	25.0	56.0
Bad debt /all loans	2.3	5.4	7.2	22.2	23.8	6.4
Private sector debts/GDP	10.3	22.6	58.0	21.7	16.0	46.0
Household debt/GDP	4.7	29.1	34.4	8.8	7.7	14.7
Foreign currency loans/all loans	74.4	–	11.4	–	3.6	43.3
Deposits/GDP	44.0	22.2	43.5	–	12.8	37.7
ROE	22.2	6.0	15.6	6.2	5.6	12.6

Source: Fink et al. 2007; ECB Reports, 2007.

was only 47%. These figures outline a form of development gradient over the Western Balkans, but also highlight the potential for development in less developed states. The average growth of the banking sector in the Balkans exceeded 17% per annum between 2006 and 2009. However, credit expansion, especially the high share of foreign currency loans, has led to the accumulation of serious risks in the region's banking systems in the period before the financial crisis (Deutsche Bank Research, 2009; *Fink* et al. 2007).

Figure 79

Total assets to GDP in %, 2006



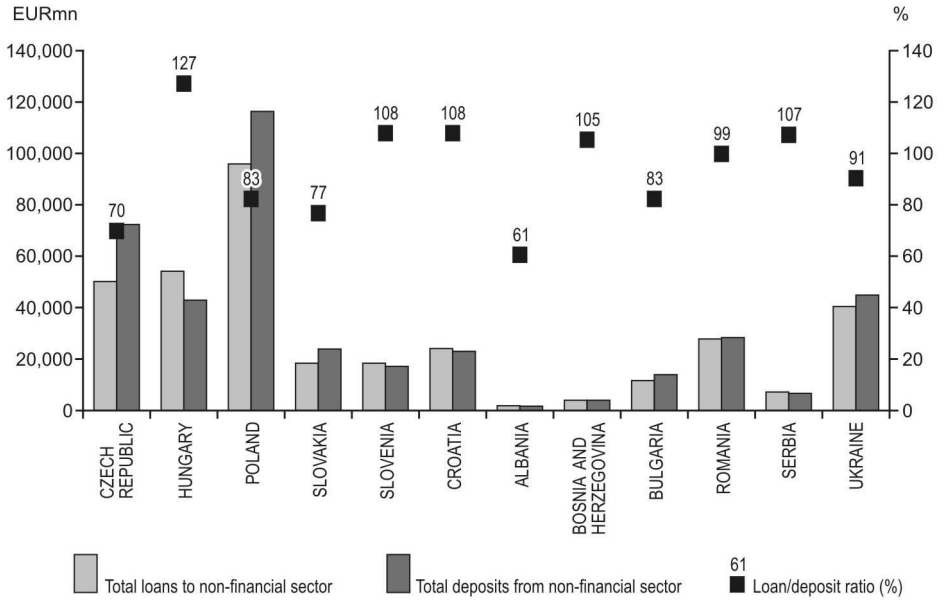
Source: National Banks, Erste Bank Research.

The growing intensity of financial intermediation is also related to a shift in the retail banking sector from deposit collection to credit, mortgages and credit card expansion. The credit to private sector as a percentage of GDP showed that in 2006, the regional average did not reach either that of the EU25 (102%) or the Central and Eastern European group (35%) with the exceptions of Slovenia and Croatia (Deutsche Bank Research, 2007), where they reached 58% and 46%, respectively (*Figure 80*). The same indicator barely exceeded 20% in Bosnia-Herzegovina and Macedonia, while the credit to GDP ratio was significantly lower in Serbia and Albania. On the other hand, with the exception of Bosnia-Herzegovina, credit expansion occurred at a much faster pace than the

Central and Eastern European average of 18%: the figure was 60% per annum in Albania and 30% in Serbia, while Croatia saw an expansion identical to the less rapid Central and Eastern European rate.

Figure 80

Central and Eastern Europe: loans, deposits, loan/deposit, %, 2006



Source: National Banks, Erste Bank Research.

6 The spatial structure of the banking sector

Considering the network indicators of the banking sector, the number of banks has decreased in previously over-banked countries due to consolidation (dissolutions, mergers, and acquisitions). However, through the expansion of the bank branch network, there has also been a decrease in the number of inhabitants per branch. The network density of branches in Serbia (3,400 inhabitants/branch) approached the EU25 average, while in Slovenia, the indicator (2,800 inhabitants/branch) was identical to EU member states with an average network density. On the other hand, Balkans states are marginal when compared to the EU25 average on the basis of assets per branch. In this case, Serbia's indicator is 23 times smaller than the EU average (*Vukovic,* 2008). The Herfindahl index, showing the concentration of the banking market, shows low concentration in

the majority of Balkans states. In Serbia, the value (614) was less than half of the highly concentrated Slovenian banking system's (1,300).

Linkages between the banking sector and regional development are demonstrated above all by the spatial distribution of bank branches. Developed business and financial services have become essential factors in the economic development and competitiveness of territories and regions, and have a long-term effect on the emergence of regional differences. From the perspective of regional development, the location of financial institutions' units plays an important role in local economic development, innovation as well as the organisation of productive and service-based economic activities. Through their intermediation, financial institutions redistribute resources among geographical units and institutions (and consequently have an effect on regional development), making it crucial to study the relationship between their regional and institutional structure.

The geographical distribution and spatial diffusion of bank branches has reflected well the spatial restructuring of the transitional economies. Branch-building and the deployment of cash dispensers (ATMs) showed a close relationship with the economic development of specific regions and their demand for banking services. In larger countries (Croatia, Serbia), examining the spatial structure of banking units reveals that they show concentration based not only on the size of their parent banks, but also show a characteristic spatial distribution.

In Croatia, where, following European consolidation trends, the number of banks decreased after 2000, there was a slow but continuous expansion in the network of bank branches and ATMs. In 2009 there were 1,291 branches in the country, and even in this crisis year, their number increased by 31 units (2.5%). The number of ATMs by this time had reached 3,483, growing by 141 units (4.2%).

As with other industries, financial activities are also characterised by economies of agglomeration and have tended to cluster geographically. Indeed, the urban hierarchy is, to a large degree, also a financial hierarchy. The regional distribution of the banking network shows the leading role of the coastal region, which houses roughly half of the entire network. This is followed by the North-Western Croatian region, including the capital, Zagreb, with a third of the branches and then the geographically larger Central and Eastern regions with a much smaller share. Looking at county-level distribution, it is even clearer that urban regions with large cities and denser town networks have an advantage in network density. Zagreb County held 21.4% of the network; the second, Split county had 12%, whilst Primorje-Gorski Kotar county (with its centre in Rijeka) and Istria had around 9%. They were followed by Osijek-Baranja (6.6%) and Dubrovnik-Neretva (5.2%) (*Table 65*).

Table 65

Territorial breakdown of the Croatian banking system

County and region	2006		2009	
	Number of bank branches	Ratio of bank branches	Number of bank branches	Ratio of bank branches
County of Zagreb and City of Zagreb	229	20.5	274	21.4
Krapina-Zagorje	28	2.5	29	2.3
Varaždin	40	3.6	45	3.5
Koprivnica-Križevci	36	3.2	37	2.9
Medimurje	27	2.4	31	2.4
Northwest Croatia	360	32.2	416	32.5
Sisak-Moslavina	35	3.1	36	2.8
Karlovac	24	2.1	31	2.4
Bjelovar-Bilogora	23	2.1	29	2.3
Virovitica-Podravina	27	2.4	29	2.3
Požega-Slavonia	25	2.2	29	2.3
Slavonski Brod-Posavina	27	2.4	33	2.6
Osijek-Baranya	68	6.1	84	6.6
Vukovar-Srijem	24	2.1	29	2.3
Central and Eastern Croatia	253	22.6	300	23.4
Primorje-Gorski Kotar	106	9.5	116	9.1
Lika-Senj	15	1.3	17	1.3
Zadar	46	4.1	59	4.6
Šibenik-Knin	40	3.6	41	3.2
Split-Dalmatia	131	11.7	153	11.9
Istria	109	9.7	113	8.8
Dubrovnik-Neretva	58	5.2	66	5.2
Adriatic Croatia	505	45.2	565	44.1
Croatia total	1,118	100.0	1,281	100.0

Source: Banking Bulletin, 16. Croatian National Bank, 2009.

The ATM network of 3,464 units was concentrated in Zagreb county (28%), followed by Split-Dalmatia (11%), Primorje-Gorski Kotar (9%) and Istria (9%).

On the basis of per capita bank branches and ATM density, Istria, dominated by the tourist sector, took first place, with 1,826 actual inhabitants per branch and 674 per ATM. The lowest density in terms of branches is seen in Vukovar-Syrmia, with 7,061 and 2,327 inhabitants respectively, whilst, in respect of ATMs, it was Brod-Posavina (2,525).

In terms of specific regions, Zagreb county held most banks (29), and Lika-Senj the least (7). The size of financial institutions was closely correlated with the size of their branch and ATM networks, as well as their geographical cover-

age. The group of six large banks operated 60% of all bank branches, medium-sized banks 13% and small banks 27.4%. In terms of ATM concentration, the large banks have 76.8%, the medium-sized 12% and the small banks 11%.

In Serbia, considered over-banked in comparison with Croatia, consolidation reduced the number of banks to 34, but the number of branches remains high at 2,593 units. In the banking system, locally founded and based banks have remained in operation and still have centres in one of the provincial cities (e.g. Novi Sad, Kragujevac, Mitrovica, Pančevo, Čačak). In terms of market share, Belgrade-based banks with foreign ownership (Banca Intesa, Komercijalna Banca, Raiffeisen Bank) dominate. Whilst the Serbian banking system is far outstripped in assets per capita, even by Croatia, in branch density (3,428 inhabitants per branch), it is second in the region after Slovenia. Serbia suffers no lag in bank density in comparison with the EU average, but banks, especially small banks, still have weak capitalisation and low operational efficiency. While there is no unified and complete database on territorial distribution, the capital's dominance is apparent at 40% of branches, followed by the Vojvodina with a quarter of the network and Southern Serbia with more than one third.

For Slovenia, data is available on ATM network density. 53.3% of the network is located in the eastern, and 46.7% in the western half of the country, which includes the capital city. Among the large cities, the Ljubljana City region holds 28.7% of the network (17.2% in the capital itself), whilst second position is taken by the Drava region, including Maribor (16.3%).

7 Summary

Our analysis of the banking sector in the Western Balkans shows a picture of a banking market with emerging market characteristics, improving stability and a growth trajectory after the turn of the millennium. Despite rapid growth rates, the depth of the financial markets lags behind those of the advanced countries, although possibilities in credit expansion did allow faster catch-up in the period immediately before the global financial crisis. Protracted transformation, the recession and slower banking reform than the Central and Eastern European region led to lagging growth pre-2000, whilst the establishment of regulations, the legal background and supervisory institutions for financial markets have made the region a target for strategic investors.

In spite of successful reforms and growth after stabilisation, the banking system of the region faces several internal and external risks. First, further consolidation within banking markets forecast more mergers and acquisitions and increasing concentration on internal markets. Second, the sustainability of

banking reform supposes improving transparency on the banking market, the reduction of the black economy and the introduction of state-of-the-art risk management standards. Systemic risks for the region's banking markets are increased by the expansion of household debt financed from external sources, partially foreign currency loans, which, in case of external shocks leading to the depreciation of local currencies, pose significant risks of macroeconomic imbalances for public finance. This question of external shocks is made all the more striking by the global liquidity crisis spreading through the local subsidiaries of international parent banks, as well as the debt crisis of the Euro-zone which is expected to introduce significant instability through shocks spreading via Greek banks maintaining subsidiaries in several countries in the region.

HIGHER EDUCATION, RESEARCH AND DEVELOPMENT

PATRICK DUBARLE – GYULA HORVÁTH

1 Higher education potential

1.1 Historical background

Due to the specific spatial development of countries in the Balkans, the location of intellectual activities shows significant disparities. As a characteristic feature of late development, these countries are lagging behind Western and Central Europe in terms of university education and research and development (R&D) activities. During the last decades of the 19th century, European universities showed rapid development – in contrast to Balkan countries. This development lag has very deep historical roots. Over the territory of the former Austro–Hungarian Empire, the development of higher education was closely intertwined with the spread of the Counter.

Reformation. The first higher education institution was established in Ljubljana at the end of the 16th century by the Jesuits, although later in the 18th century the Jesuit order was placed under state control. However, the system of Jesuit education also had a positive influence on higher education in Zagreb, where the first college was founded at the end of the 17th century, and, two centuries later, in 1874, the University of Zagreb opened its doors.

In Belgrade, higher education started to develop later. The process of unification of higher education institutions located in different Serbian regions started at the end of the 19th century, when Belgrade became the centre of Serbian higher education, its university being founded in 1892. The establishment of provincial Faculties of the University of Belgrade was seen as the key to the development of higher education in the Kingdom after World War I. The Serbian educational authorities established a Faculty of Philosophy in Skopje in 1921, a Faculty of Law in Subotica in 1920 and a Faculty of Agrarian Sciences in Sarajevo in 1941 (*Uvalić,* 1952). Independent new universities were not established between the two world wars in the Kingdom of Yugoslavia.

The Yugoslav government took serious measures to reconstruct the higher education system after World War II. The ravages of war had been severe, in

that fourteen percent of the country's higher education institutions were destroyed and 36% were damaged. The National Library of Serbia in Belgrade was completely destroyed, and the majority of university lecturers were killed during the war.

In the final years of the 1940s, immediately after reconstruction, new universities were founded in Sarajevo, the capital of Bosnia and Herzegovina, in Skopje, the capital of Macedonia, in Novi Sad, the principal city of the Vojvodina and in Niš. The new universities established Faculties of Agrarian Studies, the Humanities, Forestry, Technical Sciences, Medicine and Law. Substantial modifications were effected in the disciplinary profiles of the universities of Belgrade, Zagreb and Ljubljana, and 10–12 new faculties were established. This led to a profound evolution of the quantitative indices of higher education. Whilst, in the academic year 1938/39, the number of students was 17,247 and the number of lecturers 365, student numbers had risen to 52,480 and the number of lecturers to 1,018 by the academic year 1949/1950. Before the war, 18 university faculties were operating in the country. Albania, on the other hand, had no institution of university rank before World War II.

The period between 1954 and 1990 saw the most intense development of universities in the newly established Federal State of Yugoslavia. During this era, 18 universities were founded – mostly in the less-developed member republics. Regional university centres in Croatia and Serbia were also established in this period. Several state universities were founded in Albania after the change of regime. Former colleges were amalgamated into six new universities, a new university was founded in Zadar, Croatia, and a large number of private universities and colleges were established in the different republics (*Table 66).*

The foundations of the first comprehensive reform of the Yugoslav system of higher education were laid during the final years of the 1950s. The package of recommendations of federal legislative and executive organs and the Law on Higher Education of 1960 modified the operational order of higher education, raised the number of students in higher education and established new faculties and branches of educational. The aim of this extensive development was to raise the level of qualifications in Yugoslav society and to speed up social mobility. The country's intellectual potential was well below the European average, and one consequence of the high rate of agricultural employment (61%), 25 percent of the Yugoslav population was illiterate at the beginning of the 1950s.

By the mid-1950s, the number of students pursuing their studies in 93 faculties reached 98,630. The number of faculties increased as a result of the reform, with the academic year 1959/1960 seeing the establishment of a further 16. Besides the rapid development of university education, there was a significant increase in the number of colleges. Substantial changes occurred in the spatial concentration of higher education also.

Table 66

Periods of university foundation in countries of the Balkans

Periods	Number of universities	City
Before 1945	3	Ljubljana, Zagreb, Belgrade
1945–1950	2	Skopje, Sarajevo
1951–1970	5	*Serbia:* Niš, Priština, Belgrade (University of Agrarian Sciences, University of Economics), Novi Sad
1971–1990	16	*Albania:* Tirana (University of Sciences, Technical University, University of Agrarian Sciences, University of Physical Education, University of Arts, University of National Defence); *Bosnia-Herzegovina:* Banja Luka, Mostar, Tuzla; *Croatia:* Osijek, Rijeka, Split, Maribor, Belgrade (University of Arts); *Macedonia:* Bitola; *Montenegro:* Podgorica
After 1991	13	*Albania:* Shkodra, Elbasan, Gjirokastra, Korca, Vlora (University of Sciences, University of National Defence), Durrës; *Bosnia-Herzegovina:* Bihać, Zenica; *Croatia:* Zadar; *Macedonia:* Štip, Tetovo (State University, South East European University)

Source: Author's own construction based on university homepages.

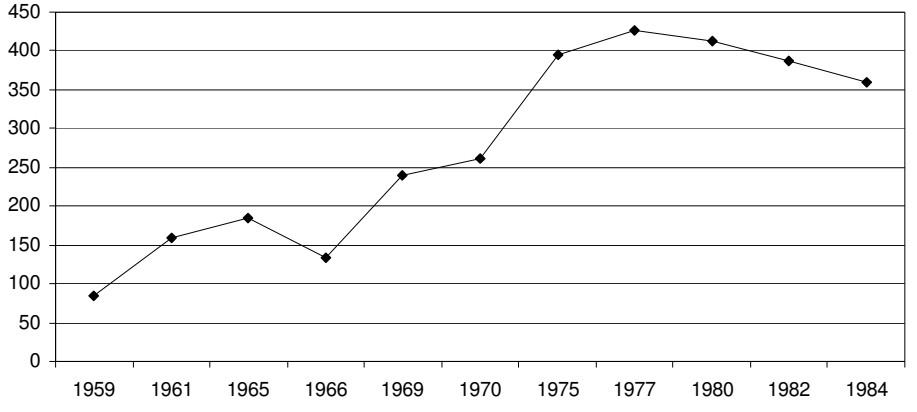
In earlier times, only the capital cities of the individual republics and a few large towns (10 settlements) had university faculties and 21 were endowed with colleges. As a result of the reforms, the number of university towns increased to 14 and that of college towns reached 59 (*Giles,* 1979). The strategic direction of the development of higher education was technical education. At the beginning of the 1960s, technical higher education experienced dynamic growth in Niš, Kragujevac and Tuzla (*Krneta,* 1966). Student numbers in higher education reached a peak in 1977, when the number of students enrolled at universities and colleges was five times higher than at the introduction of the reform (*Figure 81*).

In the meantime, the forced growth of student numbers produced considerable negative effects. The process of expansion was spontaneous and did not follow any pre-designed course, and several towns strove to obtain higher education institutions. The rapid pace of industrialisation encouraged the increase in student numbers, but the shortage of teachers and the uneven quality of education are among the primary negative effects of non-synchronised developments. The structural transformation of higher education began in the mid-1960s and low quality institutions disappeared quite soon. By the 1970s, for example, 27 colleges had been closed in the more developed republics (Slove-

nia, Croatia and Serbia). The number of universities reached 18 towards the end of the 1970s, but this quantitative growth was not accompanied by a qualitative improvement of basic university functions (professional education and research). Rather, the integrity and multidisciplinary approach of universities weakened. The concept of university organisation based on the primacy of faculties still remains strong in the higher education systems of Balkan countries.

Figure 81

Evolution of the number of students in higher education institutions in Yugoslavia, 1959–1984, '000s



Source: Statistical yearbooks of Yugoslavia. Author's construction based on data from different years.

1.2 The spatial structure of higher education at the beginning of the 21st century

The Balkan countries' system of higher education underwent a significant quantitative development simultaneously with the building of the market economy. Student numbers increased and university structures were transformed, leading to a growing number of faculties. New disciplines also appeared in higher education institutions. Nevertheless, despite a significant quantitative development, the region still lags behind the Eastern European average, and the quality and competitiveness of higher education are far from adequate. The low enrolment ratio, the large spatial concentration, the non-uniform system of higher education, the unfavourable disciplinary structure, the weak infrastruc-

ture and the lack of financial resources are among the most crucial problems in the higher education system of the Balkans (*Table 67*). The evolution of student numbers in the Balkan states was much more modest than in East European countries. Even though the Albanian system of higher education experienced the largest growth (200%), this country has the lowest proportion of students enrolled in higher education among the college-age population. The education structure of universities and colleges shows large disparities, and the number of students involved in education in the technical and natural sciences is low. Serbia is the one exception, the role of technical education being almost equal to the EU average.

The spatial structure of higher education is characterised by the dominance of the capital cities. More than 50% of students are concentrated in the largest cities – two-thirds in Albania and Macedonia. In Montenegro, a country with a small population, only the capital has a higher education institution (although the University of Podgorica established faculties in several cities). Such a great concentration in the development of human resources is seldom found in European countries. The concentration of higher education is twice or three times as high as the proportion of the national population living in the capital. (Zagreb is home to 17.4% of the population of Croatia, Belgrade to 21.5% of the population of Serbia, whilst 18.0% of Albania's population live in Tirana.)

The largest university centre of the Western Balkans is Belgrade, which established its strong role in higher education during the Yugoslavian era. The University of Belgrade, made up of 31 faculties, had 90,000 students and 7,000 lecturers in 2007. Several dozen public and private colleges have over 33 000 students. Zagreb is the second largest centre of higher education in the area with 77,000 students. The second largest group includes Tirana (54,000), Sarajevo (50,000), Skopje (40,000), Novi Sad (35,000), Priština (31,000) and Niš (27,000). The 10–15 faculties of the large universities in these cities offer a wide range of education programmes. There are nine higher education institutions with 10–20,000 students (Kragujevac in Serbia, Rijeka, Split, Osijek in Croatia, Tuzla, Banja Luka, Mostar in Bosnia and Herzegovina, Podgorica in Montenegro and Bitola in Macedonia) (*Figure 82*).

Over ten years, the number of university students tripled in Albania. The number of students enrolled was 28,300 in 1994, rising to 90,200 by the year 2008 (*Figure 83*). Universities established after 1991 account for over fifty percent of the growth. The increase of student numbers in Albanian higher education played an important role in the establishment of private institutions. The vast majority of the private universities in the Western Balkans, specifically 32, are located in Albania (Tirana), but the centre of gravity of state universities there is also in Tirana which holds 57.3% of the latter institutions. Albanian private universities are almost exclusively found in the capital, and so Tirana is

Table 67

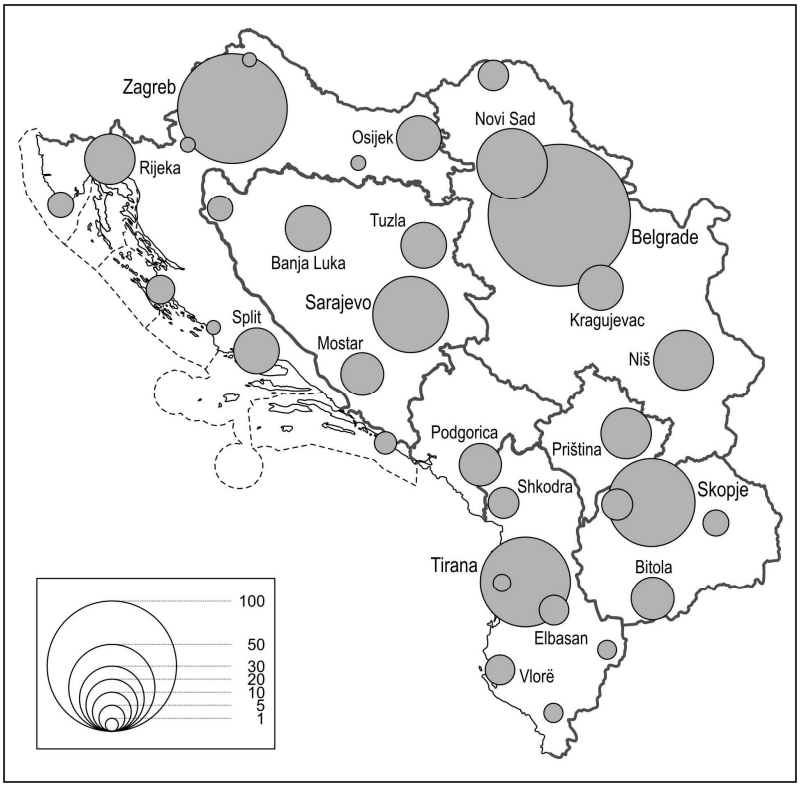
Some important indices of higher education in Balkan countries, 2007

Country	Student numbers, '000s			Distribution of student numbers between the main disciplines, %				Weight of the capital, %	Students as % of college-age population
	1999	2007	Change, %	Arts	Social sciences	Natural sciences	Technical sciences		
Albania	38.5	80.7	209	5	29	2	4	65.8	19
Bosnia-Herzegovina	…	68.3	…	16	37	4	10	48.8	34
Croatia	95.9	140.0	146	8	38	7	12	52.7	47
Montenegro	…	…	…	…	…	…	…	100.0	…
Macedonia	…	…	…	11	32	7	11	67.0	36
Serbia	194.2	238.7	123	10	39	8	21	51.5	48

Source: Author's own estimations based on UNESCO Institute for Statistics. www.unesco.org/en/efa/resourceds/statistics [12. 05. 2010.] and national statistical data sources.

Figure 82

Spatial location of the higher education institutions of Western Balkan countries student numbers, '000s



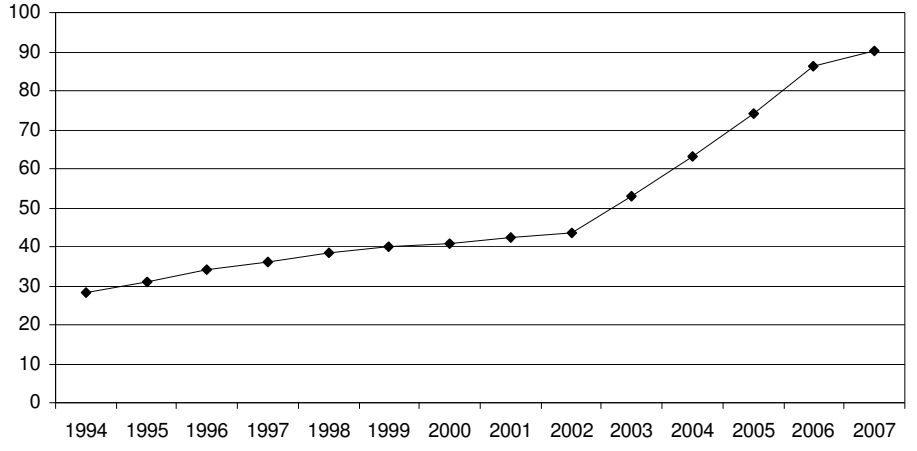
Source: Author's own work based on national statistical archives.

home to 67% of the countries total number of higher education institutions. State universities outside the capital show a relatively even spatial distribution, universities having been established in the country's main regional centres. Student numbers at the universities of Shkodra, Elbasan and Vlora are between 6,000 and 7,000, but, surprisingly, Albania's second largest city, Durrës, with a population of 180 thousand, has the smallest state university (2,328 students in 2007).

After the change of regime, Croatian higher education developed at a more moderate pace (*Figure 84*) and growth halted in 2007, to be followed by a slow decline. The system of higher education is built on seven universities, 13 vocational colleges and 25 private colleges.

Figure 83

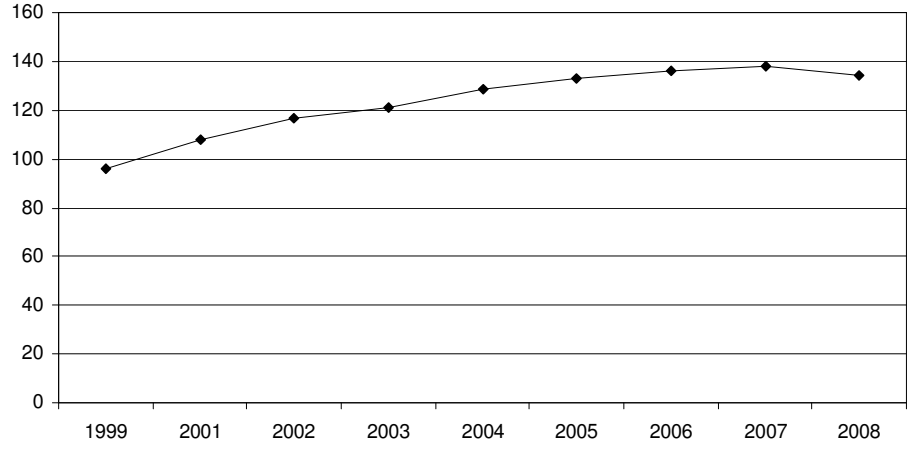
The number of full-time students enrolled in Albanian higher education institutions, 1995–2008, '000s



Source: Statistical Office of Albania. Author's own construction based on data from different years.

Figure 84

Evolution of student numbers in the Croatian system of higher education, 1999–2008, '000s



Source: Statistical yearbook of Croatia. Author's own construction based on data from different years.

The average number of student at universities is 20 thousand, although the size of state and private colleges is much more modest; they operate, on average, with 1,500 to 2,000 students. The spatial structure of higher education reveals two specificities. One is the large spatial concentration of education, with the weight of Zagreb exceeding 50%. The second distinctive feature is that several elements of state higher education show a relatively even spatial distribution. Multi-faculty universities with 15–20,000 students can be found in all of the country's large regions. Over 80% of the vocational colleges are located in county towns, although a large proportion (two-thirds) of the private colleges were established in the capital. The distribution of student numbers in higher education institutions among the country's NUTS2 regions is as follows: North-western Croatia (Zagreb, Zaprešić, Varaždin, Krapina, Čakovec): 54%, Adriatic Croatia (Rijeka, Zadar, Šibenik, Split, Pula, Dubrovnik, Gospić, Knin, Višnjan): 33%, Pannonian region (Osijek, Vukovar, Bjelovar, Virovitica, Slavonski Brod, Karlovac): 13%.

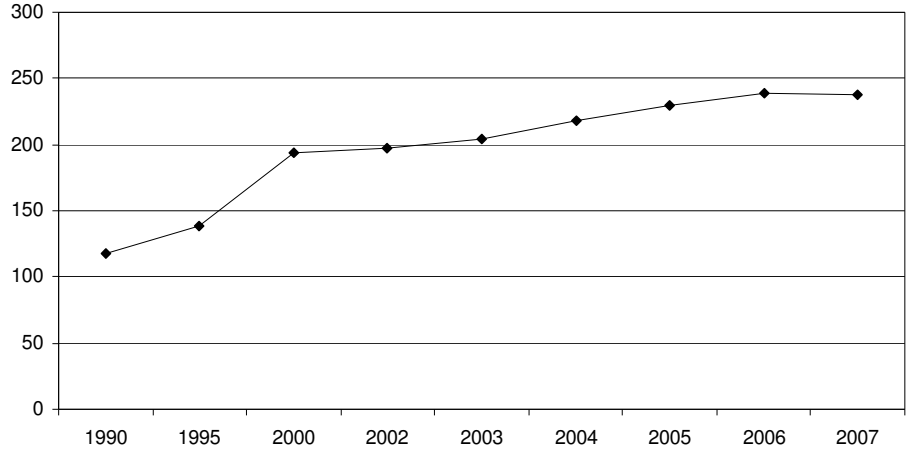
Serbian higher education is characterised by the lowest development dynamics in the area. As we have already seen, the rate of growth between 1990 and 2007 was 23 percent with the number of students reaching 200,000 in 2000 (*Figure 85*). The evolution of student numbers took place in the traditional higher education structure, and neither the institution foundation fever nor the presence of the private sector had serious effects in Serbia. The 177 faculties of six large state universities and 94 colleges of economics, technology, arts and pedagogy provide the basis of the present higher education. The majority of these institutions are spread across mid-sized towns whilst the six universities are located in the larger cities. Higher education is also concentrated in the capital, and 51.5 percent of students study in Belgrade. The concentration of universities in Novi Sad is quite significant, even by European standards. Here, the university has 36,000 students and nine local faculties but has also branch faculties in Subotica, Sombor and Zrenjanin. The third largest university centre, Niš, is one of the strongholds of Serbian technical education and seven of the university's 13 faculties are technical or technological. An important asset of the University of Kragujevac – apart from its strong technical profile – is that it established faculties in five towns in Central Serbia.

The University of Priština has a prominent position among Serbia's large universities although it is no longer a part of the country's system of higher education. Based on a decree of the Alliance of Yugoslav Communists, Kosovo's first institution of higher education was founded in 1969. The university, displayed as a symbol of Tito's minority policy, organised education programmes in both Serbian and Albanian in 13 university and 7 college faculties. As a product of increasing nationalism in the early 1990s, Albanian language

education was suspended at the university. Higher education in Albanian was pursued in education centres located in different areas of the republic populated by Albanians. The situation changed again in 1999 when Serbian higher education moved outside the university's walls and was pursued in areas populated by the Serbs (Kruševac, Kosovska, Mitrovica). In 2009, the number of students pursuing their studies in 12 university faculties in Priština and three college faculties in the towns of Pejë, Ferizaj and Mitrovicë was 29,000. Six South Serbian settlements (Kosovska Mitrovica, Zvečan, Zubin Potok, Leposavić, Gračanica, Ranilug and Kusac) house the 10,000 students of the 11 faculties of the Serbian language university. The number of lecturers at the Albanian university is 1,600, with 750 at the Serbian institution (*Baćević,* 2010; *Bračić–Dail,* 2010). Studies focussing on the development of higher education in Kosovo stress the importance of a higher number and a more even spatial distribution of universities (*Baliqi,* 2010; *Bache–Taylor,* 2003).

Figure 85

Evolution of student numbers in Serbian higher education, 1990–2007, '000s



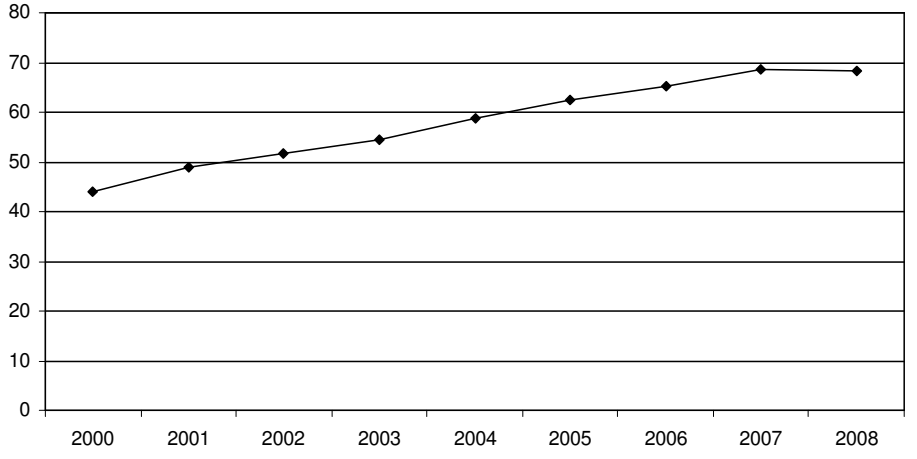
Source: Author's own construction based on data from the Statistical yearbook of Serbia.

The number of students enrolled in higher education institutions in Bosnia and Herzegovina (in 62 faculties at five universities, three colleges of Arts and Theology and 23 private colleges) was 68,317 in the academic year 2007/2008. The evolution of student numbers somewhat exceeded the Balkan average with a 55% growth in the years 2000s (*Figure 86*). The professional structure of higher education shows the worst picture in the area with the highest rates of

students of the Humanities (16%) and Social Sciences (37%). The number of students pursuing their studies in faculties of Political Science and Philosophy exceeds those studying in technical faculties by approximately 20%.

Figure 86

Evolution of the number of higher education students in Bosnia and Herzegovina, 2000–2008, '000s



Source: Visoko i više obrazovanje u Federaciji Bosne i Hercegovine u 2007/2008.

The universities of Sarajevo, Tuzla, Zenica, Bihać and the Džemal Bijedić University, separated from the University of Mostar, are located in the Bosnian and Herzegovinan region of the Federation. The University of Banja Luka and the former University of Mostar operate on the territory of the Serb Republic of Bosnia. The spatial concentration of higher education also characterises the country, with 48.8% of students (33,300) enrolled in Sarajevo institutions.

Quantitative data relating to the higher education network of the Republic of Macedonia largely resembles those of most countries in the Balkans. There was a 55 percent rise in student numbers between 2000 and 2008, and the number of students totalled 64 254 in the academic year 2008/2009. During the previous academic year, 41,000 students were enrolled in 21 faculties of the University of Skopje, and so a good two thirds of Macedonian higher education students are concentrated in the capital. The country's second largest higher education institution, the University of Bitola, has 8 faculties and 11,000 students, whilst the most recently established state university, Goce Delčev University, operates

in 11 settlements and was founded in 2007. The university's seat is located in Štip, the regional centre of Eastern Macedonia.

The fourth largest state university of Macedonia was founded in Tetovo, the largest city of Western Macedonia and with an Albanian majority. Education programmes in the Albanian, Macedonian and English languages are organised in ten faculties for 4,000 students. An institution maintained by private funds, the South-East European University, with six faculties providing education in Albanian, was established in Tetovo in 2000. The university enrolled 6,000 students in 2009.

The higher education system of Montenegro is mono-centric. The State University of Montenegro, hosting 15 faculties and 18,000 students, and the Mediterranean Private University with 2,200 students, are located in the country's capital city, Podgorica. Outside the capital, the state university has faculties in eight towns (Nikšič, Cetinje, Kotor, Budva, Bijelo Poljem Berane, Herceg Novi, Igalo and Bar), but all are characterised by a low level of research activity.

2. Research and development

2.1. R&D under changing conditions

The dissolution of Yugoslavia, the collapse of the system of self-management and the transition to a market economy transformed the research and technological map of the Western Balkans. The weakening industrial and production linkages between former parts of the country had a negative effect on research and development capacity. The Yugoslav system of innovation showed a higher level of development than in the East European communist countries, and the developed Yugoslav industry, accustomed to applying modern Western technologies, operated a large number of research units also. In Yugoslav member republics with developed industries, 2–3% of the GDP was allocated for R&D purposes. The institutional system of Yugoslav science was decentralised: the scientific academies of member republics established their own institutional networks, and sectoral research institutions were subordinated to the control of the republic. The federal government was responsible for the harmonisation of research and development.

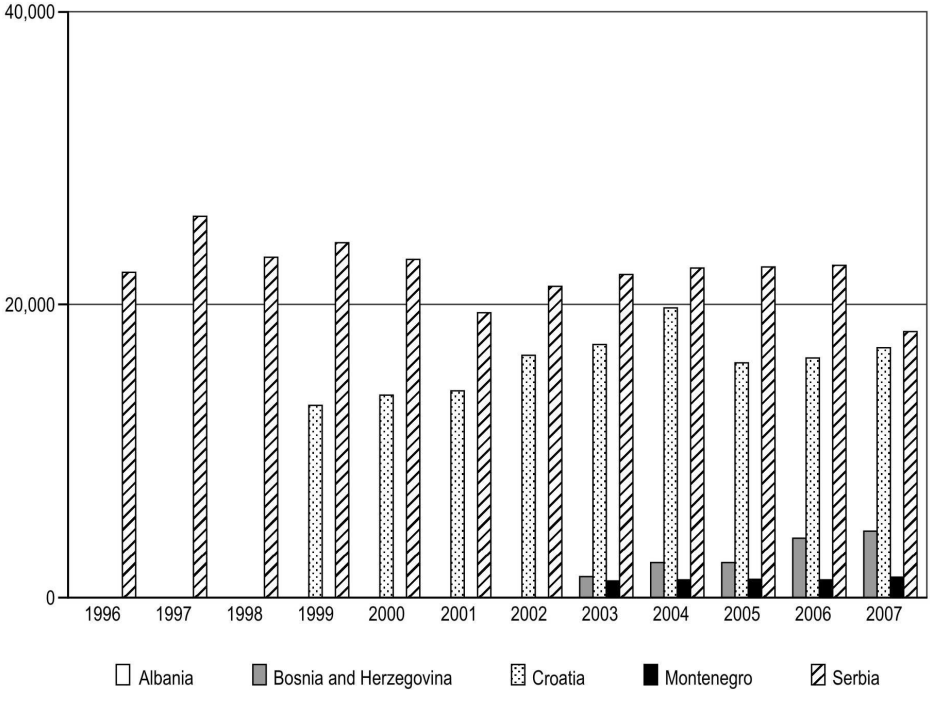
Following the dissolution of Yugoslavia, the former bases of the system of research and development also collapsed. In contrast with higher education, the R&D sector lost most of its positions in the Balkan countries after the change of regime, a large number of institutions were dissolved, the number of researchers

declined severely, and several thousand researchers left the newly formed countries to migrate to Western Europe and the United States.

Large-scale industry and the innovation network with its developed Western European linkages collapsed and the financial resources of R&D were disrupted due to the emerging economic and political crisis. In the more developed republics (Serbia and Croatia), the decline was between 15–30% (*Meske,* 2004). Serbia's network of research institutions diminished considerably. There were 375 research institutes in Serbia in 1980, but their number had fallen to 163 by 2005. The number of business research and development organisations fell by one-third. The number of researchers, 35,000 at the end of the 1980s, after continuous decline reached its lowest point in 2001 with a total of 19,000 employed in the whole country (*Kutalača,* 2006). Afterwards followed a phase of slow growth, but this merely preceded a new decline in 2007 (*Figure 87*).

Figure 87

Evolution of the number of R&D employees, 1996–2007



Source: UNESCO. Institute for Statistics.
http://stats.uis.unesco.org/unesco/TableViewer/table View.aspx [14. 05. 2010].

Similar trends could be seen in the other countries. During the last years of the former Yugoslavia, the tendency of researchers to migrate abroad was already strong and further increased due to the war and the economic crisis. In Albania, the consequences of outward migration of professionals from the country were also severe. The University of Tirana lost 40% of its lecturers in the 1990s, the majority of whom were young professionals under the age of forty (*Uvalić,* 2006b).

The proportion of the national GDP devoted to R&D was reduced to a minimum in several republics. In Bosnia-Herzegovina, the figure fell to 0.03% in 2007 from the 1.5% of 1990. A major cause of the decline was the dissolution of Elektroinvest in Sarajevo, the flagship company of Yugoslav industry with large export capabilities and scientific potential. In 1990, 30% of Bosnia's industrial exports consisted of products developed in research units of the republic; today this value is considerably lower (UNESCO Science Report, 2005).

R&D indices of Western Balkan countries present an unfavourable picture, both in terms of research expenditure and research employment data compared with European average performances (*Table 68*). Despite lagging behind in several areas, Croatia's research system shows the strongest resemblance to development trends in the European research area.

Table 68

Some important R&D indices in Western Balkan countries, 2007

	Albania	Bosnia-Herzegovina	Croatia	Macedonia	Montenegro	Serbia	EU27
Researchers per million inhabitants	609	197	1,384	…	1,143	1,190	2,728
R&D expenditure as % GDP	0.18	0.03	0.93	0.18	0.24	0.34	1.9
Distribution of R&D expenditure, %	100.0	…	100.0	100.0	100.0	100.0	100.0
Business sector	1.0	…	23.5	11.0	5.5	1.7	64.0
Government sector	25.1	…	32.9	24.0	15.7	39.8	13.4
Higher education	73.9	…	43.6	65.0	78.8	58.5	22.6

Source: UNESCO. Institute for Statistics.
http://stats.uis.unesco.org/unesco/TableViewer/chart View.aspx [14. 05. 2010.].

To rebuild the Balkan economies, international community plans for the stabilisation of political conditions have highlighted the importance of the modernisation of education and higher education and the reorganisation of research and development. UNESCO provides permanent counselling in the area. Several large international companies have elaborated strategies to keep qualified workforce in the area and to organise innovative education programmes at local universities. Every Balkan country has joined the research framework programme of the European Union, and European standards appear formally in the regulation of national institutions. In the mid 2000s, new laws on higher education, R&D and innovation were implemented in all of the countries. The development of the institutional system of research management has started. International counselling organisations have supported the elaboration of the first national scientific and research strategies (see Box on Balkan countries' R&D policy). In Albania, Croatia and Serbia, medium-term R&D plans were accepted by the governments, but, unfortunately, national documentation ignores the large disproportions in the spatial location of R&D units.

R&D policy in the Balkans at the beginning of the century

Albania inaugurated several new ministries in the mid 2000's, as well as creating a new Academy of Science and a National Council for Higher Education and Science. While funds allocated to R&D are still limited, the government increased the budget in 2007 for national programmes and bilateral cooperation by about 35 percent over that for 2006. The current priority is to create an academic research and education network (AAN) to link to the EU GEANT Programme (on infrastructure for research and education).The Ministry of Education and Science is leading this project, which is co-financed by the EU under the South and East Europe Education Networking (SEEREN2) project (FP6).

In 2009 the government approved the "National Strategy for Science, Technology and Innovation in Albania" covering the period 2009–2015. The document was coordinated by the Department of Strategy and Donor Coordination of the Prime Minister's Cabinet, in cooperation with the Ministry of Education and Science and with UNESCO assistance. It fixes five strategic goals to 2015: a) to triple public spending on research and development (R&D) to 0.6 percent of GDP; b) to augment the share of gross domestic expenditure on R&D from foreign sources, including via the European Union's Framework Programmes for Research, to the point where it covers 40 percent of research spending; c) to create four or five Albanian centres of excellence in science which will be equipped with dedicated laboratory equipment and workspaces that could be used for the pre-incubation, testing, certification and so on of new technology based firms; d) to double the number of researchers, both through 'brain gain' incentives such as a returning researchers grant scheme and through the education of new researchers, including 500 PhDs: this will entail establishing up to three new doctoral programmes in Albanian universities; e) to stimulate innovation in 100 companies, either via investment in local R&D or via consortia with academic research institutes or foreign partners.

Bosnia and Herzegovina have no Ministry of Education and Science at state level, state funding of R&D or even national legislation on science policy. General funding of R&D

stands at an extremely low 0.05–0.15 percent of GDP. A few research institutes nevertheless operate at national level, in cooperation with partners in several regions and even abroad (this is the case, for example, with the Agriculture Institute in Banja Luka) so demonstrating the possibility of undertaking joint tasks at national level despite current difficulties. Most remaining research institutes created outside university campuses in the Yugoslavian era, have an "undefined" legal status, which is proving an extra handicap for their activities.

The Ministry of Civil Affairs holds responsibility currently for education and science, although its decisions are non-binding since the ministry cannot impose decisions and no funding for the science and technology sector is available. The ministry has, however, nominated the sector as a national priority for future funding and is at present negotiating with the European Commission over how best to fund the sector. The government invited UNESCO experts to compile guidelines on science and research policy, and the resulting report supports the idea of establishing a national R&D ministry and other agencies to manage the science & technology sector at national level.

Croatia considers investment in science and technology as a strategic priority, and has set out its mid-term goals for the sector in the 2006 "Science and Technology Policy" report. An Action plan has also been prepared and adopted in 2008 to address the Barcelona objectives. The S&T sector has been given a primary focus during Croatia's accession negotiations, confirming the country's status for project partnerships in the European Research Area (ERA). Implementation of the national 3 percent action plan is regularly assessed and updated by the Council for the National Innovation System. Croatian scientists have participated in the EUREKA programme, the COST framework and FP6. Long-term expansion for the sector is seen as dependent on building a broad base of support for the idea of a "society based on learning", an idea that has broad support from academy and industry, and also from the large number of Croatian scientists based both within the country and abroad.

The policy mix to stimulate R&D investment targets different routes: a) promoting the establishment of new indigenous R&D performing firms. BICRO: the business innovation centre of Croatia manages the Razum project that provides seed capital and the VENCRO project (Venture capital fund) for that purpose; b) stimulating greater investment in R&D performing firms. Several schemes have been implemented by BICRO and MELE to foster SME innovation and competitiveness; c) stimulating firms not yet undertaking R&D. This includes several projects within FP6 and 7; d) attracting R&D performing firms from abroad; e) increasing extramural R&D carried out in cooperation with the public sector. TECHRO is the main policy instrument for the maintenance of technology parks; f) Increasing research and development in the public sector.

Macedonia has had very limited funding for scientific research due to the economic conditions of the past few years, a position which has led to a continuous decline in the number of active researchers in the country. However the Ministry of Education and Science is promoting a more integrated approach to research activities, especially in respect of regional and international cooperation, and is stimulating cooperation between universities and the commercial sector. A database containing all patent activities in the country was established in 2005, and in 2006 the Ministry signed an agreement that allows all national universities access to the electronic scientific database Scopus. A new Council for Science and Research was also established in 2005, together with a new system of project evaluation with assigned national coordinators for every scientific discipline. Five potential centres of excellence have been identified, based on research results and international recognition:

- Institute of Chemistry at the Faculty of Natural Sciences and Mathematics.
- Research Centre for Genetic Engineering and Biotechnology at the Macedonian Academy of Sciences and Arts.

– Nephrology Clinic at the Faculty of Medicine.
– Research Centre for Energy, Informatics and Materials Science at the Macedonian Academy of Sciences and Arts.
– Institute for Earthquake Engineering and Engineering Seismology.

Montenegro passed a new law in 2005 (the Law on Scientific Research Activities) which aims to integrate national research activities into EU Framework research programmes and the ERA, to introduce international quality standards and to promote sustainable development. The law also regulates fiscal mechanisms intended to encourage investment into science, technology and innovation. 2005 also saw the establishment of the Montenegrin Research and Education Network (MREN), which is a member or TERENA and connected to GEANT. A new national Council for Science & Technology is developing a draft strategy for the sector to cover the next seven years. Government funding for research increased from 0.14 percent of GDP in 2005 to 0.24 percent in 2006, with a 60 percent increase in 2007 over 2006. Several weaknesses in the science and technology sector have been identified: there are almost no links between the research community and the private sector, shortages of laboratory equipment are holding back participation in competitive research, and a lack of mobility for researchers is also limiting cross-border cooperation. Some 80 percent of the research budget is spent on salaries and project overheads, leaving only 20 percent for investment, human resource development, laboratory equipment and international cooperation.

Serbia passed several laws applying international evaluation criteria to scientific research in 2002 and 2005. These rulings provided underpinning for the country's main reform objectives of focusing on specific research areas of national significance. Public funding for R&D has increased continuously from 0.10 percent of GDP at the time of the democratic changes in 2000 to 0.40 percent in 2005. A more target-based funding system is also being attempted, with projects of up to 5 years in basic and applied research being funded in a variety of disciplines. A technological development programme aims to help companies develop or implement new technologies in the areas of energy efficiency, biotechnology and agro-industry, with co-financing by the company itself a condition for public support. This programme is expected to extend into other scientific areas in the future. The country has a strong track record in research evaluation, involving a process of international peer review, especially in the basic sciences. Leading researchers enjoy stable and relatively well rewarded positions, and in return are expected to work with young researchers.

Source: The above text is heavily reliant on the analysis presented by the Romanian Office of Science and technology at the Conference on science and technology in Western Balkans, Brussels, January 2008.

2.2 Spatial disparities in the institutional system of research

The presence of large spatial disparities hindering the development process characterises the organisational system of research also. As a result of the concentration of higher education in the capital and the implantation of research units in higher education institutions, the inner regions of the Balkan countries do not carry out R&D. Several links of the innovation chain are lacking and endogenous resources for the structural transformation of the economy are modest.

Research capacities in Macedonia and Montenegro show the highest level of concentration. With one exception, all the research units in Montenegro are located in the capital, where eighty-seven percent of Macedonia's researchers are found. The second most important research centre is Bitola, which – thanks to its university – provides 7% of the country's researchers. The remaining centres have no more than a 2–3 percent share.

In the more populous Balkan states, regional disparities in R&D are somewhat lower than in the former countries, yet, compared to EU standards, they are still considerable. In terms of the number of research units, the weight of capital cities is two to three times higher than their share of the country's population, exceeding 50% (*Table 69*). Croatia is the only exception and here the degree of concentration in the capital is below 50%. This is due to the existence of large universities outside the capital, to the technological and innovation centres implanted in the six provincial towns and to research institutes and regional centres of the Croatian Academy of Sciences and Arts.

Table 69

The spatial structure of research institutions, 2005

County	In the capital		Rest of the country		Total	
	University research unit, research institute, research centre					
	Number	%	Number	%	Number	%
Albania	48	70.6	20	29.4	68	100.0
Bosnia-Herzegovina	81	76.6	29	23.4	110	100.0
Croatia	71	48.6	75	51.4	146	100.0
Macedonia	45	71.4	18	28.8	63	100.0
Montenegro	27	75.0	9	25.0	36	100.0
Serbia	105	64.4	58	35.6	163	100.0
Total	377	64.3	209	35.7	586	100.0

Note: Faculties are regarded as university research units.
Source: Author's own table based on Accessing and Disseminating Scientific Information in South Eastern Europe.

In the Balkan countries – as in Eastern European states – the academies of sciences founded by the state have played an important role in science and the organisation of research. The Yugoslav Academy of Sciences and Arts (whose legal successor is the Serbian Academy) established local-regional academies in the former member republics in 1972. The Albanian Academy of Sciences was established in the same period. At present, the legal successors to these organisations operate as a combination of scientific societies and institutions fulfilling

scientific management functions. Several academies operate their own research institutes. They are few and the number of employees is low: 400 researchers are employed in 29 institutes and 9 regional centres of the Croatian Academy of Sciences and Arts. The Serbian Academy has ten research institutes and 250 researchers. The majority of academic institutions are engaged in social sciences (mostly the humanities) and their research activities focus on analysing national specificities. The spatial location of research units in the different countries is shown in *Figure 88.*

The spatial-scientific structure of the Balkan countries does not allow research to become a driving force in the development of a modern economy, society and scientific sector – and so fulfil an important role. There is a lack of basic research institutions in huge areas of the countries. Capital cities, despite their relatively high level of development, are unable to dynamise regional economies. According to international comparisons, the research capacities of capital cities are below average, and neither the institutional structure, nor the level of infrastructure and financing are sufficient to meet the standards of the European research area.

2.3 Cooperation with the EU: latest trends and issues

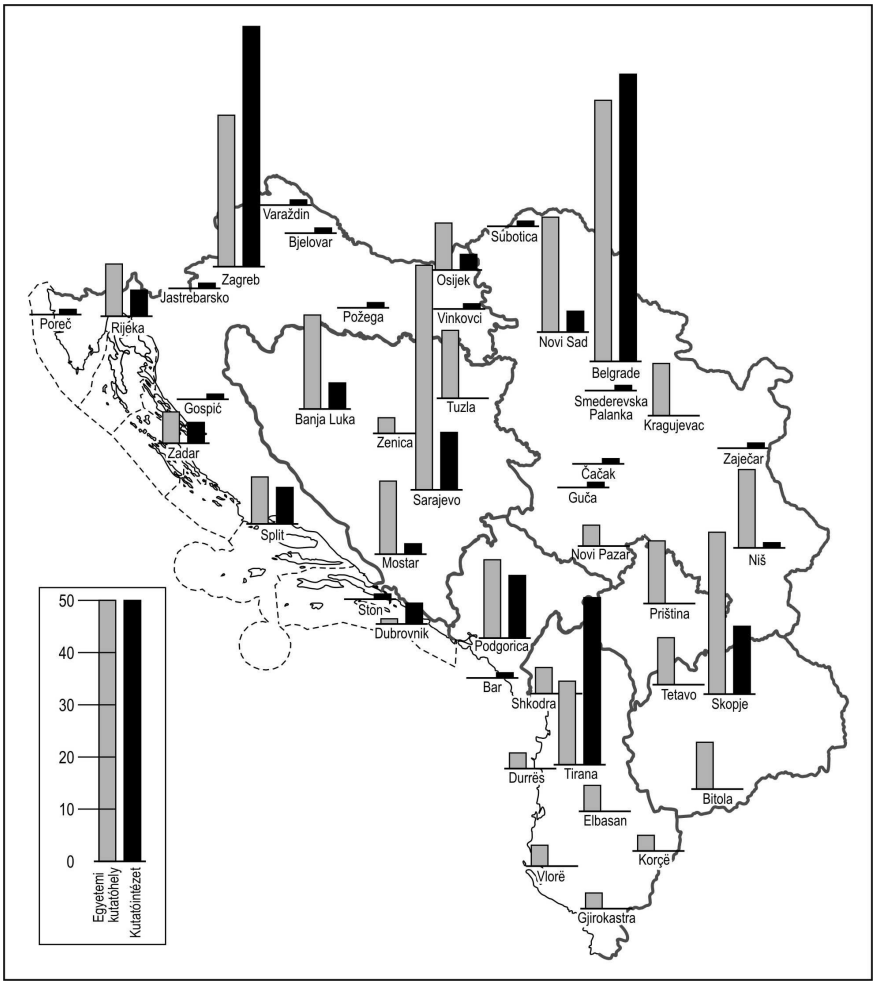
Most recently, the majority of Balkan countries have been active in obtaining research projects under the 7th EC Research Framework Programme (FP7). Serbia recently became associated with the Competition and Innovation Programme (CIP)[1]. Possibilities for increased cooperation between Serbia and the Joint Research Centre (JRC) are under discussion. Bosnia and Herzegovina signed the Memorandum of Understanding for the FP7 and in January 2009 became an associated country and eligible to participate fully in the programme. An FP7 national coordinator was appointed and the FP7 national contact points have improved their work and output. Albania has also been involved in FP7 projects in the areas of transport, infrastructure, health and international cooperation. In Macedonia the number of projects selected and funded under the seventh EC research framework programme increased compared to last year. In Kosovo research is now a priority sector. In April, the Ministry appointed a coordinator for the 7th Framework Programme. It is still the case that, in most parts of Southern and Eastern Europe (SEE) administrative and research capacities are persistently weak. The poor definition of responsibilities and a lack of funds

[1] The Competitiveness and Innovation Framework Programme (CIP) which was proposed by the EU Commission in April 2005 is meant to become the main legal basis grouping all Community actions in the field of innovation and competitiveness.

hinders the implementation of the Scientific Research laws. Greater participation in the Framework Programmes is also hampered by the limited capacity of the research institutes and their poor links with industry. Overall, however, we can say that preparations in the area of science and research are on track.

Figure 88

Regional distribution of research units in countries of the Balkans



Source: Author's own work based on Accessing and Disseminating Scientific Information in South Eastern Europe and various internet sites and national sources.

In the Balkan countries the very low level of R&D spending is a matter of concern, but recent Government response has mainly consisted of designing better articulated policies and in improving the efficiency level of S&T policy measures. Croatia, which is the country most advanced in introducing the 'acquis communautaire' and the one with the highest income among South and East Europe Countries (around 50% of that of the EU 25) has also been the most active in 2009 in modernising its S&T policy machinery. Amendments to the Act on the National Foundation for Science, Higher Education and Technological Development have been adopted and an Act on Quality Assurance in Science and Higher Education has been passed, assigning the Agency for Science and Higher Education an independent quality Assurance role through the accreditation, evaluation and audit of public and private scientific and higher education institutions. In Croatia the share of the private sector in R&D investment is significantly higher than in the rest of the Balkans. In the mid 2000s, for example, the figure was 40% compared to 12% in Macedonia, although this is still significantly lower than in the EU 25. Measures have been taken to stimulate private R&D investment including tax relief. The Croatian Researchers Mobility Network "Euraxess" has been established as well as local contact points.

Other SEE country initiative have been substantive, although often more limited. Serbia proposed a draft strategy in August 2009 to increase R&D investment and ensure a sufficient number of scientists – aiming for integration into the European Research Area. (ERA). R&D spending was expected to reach 1.4% of GDP in 2010, but this target will probably not be met. In Macedonia, given the lack of a national research strategy and weak administrative capacity, little progress can be reported on integration into the ERA. The Agency for European Educational Programmes and Mobility, designated as the main body responsible for establishing the national EURAXESS Jobs Portal, as well as the Euraxess Services Network, have not be realised within the contractual time frame. Preparations in this area are moderately advanced. The Kosovo Council for Science developed an Action plan for 2009, but its implementation seems hampered by resource constraints. The Bosnia State Framework Law on Scientific and Research Activities, which includes the establishment of a Science Council and a strategy for the development of science, has been adopted but the Law on Science and Technology is still pending. There is no integrated research policy and relevant budget allocations are very limited. Research policy is still designed and implemented at entity level, with no real coordination. In Montenegro a special department dealing with S&T was created within the Ministry of Education and Science, and Montenegro has also been very active in international cooperation in the steering platform for the Western Balkan countries.

Budgets dedicated to research have been under strong pressure following the financial crisis which impacted the OECD last year. In Macedonia the budget for the 2009 research and technological development programmes encountered a 27% reduction when the budget was revised in April 2009. Public and private funding for science and research did not exceed 0.5 percent of GDP and private sector participation remained very low. In Albania S&T spending increased but their share of the total budget is significantly below EU levels (0.22%). The government set up a Fund of Excellence in 2008 to stimulate the research studies of PHD candidate students. In Kosovo additional resources continue to be required for research purposes. As was underlined by the EC Commission, central and local capacities to teach and manage education need to be significantly enhanced, and a system to monitor the quality of education also needs to be introduced.

Human resources for science and technology remain a problem all over the Balkans. In Albania, from 1990, human resources in sciences and technology have drastically decreased. Various surveys show that, from 1990 to 1999, approximately 40 professors and research scientists of the universities and science institutions in the country emigrated. Ninety percent of the researchers who disappeared were below 40 years old. Driving forces for the brain drain are found in the poor economic living conditions, the lack of state-of-the-art infrastructure and funds – all of which constitute serious obstacles to research. A massive brain drain has also occurred in Bosnia and Herzegovina, Serbia, Kosovo and Macedonia. In March 2009, 61 Albanian nationals studying or working abroad were recruited to work in universities as part of the Brain Gain programme. However, restrictive visa regulations in Albania hinder scientific exchange and temporary employment abroad. There is a total of 578 scientific workers in Albania: 274 in Academy of Sciences; 304 in R&D institutions of various ministries. The numbers of personnel in R&D in Albania amount to some 0.2 per 1000 habitants.

In 2009 attention was focussed on institutional change to reduce the gap between the Balkan area and the EU. Some reform of the research institutes took place in Macedonia by integrating them into the universities. New equipment procured in September 2009 aimed to improve the capacity of universities and research institutes. However, the small budget, weak administrative capacity and lack of funding for the research facilities are detrimental to the development of research capacity in the country. Preparations in the area are moderately advanced. The Albanian government undertook in 2006 a deep reform of the scientific research system. The Academy of Sciences was re-organized following the model of many other European countries; it now operates through a selected community of scientists and no longer administers research institutes, these having been integrated into the higher education system. Two new facul-

ties have been set up: the Faculty of Information Technology at the Polytechnic University of Tirana and the Faculty of Biotechnology and Food at the Agricultural University of Tirana. The University of Tirana has also gained an Applied and Nuclear Physics Centre and Biotechnology Department. Twelve government agencies and centres for technology transfer have also been created. In Bosnia the HE infrastructure remains highly fragmented and decentralised. The universities are under the tutorship of the cantons in the Federation and of the Ministry of Culture and Education for the Srpska Republic. The universities are funded by the cantons of the Federation. For various reasons (some of them political) the university system of BiH is organized into eight universities (Universities of Sarajevo, East Sarajevo, Banja Luka, Zenica, Bihać, Tuzla, Džemal Bijedić in Mostar and Mostar) spread over the country with no real coordination of investment for the development of their research activities. It does not appear that the Rectors' Conference of these universities has taken any initiative regarding research activities. One must also note that only the Sarajevo canton and the Srpska Republic have passed legislation on the organization of scientific research, the latter also having published an official document defining an R&D strategy.

SMALL AND MEDIUM-SIZED ENTERPRISES, AND PRIVATE ENTREPRENEURSHIP

PATRICK DUBARLE – ALESSANDRA PROTO

Europe has committed itself to two major transformation processes: firstly the formation and enlargement of a Union that aspires to unite the continent and sustain peace and stability and, secondly, the economic metamorphosis of the Union into a knowledge-oriented society that ensures prosperity for its citizens.

The relationship between the countries of the Balkans and the Union is at a crossroads, as these countries are on the verge of becoming members of the Union. The Balkans, with its long history of conflict and crisis, has the potential to benefit enormously from the process of enlargement. The governments and peoples in the Balkans are all in agreement that the region cannot achieve prosperity, stability and significant economic development outside the process of Europeanisation.

This chapter will look primarily at the economic aspect of the integration of the Western Balkan countries in Europe – firstly by outlining the economic development vision of the EU and how the Union expects to change its economy. The conditions for EU membership and the progress of the Balkan countries in meeting those conditions are then discussed, and, proceeding from that, the chapter details progress in SME development, one aspect of the economic requirements for Union membership and central to the Union's vision of becoming an economic powerhouse of the 21st century.

1 Guidelines for a new Europe

With the ever-increasing competition in the production and supply of manufactured goods from Asian countries and the expanded product and services potential generated by technology, the paradigm of economic growth has changed for European states and its respective regions. The old model of factory-orientated industrialisation and its associated secure employment can no longer maintain

the number or quality of jobs and so the level of wealth and prosperity. In response to these new trends, there is a new model of economic growth and development emphasising knowledge, research and innovation as sources for future economic expansion (*Aghion–Howitt,* 1998). This approach explains how countries can adapt and progress in a globally competitive economy by changing their mindset and behaviour towards education, research and commerce.

This new thinking was fundamental to the heart of the European Union's Lisbon Strategy for Growth and Employment, which aimed to make Europe "the most dynamic and competitive knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment".

In response to the mixed results of the Lisbon strategy and the recent economic crisis plaguing the continent, the Union launched, in March 2010 the Europe 2020 Strategy, an action plan for the forthcoming decade which aims for smart, sustainable and inclusive economic growth. This strategy includes specific national and European targets and initiatives in the areas of innovation, youth, communications, environment, skills, employment and action against poverty in order to meet its objectives (EC, 2010). SMEs can provide the necessary impetus and creativity that will assist national economies in reaching the goals of the Europe 2020 Strategy and improve their economies' knowledge capabilities. Therefore the support system for SMEs is a crucial aspect of the Union's vision for economic development.

2 The future is close: the enlargement process and its conditions

In tandem with the planned transformation of the European economy, the EU and European countries have committed themselves to the enlargement of the Union and the ending of the historical divisions within Europe. This, so far, has manifested itself in the expansion of the EU into Eastern Europe in 2004 and 2007 and will see further enlargement in South-East Europe. Presently, there are three candidate countries: Croatia, the Former Yugoslavia Republic of Macedonia and Turkey. The other countries of the Western Balkans – Albania, Bosnia and Herzegovina, Montenegro, Serbia, and Kosovo under UNSC Resolution 1244/99 – are potential candidate countries and were promised the prospect of EU membership when they have developed the capacity to implement European laws and standards.

The raison d'être for enlargement is to unite the whole of Europe into an organisational format which ensures sustained peace and prosperity in the continent. This objective is particularly apt for the Balkans where national and ethnic

differences have often spilled over into wars and violence. Coupled with these political and territorial conflicts, the region suffers from corruption, burdensome bureaucracy and unemployment. The enlargement of the EU, therefore, offers the region possibilities for economic growth by opening EU markets to the Balkans and substantial financial injections into the region from the Structural and Cohesion Funds. Also, by accepting EU laws and regulations, countries are creating a stable and secure business environment, conductive to encouraging FDI and SME development. In return, the EU benefits from enlargement in the Balkans by increasing its market size, intensifying competition within the EU economy and also augmenting the diversity of the European economy. In addition, the expansion of the EU into South-Eastern Europe increases the global presence of the Union, making it a more powerful actor on the international stage.

There are three main conditions[1] for EU enlargement set out by the European Council which candidate counties are expected to fulfil:

- stable and democratic institutions that respect the rule of law, human rights and minority rights;
- a functioning market economy with the ability to cope with and participate in the competitive economy of the Union; and,
- the ability to cope with the obligations of membership, and, in particular, adherence to the objectives of a political, economic and monetary Union.

In following these conditions, enlargement in the Western Balkans has proceeded in an asymmetrical fashion, reflecting the diverse economic capabilities of the region's countries and the unresolved political tensions in the region.

Croatia and FYR Macedonia are candidate countries and in particular, Croatia is well advanced in its accession negotiations. This is as a result of its relative economic prosperity and stability, with only the border dispute with Slovenia a major stumbling block to the country's accession. FYR Macedonia has made steady progress in meeting the EU's conditions and developing its economic abilities to participate in the Union's single market. However, FYR Macedonia faces Greek opposition due to issues over its name. This has already led to FYR Macedonia's membership of NATO being blocked and the negotiation of a solution is required.

Albania, Bosnia and Herzegovina, Montenegro and Serbia have all applied for EU membership and have signed the Stabilisation and Association Agreements (SAA). The feasibility of the countries applications requires extensive public administration reform and economic development to foster a strong market economy. Bosnia and Herzegovina has not progressed in making legislative

[1] http://ec.europa.eu/enlargement.

and administrative changes to meet EU benchmarks due to bitter political rivalry that operates in a complex political system which requires a consensus to arise between the different political actors. Serbia also has to fully comply with the International Criminal Tribunal for the former Yugoslavia in extraditing suspect war criminals and to achieve a reconciliation with Kosovo under UNSCR 1244/99.

The quest for EU membership by Kosovo under UNSCR 1244/99 is fundamentally linked to the recognition of its existence by all EU member states. As it stands, five EU member states do not recognise its declared independence. Nevertheless, the EU Commission is already preparing the first feasibility report on Kosovo under the UNSCR 1244/99, a first step towards a Stabilisation and Association Agreement.

The precarious politics of the region is holding back the intra-integration of the region as well as regional integration with the European Union, which is arguably paramount to its future prosperity and success. Given this political context, most of the other considerable hurdles facing the Western Balkan countries in meeting EU conditions are in the area of the development of the market economy. Over the last 15 years the stimulus of European integration has played, and indeed still plays, a key role in encouraging reform within, and the development of, the Western Balkans. However, the transition process is ongoing.

One of the most important aspects for the functioning of the market economy is the presence of a vibrant SME sector which is aided by a state-funded SME and entrepreneurial support service. This is particularly important for countries in the Western Balkans where the private sector overwhelmingly consists of SMEs and where restructuring and privatisation of the old, large state-owned companies from the communist era has now been broadly completed.

The European Charter for SMEs in the Western Balkans, which was developed within the framework of the Lisbon Agenda, is a declaration of commitments by these countries to improve the business climate for SMEs with the co-operation of the Commission. For an evaluation of the progress in implementing those commitments, a SME Policy Index[2] around ten key critical policy areas was constructed and was conducted in the Western Balkans countries in 2007 and 2009, as well as an Investment Policy Index which was conducted in 2006. The longitudinal nature of the survey allows for the identification of areas in which governments are succeeding in standardising laws to EU requirements and in which areas they are failing.

[2] The SME Policy Index is the product of fruitful co-operation between the EC Directorate General for Enterprise and Industry and the OECD Investment Compact for South East Europe.

Entrepreneurship and small businesses are a very important part of the Balkan economy. Although they have not yet reached the density level characterising EU countries, SMEs constitute – universally – the most dynamic sector of South and East European (SEE) economies. Their competitiveness is, nevertheless, lower than those of their EU counterparts and they suffer from deficiencies in terms of management, innovation capacity and access to finance.

Strong SME growth is crucial for overall economic development in SEE countries and a major challenge for policy makers. SMEs are a major generator of jobs, a promoter of entrepreneurship, and an engine for innovation. Achieving strong SME growth implies a set of preconditions, or, in other words, removal of the barriers for SME development. Problems found most significant to by entrepreneurs in the West Balkans include uncertainty about regulations, high taxation, macro-economic instability, the cost of and access to finance, and corruption.

High unemployment rates and low GDP combined with the requirements of the European Union that small and medium-sized enterprises and entrepreneurship have strategic importance for the process of accession to the EU, also induced Balkan countries to focus on the SME sector through a strategic perspective.

While this view is shared by all Balkan governments, the institutional framework for enterprise development and SME support has, to date, remained weak and underdeveloped, when compared both with international best practice and the institutional frameworks developed by other countries in Europe. This framework is still going through a process of transformation as new relations are being developed between the state and regional institutions, with the support of the international community. In this context the Republic of Croatia has succeeded in establishing a relatively efficient institutional infrastructure and is clearly a leader in the region.

Most Balkans countries have designed a National Development Strategy for SMEs. These strategies provide for the general direction towards achieving the vision and priorities in the area of entrepreneurship and small business over the longer term. The overall goal is to ensure sustainable economic development of SMEs through an increased number of new enterprises, improved productivity, competitiveness and exports among companies with international potential. Specific objectives which will help to attain this goal include: removing legal and regulatory barriers, improving the business support environment, reducing the grey economy, enabling and actively supporting the development of small enterprise "clusters", networks and associations for cooperation, in order to create a critical mass, for instance, in the areas of research and technological development, procurement, marketing and exports. This should be accompanied by a constant upgrading of the quality and effectiveness of the public service.

Other objectives include the promotion of an entrepreneurship culture, the development of business with globalisation potential and the increase of SME financing. Access to capital remains everywhere major issue.

3 The SME sector pattern in the Balkans

Micro, small and medium- sized enterprises constitute the backbone of Balkan countries' economy, but the share of SME activities in the GDP varies and seems more important in the smaller countries. In Albania, in Bosnia Herzegovina and in Macedonia this contribution to GDP is over 60% – and even more for job creation. In Croatia, SMEs account for only 44% of GDP and 40.5% of total exports. Balkan countries are, on average, smaller employers than the EU, accounting for 47% of total enterprise employment as opposed of the EU average of 66%. Another striking difference, according to a recent EBRD report, is the much lower density of SMEs, that is, the number of SMEs per caita in the SEE countries, compared to the countries in Central and Eastern Europe (CEE) and in the (old) EU15. As is evident from *Table 70,* the number of SMEs per 1,000 inhabitants in the former Yugoslav countries ranges from 9.9 in Serbia to more than 20 in Kosovo and Macedonia, with Albania, Croatia and Montenegro being around 15 and Bosnia Herzegovina at the bottom. This is relatively low compared to the CEE countries, which range from 67.7 SMEs per 1,000 inhabitants in Slovakia, to 87 per 1,000 in Poland. The difference between the CEE countries and the region of the former Yugoslavia is often explained by the delayed transition of the latter group on the account of the secession wars. It remains, however, that, if SME density is a good indicator of the small business environment, its significance as an indicator of the health of the economy is limited.

It should however be borne in mind that the process of development of the SME sector in the SEE region over the past two decades has been very different compared to its equivalent in the traditional Western democracies. In the market economies of Western Europe, SMEs have emerged and grown as part of a regular, uninterrupted process of business development over many years. In the transition period in the SEE, they have, to a large extent, appeared during the process of privatisation and transformation of the large socialist enterprises.

In the SEE countries, the transition was clouded by uncertainties that affected SME birth and development. Small business emerged in a milieu with a different understanding of business and of managerial culture. Differences between SEE and EU countries arise not only in terms of the density of SMEs but also in terms of the share of enterprises and the importance of the private

sector. Thus, SMEs in the SEE account for a smaller share of all enterprises – 98.1%, as opposed to the EU where they are 99.8%. The share of the private sector in the GDP is also lower compared to the EU[3], though a catching up process has now started (*Table 71* below).

Table 70

*Number of SMEs in South East Europe**

Country	Total Cos registered	Active companies	Total number of SMEs	Number of SMEs per 1,000 inh.
Albania	64,710	45,034	64,658	14.4
BiH	103,644	–	–	–
Croatia	239,131	111,072	70,000	15.6
Kosovo	55,884	42,153	55,849	22.3
FYROM	180,000	44,424	44,340	21.8
Montenegro	28,980	–	10,888	15.9
Serbia	–	75,430	74,736	9.9

* Most data are missing for Bosnia and Herzegovina and the only data available are from 2004. Many sources differ from one country to another. Data should be interpreted with caution.

Source: Report on the implementation of the European Charter for SMEs in the Western Balkans, 2007.

Table 71

Private sector share of GDP, %

	1995	2003
Albania	60	75
Bosnia and Herzegovina	n.d.	50
Croatia	45	60
Macedonia	40	60
Serbia and Montenegro	n.d.	45

Source: EBRD, Spotlight on SEE.

SMEs in SEE countries are generally small and hire few employees. However, they constitute the most dynamic sector of the economy, relative to large firms. Compared to small businesses in CEE countries, they are also more dominantly grouped in the trade sector, compared to SMEs in the CEE countries, which are more visible in services (*Table 72*). According to certain authors, this might be due to the total marginalisation of the service sector dur-

[3] See for example Ricardo Pinto in his paper: SME Trends and Issues in Southeast Europe (2004).

ing communist times, and hence its subsequent, rapid expansion, and the lower entry barrier compared to the manufacturing sector, which requires large investment for equipment for production.[4]

Table 72

Structure of SMEs by sector, 2001, %

Country	Trade	Services	Construction + Manufacturing	Other activities
Albania	52.1	17.8	12.5	17.0
Bosnia and Herzegovina	45.0	12.0	27.0	16.0
Croatia	30.0	7.0	28.0	30.0
Serbia and Montenegro	47.5	5.3	25.8	21.4
Czech Republic	35.0	19.9	23.9	21.2
Hungary	26.0	50.2	19.9	3.9
Poland	35.8	25.6	34.2	4.4

Source: EBRD, Spotlight on South-East Europe.

Among the many surveys carried out recently on SMEs in SEE countries, one significant one is the Enterprise Policy Performance Assessment (EPPA) conducted by the Investment Compact of the Organization for Economic Co-operation and Development (OECD). The EPPA was created under the auspices of the Stability Pact for Southeast Europe. It focused on six dimensions of relevance for the working environment of SMEs in the SEE region: institutional framework for SME policy, rule of law and regulatory environment, tax policy for small businesses, financial instrument for fostering small businesses, advisory services, and availability of business incubation services.

The SME Policy Index is another, and the most recent, instrument for assessing the working environment for SMEs in the region. Its particular focus is the so-called Western Balkans countries (i.e. the former Yugoslavia, minus Slovenia plus Albania).[5] Two SME Policy Index reports have been produced to

[4] Klapper–Sarria-Allende–Sulla, 2002.

[5] The SME Policy Index has been created by the European Commission's Directorate General for Enterprise and Industry and the OECD Investment Compact for SEE, with additional help from the EBRD and the European Training Foundation (ETF). The specific goal of the SME Policy Index is to assess the progress of the countries in the region in the implementation of the EU Charter on SMEs, to which they adhered in 2003. The SME Policy Index is constructed around 10 categories: 1) Education and training for entrepreneurship; 2) Cheaper and faster start-up; 3) Better legislation and regulation; 4) Availability of skills; 5) Improving online access; 6) Getting more of the Single Market; 7) Taxation and financial matters; 8) Strengthening the technological capacity of small enterprises; 9) Successful e-business models and top class business support;

date, the first in 2007 and the second and most recent one in 2009. Both reports have concluded that there has been progress in the business conditions for SMEs in the region, but that progress has been uneven across countries and territories. In addition, the 2009 report concluded that there has been "clear convergence towards the adoption of the policy guidelines set in the Charter."[6]

Another well-known tool which is not focused on SMEs per se, but which provides conclusions of strong relevance for the working environment of small enterprises, is the World Bank Doing Business Report series. The Doing Business reports assess the business environment across the countries in the world, including the SEE region and some of the research has a particular regional focus. Moreover the World Bank published a sub-national and regional Doing Business in Southeast Europe 2008, assessing the ways in which governments help or hinder business in this part of the world.[7] The aggregate rankings are shown in *Table 73.* They reveal the heterogeneous performances of the Balkan countries.

Table 73

Facility in doing business, global positioning (WB ranking in 178 countries)

Macedonia	75
Montenegro	81
Serbia	86
Croatia	97
Bosnia and Herzegovina	105
Albania	136

Source: World Bank Report 2008.

Gender gap in entrepreneurial activity is also an issue in the Balkans. It seems greatest in middle-income countries and least in higher-income countries and neighbouring Central and Eastern Europe Countries. Only 9% of employed

10) Developing stronger, more effective representation of small enterprises' interests (SME Policy Index, 2007).

[6] SME Policy Index 2009. Progress in the Implementation of the European Charter for Small Enterprises in the Western Balkans, DG Enterprise and Industry and OECD Investment Compact for Southeast Europe, p. 14.

[7] The report covered 22 cities in the region and it looked into four topics: starting a business, dealing with licences, registering property, and enforcing contracts. In addition to these categories selected for the SEE report, the main Doing Business report also includes categories such as employing workers, obtaining credit, protecting investors, paying taxes, trading across borders, and closing a business.

women are entrepreneurs in the Czech Republic as compared to 18.8% of men. The situation is similar in Hungary (women 9.6% and men 18.7%) as well as in Romania, though the proportion of self-employed women is higher due to the larger share of self-employed in agriculture (women 17.4% and men 32.6%). The gender gap in entrepreneurship is even higher in Slovenia, where the women's share is 6.5% (men 15.3%). These proportions are slightly better in Croatia. This basic relationship between levels of national income and female entrepreneurship is important. It suggests that the greatest need for and benefit from increased female entrepreneurship may be in low- and middle-income countries.

What follows is a comparative assessment of progress towards the adoption of the policy guidelines set out in the Charter and the fostering of a positive and efficient environment for the development and growth of SMEs in countries of the Western Balkans.

4 Country specifics

4.1 Albania

Albania is trying to develop its nascent SME sector and the support services geared towards SMEs and innovation as a way to sustain the substantial growth that the country is experiencing (OECD, 2006). The presence of a vibrant SME sector and entrepreneurial mindset is essential to the prosperity of the country, as SMEs dominate the country's business landscape. SMEs represent 99.6% of all registered businesses, contribute 72.9% of GDP, and employ 71.4% of all workers (EC and OECD, 2009). In recognition of their importance, the Albanian government launched the SME Development Strategic Programme for the period 2007–2009 as well as the Business and Investment Strategy for the period 2007–2013. These strategies aim to improve the business climate facing SMEs and to ameliorate the SME support infrastructure in the country and this action is expected to act as a catalyst for the SME sector in the country. Responsibility for these strategies and SME policy, in general, lies with the Ministy of Economy, Trade and Energy (METE) and the policy is implemented by AlbInvest, the government's Agency for Business and Investment. In fact, the SME Development Strategic Programme represents a major investment in the sector by the government, with a cost estimated at approximately €150m (EC and OECD, 2009).

Entrepreneurs and SMES operate best in a market economy not distorted by corruption, unfair competition practices, excessive bureaucracy and the absence

of intellectual property rights. Albania has yet to adopt a comprehensive anti-corruption strategy, essential for developing a fair playing field for companies, particularly for capital constrained SMEs who are in competition with large and powerful firms. This is important, as a survey in 2005 showed that over 40% of firms indicated that bribery was frequent in public procurement (OECD, 2006). On a positive note, Albania has made strides in developing a competition legal framework by establishing an independent competition authority (OECD, 2006). Albania has also enacted new legislation to align itself with EU law and, in response to the OECD's 2006 investment report, established a copyright office and amended the Customs Code. However, enforcement remains problematic due to resource limitations (EC and OECD, 2009).

The education sector has a critical role to play in the development of SMEs, such as through business-university links and also in meeting the skills needs of SMEs. Albania suffers from a low skills base, as formal educational enrolment is below 70% and potentially high-flying individuals tend to emigrate. A national education strategy is currently being implemented through the Education for Excellence and Equity Programme, using a sector-wide approach to education reform. This strategy needs to incorporate a national entrepreneurial learning strategy which promotes full engagement of the higher education sector in entrepreneurship education and in developing relationships with local SMEs. Furthermore, the country needs to develop a national qualification framework for vocational courses which ensures that curriculum standards are monitored by the Ministry and are not left up to local trainers (OECD, 2006).

4.2 Bosnia and Herzegovina

SME development in Bosnia and Herzegovina is becoming increasingly recognised as a fundamental element in creating a dynamic economy. Recognising this, the government produced a SME Development Strategy in Bosnia and Herzegovina for the period 2009–2011 which includes the creation of a SME support agency at national level. These SME support agencies will co-ordinate the strategic framework policy towards SMEs and the establishment of the Development and Entrepreneurship Fund.

One of the strengths of Bosnia and Herzegovina's SME services is the provision of incubators and cluster-related activities. In Bosnia and Herzegovina, the districts have made independent progress in establishing business incubators which, in turn, has developed into a country-wide network that holds national meetings and adopts strategies to plan new incubators (EC and OECD, 2009). Bosnia and Herzegovina also benefits from cluster development programmes funded by international donors and this clustering infrastructure enables firms to

network, to structure their activities and to develop their creativity. The last point is important if companies in Bosnia and Herzegovina are to be able to participate in the EU single market and withstand the pressures from more established and innovative foreign companies (EC and OECD, 2009). There are also 22 One-Stop Shops in the country which help entrepreneurs and potential entrepreneurs to access information necessary for commencing business activity and for advice on how to start up, and how to develop, a company.

There are gaps in some areas of state service as it interfaces with SMEs. There is an independent competition body and EU competition principles are also transposed in the newly adopted competition legislation, but the country lacks an adequate competition strategy to create a level playing field for SMEs (OECD, 2006). Technology policy is at an elementary stage, as there has been no significant action taken at state level. This policy falls within the remit of the individual entities, the Federation of Bosnia and Herzegovina and the Republika Srpska, which saw only pilot projects being implemented. The government needs to co-ordinate innovation and technology policy and to see a nationwide plan roll out of technology support programmes.

From the SME development point of view, the Bosnia and Herzegovina entrepreneurship education and training sector is undeveloped, as it was reported that fewer than 10% of small companies benefited from such training (OECD, 2006). The country is developing training and advisory services at regional level, with an emphasis on SME management training (e.g. strategic planning, turn-around management, growth strategy, and marketing) and entrepreneurship training for young people (OECD, 2006).

4.3 Croatia

Croatia's legislation in the area of commerce and its SME support services are well developed, reflecting the fact that the country is on the verge of EU membership. The excellent combination of services and legislation helps SMEs to increase their importance to the economy of Croatia, such as in terms of the sector's contribution to GDP and employment. In 2006, the SME sector accounted for 99.4% of all registered business entities, 60% of total exports and 65% of total employment and generated about 44% of the country's GDP (EC and OECD, 2009).

At the centre of Croatia's SME support system are governmental institutions and the underlying SME strategy adopted by the government. The two main institutions in charge of the SME policy in Croatia are the Ministry of Economy, Labour and Entrepreneurship (MELE), through the Direction for SMEs which sets policy, whereas implementation is the responsibility of the Croatian

Agency for Small Businesses (HAMAG). HAMAG is well-funded (€1.2m in 2007) and has successfully implemented SME policy (EC and OECD, 2007). Croatia's Strategic Development Framework for 2006–2013 is a comprehensive document outlining ambitious objectives for Croatia in the next few years, with detailed yearly SME action plans that include concrete activities and the assignment of funds, as well as detailing the organisations in charge (EC and OECD, 2007).

Croatia has made efforts to provide SME linkage and cluster development support and has adopted an Incentives Programme for Small and Medium Entrepreneurship in 2004 (OECD, 2006). These programmes include support for the development of a strategic partnership between Croatian SMEs and foreign companies (OECD, 2006). Also, the Ministry of Economy, Labour and Entrepreneurship offers support to 14 local clusters in five sectors (wood and metal processing, food, textiles and tourism) which are traditional export sectors. However, there is a lack of integration of participating companies, and inadequate relations with R&D centres and top service providers suggesting that the clustering programme should encompass all the multi-faceted tools that companies need in order to compete in the modern global economy (EC and OECD, 2007). There is a national incubator strategy and a national programme to support their operations (EC and OECD, 2009). The incubator strategy appears to be successful with evidence of the effective graduation of companies from the incubator. In addition, there is also the Business Innovation Centre of Croatia, BICRO, which aims to support innovative SMEs and tackle the prevailing competitiveness issues. It facilitates technology transfer and commercialisation activities and runs a number of programmes, ranging from R&D support to equity financing. It also supports the creation of a network of qualified consultants for R&D and innovation. There are also 51 Business Information Centres that make business information available to SMEs, including an extensive online presence (EC and OECD, 2009). Finally, the Croat-led project to establish a South-East European Centre for Entrepreneurial Learning – SEECEL (a structured co-operation amongst the countries of South-Eastern Europe on lifelong entrepreneurial learning) is a valuable initiative and ensures further commitment to regional co-operation. The size and strength of the business support infrastructure shows that Croatia is developing a business support infrastructure similar in size and standards to other EU countries.

Croatia was one of the first Western Balkan countries to engage with issues around the competitiveness of local firms. The National Competitiveness Council (NCC) was set up in 2002, and representatives of the government and of the business community regularly meet to discuss the main challenges faced by the country's economy and to propose ways to increase the competitiveness of the business sector. It should be noted that the 55 Policy Recommendations for

Raising Croatia's Competitiveness, prepared by the NCC in 2004, were adopted by the government as an integral part of its economic reform and development policy (EC and OECD, 2007). It also introduced a monitoring process, through the publication of an annual National Competitiveness Reports (EC and OECD, 2007). Croatia has a competition agency with the powers to impose sanctions and in 2006 amended the Competition Act which aligned its competition legislation with EU law (e.g. blocking exemption regulations regarding transport agreements) (OECD, 2006).

In 2004 Croatia adopted a Strategy for Adult Education and an Action Plan for implementation. The focus is on increasing the use of information and communications technology, harmonising Croatia's higher education system with the European education system and increasing educational opportunities for adults, particularly individuals from a disadvantaged background (OECD, 2006). A national Agency for Vocational Training was established in 2005 and programmes commenced with a focus on meeting labour market requirements. The monitoring of implementation is carried out through Annual Development Plans (OECD, 2006). However, there are many difficulties in the development of vocational training, such as the lack of qualified teachers, low investment levels, the absence of nationally agreed occupational and qualification standards and the weakness of the links with the private sector (OECD, 2006).

4.4 FYR Macedonia

As the only other official candidate country from the Western Balkans, the FYR Macedonia is expected to have an appropriate SME support system and appropriate legislation in place. This is particularly important for a country where the SME sector is a critical part of the economy, accounting for 78.4% of employment and 54.3% of GDP in 2006 (EC and OECD, 2009). However, SMEs tend not to be particularly innovative, which reflects the fact that the country's capacities and knowledge economy are still small-scale by nature. For example, only 0.25% of GDP in 2004 was invested in R&D compared to an EU average of 1.95% and nearly 85% of the country's patents were registered by foreign companies. This indicates that the SME sector has yet to develop the knowledge-intensive research and commercialisation processes that would be considered standard in EU member-states.

The institutions supporting SME development are, firstly, the Department for Entrepreneurship and Competitiveness within the Ministry of Economy (MoE) which is responsible for formulating SME policy and supporting business organisations network and, secondly, the Agency for the Promotion of En-

trepreneurship (APE) which implements SME policy (EC ad OECD, 2009). The APE programme is ambitious, well structured and transparent (activities realised are published in quarterly reports from the agency) but is limited by a relatively low budget of around €300,000 (OECD, 2006). Underpinning the policy actions of these institutions is the National Development Strategy for SMEs for 2002–2012. However, there were problems of insufficient funding for the implementation of the first six years of this national development strategy and the strategy was updated taking into account the experience of the first six years of its implementation (EC and OECD, 2009). Resource limitation is the critical issue affecting the FYR Macedonia's approach to SME development and facilitation of market economic activity.

There is a significant SME support infrastructure in Macedonia with business incubators, clustering, and technology transfer programmes. Several business incubators were established in the last decade due to World Bank funding. Since that time, however, no new incubators have been established or funds allocated for this purpose except for the recent establishment of the YES incubator. Other incubators have suffered from the ending of a specific World Bank project in 2001, as the responsibilities of the incubators were transferred to the MoE and APE but only one of nine incubators supported by that programme is still operational (EC and OECD, 2009). However, despite the problems of funding there are some success stories such as the YES incubator (funded from donor support) which, when it opened in September 2008, had only two companies but which now hosts 15 – which, in total, employ around 50 people. It provides an important and supportive environment for its client companies and a transferable model of business incubations which, with additional resources, could readily be extended to other university campuses. This success story shows the potential return on investment in business support services.

In FYR Macedonia, there are also USAID programmes that support clustering with the aim of boosting competitiveness. USAID assisted in the establishment of the National Competitiveness Council (NCC) and this council links clusters with programmes which are designed to promote competitiveness, innovation and technology transfer (OECD, 2006). It has already led to four technology transfer centres (three in Skopje and one in Bitola) being established (EC and OECD, 2009). Also a new law on supporting and facilitating technological development opens up the possibility for enterprises to apply for government co-financing for up to 50% of R&D project costs although the budget allocations are only around €146, 921 in 2008, which limits the potential of this new law to transform the economy (EC and OECD, 2009). The diverse array of tools to encourage SMEs and innovation shows the base from which an innovative economy is being developed. Issues such as sustainable funding, the expan-

sion of existing services and the exit of donor support need to be examined and addressed in order for FYR Macedonia to support the SME sector and for the country to fulfil the conditions of EU membership.

The education sector is critical for SME development and, in that light, FYR Macedonia adopted a comprehensive Strategy for Education for 2001–2010. The basic recommendations of the strategy include: greater private investment in education, better linkages with the labour market, more options in curricula and syllabi with involvement from business entities, local communities, parents, students and teachers, in-service teacher training (OECD, 2006). These recommendations recognised that the schooling system needs to be orientated towards the needs of an advanced market economy. There are countless examples of skills mismatching: in 2003 there were still 20 machinery schools although 90% of companies in this sector had closed down (ETF, 2005). However, there are some strengths evident in the education system in respect of SME development, including the fact that the majority of secondary schools have introduced entrepreneurship as a compulsory subject within the curriculum. This will mean the next generation should be instilled with an entrepreneurial mindset and thus more likely to start up their own SMEs than previous generations.

In addition to the schooling sector, the training sector is also being formalised – which should benefit SMEs enormously, particularly as less than five percent of small companies report that they benefit from the training service (OECD, 2006). The Macedonian Trainers Network (MTN) is introducing formal accreditation arrangements for training providers which will go some way to addressing quality concerns (EC and OECD, 2009).

4.5 Kosovo under UNSCR 1244/99

Kosovo under UNSCR 1244/99's SME support services are severely underdeveloped highlighting the fact that the country is emerging from political conflict and a uncertainty concerning the country's independence. The fact that Kosovo under UNSCR 1244/99 is at the beginning of the development of an SME support system presents an opportunity for the government to strategically plan a strong support system, learning from the experiences of other countries. It will also allow Kosovo under UNSCR 1244/99 to take full advantage of the macroeconomic growth that it is currently experiencing, with a 5.4% increase in GDP in 2008 (EC and OECD, 2009).

The SME Support Agency is the main executive body responsible for the elaboration and implementation of SME policy. The agency's responsibilities include: developing a legislative framework that promotes a supportive business

environment for SMEs, encouraging and planning better co-ordination between the various SME support organisations, and implementing SME training and development programmes. In 2008 the agency had 12 employees and a budget of around €2.3m, not including the extensive international donor support funding. In 2008 the government approved the creation of the Board of the Agency for the Support of SMEs, to be formed of representatives of four ministries and two representatives from the business community. This body should act to ensure inter-ministerial co-ordination in this field. Its physical infrastructure consists of two industrial parks under development, one in Mitrovica/Mitrovice and a second in Drenas/Gllogovac and five regional offices (IPAK 2010a; EC and OECD, 2009). There are administrative and political issues which are hampering the effectiveness of this agency. During the first six months of 2008, the agency operated without a general manager due to the post-election re-nomination procedures (IPAK 2010a; EC and OECD, 2009). These difficulties, coupled with the fact that the Private Sector Development Strategy is not yet in place, means that the SME support agency is not able to reach its full potential. This is in some way mitigated by the number of international donor agencies dealing with specific areas of SME development, such as the European Agency for Reconstruction (EAR) and the World Bank, which plan to establish business centres in all of the municipalities.

Other elements of business support infrastructure, i.e. incubators and clusters, are still very limited. There is no government policy on clusters and no measures to support technology training or transfer (EC and OECD, 2007). The only clustering activity consists of a USAID initiative which promotes three clusters: construction, milk production and meat processing (EC and OECD, 2007). There are four business incubators, including one facility at the University of Pristina (IPAK, 2010b). Even when operational regional SME support centres have closed, it is probably as a result of these centres not having a long enough incubation period to attain the minimum conditions necessary for financial and administrative autonomy. This suggests the need for future planning to have a full understanding of the difficulties evident in the beginning stages of an incubator (EC and OECD, 2007).

In the education sector, the major development in SME-related activities is the emergence of a Strategy for Entrepreneurship Education and Training. This strategy aims to provide a practical and theoretical understanding of entrepreneurship and was elaborated by various institutional partners. It includes teaching training, entrepreneurship as a compulsory subject in secondary education and emphasising entrepreneurship education in tertiary education. The strength of the strategy is the cross-stakeholder co-operation and the strong commitment by the parties to the partnership arrangement to develop lifelong learning services in Kosovo under UNSCR 1244/99.

4.6 Montenegro

Montenegro has made steady progress in SME development and support systems as it seeks to become a member of the EU. This progress already benefits Montenegro's economy given that SMEs overwhelmingly dominate, representing 99.8% of all registered businesses, approximately 60% of the national GDP and employing 67% of all employees (EU and OECD, 2009). Development in the SME support sector will also allow Montenegro to take advantage of the recent strong GDP growth, of more than 10% in 2007 and 7% in 2008, and to use that recent impressive expansion to plan a sustainable economy, robust in the face of the cyclical swings of the global economy.

The institution supporting SMEs is the Directorate for Development for Small and Medium Size Enterprises (SMEDA). It is responsible for outlining a development strategy for SMEs, preparing and implementing programmes and support projects for SMEs, providing expert assistance in the preparation of regulations related to the development of SMEs and investigating any legal aspects of the development of SMEs (EU and OECD, 2009). SMEDA is notable in terms of staff, budget and network of local offices compared to other implementing bodies in the Western Balkans (EU and OECD, 2009). The ministry responsible for SME Development is the Ministry of Economic Development, with its Department for Industry and Entrepreneurship co-ordinating SME policy and actions with SMEDA. The department lacks the capacity to implement SME support activities alone.

In October 2007 the government of Montenegro adopted the Strategy for SME Development for 2007–2010 which intends to create a favourable business environment for development of a competitive SME sector. This in turn would lead to economic development, macroeconomic stability and improved standards of living (EC and OECD, 2009).

Montenegro is developing its business support infrastructure with a network of regional and local business centres (six regional and three local centres), which provide a number of subsidised services for businesses such as consulting, business plan development, referral services etc. (EU and OECD, 2007). SMEDA and the Municipality of Podgorica established the country's first incubator, with the support of EU and European Bank for Reconstruction and Development (EBRD) and the focus will be on developing IT technologies. The network of private consulting agencies has expanded somewhat since the 2007 report, but the quality certification of business services offered to enterprises is still in its early developmental phase (EU and OECD, 2009). There are also specific industry initiatives, including the university-enterprise nexus such as the University Centre for Design and Development, based at the University of

Montenegro, which will link design-related SMEs with relevant members of the design and technology faculties (EU and OECD, 2007).

The education sector is in need of reform in order to respond to the critical demands of SMEs and a modern market economy, particularly in the areas of skills matching and entrepreneurship education. There is significant unemployment in Montenegro and yet there are unfilled vacancies for engineers, doctors and medical staff (EAM 2004). This problem is further exacerbated by the insufficient enrolment in scientific and technological fields at university level to fill this demand (ETF, 2005b). Also due to the improved stability in the region, Montenegro is undergoing a resurgence in tourism. This expansion is creating new opportunities in occupations such as management, marketing, bookkeeping and modern accounting, banking, finance, ICT and foreign languages. Universities, schools and training facilities need to adapt their courses and emphasise these new growth opportunities (OECD, 2006). This shows that there needs to be a shift in educational thinking to ensure that labour market supply meets market demand.

Montenegro developed a policy document White Paper on Human Resource Development and a national employment and human resource development (HRD) strategy which recognises the importance of lifelong entrepreneurial learning (EU and OECD, 2007). Entrepreneurial learning is also included in many other policy documents and action programmes (e.g. the National Action Plan for Employment 2008–2009, SME strategy, National Strategy for Employment and Human Resource Development, HRD Montenegro 2017) which is evidence of the commitment in government policy to lifelong entrepreneurial learning. There is also the formation of an entrepreneurial learning partnership which develops strategies for the future of entrepreneurship education and attempts to monitor commitments to the funding of entrepreneurship promotion, particularly in the schooling system (EU and OECD, 2009). In addition to the policy documentation, there was an intensive pilot exercise within one municipality (Berane) that included the formation of a lifelong entrepreneurial learning strategy and action plan for entrepreneurship education and training. The last aspect is important, as less than five percent of small companies reported that they benefited from training (EU and OECD, 2007). The challenge for the education and training authorities is to develop strategies and actions in other municipalities in co-operation with enterprises.

4.7 Serbia

Serbia, the largest country in the Western Balkans, is coming out of a period of political dictatorship and international isolation. SME development represents an opportunity for Serbia to continue the process of economic modernisation and reform and fulfil the conditions of EU membership as SMEs dominate Serbia's economy, representing 56.7% of national GDP, 99.8% of all registered businesses and 65.5% of the total number of employees in Serbia (EU and OECD, 2009).

Responsibility for SME development lies with the Ministry of Economy and Regional Development (MOERD) which elaborates SME policy in conjunction with other agencies such as the Serbian Investment and Export Promotion Agency, Export Credit Insurance Agency and National Employment Agency and also supervises the activity of Agency for the Development of SMEs. This SME development agency offers consultancy in a range of legal and financial areas, training services in co-operation with the national employment service and mentoring services to SMEs (EC and OECD, 2009). The agency, which was established in 2001, also encourages SMEs to use and pay for specific business services by subsidising up to 50% of the costs (EC and OECD, 2009). The agency has significant capabilities with a network of 14 regional agencies and 17 local centres and its 2008 budget amounting to around €3m (EC and OECD, 2009).

Two important SME documents are the Strategy for the Development of SMEs and Entrepreneurship 2003-08, and the Plan for Stimulating the Development of SMEs and Entrepreneurship 2005-07, which directs the activities of the Agency for the Development of SMEs (EC and OECD, 2007). The strategy is based on five pillars: promotion and support for entrepreneurship and business start-ups; human resources for a competitive SME sector, financing and taxation for SMEs; competitive advantages of SMEs in export markets; and, Serbia's legal, institutional and business environment for SMEs. It was hoped that many SME projects would be funded by the Government's National Investment Plan of September 2006 and would complement the work of the EU-funded Support to Enterprise Development and Entrepreneurship Programme. However, a lack of an adequate budget for the implementation of the two strategies curtailed the specific actions and raised questions about policy priorities and resource allocation.

Serbia prioritises the development of incubators and clusters as evidenced by the Programme for Business Incubators and Clusters in the Republic of Serbia 2007–2010 as well as being an element of the national strategy for economic development (2006–2012). The incubator and clustering programme is also

enhanced by the participation of stakeholders, including local administration and international donors in the discussion at the drafting stage of the document (EC and OECD, 2009). The programme plans to develop a supporting framework for a national network of both clusters and business (EC and OECD, 2007). In the case of Serbia, the Ministry of Economy and Regional Development registered 20 clusters and is providing infrastructure and human capital development support to 14 of them, complementing EU and USAID services for enterprises and networking activity. Serbia faces a challenge to develop a larger network of clusters and will require substantial resourcing by government of business support programmes, particularly if international donor programmes dry up.

In addition to clustering activities, Serbia introduced an Innovation Law in 2005 which supports other forms of the business support infrastructure. To this end, by October 2008, Serbia had 3 innovation centres, 20 research and development centres, 39 research and production centres, 2 technology parks and 7 incubators including 3 technology incubators (EU and OECD, 2009). These technological incubators are eligible for financial support covering up to 50% of their R&D projects, with a budget allocation in 2008 amounting to €4.7m.

In the competitiveness sphere, Serbia has made progress by adopting new laws in 2005, and, in 2008, establishing a National Entrepreneurship and Competitiveness Council which involves all the relevant stakeholders (OECD, 2006; EC and OECD, 2009). The Council has a mandate to conduct analyses of competitiveness issues, to elaborate policy proposals, to monitor policy development and foster programme cooperation. The government launched a Competitiveness Fund with an annual budget of about €7.5m in 2008 and about €5.6m in 2009. The facility refunds up to 50% of the costs sustained by SMEs (established for at least two years) that have invested in technical and quality standards and in marketing activities (EC and OECD, 2009).

5 SME development challenges and obstacles

Throughout the pre-war period most of the Balkans economies were based on large enterprises and complex integrated business systems. The socialist economic model did not recognise private ownership, business and free enterprise, and consequently, the SME sector had not only remained unsupported, but it had actually been constrained by systematic measures.

After the war, however, the recovery was hampered by several factors. First there was no clear orientation on what should be the drivers of the new economy. There was no consensus among economists and policy-makers where to

place the priority i.e. on large state-owned enterprises or to shift support towards SMEs in line with the models implemented in the developed countries. Second, SME development was negatively affected by the slowness of the privatisation process, notably in Bosnia and Herzegovina, Montenegro, Serbia and Kosovo. Third, strategic approaches, legal frameworks and other instruments of SME development have so far been established exclusively at regional level, without adequate coordination and agreement at state level. Fourth, the weakness and often the inadequacy of the institutional framework exacerbated the situation for SME development. In Bosnia Herzegovina for example the tasks concerning SME development which had to be completed at state level were passed to the Department for Economic Development and Entrepreneurship of the Ministry of Foreign Trade and Economic Relations. The Department had been established relatively recently (in 2003) and still lacks adequate human and technical resources (5 employees). Other weaknesses obstructing SME development in most SEE countries include the non-existence of adequate SME statistics[8] and lack of an appropriate legal environment.[9]

Presently a number of persistent obstacles have to be considered. Structural deficiencies of the SME sector remain an important barrier. Several factors can be mentioned such as the lack of entrepreneurial culture and business ethics, the dominance of import lobbies, the outdated technology of a majority of SMEs and the overly narrow orientation of SMEs to local markets. The malfunctioning of government institutions is another severe constraint that hampers the build-up of a favourable environment for SMEs to thrive in. Information technology is not broadly implemented in administrative processes. Government institutions also lack both a clearly determined or defined role in the entrepreneurship and SME development sector, and a role in determining the way SME support are channelled between national and regional levels. In most Balkan states it is clear that the level of bureaucracy is particularly heavy. Finally, monetary, credit and fiscal policies are nearly everywhere under-developed and strategies for adapting to the needs of business are embryonic, except in Croatia. Support for SMEs is also limited and fragmented.

To sum up, the poor competitiveness of many domestic companies and their products and services on international, and even on local markets is a major problem. For the years to come and in view of the perspectives of joining the

[8] In Bosnia-Herzegovina no definition of SMEs is at present formally recognised within any legal framework and two different definitions are recognised at subnational levels.

[9] It is to be noted that an SME Observatory was established in Macedonia as a monitoring mechanism to gather and analyse major statistics and performance indicators of the SME sector providing the Government with a regular feedback for policy-making.

EU, it is crucial that government policy in these countries target three crucial factors: i) Management capabilities, ii) Quality assurance and iii) Innovation.

i) Developing management capabilities and skills within enterprises is a strategic priority. The failures of start-ups are often caused by a lack of competence of their founders or executive personnel, who had not been adequately prepared for managing their own businesses. Entrepreneurship education, both at the level of regular education, as well as at the level of further training, seminars, and similar forms of education, has developed much more slowly than the practical needs. A full range of services based on the delivery of information, business advice and training programmes for management development are in demand but Regional Agencies and Centres for the Development of the SME sector are often ill-equipped to respond to the needs. In most countries, specialist business consultants are the main vehicles for the delivery of these services, such as financial management and planning, marketing, quality assurance etc.
ii) Quality assurance is virtually a standard requirement for exporting SMEs in EU Member States. The quality assurance issue is very important for the SME sector in most Balkan countries and an effective certification scheme accessible to all interested parties is a priority.
iii) Innovation should be considered as a means to bring continuous improvement to products, services and processes within enterprises and hence as a critical vehicle for corporate survival. In Bosnia and Herzegovina, Albania or Serbia resources have not been generally available for reinvestment in new product and services development and upgrading. Very few firms are innovative.

It is a widely shared concern that these firms should receive special attention by governments because of their growth potential and particular capacities to generate jobs and export. In that context steps have been taken in Croatia to target these "Gazelle" firms. A research project on the Croatian economy conducted in order to reward the best entrepreneur (in terms of his success) has identified 1,500 'gazelle' – or 'fast growing businesses' that generate a growth rate of over 30% over 3 years. These firms have a quarter share of the total income of Croatian companies. The objective of 'gazelle' enterprise is more than mere survival – to become a leader and to enlarge their market share. Risk-capital funds in the form of public-private initiative have been created in Croatia. This was all the more necessary given that 'Business Angels' were, and still are, non-existent in the country. Financial support for innovators has also been increased recently through favourable loans and incentives.

6 Institutional framework

The institutional framework for enterprise development and SME support in Balkan countries is generally weak and underdeveloped, when compared both with international best practice and the institutional frameworks developed by other countries in South East Europe. Nevertheless most Balkan countries are endowed with Ministries, Agencies and other bodies in charge of implementing the central government policy towards small and medium size firms, even if funds are limited (*Table 74*).

Table 74

Accountable institutions

Country	Policy strategy	Policy implementation
Albania	Ministry of Economy(MOE)	SME Development Agency (SMEDA)
Bosnia and Herzegovina	Ministry of Foreign Trade and Economic Relations (MOFTER)	
Croatia	Ministry of Economy, Labour Entrepreneurship (MELE)	Croatian Small Business Agency (HAMAG)
FYR Macedonia	Ministry of Economy (MoE)	Agency for Entrepreneurship Promotion (AEP)
Montenegro	Ministry of Economy (MOE)/SMEDA	The Agency for Small and Medium Enterprises Development (SMEDA)
Serbia	The Ministry of Economy and Privatization (MoEP)	The Republican Agency for the Development of SMEs and Entrepreneurship (ASMEE)

Source: Enterprise Policy Performance, A Regional Assessment, OECD, 2006.

In Croatia HAMAG (the Croatian Small Business agency) is an institution affiliated with the MELE (Ministry of Economy, Labour and Entrepreneurship) provides support and implements measures within the framework of the 2004–2008 Development Programme for Small Enterprises, focusing on financial incentives schemes and business advisory services through a network of certified consultants. Other key private or public institutions include the Croatian chamber of Commerce (CCE) and Croatian Employers Association (CEA). Both of these associations play an important role in the entrepreneurial policy area but are not sufficiently active in promoting innovation. CCE has initiated the establishment of the national Cluster Centre.

In Macedonia, a new Agency for the Promotion of Entrepreneurship (APPRM) is now operational. It is by law, responsible for the implementation of SME policies and Governmental projects as well as for other projects supported by donor funds. The Agency is implementing its activities through the regional centres notably the Foundations for the development of SMEs (in Veles, Skopje, Kumanovo, Bitola and Strumica), the enterprise support agencies (in Tetovo, Gostivar and Ohrid), the Prilep regional enterprise development agency (PREDA) and the Roma business centre in Skopje. Seven business incubators are in operation in Ohrid, Delcevo, Makedonska Kamenica, Stip, Prilep, Strumica and Veles as well as three agencies for technological development at the Mechanical and Agricultural Faculty in Skopje, at the Technical Faculty in Bitola and at the University Centre for New Businesses in the Mechanical Faculty in Skopje (MOE, 2007).

The main entity which supports SMEs in Serbia is the Agency for Development of Small and Medium Enterprises (Central Agency) which is responsible for implementing SME strategy, informing Government on SME issues, promoting the SME sector and supporting Regional SME Agencies and coordinating their activities. The Regional Agencies, Centres and Offices provide a range of information, advisory and training services for SMEs, both directly and through qualified business consultants. Ten of these Agencies were opened in 2003: Belgrade, Kragujevac, Krusevac, Nis, Novi Pazar, Novi Sad, Subotica, Uzice, Zajecar, and Zrenjanin. Several of the Regional Agencies have local sub-offices. At this stage, the Regional Agency network covers approximately 60% of the territory of Serbia. The SME Advisory Board (SMEAB) is the new national forum where Government and SME representatives work together to resolve the issues that need to be tackled so that the SME sector can forge ahead.

In Albania, since inhibiting transaction costs are the most important barrier to SME development, it is expected that the reduction of such costs will promote the expansion of small business, particularly micro-enterprises. SME development and performance is the real challenge in the context of opening markets. In order to organise support for SMEs the small business strategic programme 2007-2009 was launched. Advisory groups have also been established with representatives from Regional Business agencies, the Banking System, Donors, Albinvest and METE Business Promotion Department (METE, 2007).

In Bosnia Herzegovina, economic development, including enterprise development at state level comes within the portfolio of the Ministry of Foreign Trade and Economic Relations of BiH (MoFTER). Within the Ministry, a Division for Development and Entrepreneurship was set up in 2003, including a Department for Promotion and Development of Entrepreneurship. The resources available to this Department are limited, covering just salaries and office costs

and leaving nothing for programme funds. Today it has only two employees: the Head of the Unit and an Expert Associate. Five regional development agencies have, nevertheless, been created with the help of the EU: ARDA NW for the Northwest Region, NERDA for the Northeast Region, REZRDA for the Central Region, SERDA for the Sarajevo Macro-Region and REDAH for the Herzegovina Region.

International donors also helped to support the establishment of a network of Regional SME Agencies in countries such as the Republic of Serbia. In Bosnia and Herzegovina they assist in paving the way to EU accession, and to create favourable conditions for economic growth. The EU Regional Economic Development project (EURED) has notably established five economic regions or zones that go beyond political barriers in pursuing the integrated regional economic development. The follow-up project EURED II extended the initiative by initiating activities to create a legal and regulatory environment for BiH regional economic development. Other EU-funded projects include EU TAC (Training and Consultancy for Businesses), EU EXPRO (Building Export Promotion Capability in BiH), EU 100 VET (Vocational Education and Training Program) and others (*Osmic,* 2006).

In most countries, an infrastructure of business support services is in place but in a relatively embryonic condition (*Table 75*). The more common activities RDAs engage in include: Regional Strategic Planning, SME Development, Training, Development of Business Parks, Enterprise Zones, Business Incubators, Innovation Centers and Technology Parks.

Table 75

Indicative overview of business support services

Country	Local/regional Business support centres	Business incubators	Clusters	Business/ technology parks
Bosnia and Herzegovina	16	6	2	None
Croatia	33	16	3	4
Albania	63	1	5	None
Kosovo	9	1 (initial phase) and 2 planned	5 in initial phase	

Source: Report on the Implementation of the European Charter for Small Enterprises in Moldova and the Countries in the Western Balkans.

7 Policy development

The Policy context is complicated in Balkan countries. Policy elaboration is at different stages depending on the countries. In BiH there is no single national policy, but at least three different locally-based policies for the enterprise sector. Even in the case of the two entities and Brško district, policy elaboration is still in an initial phase, as both the institutions and the policy tools have been only recently put in place. However, there is no specific strategy or institution for the SME sector at state level.

Policies that are being implemented in the Western Balkans countries pursue a number of objectives: Enhancing Policy Making, Simplifying the Legal and Regulatory Environment, Improving Access to Finance, Simplifying Taxation, Fostering Information and Communication Technology, Enhancing Science, Technology and Innovation in function of the development of SMEs, Promoting Entrepreneurship in Education and Training, Encouraging Internationalisation, Improving Business Development Services or Strengthening the Public/Private Dialogue. The main policy measures and themes can be regrouped around the following:

7.1 Financing and supporting entrepreneurship

In all Balkan countries, the high number of procedures delays business registration. Entrepreneurs go through 10 procedures on average against 4 in OECD. The time required to complete the procedure is also longer (*Table 76*). Everywhere in SEE countries it is much more expensive to create collateral than in the EU. There are fewer legal rights and so it is harder to enforce contracts. It is also harder to secure credit information, and so business and lenders take more risks.

Some countries, such as Croatia, Serbia and Bosnia and Herzegovina[10] have launched guarantee funds. Most countries have micro-loan funds managed by NGOs alongside the provision of micro-finance by banks. They tend to take a softer view on the need for collateral tending to replace it with advice and support to ensure that their borrowers succeed and so are able to repay their loans. Venture capital is scarce. There are a small number of VC funds and they are doing a small number of deals. As a consequence, they are unlikely to make a significant difference in the short term.

[10] In Bosnia and Herzegovina 5 credit guarantee funds were established with international and, latterly, domestic assistance as well as a network of Credit Guarantee Funds.

Table 76

Starting a business: procedures and duration comparison

Country	Procedures	Duration
Albania	10	36
Bosnia and Herzegovina	12	54
Croatia	8	40
Macedonia	9	15
Montenegro	15	24
Serbia	11	23

Source: Worldbank report 2008.

In Croatia, there are 150,000 registered SMEs accounting for over 99.6% of private sector enterprises. Despite a large number of banks and a wide array of suitable loans, SMEs face difficulty in accessing both short and long term finance often because of the inability of many businesses to provide a satisfactory business plan. HAMAG is involved in numerous initiatives to encourage and support the formation of new businesses, especially amongst women and young people and to promote investment in SMEs including extending loans, issuing loan guarantee, providing grants to reduce borrowing costs and subsidise interest costs. The agency can nevertheless be risk-averse. It seems that it does not provide many guarantees. In 2004 it received 5,000 applications but only approved 36. In the first quarter of 2005 it approved only 2.

In Macedonia, access to finance is restricted by an underdeveloped banking and financial intermediation sector. Commercial bank lending is insufficiently orientated towards SMEs due to their lack of interest and risk aversion. Higher participation is required from the micro-finance institutions especially for start-up businesses. In the absence of a Private Credit Bureau and the reluctance of SMEs to disclose information, cash flow-based lending is constrained. Deficiencies are also visible in asset-based SME financing since the secured transactions regime imposes limits on the use of collateral. The markets for alternative finance (leasing, factoring, and venture capital) are not well developed and there is a general lack of awareness among entrepreneurs. The Human Resource Development Fund has been dedicated to the strengthening of managerial skills of the executive teams within the enterprises. It has now become an integral part of APPRM.

The World Bank Doing Business Report shows that Bosnia and Herzegovina lags behind the rest of the region in numerous indicators. The country is ranked in 105th place out of 178 countries. Of 10 reform areas examined, Bosnia and Herzegovina have improved only in Cross Border-Trading.

The time needed for starting a business and the number of procedures required has remained the same for the last 3 years, although BiH significantly lags behind other countries in the region in terms of these. Also the legal environment and business climate do not sufficiently support entrepreneurship development. In spite of the one-stop-system, the business registration process remains complex, the "silence means consent" principle only applies to the registration of crafts, while their registration is not integrated with that of trading companies. For some SMEs, market entry is further restricted by cumbersome and costly licensing procedures.

The lack of formal and systematic regulatory impact assessment (RIA) precludes a clear understanding of the positive and negative impacts on SMEs, whilst relevant EU Directives are not fully transposed to national legislation.

In Serbia micro-credits providing loans up to €20,000 is an important source of support for new and early-stage business. Micro-loans are provided by banks and other authorised financial institutions as well as by non-governmental organisations. ProCredit Bank for example in a three year period up to 2003 provided €150 million through 23,000 loans with a default rate of just 0.1%. Loans of up to €10, 000 account for 86% of the lending. Since 2002 the Savings Bank Opportunity International starting with a donation from USAID of US$1m and an additional $1.2m of private capital has been offering micro-loans of EUR 250–15,000. By the end of 2003 they had made 2,600 loans totalling €4.44m.

7.2 Internationalisation of SMEs

Competitiveness in the Balkans is clearly lower than in the rest of Europe. The highest scoring country in 2009 is Montenegro (ranking: 62) ahead of Croatia (ranking 73) in the global competitiveness Index. Montenegro is nevertheless behind all EU countries excluding Romania and Bulgaria as well as Latvia and Greece (which have been severely hit by the financial crisis).

According to the 2008 WB report that ranks the overall ease of doing business in countries around the world, Macedonia is ranked 75th, Montenegro 81st, Serbia 86th, Croatia 97th, Bosnia and Herzegovina 105th and Albania 136th.

The internationalisation of SMEs is low due to several hurdles. These include the high costs of the internationalisation process (internal barrier), a lack of capital or finance (external barrier), the higher business and financial risk, a lack of an explicit strategy in the initial phase and a lack of the ability to implement strategies due to insufficient planning or skills. The specific competences required for engaging in international activities such as a knowledge of foreign market conditions, laws, regulations and cultural differences are not well devel-

oped. The benefits of ICT in the form of web-based sales or Internet marketing are not exploited.

Currently very few SMEs in the region are international, but the situation is changing. In the last few years Croatia has developed a well articulated and far reaching enterprise policy framework and has launched a series of initiatives directed at promoting operational support for SMEs including new financial facilities, the refinancing of existing ones and endorsing the one-stop shop concept. In Bosnia and Herzegovina, the authorities have increased the level of support to the SME sector and recent legislative and regulatory changes have been implemented to simplify and improve the business environment. Political support for SMEs in FYR Macedonia has been reflected in developments such as a programme to stimulate domestic and foreign investment, and a strategy, backed up by an agency and a coordinating Council for Entrepreneurship and Competitiveness. In Serbia and Montenegro firms also mainly work for the domestic market. Challenges include the lack of business competitiveness, the need to modernise production, processing and packaging, the need to find new ways of selling and the necessity to adjust standards and other quality regulations to those of the EU. Finally, in Albania poor law enforcement, weak corporate governance, and a lack of management skills, as well as an underdeveloped banking system and a crumbling infrastructure constitute major impediments to business expansion in international markets and to attracting FDI.

Regional networks and links to the EU are crucial for the internationalisation and development of the region. It would also be helpful for SMEs to collaborate with each other to improve their performance. Policy support for SMEs is, nevertheless, increasing as well as the creation of SME-oriented organisations at regional and national level.

7.3 SME innovation

The Western Balkans are characterised by national innovation systems that are undergoing radical institutional and structural changes and a research and technology infrastructure that is largely obsolete with a disproportionate amount of basic research undertaken. This is combined with very low levels of business expenditure on R&D and, often, a relatively old human potential in R&D which is also impacted by the negative effects of the internal and external brain drain and suboptimal integration into European research projects. There is a general understanding of the importance of innovation in SEE Countries but the kind of policy required to stimulate innovation and its subsequent integration into a wider policy setting have not been adequately implemented and understood in the region (Gesellschaft zur Forderung der Forschung, 2006).

This implies the adoption of a clear definition of the policy and territorial framework. Many politicians are strongly tempted to buy miracle, turnkey solutions; however innovation policies with the potential for success need to be tailor-made for each situation with a major component aimed at changing business behaviour patterns. They need, therefore, to be mid- or long-term to be effective.

Information and Communication Technology is not much used in this context to boost growth in productivity and the competitiveness of SMEs. It is in its infant stage of development both in respect of e-business and e-government and still lagging behind the EU developments of recent years. An appropriate legal framework is not in place and the level of ICT infrastructure is low while the ICT literacy of SMEs is deficient (especially due to gaps in the educational system and training courses).

SME innovation policy instruments and orientations are similar in most countries. These include the promotion of an innovation culture (R&D plans and exchange of experience), supplying information (one-stop shop, competitive intelligence and technology watch), promoting technology transfer (TT centres, industrial clusters, competitiveness poles and University business interfaces) creating business (incubators), promoting R&D&I infrastructure (Science and Technology parks) and financing R&D and innovation (venture capital, seed capital, business angels, stakeholder loans and tax incentives).

7.3.1 SME innovation strategies and procedures in the Balkans

The policies that are successfully applied rest upon a series of principles and techniques which make up the state of the art: a) considering the private sector as a central factor in innovation processes; b) integrating the promotion of new activities and support for modernising and diversifying traditional sectors; c) establishing priorities; d) defining measures realistically in line with the financial and human resources that can be mobilised; e) developing public/private partnerships processes and promoting the creation of effective networks; f) maintaining a proactive attitude designed to encourage the appearance of new innovation oriented patterns of cultural and entrepreneurial behaviour; g) designing a mid- and long-term strategy to give every single action a role in a wider strategy and h) defining and preparing a system of indicators to permanently monitor and evaluate the effects of policies implemented.

There is a shift from purely investment-oriented financial measures to ones which complement financial support, but it is no panacea. It aims at the introduction of more innovative behaviour patterns. Direct subsidies for R&D plus the use of innovation support policy instruments such as research infrastructure

are now accompanied by new measures where the parameters for success have to do with innovative activities. Such trends are being witnessed in Balkan countries though often remaining embryonic.

7.4 Influencing attitudes and skills for entrepreneurship and SME growth

The formal education system at primary, secondary and tertiary level is not yet sufficiently directed towards preparing pupils for entrepreneurship and enhancing the entrepreneurship culture and spirit. Lifelong learning lags behind and an appropriate legal framework is missing. Still there is scepticism towards entrepreneurship; it is insufficiently promoted and sometimes even has a negative connotation. All these factors influence people not to become self-employed.

Entrepreneurship is seen at European level as not only the driving force for the creation of new jobs and economic growth but also as the only way of dealing with structural changes as a result of the transfer from nationally focussed to globally integrated economies. In order to enhance the growth of entrepreneurial activity at international regional level, the European Commission action plan sets out a European agenda based on five strategic policy areas: i) promoting entrepreneurial mindsets; ii) encouraging more people to become entrepreneurs; iii) gearing entrepreneurs for growth and competitiveness; iv) improving the flow of finance; and v) creating a more SME friendly regulatory and administrative framework (EC, 2004).

All these strategic policy areas are or are starting to be part of local and regional economic policies in the Balkans. In a transition period, the domestic market may play an important role in the increase of entrepreneurial activities. For example, skills can be systematically developed and it could add value for the skilled workers. Second, statistics show that entrepreneurship in SEE countries is based on labour intensive activities rather than on capital intensive ones. There is a concentrated large manufacturing sector and value-added activities are still in a need of support policies. The challenge is for regional policy makers to ensure effective coordination between activities. Third, FDI brings with it assets other than financial (e.g; new managerial practices). Local economies must be ready to benefit from spillover, particularly with a willingness to learn.

There are several policy options to address attitudinal and skills barriers to entrepreneurship. Barriers are intertwined: informal barriers are closely related to the environmental ones and partly follow from a lack of skills and education. There is a recently formed and legitimate rationale for the lack of trust in the banking system in the SEE countries. As a consequence, embedding new policy

measure and activities in the national culture is important for the establishment of a stable system.

In particular, entrepreneurship should be integrated in the basic education system. The promotion of best practice and success stories should also be undertaken to change attitude and show how everybody can do it. Such actions have taken place in primary schools in SEE states, for example the Junior achievement programme, which is supported by donors in many countries. Furthermore, skill-based barriers such as a lack of business-related skills and experience can be targeted through tailored educational programmes that focus on skills development, and complement initiatives to change attitudes. Provision of in-house training and education should be made for those already in business. To facilitate these trends, it is necessary to increase the number of training institutions offering entrepreneurial, vocational skills and those related training. Barriers such as the instability of the regulatory environment and lack of financing and low purchasing power can be addressed by policies that can stabilise the economy and guarantee basic finance and access to sources of support. A final option is to use one- stop shops. It is not necessary to have a high level of knowledge before seeking advice and in this way one stop-shops are valuable entry points for potential entrepreneurs. The importance of identifying role models which reflects the diversity of the population should also to be underlined.

7.5 Fostering youth entrepreneurship

Following a period of prohibited entrepreneurial activities, post-communist countries have embarked on a phase of industrial restructuring and enhancement of competitiveness, where businessmen had an important role to play. As a result governments and international organisations have designed a large number of programmes to support entrepreneurship to fulfil its economic and societal role. However, while the attention on entrepreneurship has been considerable, youth entrepreneurship has not been high on the agenda. Entrepreneurship and youth entrepreneurship were considered similar problems. and ‘one size fits all’ policies were implemented with all groups in the population.

Recent high levels of unemployment amongst some groups of young people have attracted interest in youth entrepreneurship as a way to foster employment opportunities and to address social exclusion. Entrepreneurship is also considered as a remedy for brain-drain problems and a solution for reinforcing political stability in the region and to promote regional cooperation.

When considering youth initiatives in SEE countries, the picture is mixed. Some countries, such as Croatia, have made substantial progress in developing youth strategies and have encouraged the participation of other social actors in the process. Others, such as Albania, have followed a more centralised path with a youth strategy designed without taking into account the voice of young people and of other actors involved in youth issues (*Homans,* 2003). In that country entrepreneurship education takes place in the context of training programmes for business start-ups. While the government has seemed more concerned with entrepreneurship education when signing the EU charter for SMEs, he has not expressed a song commitment to entrepreneurship policies and some suggests that its decisions are taken mainly to fulfill EU conditionality (*Xheneti,* 2006).

7.5.1 Examples of Best practices of Youth Entrepreneurship Programs in South East Europe

Youth business Albania (YBA) launched in 2005 aims to provide financial support and technical assistance to young people who aspire to start their own business. YBA is the product of a unique partnership between the Balkans Children and Youth foundation, Youth Business International and the Mjaft foundation. This scheme is relatively modest (targeting new enterprise employing 50 people) but has been relatively successful. In 2006 17 loans had already been provided to entrepreneurs aged 21–29 who, due to this assistance were employing 50 young people. The program is concentrated in the capital and needs to develop a commercial orientation.

In Serbia a youth education center has developed in two areas: Aleksinac and Zajecar. The project has a broad focus from training and encouraging young people to becoming actively engaged in seeking jobs to encouraging self employment and entrepreneurship among young people. The project involves 300 young people. It involved young people acting as educators supporters of their fellows and is a good example of how self improvement can be encouraged among young people and their social position improved (OECD, 2007).

When it comes to start-up assistance and business development assistance, the emphasis tend to shift towards international organisations. Youth business International (YBI) is one of the main programmes present in SEE countries. Its objective is to mobilise the global business community to help those young people who are unable to find help elsewhere. YBI works with disadvantaged people, provides access to financial support for viable projects (that can‘t find support elsewhere), provides successful applicants with a volunteer business

mentor and full access to organisation's local and national business support network.

The European Training Foundation (ETF) is an agency of the EC designed to contribute to the development of the education and training systems of EU partner countries. ETF is running a projects in the Balkans investigating how national education systems are supporting the development of core competences and how different segments of the education systems support the development of learning to learn and entrepreneurship.

Training is offered by a large number of support actors. A majority of these actors are international donors who in most cases do not make distinction between training for start-ups in general and training for young entrepreneurs start-ups. Numerous initiatives are found in Macedonia with the private sector involved in offering training and employment opportunities. In Albania the SOROS foundation has funded projects which aim to increase entrepreneurial skills women and young people with the cooperation of RDA. In Croatia Microsoft Croatia and the UN High Commissioner for Refugees provide training for refugees and displaced persons in order to equip them with the basic IT skills that will increase their chances of getting a job (OECD, 2007).

8 Conclusions

In conclusion, with regard to enlargement, evidence shows how the accession process profoundly transformed societies and economies as diverse as those in Central Eastern Europe (CLS 2005). In terms of the Western Balkans, EU enlargement and the EU's innovative economic strategy provide a unique chance for the region's countries to break out of the historical cycle of conflict and instability. However, the absence of political co-operation between the region's countries suggests their ability to participate in the EU's complex and demanding political co-ordination is limited. Preceding EU membership, a new political culture that seeks to resolve what now appear to be insurmountable issues and to create a new era of co-operation within the Western Balkans is essential.

Given this political context, fostering a market economy represents the next stage of development, and this chapter examined a fundamental aspect of this activity, the role of support systems in guiding SMEs and innovation activity so as to enable SMEs to create and participate in a smart innovative economy. SMEs are critically important to this historical opportunity as they dominate the business landscape of the region and have the potential to provide the necessary creativity for an innovative economy, as well as offering sustainable economic

development and employment. This period of relative peace and stability in the Western Balkans has seen a significant improvement in the provision of SME and business support services. However to encourage and to facilitate future SME growth, particularly knowledge-intensive SMEs, the existing business support systems and infrastructure will need further reform and improvement. This will contribute to the countries' ability to fulfil the conditions of EU membership and also to build the economic capacity to enable them to benefit from membership of the EU.

LOCAL ECONOMIC DEVELOPMENT

ANDREA-ROSALINDE HOFER

1 Introduction

Local economic development in the Balkans is a highly dynamic process. Its outcomes are heavily dependent upon the respective geographic and environmental context, the performance of local economic actors – in particular entrepreneurs and companies – the quantity and quality of available support infrastructure and services, and the capacity and performance of public and private support actors. Each of these components is itself a wide variety of factors, which makes it difficult, or even impossible, to produce a straightforward equation for the ideal composition of components and factors for local economic development to ensure better living standards, in terms of work and private life.

Entrepreneurship is the main driver for local economic development. Very often, becoming an entrepreneur, that is, starting-up a business, is the result of a personal decision-making process which includes assessing the opportunities and the costs (being employed, being unemployed, being one's own boss), risk-reward relationships (what is at stake), and others. Values, beliefs and behaviour, embedded in the culture of a country and a place, influence this decision. Entrepreneurship education, with its two-fold purpose of contributing to the creation and development of entrepreneurial attitudes and motivations, and developing the skills needed to successfully run and grow a business, can play an important role in the decision-making process. When designing a policy support framework for local economic development through entrepreneurship, it is useful to decide whether the principal motivation for business start-up activities is because of an opportunity or out of necessity (*Reynolds* et al. 2001). However, in transition economies where entrepreneurship is a relatively new phenomenon for most of the active labour force, it is actually mixed motivations (*Verheul* et al. 2010) that should be recognised by policy support.

In the countries reviewed in this chapter – Albania, Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Montenegro and Serbia – people in general, and youth in particular, have positive attitudes towards entrepreneurship, but yet only a few generate value through the creation or expansion of economic activity by identifying and exploiting new products, processes or markets. It can be argued that there is a domination of necessity entrepreneurship, a premise that

seems to be sustained by the high levels of informal economic activity and the preponderance of services and retailing. Yet, as mixed motivations for business start-up are principally assumed in this chapter, a closer look at the constraints for entrepreneurship and local economic development might provide a better understanding of the hidden potential for local economic development in the Balkans.

The remainder of this chapter is structured as follows. Short comparative overviews will be presented for the above 'components of local economic development', that is, the context for local economic development, characteristics of the business sector, business financing and development and growth premises, and local economic development support actors.

2 Context for local economic development

2.1 Regional disparities

Regional disparities exist in all of the countries in question. In some, such as Albania, Kosovo and Macedonia, they manifest themselves mainly along a rural-urban divide. Trends towards outward migration due to the lack of employment and business opportunities inherited from the communist and pre-communist past, are clearly visible. In Albania, significant differences can be noted in quality-of-life indicators between the northern and southern parts of the country, as well as the concentration of economic activity in the capital, Tirana, and its hinterland. The human development index (HDI) for Tirana is 0.830, compared to 0.632 in rural areas and 0.54 in remote rural areas in the northern part of the country (Government of Albania, 2008). Since the 2001 census, Tirana and Durres, the two most populated cities in the country, have seen population change rates of 140% and 118% respectively. This created enormous challenges for the provision of public services as well as for urban planning and land use in general. Positive, but less extreme, population growth rates have been common also for traditionally larger cities in the other countries of the region for the period since 2000. Exceptions are Croatia, where the population of Rijeka and Osijek decreased beyond the natural change rates and Bitola in Macedonia. In Serbia, middle-sized towns with 50,000–80,000 inhabitants have grown more than larger cities, whilst Belgrade, with a negative growth rate of –0.22 percent is the outlier in the region.

Rural areas in the countries examined, despite their proximity to urban labour markets, are not well connected with the latter as daily commuting is still difficult due to deficiencies in public transport and a poorly developed road in-

frastructure. Internal migration, therefore, is often the consequence, in particular in cases such as Kosovo, where 60% of the population lives in rural settlements. In Albania, the northern regions of Dibër and Kukës are facing substantial decreases in population, 23% and 27% respectively (Government of Albania, 2009). Rural areas in all of the countries are more prone to higher unemployment and higher poverty rates than urban areas, despite often higher levels of social exclusion and its attendant consequences in the latter. In Montenegro, the northern and central parts of the country are the ones lagging behind most of all, and there is a high correlation between joblessness and poverty: 81% of the overall jobless are located in these parts of the country and account for 81.5% of those living in poverty (ETF, 2010a).

Agriculture and rural development are, in all the countries, a key priority area for domestic policy and international aid intervention. There is still much need for reform in rural markets and agricultural production, not least because of their economic and employment potential and the preparations for IPARD (Instrument for Pre-Accession Assistance for Rural Development). In Albania, Bosnia and Herzegovina and Kosovo a common persistent barrier to more productivity and a higher degree of technology application is land fragmentation and uncertainties about property rights.

2.2 Decentralisation[1]

Local authorities in all the countries have been given new functions and responsibilities since the start of the transition process some twenty years ago. In Albania the constitution guarantees local authorities, that is, municipalities and communes, the right to administer independently local affairs, as well as to collect and spend revenue as required for the exercise of their functions. They also have the right to set local taxes, and their level, within the limits of the law. However, in reality, the level of decentralisation is low; the legal framework for public administration organisation and central government intervention in local affairs being insufficiently defined. Yet, major challenges are a persistently poor level of tax and revenue collection and a high level of corruption, combined with a lack of well functioning control and audit institutions – amounting to a poor performance of local authorities in Albania.

The situation is more complex in Bosnia and Herzegovina, which since 1995 has two political entities – the Federation of Bosnia and Herzegovina (51% of the territory) and the Republika Srpska, with separate political structures and

[1] The brief description of the current state of decentralisation is based on information from the websites of the Open Society Institute's LGI initiative, http://lgi.osi.hu.

public administration. In 1996 Brčko District was established by the High Representative. In the Federation there is a greater degree of power-sharing between the different levels (central, or entity level, canton and municipal level) in the Federation compared to the Republika Srpska. Albania and Croatia are the only two countries that have introduced regional government in addition to municipalities and counties.

In Kosovo much of the responsibilities that the 33 municipalities would exercise are currently in the hands of the United Nation's Mission in Kosovo (UNMIK). UNMIK retains the authority to approve all expenditure and can overrule any local assembly decision. Municipalities in Kosovo rely on central transfer payments and have capabilities to raise sufficient revenues from taxes. The right of municipalities to borrow on internal and external capital markets is currently being discussed.

Macedonia has a single-tier local government system with 78 municipalities and the City of Skopje with its seven sub-municipalities. The Ohrid Agreement introduced far-reaching decentralisation, but this applied mainly to public administration staffing issues. Also in Montenegro there is a single-tier local government with 21 municipalities. The law on Local Self-government (2002) delegated competences and resources to municipalities in the fields of education, primary health care, social welfare and employment, yet competencies in sectoral policy areas are still very centralised and financial resources insufficient for local authorities to be effective in their tasks. The lack of influence on government decisions in local infrastructure investment is considered to be a major weakness. Serbia has 190 municipalities. Official statistics are presented for five statistical regions, including Kosovo and Metohija. The revenue system is highly centralised with virtually all taxes being administered by the central state and municipalities receiving calculated shares.

2.3 Local development planning

In all countries local development strategies and plans exist at commune, municipal and regional level all are linked to national development strategies. In Croatia regional operational programmes (ROPs) are already in place, whilst other countries are preparing for new structures and procedures in regional and local development. The capacity for strategic planning and implementation varies among countries and seems to be correlated with the extent of international activities that the local government units initiated. Hence, the level of pro-activity has an impact on successful local strategic planning, for which strategy implementation is a good proxy indicator. Bosnia and Herzegovina is

spearheading local policy action to increase productivity rates in agricultural production. In Kozarska Dubica, a mid-sized town with approximately 30,000 inhabitants, situated 26 kms from the Zagreb-Belgrade highway, the municipality has taken the leadership in reform. After an in-depth analysis of the current situation – the country's biggest dairy products plant is located there with an increasing number of local small farmers as suppliers – a skills development and training strategy was devised and implemented with the help of a municipal administered fund for agricultural development. Today the fund manages an amount of €613,000 and has 149 clients (with average loans of €12,510 (OSCE, 2009).

Often local authorities are too small or do not have sufficient human capacity to be effective in local economic development planning and overseeing strategy implementation. In order to address this issue of common concern, municipalities have joined forces in local development agencies, or delegated certain planning functions in economic development to higher 'economic' tiers. Also experiments in partnering civil society and private business representative organisations are being undertaken. Over recent years a number of legal changes have made it easier to establish civil society organisations in the region (Regional Environmental Centre 2006), and Croatia is the region's leader in terms of their streamlined and simplified registration. The legal framework also provides guidance and assistance in registration. This has contributed greatly to the opening of government to civil society and private sector actors. They take their task seriously and contribute to policy making, in particular in environmental and social issues, but also with regard to what concerns business-relevant regulations. In Bosnia and Herzegovina the high level of involvement of international actors has created a clear and simple framework for the registration of civil society organisations, which, however, has not been implemented consistently in the different entities, leading to difficulties with cross-cantonal operations. Sometimes legal services are required to speed up registration. In Albania, creating a civil society organisation is still a rather burdensome and long process involving separate registration steps at local and national government levels.

In all countries, international aid helped to introduce the use of Geographic Information Systems (GIS) at local government level some five to ten years ago. This makes detailed information gathering on local economic development possible, but it seems that little is utilised for strategic planning. Nevertheless, the introduction of IT infrastructure into the work of local authorities has helped to advance business regulation issues, as the example of Brčko District shows. In 2004 the District government introduced a comprehensive IT infrastructure at

district and municipal level that helped to facilitate information exchange between the different government entities, businesses and citizens.[2]

Associations of local authorities exist in all the countries (*Table 77*). They have established themselves as key partners of central government, which gives local authorities a stronger voice. Capacity building, in particular related to project preparation, management, monitoring and evaluation, is a key service offered by the associations for their member municipalities.

Table 77

Associations of Municipalities

Country	Name	Website	Members
Albania	Association of Albanian Municipalities	www.aam-al.com	65
Bosnia and Herzegovina	Association of Municipalities and Cities of the Federation of Bosnia and Herzegovina	www.sogfbih.ba	81
	Association of Towns and Municipalities of Republic of Srpska	www.alvrs.com	63
Croatia	Association of Municipalities of the Republic of Croatia	www.udruga-opcina.hr	200
Kosovo	Association of Kosovo Municipalities	www.komunat-ks.net	37
Macedonia	Association of the Units of Local Self-government of Republic of Macedonia	www.zels.org.mk	84
Montenegro	Union of Municipalities of Montenegro	www.uom.co.me	21
Serbia	Standing Conference of Towns and Municipalities	www.skgo.org	163

Source: NALAS, Associations websites.

2.4 Cross-border collaboration

Cross-border collaboration is on the rise (*Table 78*). Albania, Croatia and Macedonia participate in the EU programme "Europe for Citizens". In Albania, currently 27 municipalities are actively engaged in cross-border collaboration. A look at key characteristics of active and non-active municipalities shows a difference in the number of inhabitants and number of municipal employees. Active municipalities have, on average, 91,000 inhabitants and 175 municipal employees, compared to 13,820 and 30 (respectively) in non-active. In Mace-

[2] A database was created that allows for online requests for submission and approval procedures providing all required information within 24 hours.

donia, the lack of a regional government structure makes participation in international co-operation difficult (CBIB, 2006). Whereas some of the municipalities have been more successful in identifying and realising opportunities for cross-border collaboration, others have not been able to find suitable partners. A key issue has also been the outsourcing of project preparation and reporting tasks to consultants, which was possible only for the larger and richer municipalities. The local government association, ZELS, has now taken over information provision and provides basic training in project application and management. Serbia also has no regional level of government. To overcome the lack of human and financial resources at district level, the Ministry of International Economic Relations has established regional offices to facilitate cross-border collaboration (CBIB, 2006). Offices exist in Subotica, with a focus on Hungary, Vrsac (Romania and Bulgaria), and Niš (Bulgaria).

Table 78

Key barriers to more participation in cross-border co-operation programmes

Country	Key barriers
Albania	Lack of domestic funds to participate in projects Difficulties in establishing contacts and partnerships abroad Difficulties in obtaining visa, in particular for civil society representatives Lack of experience in project cycle management and monitoring Insufficient understanding of EC tendering procedures Lack of experience in aid-co-ordination
Bosnia and Herzegovina	Difficulties in establishing contacts and partnerships abroad Lack of experience in project cycle management and monitoring Lack of experience in aid-co-ordination
Kosovo	Lack of information at local level Lack of domestic funds to participate in projects Lack of experience in project cycle management and monitoring
Macedonia	Lack of domestic funds to participate in projects Lack of information, procedures are perceived as too complex Difficulties in establishing contacts and partnerships abroad NGOs have a greater lack of capacities for project planning and reporting
Montenegro	Lack of information at local level Lack of domestic funds to participate in projects Lack of experience in project cycle management and monitoring
Serbia	Lack of domestic funds to participate in projects Lack of experience in project cycle management and monitoring

Source: CBIB (2006), own presentation.

Similar to the situation in Albania, Serbia's capacity to manage cross-border co-operation is higher at municipal and commune level. Some major municipalities have established aid co-ordination units to channel international donor and partner financing into local development strategy implementation (CBIB, 2006).

Cross-border collaboration in Croatia has a strong emphasis on local economic development. In 2001 Osijek (Croatia), Pécs (Hungary), Tuzla (Bosnia and Herzegovina) and Subotica (Serbia) jointly launched 'Small Business Base', a project that seeks to capitalise upon the comparative advantages of cities with the help of a cross-border small business market strategy. Besides business development, a large part of the 250 cross-border initiatives at municipal level focus on sustainable development and environment protection. Most of the partnerships have been concluded with cities in Hungary (67) and Italy (54) (Association of Hungarian Municipalities, 2009).

3 Characteristics of the business sector

3.1 Growing stocks of businesses

In all countries the stock of businesses is increasing. Efforts to simplify the regulatory framework for business start-up, growth and market exit are underway in all countries. Even for Kosovo and Albania, which have the lowest numbers of registered businesses per 1,000 population in the region (*Table 79*), average growth rates of 76 and 125 percent respectively are seen for the period 2004–2008.

Table 79

Number of firms per 1,000 population

Country	Population	Firms	Firms/1,000 pop.
Albania	3,170,048	104,750	33
Bosnia and Herzegovina	3,767,000	161,295	43
Croatia*	4,437,460	259,856	59
Kosovo*	2,180,600	67,947	31
Macedonia	2,048,619	63,193	31
Montenegro*	613,145	33,736	55
Serbia**	7,380,086	357,877	48

*Figures as of 31 December 2009; **Figures as of 31 December 2007.
Source: Countries' statistical offices, own calculation.

There are, however, huge differences in size, turn-over, innovation and growth potential of businesses. A discussion of these is relevant for an assessment of current and potential local economic development performance, but a lack of data, particularly of comparable data does not permit this.

Albania had in 2008 a registered business stock of 104,750 firms, of which 93% had fewer than 5 staff and only 0.7% reached the 50+ employee level. Almost one in four businesses is located in Tirana. Other important business locations are Duress (12%), Fier (9%), Korcë and Vlore (8%), whereas the north-eastern part of the country (Kukës) hosts only 1% of the country's registered business stock (ISTAT, 2010). Formalisation of the small business sector, a major challenge in the past, is progressing well, and the National Business Registration Centre has established 31 local business registration desks. This has already yielded success, as the number of new enterprises registered reached 17,773 in 2008, which is almost 30% higher than in the previous year. Hiring became cheaper and easier, with further tax breaks resulting from on-going tax reforms and a reduction of the employer's social insurance contribution from 20% to 15%. This, however, is not yet applied in practice, as the sheer size of the informal economy sets the reference salary scheme and reference number of employees for each business category as the basis for company taxation (EC, 2009).

In Serbia, SMEs represent the economy's backbone with a 99.8% share of the total registered business stock and 65.5% of employment. Net job creation is still low with some 149,000 new jobs created in the period 2004–2007 (on average 37,250 jobs p.a.) (ETF 2009c). In Macedonia, as in Serbia, firms with under nine employees constitute 93.8% of all registered businesses, but large enterprises employ one third of the workforce. The labour market is characterised by very low employment rates (about 42%) and extremely high unemployment rates (about 34%), and migration has been an option for at least one member of every ten families. It is important to plan for the future, which the Macedonian government is doing by investing in entrepreneurship promotion and support and by expanding career guidance and counselling to reach larger numbers of students at schools, colleges and universities (ETF, 2009a).

In all countries, various estimates exist of the extent of the informal economy – understood as unregistered business activity – ranging from 20–60%. Estimates by the European Commission, the World Bank and the IMF tend to be closer to the upper ceiling, whereas national governments provide lower estimates. The structure, size and life-cycle of small and micro-businesses are closely related to the magnitude of the informal economy, in particular in the service sector, which in all countries is the fastest growing part of the economy. Cafés, small bistros, and grocery stores, for example, face fierce competition, work on very low profit margins and barely survive beyond a year. Hence, formalisation rates are low.

3.2 Business internal barriers and unused opportunities for innovation and growth

Existing SMEs appear to have a low level of knowledge and skills in the field of new technologies, ICT etc., operate largely with outdated or no technology, and are traditional in their production and sales approaches. Most SMEs operate in local markets, which can be an advantage, as discussed below, but, largely, opportunities are not identified. Corporate capacity for innovation, in particular, that of small and micro sized enterprises, is still low. Albania and Bosnia and Herzegovina are much behind the other countries in the region in terms of university–industry collaboration, company spending on R&D, and the availability of scientists and engineers (*Table 80*).

Table 80

Innovation capacity indicators

Country	Capacity for innovation[1]	Quality of scientific research institutions[2]	Company spending on R&D[3]	University-industry collaboration in R&D[4]	Availability of scientists and engineers[5]
Albania	2.3	2.5	2.3	2.2	3.2
Bosnia and Herzegovina	2.3	2.6	2.3	2.3	3.1
Croatia	3.2	3.2	3.5	3.5	3.9
Macedonia	2.7	2.6	3.3	3.3	3.9
Montenegro	2.9	3.1	3.6	3.6	4.2
Serbia[6]	2.8	2.6	2.6	3.3	4.0

Note:

1 Capacity for innovation was measured with the question: "In your country, how do companies obtain technology?" (1 = exclusively from licensing or imitating foreign companies; 7 = by conducting formal research and pioneering their own new products and processes).

2 Quality of scientific research institutions was measured with the question: "How would you assess the quality of scientific research institutions in your country? " (1 = very poor; 7 = the best in their field internationally).

3 Company spending on R&D was measured with the question: "To what extent do companies in your country spend on research and development (R&D)?" (1 = do not spend on R&D; 7 = spend heavily on R&D).

4 University-industry collaboration in R&D was measured with the question: "To what extent do business and universities collaborate on research and development (R&D) in your country?" (1 = do not collaborate at all; 7 = collaborate extensively).

5 Availability of scientists and engineers was measured with the question: "To what extent are scientists and engineers available in your country?" (1 = not at all; 7 = widely available).

6 Serbia includes Kosovo.

Source: Global Competitiveness Monitor 2009–2010.

In all countries the majority of small and micro businesses are more preoccupied with survival than with growth. A change of business culture is often mentioned as a key step towards modernisation, diversification and innovation of business activities in the region.

University–industry relationships are on the rise in all the countries, however, participation is limited to larger companies with international co-ownership or strong international business connections. In Bosnia and Herzegovina, before the war, strong links existed between science and research centres in the universities of Sarajevo, Zenica, Tuzla and Mostar and local firms. Today cooperation is weak and almost non-existent for SMEs who are not using technologies used or developed in universities and research institutions (Government of Bosnia and Herzegovina, 2009). This is adding to the issues of different languages, administrative behaviours and time perceptions that are commonly causing the gap between university, science and industry.

Opportunities for innovation are, however, high as markets are not yet saturated and are open to new products and services. Producers of non-tradable goods and services have an advantage as buyer sophistication is still low (*Table 81*). This leaves much room for low-scale innovation.

Table 81

Buyer sophistication in the Balkans

Country	Buyer sophistication[1]
Albania	3.0
Bosnia and Herzegovina	2.5
Croatia	3.2
Macedonia	3.0
Montenegro	3.6
Serbia[2]	2.8
Mean regional neighbours[3]	4.15

Note:

1 Buyer sophistication has been measured with the following question "In your country, how do buyers make purchasing decisions? (1 = based solely on the lowest price; 7 = based on a sophisticated analysis of performance attributes)".

2 Serbia includes Kosovo.

3 The mean of regional countries has been calculated from the buyer sophistication measurements in Austria, Italy, Greece, Slovenia.

Source: Global Competitiveness Monitor 2009–2010; own calculation.

3.3 Issues around skills development

As reported elsewhere in this book, progress has been made in applying the European Charter for Small Enterprises. Major, ongoing challenges are the low technological and innovation capacities of firms, and the fact that existing (older) firms neglect the importance of human capital development.

3.3.1 Vocational education

All of the countries have a high proportion of young people, but most local labour markets in the region are unable to absorb young people as they graduate from secondary, vocational or tertiary education. Hence, youth unemployment rates are alarmingly high. Local authorities are rarely in a position to offer effective responses, and, moreover, almost all countries in the region, in particular in some of their distressed local economies, have major problems with early school-leavers. In Macedonia, for example, only some 40% complete secondary education (UNICEF estimation, cited in ETF, 2010a). Some remedy is sought by offering teaching in the vernacular, mainly Albanian, Turkish and Serbian, and additional courses for Vlachs (Aromanians) and Bosniaks. Social exclusion problems and marginalisation are growing factors in school drop-out rates amongst certain ethnic groups.

Participation in vocational education is increasing, but the number of apprenticeships and entry position jobs is not following this trend, except for the crafts sector and multinational corporations in some of the countries, in particular Croatia and Serbia. The latter also reports the highest share of the age group continuing in upper secondary education (78.3%; over three times more in VET than in general education), followed by Romania (69.4%), Bulgaria (67%) and Croatia (63%) (OECD, 2003).[3] Albania showed the lowest figures in 2003 (41%), but solid investment in localising vocational education and training through the establishment of local public vocational training centres in eight of the twelve regions (Tiranë, Shkodër, Elbasan, Korcë, Durrës, Vlorë, Fier, Gjirokaster) has helped to increase the offer and, to some extent, the take-up. However, there is a noticeable trend for young people to prefer university education to professional and vocational training when finishing secondary school. Serbia also seems to make good progress in localising vocational education and training institutions: 111 schools have been established allowing for a good distribu-

[3] No data was available for the different entities in Bosnia and Herzegovina at the time of the 2003 study, but it can be assumed that today participation rates are around the 50%-level.

tion and access rate at municipal level.[4] In localising skills development, Kosovo is suffering from an underdeveloped education institution infrastructure (ETF, 2010b).

International organisations, such as the World Bank and the European Training Foundation, have reported problems resulting from the poor performance of the vocational education and training systems in the region and the low level of matching between skills trained and skills demanded by employers. Some countries are badly hit. In Montenegro, findings from a 2009 labour force survey suggest that those who have followed vocational education and training are more likely to be out of work (44.8%) compared to those who have followed general school studies (17.4%) (EC, 2009a).

In Croatia, the national government defines curricula for vocational training, but leaves room for local adaptation of study programmes. It seems, however, difficult to make use of this existing flexibility as a reduction of courses with lower employment outcomes might also have consequences in terms of the number of teachers employed, and as school principals, the decision-makers, are elected by school boards composed of teachers, they tend to avoid such decisions (*Crnković-Pozaić,* 2009). In some sectors skills development is happening more within firms than in the school component of vocational education. This is the case for craft professions. Here the Croatian Chamber of Crafts and its local branches play an important role in accrediting firms that take on apprentices and in training craftsmen that act as mentors/masters. According to Crnković-Pozaić (2009) there is a low level of interest on the side of employer firms to become involved in making vocational training more responsive to their needs since they expect government institutions and the schools to solve the growing mismatch. Montenegrin education authorities are partnering employers to uncover needs with the aim of dovetailing existing curricula and courses much more closely into needs. Progress can be noted in the tourism industry, the backbone of the national economy. Other sectors, such as the manufacturing industry, seem to be less interested in collaboration (ETF 2010a).

3.3.2. Further professional training

Business survival and growth depends not only upon leadership and management in SMEs, but also upon the skills of their staff. The degree of staff participation in formal training can be taken as a proxy for the low openness to, and readiness for, increased skills development efforts. Recent statistics from ETF (2009c) about the percentage of firms offering formal training to employees

[4] http://www.vetserbia.edu.rs/school.htm [2 May 2010].

showed that in Serbia it was 39.5%, less than in Slovenia (62%), Croatia (47.8%) or Bosnia and Herzegovina (42.4%), but markedly more than Bulgaria (28.1%), Romania (25.3), Hungary (33.9%), Albania (33.2%), FYROM (29.5%) and Turkey (21.4%). It is worth noting that there can be large differences between a national average and local level participation rates. In Montenegro, for example, an average of 25.2% of businesses offer formal training to their staff, although in the Northern region the share is less than 1% (ETF, 2010a).

In all countries an increase in the number of private training providers can be seen and increasing numbers of NGOs are active in skills development, particularly in the area of soft skills and the understanding of broader concepts, such as human rights, democracy and civil society, and sustainable development. This has contributed to a diversification of skills development and professional training approaches for adult workers. Such a diversity of training providers, contents and methods used might be of the benefit to the local labour force if it is all part of a wider local development strategy, but these are often absent or too broad and general to permit synergies and partnership approaches in local skills development efforts.

Training vouchers are a frequently used policy instrument to incentivise take up. In Kosovo, the Ministry of Trade and Industry is implementing, through the regional SME support offices, a voucher system for SME staff training and business development counselling for managers.[5] The service is free of charge for nascent and "just started" businesses (within a month of registration), firms with fewer than 249 employees pay 1 EUR per day and larger firms EUR 2 per day. Training vouchers are valid for one day. Individual workers as well as company managers can apply for training vouchers. The maximum number of vouchers per firm is ten times the number of employees. Counselling vouchers are valid for the entire period of counselling programmes and each applicant (self-employed entrepreneurs and company managers) can apply for up to 20 days of counselling.

3.3.3 Skills development for new entrepreneurship

There are attempts in all of the countries to emphasise skills development during the process of business start-up. Entrepreneurial learning activities have also been piloted in all of the countries. Montenegro, for example, is implementing a strategy for lifelong entrepreneurship learning for the period 2008–

[5] http://www.mti-ks.org/repository/docs/Broshure_informative_per_aplikuesit_e_voucheres.pdf [2 May 2010].

2013, which introduces entrepreneurial learning into primary and secondary schools. This is an important step in the right direction, as, in most of the region, institutionalised and structured co-operation between local businesses and firms is underdeveloped or non-existent. Macedonia can be considered a leading country in the promotion of entrepreneurial learning and skills development. 'Business and entrepreneurship' is a compulsory subject in the curricula for secondary and vocational education, and a working group has been established at government level, bringing together key stakeholders under the lead of the Ministry of Economics and the Ministry of Education (EC, 2009).

In all of the countries, except for Albania and Kosovo, universities are actively involved in promoting graduate entrepreneurship. In some countries this is part of the entrepreneurial learning strategy and the wider commitment to apply the European SME Charter; elsewhere universities take the lead. Since 2008 universities in Bosnia and Herzegovina, Croatia, Macedonia, Montenegro and Serbia have participated in the Global Entrepreneurship Week (GEW) (*Table 82*). GEW is still a new, global activity to promote entrepreneurship, in particular within student communities – with participant numbers ranging from 50 in the Netherlands to more than half a million in the UK. The participation of most countries in the region is a promising sign for local economic development involvement of universities and higher education institutions.

Table 82

Global Entrepreneurship Week activities

Country	Organiser/s	Partners	Activities	Participants	Population (2009)
Bosnia and Herzegovina	Agency for the development of small and medium enterprises	5	12	222	3,767,000
Croatia	UMIS-SMEA	9	17	500	4,437,460
Macedonia	Agency for Promotion of Entrepreneurship of the Republic of Macedonia Youth Entrepreneurial Service Macedonia (YES)	40	70	3,000	2,048,619
Montenegro	Centre for Entrepreneurship and Economic Development	4	2	150	613,145
Serbia	Budi Svoj ovek DOO (Be your own boss)	25	30	2,000	7,380,086

Source: Global Entrepreneurship Week (2009), Impact Report, various statistical offices and own calculation.

4 Business financing and premises for business development

4.1 Business financing

The opening of the financial markets to international banks has increased the number of banks in all the countries. In terms of business financing, in particular SME financing, ProCredit and Raiffeisen appear to be the most active financial institutions (*Table 83*).

Except for Croatia and Montenegro, all countries show weak performance in selected business- financing indicators. Albania is the last of 133 countries compared in the Global Competitiveness Report (*Table 84*). All of the countries' governments have started to introduce guarantee schemes and credit facilities, although with limited success. A possible reason for this is the insufficient local delivery structure of these schemes and facilities, which tend to overlook certain geographical regions, or types of companies.

Table 83

Pro-Credit and Raiffeisen branches, 2008

Country	ProCredit	Raiffeisen International
Albania	Founded: 1998 Branches: 34 Employees: 1,003	Founded: 1992 Branches: 102 Employees: 1,400
Bosnia and Herzegovina	Founded: 1997 Branches: 44 Employees: 888	Founded: 1992 Branches: 98 Employees: 1,752
Croatia	_	Founded: 1992 Branches: 79 Employees: 2,330
Kosovo	Founded: 2000 Branches: 60 Employees: 1,158 employees	Founded: 2001 Branches: 47 Employees: 720
Macedonia	Founded: 2003 Branches: 40 Employees: 791	_
Serbia	Founded: 2001 Branches: 86 Employees: 2,058 employees	Founded: 2001 Branches: 101 Employees: 2,095

Source: ProCredit Annual Reports 2008 and Raiffeisen International Annual reports 2008 for listed countries.

Table 84

Performance in selected business-financing indicators

Country	Financial market sophistication[1]	Financing through local equity market[2]	Ease of access to loans[3]	Soundness of banks[4]
Albania	2.8	2.1	2.8	4.7
Bosnia and Herzegovina	2.6	3.1	2.6	5.1
Croatia	4.1	3.7	2.8	5.4
Macedonia	3.6	3.4	2.3	5.1
Montenegro	4.4	4.6	4.4	5.2
Serbia[5]	3.0	3.5	2.6	4.6

Note:

1 Financial market sophistication is measured with the question "How would you assess the level of sophistication of financial markets in your country?" (1 = poor by international standards; 7 = excellent by international standards.

2 Financing through local equity market is measured with the question: "How easy is it to raise money by issuing shares on the stock market in your country?" (1 = very difficult; 7 = very easy).

3 Ease of access to loans is measured with the question: "How easy is it to obtain a bank loan in your country with only a good business plan and no collateral?" (1 = very difficult; 7 = very easy)

4 Soundness of banks is measured with the question: "How would you assess the soundness of banks in your country?" (1 = insolvent and may require a government bailout; 7 = generally healthy with sound balance sheets).

5 Serbia includes Kosovo.

Source: Global Competitiveness Monitor 2009–2010.

In all of the countries the European Investment Bank is a key partner of government in developing a SME financing infrastructure. The European Fund for South-East Europe provides region-wide microfinance for businesses for a total project budget of €25m. Country-specific projects range from €10m in Bosnia and Herzegovina, to €100m in Macedonia and €250m in Croatia and Serbia (EIB, 2010).

Local credit guarantee funds exist, and are often created and administered by municipalities or local development agencies. In Bosnia and Herzegovina, the SME Development Strategy for 2009–2011 foresees the expansion of local credit guarantee funds, of which five are operative at present (Government of Bosnia and Herzegovina, 2009). That integrating business development support into wider local economic development strategy promises success is supported by various examples of how this is organised in different municipalities throughout the country. For example, in Mrkonjic Grad, a town of an estimated 10,000 inhabitants, the local credit fund, which is sustained by the municipal

budget and several commercial banks and administered by the Agency for Economic Development, provides favourable loans to business start-ups. Since 2004 the credit fund has provided approximately €1.5m to local businesses and contributed to the establishment of 40 new companies with 285 jobs. The municipality undertook research into local constraints on doing business and translated the results into streamlined and simplified regulation, which today also attracts entrepreneurs from elsewhere in the country (OSCE, 2008). In Kosovo, the localised micro-credit infrastructure of KEP Trust (formerly Kosovo Enterprise Programme) covers all municipalities and has, to date, 47,928 clients. The broad offer includes micro-business loans, individual and consumer loans, business start-up loans and loans for female entrepreneurs.[6]

In Macedonia, business financing support is still relatively centralised within the Macedonian Bank for Development Promotion. Commercial bank lending is insufficiently orientated towards SMEs due to their lack of interest and risk aversion (Government of Macedonia, 2009). Higher participation is required from the micro-finance institutions, especially for start-up businesses. The ProCredit Bank is a key local partner of the Macedonian Bank for Development Promotion.

4.2 Premises for business development and growth

Business parks and premises for company expansion and attraction are being planned in all countries and already exist in some, such as Croatia and Serbia. Business incubation facilities have also been established, mainly financed by international aid. Finding the right tenants is a major challenge as the majority of nascent and young businesses are too small and/or have a low degree of growth readiness to make best use of such infrastructure. Inter-regional incubator platforms are piloted in Bosnia and Herzegovina, where the nine incubators in Gradacac, Modrica, Šamac, Mostar, Prijedor, and Zenica, have established a network. Common projects are planned to provide better services to tenants to be more connected with research and higher education institutions. This is critical for incubators to survive and operate as effective new business support deliverers, but is not yet a practice.

An interesting example of integrated local economic development planning and practice can be found in Varazdin, Croatia (*Vugrinovic,* 2010). The key support infrastructure is the technology park which is managed and financed by the county, which plays a leading role in local economic development support.

[6] http://keptrust.org [12 May 2010].

The technology park is situated in premises adjacent to the local high school specialising in technology vocational training. The technology park management invites companies to settle in the park only if they provide value added services or develop products with high added value. Resident companies mostly specialise in producing various prototypes, robotics, and information technology services for the communication industry. The companies located in the technology park are obliged to ensure that their equipment can be used by the school to train the students, and company engineers are invited to be mentors to the students. They are financially supported by the local public employment service. One of the policy measures aims to achieve better connections between the labour market and the needs of local industries, and it includes the programme providing funds for mentoring programmes. The companies are glad to provide this service to the students not only because they are paid for their efforts, but because it allows them direct access to their future human resources whose training is geared towards the needs of the companies. The city of Varazdin has integrated its economic development strategy with the County Regional Operational Programme and financially supports the local college in its curricula development through measures related to the priority objective 'improvement of tertiary education'. A large share of graduates is employed by local companies, many of which are located in the technology park.

5 Local economic development support actors

There is a broad variety of local economic development support actors with commonalities between countries. Much of these actors have received substantial international aid in developing their organisational structures and services.

5.1 Chambers of Commerce and Crafts

In most of the former Yugoslav countries, Chambers of Commerce are important partners, mainly because of their institutional history. In Albania, these structures were established after 1990, which has led today to 26 branches and one umbrella organisation whose aim is to facilitate co-ordination and provide private sector input into policy making. There are also branches of the American and Italian Chambers of Commerce. However, their representative and consultative role in regulatory assessment matters is not yet fully developed. In Kosovo, the Chamber of Commerce has become an important partner for private businesses, in particular for small businesses, and increasingly also for

start-up firms, who refer to the Economic Chamber of Kosovo in Pristina and its local branches in Mitrovicë, Prizrën, Gjakovë, Pejë, Gjilan and Ferizaj for advice and in searching for business partners. Larger companies are often also members of the American Economic Chamber of Kosovo, a business association established in 2006.

Whilst in Croatia, the Chambers of Crafts have a particularly strong role in local economic development, and in Serbia this role is played by the Chamber of Commerce, whose long history dates back to 1857 when the first business association, the 'Trade Board', was founded in Belgrade. The regional spread of trade boards started in 1870 in Sabac, Smederevo, Valjevo and Krugujevac; others followed. In 1910, the Chamber of Industry, the Chamber of Commerce and the Workers' Chamber were established, and received in the 1930s the status of public-legal organisations with an advisory status to state administration. In the 1960s the regionalisation process saw an abrupt end to this, with the merger of all sub-national branches into one single Chamber of Economy. The long tradition of local business representations was re-established in 2001 with sixteen regional chambers plus a separate chamber for Belgrade and the Serbian Chamber of Commerce that serves as an umbrella organisation and maintains nine representative offices abroad in Vienna, Frankfurt, Paris, Milan, Sarajevo, Sofia, Timişoara, Kiev, Moscow, Sofia and Brussels (Serbia Chamber of Commerce, 2010).

5.2 Regional development agencies and local business support delivery

In all countries there is a broad diversity of local economic development support providers, in particular in terms of business and entrepreneurship support. A key challenge is the lack of standardisation, which makes it difficult to assess the real impact made on business birth, survival and growth. Reports on insufficient quality are frequent, and seem, partly, to explain why most SMEs are not willing to pay for business support services.

Regional development agencies have been established in all of the countries, but only a few have been able to gain a stable footing in the local economic development arena. This can be explained by the fact that the organisations which have been introduced and established are largely sustained by international actors. Furthermore, their major partners are government agencies rather than private sector actors. This makes it difficult for the latter to consider themselves as stakeholders as opposed to mere beneficiaries, which, in turn, lowers private sector commitment and collaboration. Another issue of concern is related to the

lack of a concept of an 'economic region', which has not yet fully materialised in the region as decentralisation and local government reforms are parallel processes, and jurisdiction areas are being defined. This makes thinking in 'economic' terms – that is, proximity to support services, knowledge and skills, as well as input and output markets – difficult and gives preference to acting in 'political' influence areas and electoral zones.

In Bosnia and Herzegovina, EU support has established a network of five regional development agencies, whose areas of activity are divided according to pre-defined economic regions.[7] Their tasks include SME development services and business infrastructure support development and maintenance, such as business zones, incubators, technology parks, rural development, tourism promotion, and attracting foreign direct investment. Acquisition and management of EU financed projects belong to the agencies' core activities. In addition to these broad-agenda organisations, in certain cantons, for example, Zenica-Doboj and Posavina, local government and private sector representative organisations have together established specialised SME support organisations. In the Republika Srpska regional and local development agencies have also been established. Often the agency or the service is an integral part of the respective municipality. In Zenica, a mid-sized industrial town with approximately 140,000 inhabitants, for example, the municipality has delivered tailored and needs- based business development support through the Local Economic Development Agency ZEDA. Evaluation of on-going and planned business support activities is an important component of the agency's work. In addition, three business zones have been created 'Zenica 1', 'Pecuj', and 'Kamberovic polje', as well as a mid-sized business incubator, which will soon be developed in a science and technology park (OSCE, 2009). The Zenica municipality is internationally well-connected and twins with cities in Germany (Gelsenkirchen), Romania (Hunedoara), Turkey (Karşıyaka and Üsküdar), Slovenia (Kranj), Sweden (Luleå), Kazakhstan (Temirtau), Italy (Fiorenzuola d'Arda) and Hungary (Zalaegerszeg).

In Serbia, the Agency for SME Development, a major local economic development actor, maintains a network of regional agencies and local offices providing non-financial business support which are closely linked with business incubators and the 20-odd clusters that exist in the different parts of the country. In Macedonia, SME development support is also localised. The newly established Agency for the Promotion of Entrepreneurship (APPRM) is the main delivery organisation for government programmes and international aid related

[7] ARDA – covers the North-West economic region, NERDA – covers the North-East economic region, REDAH – covers the Herzegovina economic region, REZ – covers the central B&H economic region, and SERDA–covers the Sarajevo Macro-Region.

to private sector development and local economic development. APPRM has a network of sub-national offices through with it operates. These include the foundations for SME development in Veles, Skopje, Kumanovo, Bitola and Strumica, enterprise support agencies in Tetovo, Gostivar and Ohrid, the regional enterprise development agency, PREDA, the Roma business centre in Skopje and seven business incubators in Ohrid, Delcevo, Makedonska Kamenica, Stip, Prilep, Strumica and Veles. Also part of the network are three agencies for technological development which are part of the Mechanical and Agricultural faculties of Skopje university, the Technical Sciences faculty of the University of Bitola and the Centre for New Businesses at the mechanical engineering faculty at the University of Skopje. Furthermore, at municipal level local economic development offices are integral parts of local public administration (Government of Macedonia, 2009). In Bosnia and Herzegovina a Council for Entrepreneurship is planned at national level (EC 2009).

All countries, except for Albania and Kosovo, are members of the Enterprise Europe Network (*Table 85*). The Enterprise Europe Network was launched in February 2008 by the Commission's Directorate-General for Enterprise and Industry. It builds on the former Euro Info Centre (EIC) and Innovation Relay Centre (IRC) Networks, established in 1987 and 1995 respectively. Some 570 business support organisations from 45 countries are linked up through powerful databases, sharing their knowledge and sourcing technologies and business partners across all Network countries. But they are also closely linked with the European Commission, which enables them to keep abreast of EU policies and to feed small companies' views on them back to Brussels.

Table 85

Local participation in the Enterprise Network Europe

Country	Local branches (number per location)	Total number	Of which universities
Bosnia and Herzegovina	Banja Luka, Mostar, Zenica, Sarajevo (2)	5	2
Croatia	Osijek (2), Rijeka, Split, Varaždin, Zagreb (3)	11	_
Macedonia	Skopje (4)	4	1
Montenegro	Podgorica (3), Bar	4	1
Serbia	Belgrade (4), Niš, Novi Sad	6	3

Source: Enterprise Network Europe website [2 May 2010].

6 Conclusions

This chapter has provided a short overview of different components of local economic development, with an emphasis on entrepreneurship. A number of commonalities have been identified in terms of challenges and barriers, which all seem to be closely related to the performance of economic actors and support providers, but also in terms of hidden potentials for local economic development and entrepreneurship, which clearly lies in new entrepreneurship and making use of the hidden innovation potential in local markets. Universities and higher education institutions in the region have great potential for providing entrepreneurship education and start-up support to new firms and for helping existing firms to identify and realise opportunities. There is a great task for public policy to act in developing an appropriate support infrastructure and incentives to use it. Standardisation, quality control and further localisation of the existing support frameworks will be a good start.

REGIONAL DEVELOPMENT PROGRAMMES

PATRICK DUBARLE – CECÍLIA MEZEI – ZOLTÁN PÁMER

1 Introduction

The history of the European Union is the process of successive spatial enlargement. In recent years the enlargement process (an increase in the number of members) has been prioritised at the expense of the deepening process (the spill-over of EU policies to more and more sectors). The dominance and spread of globalisation has been invoked by the leaders of the European community to extend the boundaries of the Union towards the east.

After a period of conflict in the Western Balkans, the EU Regional Approach sought to underpin implementation of the Dayton/Paris and Erdut agreements and bring basic stability and prosperity to the region. In May 1999 the European Commission set out the rationale for moving to a more ambitious vision for the region's development.

The construction of regions in the Balkan countries is now an important topic for debate in preparation for EU membership. In the communist era, the different member countries of the Yugoslav federation were operating in a centralised mode. With EU accession as the target for most of these countries, regional policy became a concern. However, the application of the EU's structural policy requires appropriate size in terms of the population and economic activities of regions, and, during the preparation of the EU's pre-accession programmes, statistical regions had to be planned in all countries. As a consequence, Western Balkan governments demarcated boundaries for regions and, on the basis of EU recommendations, set up formal organisation structures (regional development councils, development directorates and agencies).

European policy vis à vis the Western Balkans seeks to reach a balance between two strategies: on the one hand, regional cooperation and stabilisation predicated by the Stability pact for South East Europe, and, on the other hand, the basic process of joining the EU. These two strategies launched in the same year (1999) rest upon two different institutional logics and have different dynamics.

These strategies have been conducted within the framework of the *Stabilisation and Association Process* (SAP). SAP is not simply a bilateral process with each country. The EU (Zagreb Summit) placed considerable emphasis on the

central need for regional co-operation as part of the EU's "contract" with SAP countries. Similarly, enhanced regional co-operation is one of the major objectives set down in the Thessaloniki Agenda. The *Stabilisation and Association Agreements* include a clear commitment to regional co-operation. This effort supported by the CARDS (Community Assistance for Reconstruction, Development and Stabilisation) programme has an important regional component. The EU's policy objectives are principally:

- to encourage the countries of the region to behave towards each other and work with each other in a manner comparable to the relationships that now exist between EU Member States;
- the creation of a network of compatible bilateral free trade agreements which means that there are no barriers to goods moving between the countries of the regions themselves nor with the EU and, in effect, neighbouring candidate countries;
- the gradual re-integration of the Western Balkans region into the infrastructure networks (TENS) of a wider Europe (transport, energy, border management);
- to persuade the authorities in the countries of the region to work together to respond effectively to the common threats to the region's and the EU's security which come from organised crime, illegal immigration and other forms of trafficking. In many cases, e.g. on visa policy, a common approach by all the countries will be needed to deal with the threat effectively.

Regional co-operation in the Western Balkans is an essential factor for political stability and economic prosperity and the only way for the countries of the region to successfully address key common challenges (such as energy shortages, pollution, transport infrastructure, cross-border criminal activities etc.).

The *Autonomous Trade Measures* applied to the whole of the Western Balkans allow duty-free access to the EU market for practically all products originating from the region. The Autonomous Trade Measures, together with the relevant provisions of the Stabilisation and Association Agreements, and other trade arrangements, provide a favourable framework for the development of trade between the EU and the region, thus stimulating foreign direct investment in the region and economic development in general.

These trade preferences have proved successful, contributing to the average annual increase of 8% in the Western Balkans' exports to the EU (2000–2004). In 2005, they were renewed until the end of 2010.

In return for the EU's offer of the prospect of accession on the basis of the Treaty on European Union (TEU) and the 1993 Copenhagen criteria and an assistance programme to support that ambition, the countries of the region undertook to abide by the EU's conditionality and use the Stabilisation and Association Process, and in particular the Stabilisation and Association Agreements when signed, as the means to begin to prepare themselves for the demands of the perspective on accession to the EU.

The enhanced Stabilisation and Association process has proved an effective policy framework from EU action in the Western Balkans. Its implementation in a number of areas needs further work, in the light of recent experience and the challenges ahead. These areas and the suggested next steps were set out in a Communication from the Commission approved in January 2006.

As part of the enlargement process, the Stabilisation and Association Process will remain the framework of the EU perspective on the Western Balkan countries, all the way to their future accession.

Since 2007, EU pre-Accession funding is channelled through a single, unified instrument designed to deliver focused support to both candidate countries and potential candidates. The total pre-accession funding for the current financial framework (2007–2013) is € 11.5 billion.

At this stage (i.e. midway through IPA implementation) EU experience shows that two issues are crucial to improve the pre-accession process:

1. *Absorption capacities.* They must be taken into account when further programming of IPA is initiated. This generally concerns the preparation and adoption of investment strategies, sector analyses, and the preparation of application documentation more rapidly than to date. Therefore, the maturity level of projects becomes a critical factor when deciding on their funding. Before any financing agreement is signed, the National IPA Coordinator has an important role to play to draft twinning project fiches, whilst terms of reference and technical specifications have been prepared to allow each project to be launched immediately. Evaluations have also underlined the need for an enhanced strategic approach in some areas (e.g., agriculture and fisheries, border management or public administration reform) to improve the effect and sustainability of interventions.
2. *Donor coordination.* This coordination is of great importance to avoid any overlap of assistance and should be strengthened. Although a Government Coordination Group and a Technical Working Group are facilitating the coordination of overall assistance in several countries and the European Commission Delegation and the World Bank are active in cooperation, more needs to be done to ensure a continuous exchange of information between donors in order that the principles of coherence, concentration

and complementarity among all sources of multilateral and bilateral assistance are sought. In this context, the EC organised a Donor Coordination Conference in October 2008 where the Commission and Member States, together with the IFIs (International Financing Institutions) and non-EU donors, agreed to an active and affirmative approach concerning the need for enhanced donor coordination. It was agreed that the Multi-Annual Indicative Planning Documents (MIPD) could become a strategic instrument for donor coordination and that the consultation concerning the 2009–2011 MIPDs will be used as a key tool to determine areas of common interest and possibilities for sector coordination and division of labour. The results and plans for action stemming from such consultations were reported at the 2009 donor conference organised in Albania.

2 European Union Regional Development Programmes, 1991–2007

Since 1991 the EU has provided €6.8 billion support to the countries of the Western Balkans. Humanitarian and bilateral support amounts to €20 billion (EC, 2010c).

The Union launched the OBNOVA reconstruction programme in 1996 which supported Bosnia and Herzegovina, Croatia, Serbia, Montenegro and Macedonia by €400 million up to the year 2002.

Major areas of intervention involved regional and border co-operation projects; the reconstruction of the infrastructure and other private or state-owned buildings damaged in the wars; the consolidation of democracy and civil society; the return and re-integration of refugees; the re-integration of the displaced and war veterans into professional life; the development of a production system facilitating the recovery of the economy; the development of the private sector, with special emphasis on small and medium-sized businesses; encouraging investment; and supporting NGOs, as well as institutions of education and culture (OBNOVA, 2010).

In 1989, the PHARE programme launched in 1983 became available for the countries of the Western Balkans. In the meantime, the target area of the programme financing mainly the development of infrastructure changed: from 1993 onwards it exclusively functioned as pre-accession funding. The major targeted areas in the programme were as follows:

1. Supporting public administration and institutions, creating the conditions for their effective functioning within the European Union.

2. Facilitating the early acceptance of the *acquis communautaire* and shortening the transition phase.
3. Enhancing economic and social cohesion.

From 1999 onwards, the intervention area of PHARE was further modified with the introduction of the ISPA (Instrument for Structural Policies for Pre-Accession) programme targeting the development of environmental protection and the infrastructure of transportation, as well as the SAPARD (Special Accession Programme for Agriculture and Rural Development) programme for agricultural and rural development. IPA replaced PHARE from 2007 on.

With the commencement of the stabilization and partnership processes, facilitating the economic and political stabilization of the countries of the Western Balkans, the support policies of the EU completely changed in this direction from the year 2000, signified by the development of the first integrated Western Balkans programme, CARDS.

With the launch of SAP, the countries of the region added their signatures to the stabilization and partnership agreements considered as the first steps in the accession process. Only Croatia among the countries of the region examined, had the opportunity to start negotiations on accession together with Turkey, a country outside the region. Negotiations have not started with Macedonia, a country which had obtained candidate status – for political reasons, in spite of the proposal of the European Commission in December 2009.

In the case of countries acquiring pre-accession status, the classic pre-accession funds (PHARE, ISPA, SAPARD) were also available until the closing of the accomplishment programmes of the 2000–2006 budgetary period (2008). Up to year 2000, the benefiting countries included Albania, Bosnia and Herzegovina as well as Macedonia, and when the Eastern accession came within reach, "profile clearing" was implemented, and so, the circle of beneficiaries was narrowed down to pre-accession countries and the CARDS programme was made available for Western Balkan countries (*Pámer,* 2007).

The CARDS-programme operated from 2002 to 2006 and allocated €4.6 billion support; exceeding €5.13 billion with macro-level financial support (see *Table 86*). The objective of the programme was to support the participation of Western Balkan countries in the SAP process. CARDS at the same time replaced and integrated all previous programmes (PHARE, OBNOVA).

EU assistance to the Western Balkans is adapted as needs – and the political situation – evolve. Initially, the focus was on humanitarian and emergency aid. Later, it concentrated on rebuilding the infrastructure, and fostering reconciliation and the return of refugees. As each country moves deeper into the Stabilisation and Association Process, assistance focuses increasingly on support for developing government institutions and legislation, and on approximation with

Table 86

CARDS Programme Allocation for 2000–2006 (million €)

	2000	2001	2002	2003	2004	2005	2006	Total
Albania	33.4	37.5	44.9	46.5	63.5	44.2	45.5	315.5
Bosnia and Herzegovina	90.3	105.2	71.9	63.0	72.0	49.4	51.0	502.8
Croatia (transfer to pre-accession from '05)	16.8	60.0	59.0	62.0	81.0	–	–	278.8
The former Yugoslav Republic of Macedonia	13.0	56.2	41.5	43.5	59.0	45.0	40.0	298.2
Serbia and Montenegro[a)]	650.5	385.5	351.6	324.3	307.9	282.5	257.5	2559.8
Interim Civilian Administrations	10.0	24.5	33.0	32.0	35.0	36.0	35.0	205.5
Regional	20.2	20.0	43.5	31.5	23.0	47.9	43.5	229.6
Other[b)]	141.5	118.0	11.0	17.0	22.5	19.7	16.1	345.8
Macro-Financial Assistance (grants)[c)]	70.0	120.0	100.0	15.0	16.0	33.0	50.0	404.0
Total	1045.7	926.9	756.4	634.8	679.9	557.7	538.6	5130.2
Croatia, pre-accession 2005–2006						105.0	140.0	245.0
Total including Croatia, 2005–2006						662.7	678.6	5385.0

Note:

1. Figures include assistance from Phare and Obnova where relevant in 2000, and from CARDS 2001 and onwards.
2. 2005 budget implementation: Re-use of recoveries from 2004/5, i.e. above budget allocation 2005: 6m for the former Yugoslav Republic of Macedonia, 7,5m for regional programme:
   a) Includes the Republic of Serbia, the Republic of Montenegro and the province of Kosovo, currently under UN administration. Amounts for Serbia in 2002-03 include assistance from Regional Programme for Integrated Border Management destined for the whole of FRY/Serbia and Montenegro. In 2004, € 8m. for that purpose is shown under the regional programme.
   b) Until 2001 (incl.): Humanitarian aid, Specific Measures, Rapid Intervention Operations, EIDHR and CFSP. From 2001 (incl.): Administrative costs and the Western Balkans' contribution to the European Training Foundation.
   c) For 2000–2002: disbursements and not commitments.

Source: Source EC Enlargement Directorate; http://ec.europa.eu/enlargement/how-does-it-work/financial-assistance/cards/statistics2000-2006_en.htm

European norms and eventually harmonization with the EU acquis. Help is directed at reinforcing democracy and the rule of law, human rights, civil society, the media, and the operation of a free market economy. In addition, assistance is offered to help to generate sustainable economic recovery, and promote social development, structural reforms and the institution building necessary to implement the obligations in the Stabilisation and Association Agreements. Promoting regional co-operation among Western Balkan countries as well as between the region and EU member states and candidate countries is a further major objective of CARDS. Country strategies and multi-annual programmes are being drafted accordingly.

The programme supported the following activities:

- Legislation and internal affairs: the reform of legislation and the police; migration and refugee policy; integrated border control; the fight against organized crime;
- Economic and social development: economic reform, social cohesion; development of local infrastructure; education;
- Democratic stabilisation: developing civil society, return of refugees; reform of the media;
- Environmental and natural resources: institution development; monitoring; urban and rural development;
- Capacity in administration: public administration; taxation; the customs system.

Management of the programme was in the hands of the delegation of the European Commission in Albania, Bosnia and Herzegovina and Croatia. In the case of the other countries (at that time Serbia, Montenegro, Kosovo and Macedonia), the newly established European Agency for Reconstruction was responsible until 2008.

From 2007 on, IPA took on the role of several older EU programmes (PHARE, PHARE CBC, ISPA, SAPARD, CARDS, etc.) in candidate and potential candidate countries.

IPA provides support in five subject areas, the first two being open to all countries of the Western Balkans. Pre-accession Croatia and Macedonia (together with Turkey) may draw resources from the fund.

The five subject areas are the following:

I. Transition Assistance and Institution Development: assistance in the development of primarily state-level institutions as a continuation of former CARDS and TAITEX (Technical Assistance and Information Exchange) with the aim of meeting the Copenhagen criteria as a prerequisite of pre-accession status;

II. Cross-Border Co-operation: similar to former INTERREG IIIA neighbourhood programmes, the development of cross-border contacts by launching IPA CBC programmes on the external borders of the European Union and the internal borders of IPA countries (SAP countries and Turkey);
III. Regional Development: preparation for receiving European Regional Development Funds, in accordance with the assistance of the CARDS programme facilitating social-economic cohesion, as well as the aims of the PHARE and ISPA programmes;
IV. Human Resources Development: similar to component III., a pre-accession component preparing for the European Social Fund as a continuation of CARDS and PHARE resources;
V. Rural development: a component replacing the former SAPARD-programme, preparation for the acceptance of the grants of the European Agricultural Fund for Rural Development.

IPA brought a new approach to programming and planning: operational programmes supplemented each component (with the exception of component I., where it is substituted by the pre-accession strategy). In the case of component II., Cross-Border Cooperation programmes (CBCs) between countries of the EU and SAP, together with the operative programmes of trans-national programmes are significant. In the two countries under discussion separate operative programmes apply with components III., IV. and V.

The operational programmes determine objectives and priorities. Particular financial frameworks are prescribed by Multi-annual Indicative Planning Documents (MIPDs) prepared annually with three-year perspectives covering all the components. At present the MIPDs issued in 2009, planning for the period 2009–2012, are in effect. The planned financial allocation of these funds is shown in *Table 87.*

Component I. of the IPA-programme places the emphasis on the development of national structures and institutions without regional adjustment being addressed among its objectives. However, for the successful realization of subsequent local and regional programmes, the component supports numerous capacity development and educational activities. Priorities are:

– Compliance with political criteria. Relevant objectives in the countries in question involve the reform of public administration, social reception and return of refugees, supporting civil society and the media;
– Compliance with socio-economic criteria. Related objectives involve the development of the economy, supporting the SME (small and medium-sized business) sector and regional development, facilitating employment and education as well as public health;

– Alignment of the law. Objectives of the countries of the region: building the system of institutions regulating internal markets, developing sector policies (unified financial market, agricultural and rural development, environmental protection, energy, transport, information society, statistics), constitutional state, liberty, security policy (integrated border control system, visa and asylum policy, fighting organized crime, etc.).

Table 87

Financial allocation of the IPA programme for the period 2007–2012, €m

	2007	2008	2009	2010	2011	2012
Croatia	141.2	146.0	151.2	154.2	157.2	160.4
Macedonia	58.5	70.2	81.8	92.3	98.7	105.8
Albania	61.0	70.7	81.2	93.2	95.0	96.9
Bosnia and Herzegovina	62.1	74.8	89.1	106.0	108.1	110.2
Montenegro	31.4	32.6	33.3	34.0	34.7	35.4
Serbia	189.7	190.9	194.8	198.7	202.7	206.8
Kosovo	68.3	184.7	106.1	67.3	68.7	70.0
Total Western Balkan country programmes	612.2	769.9	737.5	745.7	765.1	785.5
Total Country programmes*	1,109.4	1,308.6	1,303.9	1,399.4	1,547.0	1,685.0
Regional and horizontal programmes*	108.9	135.7	160.0	157.7	160.8	164.2
Support expenditure*	44.8	54.0	56.5	64.6	75.0	80.5
Grand total*	1,263.2	1,498.3	1,520.4	1,621.7	1,782.8	1,929.7

* Together with Turkey.
Source: IPA MIFF, 2008.

In *Component II.* particular attention is given to the objectives of facilitating economic and social cohesion, with respect to the fact that border regions constitute the underdeveloped regions of each country in addition to minority and ethnic conflicts and memories of wars. Besides the directly measurable benefits of regional development, cross-border co-operations, therefore, play a significant role in keeping peace in the region. Since cross-border co-operation programmes allow local communities to realize their development plans as well as apply the methods of project planning acquired in the course of capacity development programmes, CBC programmes raised particular interest in every country. Accordingly, the entire territory under examination – with the exception of the Belgrade-area – takes part in some cross-border co-operation programme either as targeted or related regions.

The financial allocation of cross-border co-operation programmes available for the countries examined is shown in *Table 88.* In the case of the Slovenian-Croatian programme it was realized jointly, i.e. the ERFA support provided by Slovenia and the IPA resources made available by Croatia were jointly distributed among the beneficiaries. This type of execution characterized the joint programmes in other EU countries and the countries in question (e.g., Hungary–Croatia, Hungary–Serbia, Greece–Macedonia, Greece–Albania, Bulgaria–Serbia, Bulgaria–Macedonia).

Table 88

Financial allocations for CBC-programmes for Western Balkan countries, 2007–2009, €m

Country	Slovenia	Croatia	Bosnia and Herzegovina	Serbia	Monte-negro	Mace-donia	Albania
Slovenia		18.5					
Croatia	18.5		7.1	6.4	3.3		
Bosnia and Herzegovina		7.1		6.4	3.9		
Serbia		6.4	6.4		3.9		
Montenegro		3.3	3.9	13.9			5.0
Macedonia							6.7
Albania					5.0	6.7	
Total	18.5	35.3	17.4	16.7	16.1	6.7	11.7

Source: Adapted from CBC, 2007a by the authors.

Besides these bilateral programmes, the Adriatic CBC programme needs to be noted here, which – even though operating as a cross-border co-operation programme – is in fact supporting macro-regional co-operation. The target areas of the programme are shown in *Figure 89.*

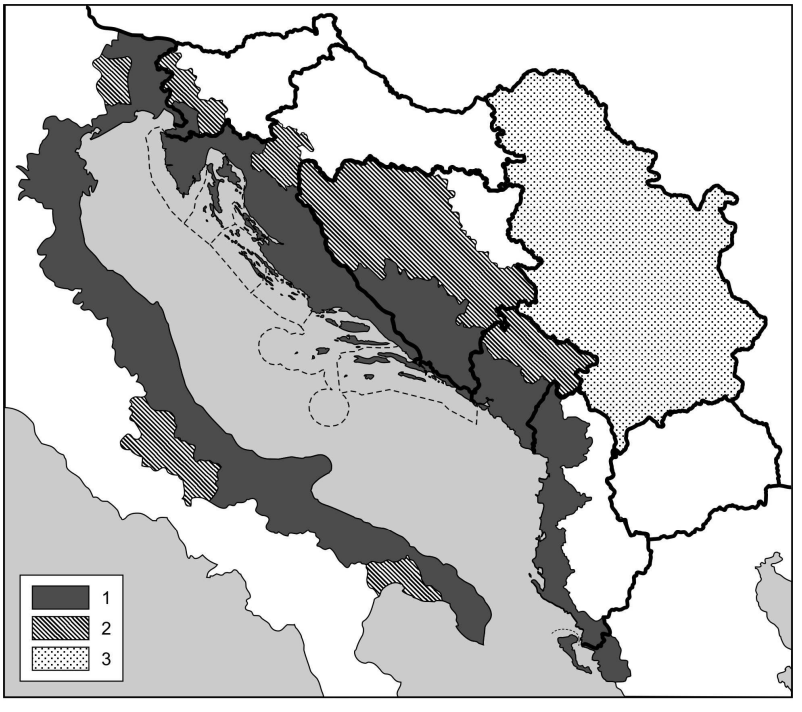
The major (in most cases, the only) priorities of the CBC-programmes are enhancing social-economic cohesion joined by projects facilitating economic development (in most cases, specifically, the development of tourism), environmental and nature protection, as well as enhancing co-operation between local communities ("people to people"). The beneficiaries of the programmes may comprise local and regional authorities, governmental bodies, transfer organizations for economic development, NGOs and civil organizations.

The objectives of the programmes implemented by Component II of IPA but named trans-national are to provide answers to problems specific to a particular micro-region and requiring the co-operation of several countries. The countries under examination here are concerned in two such programmes. The MED-

programme facilitates the co-operation of countries of the Mediterranean in which besides full member Slovenia, Croatia, Bosnia and Herzegovina, Montenegro and Albania are present as observers. All the countries in question participate in the South-East European trans-national co-operation programme as full members.

Figure 89

Target areas of the Adriatic IPA CBC-programme



Key: 1 – Eligible Programme Area; 2 – Territorial derogation; 3 – Phasing out.
Source: CBC 2007j.

With the launch of IPA, cross-border co-operation intensified as never before with the support of the European Union. The trans-national programmes of the SAP countries have no precedents in the INTERREG III. community initiation, as at that time neighbourhood programmes were launched exclusively on the external borders of the member or candidate countries. Therefore, this "wealth of resources" reflects the turning of Europe towards this region. Whereas the relatively moderate resources may also indicate the caution of the participating countries and of the European Commission, the successful imple-

mentation of the programmes may add further impulse to the integration of the region, at the same time providing evidence for reality of the peaceful co-existence of the nations and nationalities of the region.

Components III., IV., and V. of the IPA-programme are only open to two of the countries examined.

IPA has made available €909.3m for Croatia in the period 2007–2012, as indicated in *Table 89.*

Table 89

Financial allocation of the IPA programme, 2007–2012, €m

	2007	2008	2009	2010	2011	2012	Total
I. Transition assistance and institution building	49.6	45.3	45.6	39.4	39.9	40.8	260.6
II. Cross-border co-operation	9.6	14.7	15.8	16.2	16.5	16.8	89.6
III. Regional development	45.0	47.6	49.7	56.8	58.2	59.3	316.6
IV. Human resource development	11.3	12.7	14.2	15.7	16.0	16.0	85.9
V. Rural development	25.5	25.6	25.8	26.0	26.5	27.2	156.6
Total	141.0	145.9	151.1	154.1	157.1	160.1	909.3

Source: EC 2010b.

For components III. and IV. a comprehensive strategic document, the Strategic Coherence Framework (SCF, 2007) was prepared in which the government lays down the main priorities of infrastructure, transportation, human resources and economic development, as well as protection of the environment. The four operational programmes supplementing the framework (regional competitiveness, human resources development, development of transport and environmental protection) further discuss these development directions. The document plans to solve problems related to regional competitiveness by the modernization of Pan-European Corridors (X. rail networks, VII. inland waterways of the Corridor), improving the quality of drinking water, solving the problems of waste and waste water management, increasing energy efficiency, improving air quality, supporting small and medium-sized enterprises contributing to regional development and improving business and investment conditions.

The cohesion section of the regional competitiveness operational programme targets catching up with underdeveloped regions, whereas the competitiveness section concerns a larger geographical area (the entire country). The section on cohesion thus focuses on the two NUTS 2 regions (Pannonia and the Adriatic regions), the section addressing SMEs and entrepreneurial environment, therefore, concern those countries where the ratio of territories requiring special

treatment exceeds 50%. The main objectives of the competitiveness section address enhancing the development of enterpriser networks, facilitating R&D, technological revival and utilization, with no geographical restriction.

A distinct operational programme for agricultural and rural development was developed for Component V. (IPARD, 2007). Although the operational programme does address huge territorial disparities, the geographical concentration of sectoral developments are not set.

In contrast, Macedonia is provided with over €500 million for development in the period 2007–2012 (*Table 90*).

Table 90

Financial allocation by the IPA programme in the period 2007–2012, €m

	2007	2008	2009	2010	2011	2012	Total
I. Transition assistance and institution building	41.6	41.1	38.1	36.3	34.5	32.9	224.5
II. Cross-border co-operation	4.1	4.0	5.5	5.6	5.7	5.9	30.8
III. Regional development	7.4	12.3	20.8	29.4	35.0	39.4	144.3
IV. Human resources development	3.2	6.0	7.1	8.4	9.4	10.5	44.6
V. Rural development	2.1	6.7	10.2	12.5	14.0	16.9	62.4
Total	58.4	70.1	81.7	92.2	98.6	105.6	506.6

Source: EC 2010b.

SCF is the fundamental planning tool of Components III. and IV. of IPA. Both the regional development operational programme and the human resources development programme (OP HRD, 2007) align with this. The priority axis of competitiveness is missing from the first regional development operational programme primarily built on the development of infrastructure. In the field of transport, further infrastructure development is implemented along European Corridors VIII. and X., whereas in the field of environmental protection it is the handling of waste water and solid waste that constitute the main objectives of the programme (ORD, 2007). The objectives of the human resources development operational programme (expanding employment, investment into training and strengthening social integration and efficient management, together with preparation for structural funds) set tasks for the entire country in spite of enormous regional disparities (OP HRD, 2007).

Agricultural and rural development operational programme built on Component V. addresses regional differences in respect of population, migration, unemployment and qualifications, and the distribution of GDP (OP IPARD, 2007).

3 European Union Regional Development Programmes in Slovenia

Although Slovenia belongs to this region in the geographical sense, it is necessary to discuss its regional development programmes separately, as it went its own way as compared to the other countries.

The relationship between the development policies of Slovenia and the EU dates back to 1992, when the first preparations for the implementation of the PHARE programme began. The first financial agreement with the EU was signed on 15 September, 1992. The aim of the first PHARE programme (1992–1995) was restructuring the economy in Slovenia, as reflected by main priorities of the programme (privatization, infrastructure development, TEMPUS programme, development of science and technology, environment, energy and tourism). In the period subsequent to the first programme (1995–1999) the main objectives of the allocation of EU funds was the implementation of Accession strategy (alignment with the acquis, public administration, and the social sphere). The first cross-border co-operation programmes were also launched at that time (initially with Italy, later with Austria and Hungary). The third stage of pre-accession was 2000–2006, the twinning phase. In this phase the allocation framework of Slovenia was approximately €60 million, with the PHARE programme only providing €25 million of the total fund. The total financial allocations to Slovenia in the pre-accession period exceeded €426.4 million (*Lajh,* 2003).

In the "incomplete" planning period post-Accession (2004–2006), the entire territory of Slovenia constituted one NUTS 2 region and was rated as target area 1. The per capita GDP of the country amounted to 70% of the EU average by the end of 2001 (VRS, 2003). A unified programming document was prepared for this short period and the distribution of the allocated resources among the three main priorities are shown in *Table 91.*

The European Regional Development Fund supporting Priority 1 developments constituted €136.5m of the total €237m EU support. This equals 0.17% of Slovenian GDP, projected on the implementation period of the programme (EC, 2010a).

The main document of the development policy of the European Union in the 2007–2013 budgetary period is the National Strategic Reference Frameworks (NSRF) prepared on the grounds of the former National Development Programme (NDP). NDP set completely new development objectives for Slovenia, prioritizing the global competitiveness of the country. This new approach required a change of model in the following fields according to the document: deregulation of markets, rural development, open market, transparent job market, emphasizing individual responsibility in social security, large-scale partnerships, decentralization (SVLR, 2008a).

Table 91

Allocation of resources in Slovenia in the programming period 2004–2006, €m

Priorities	EU Contribution	Co-financing	Total Cost
1. Promotion of productive sector and competitiveness	129.2	45.2	174.4
2. Knowledge. HR development and employment	72.7	24.2	96.9
3. Restructuring of agriculture forestry and fisheries	25.4	26.4	51.8
Technical assistance	10.2	3.4	13.6
Total	237.5	99.2	336.7

Source: Adapted fromVRS. 2003 by the authors.

The overall objective of the NSRF regulating the allocation of EU funds are: increasing the welfare of the inhabitants of Slovenia by stimulating economic development, promoting the creation of new job opportunities, strengthening human capital and enhancing balanced territorial development. In accordance with the above, the specific objectives are (SVLR, 2008a):

- developing enterprises, innovation, technological development,
- improving the quality of education and training, developing (R&D) activity,
- increasing the flexibility of the job market, creating new job opportunities,
- improving sustainable mobility by improving the quality of the environment and infrastructure,
- harmonious regional development.

In order to implement these targets, three comprehensive operational programmes were outlined, supplemented by regional co-operation programmes further subdivided into cross-border co-operation programmes and trans-national programmes. Two of these programmes allow the participation of pre-accession countries, and so, Slovenia is indirectly benefiting from pre-accession (IPA) funds also. The data presented in *Table 92.* do not involve trans-national operational programmes, although four of these concern Slovenia: Alpine Space, Central Europe, Southeast Europe and MED (Mediterranean). Apart from these, the INTERREG IVC, URBACT, INTERACT and ESPON programmes are available for all EU member countries – including Slovenia.

On the whole, 46.7% of the operational programme funds for strengthening development capacities is allocated for enterprise and infrastructure development. In the case of enterprise development programmes, the target group is the

SME business sphere, in accordance with the objectives of the Lisbon Strategy. Specific regional development objectives are supported by 36.2 percent of the funds. The operational programme allocates €586 million for the regions from the total €728 million: the highest amount of support were allocated for the Drava (€134 million), Savinjá (€85 million) and Mura regions (€70 million), whereas the lowest amount were allocated to the small Zasavska (€19 million) region and the most developed Central Slovenia (€16 million). Aspects of economic development transpire regional development resources: developing the economy and the education infrastructure, tourism, urban development (brown fields) are named among the supported fields (SVLR, 2008b).

Table 92

*The financial frameworks of the NSFR programme in Slovenia in the period 2007–2013, €m**

Operational programme	ERFA	ESZA	KA	IPA**	Total
Strengthening regional development capacities	1709.8				1709.8
Human resource development		755.7			755.7
Development of environmental and transport infrastructure	224.0		1635.6		1859.6
Target area 1. total	1933.8	755.7	1635.6		4325.1
Austria–Slovenia	67.1				67.1
Hungary–Slovenia	29.3				29.3
Croatia–Slovenia				15.7	15.7
Italy–Slovenia	116.2				116.2
Adriatic				90.4	90.4
Target area 3. CBC total	212.6	0	0	106.1	318.7
Total	2146.4	755.7	1635.6	106.1	4643.8

*Trans-national and inter-regional territorial co-operation programmes not involved; **2007–2009 financial data containing ERFA and IPA resources available for both beneficiary countries.
Source: Adapted from SVLR 2008b-d; EC 2007a-c, CBC 2007a and CBC 2007j by the authors.

4 National and regional development programmes in the countries of the region

4.1 Conditions of regional development

The countries of the region are prepared for the acceptance or launch of regional development programmes to fundamentally different degrees, there are significant differences in terms of infrastructure and regulations, as well as instruments of implementing regional development objectives. As indicated in *Table 93,* Slovenia, Croatia and Serbia excel in establishing the conditions of efficient regional development policies.

Table 93

Background to regional development

Country	Regional development plan	Ministry responsible for regional development	Regional development fund	National development plan	Regional development strategy
Slovenia	from 1999	Government office	Yes	Yes	Yes
Macedonia	from 2007	Ministry of local government	No	Yes	Yes
Croatia	from 2009	Ministry for regional development, forestry and water management	Yes	Yes	Yes
Bosnia and Herzegovina	No	Entity's competence	Yes for RS	No	No
Serbia	from 2009	Ministry of economy and regional development	Partial funds	No	No
Kosovo	No	Prime Minister's Office Agency	No	No	No
Montenegro	No	Government secretariat departments	No	No	No
Albania	No	Ministry of economy, trade and energy	No	No	No

RS: Republic of Serbia.
Source: Adaptations by the authors.

The *acquis* on regional development was accepted in four countries, Slovenia, Croatia, Macedonia and Serbia; the remaining countries plan to frame basic laws. There is no ministry responsible for regional development in two of the

countries; regional development issues are handled by agencies and secretariats: governmental offices in Slovenia, and entities in Bosnia and Herzegovina. A wide range of structural setup unfolds in the other countries affected by transformation of government. Distinct regional development funds can only be found in Slovenia, Croatia and the Republic of Serbia (BiH). Besides Slovenia, national development plans were prepared only in countries where all IPA components were available (Croatia, Macedonia); the remaining countries have sector-specific plans. Regional development plans were drafted in Croatia and Serbia, while Montenegro developed a strategy plan.

4.2 Regional development plans and programming documents

Slovenia's State Development Programme (SDP) was prepared in 2008 (VRS, 2008). The document identifies the following objectives for the country:

- economic development: exceeding the average development rate of the EU calculated in GDP per capita in the 2010s, as well as increasing the rate of employment in compliance with the Lisbon strategy,
- social development: improving the standard and quality of living, with special emphasis on developing human capital and reducing social risks,
- sustainable development overarching generations in every field,
- developing Slovenia in an international context, improving the reputation and the recognition of the country.

The State Development Programme set the following development priorities for Slovenia (VRS, 2008):

1. competitive economy and faster rate of development,
2. knowledge-based economy and quality jobs,
3. efficient and less costly state,
4. modern social state and efficient market economy,
5. aligned action to enhance sustainable development.

In order to achieve the comprehensive social objectives, the government of Slovenia passed a comprehensive central development programme package in 2006 reaching beyond programmes founded on EU funds. The programme complies with the priorities set out by the SDP and determines the following actions (SVR, 2008):

- Priority 1.: investments facilitating the development of business infrastructure for all regions (industrial parks, incubators, logistics centres, centres for high level training), a national horizontal project (wide-band

Internet network), as well as establishing grandiose tourist attractions (island on the Adriatic Sea, the Dolomites as a unified tourism product, various theme tourism investments (SVR, 2008);
- Priority 2.: expansion of the Ljubljana National and University Library, a higher education innovation centre in Ljubljana, and developing the clinics at the University of Maribor;
- Priority 3.: building e-health and e-justice systems;
- Priority 4.: developing grant systems, improving emergency health care;
- Priority 5.: transport development projects (road, rail, motorway), projects promoting energy efficiency, energy (water, heat, nuclear energy).

A special act applies to the least developed region of Slovenia, Pomurje, titled "Act on Development Support to the Pomurje Region in the period 2010–2015". The measures of action to be taken involve:

- Increasing the competitiveness of the Pomurje region in the period 2010–2015;
- Supporting employment;
- Reducing taxes for investors;
- Priority treatment of development projects in the Pomurje region in the allocation national and EU development funds, e.g. establishing training centres for entrepreneurs, regional enterprise centre, building a drinking water supply system.

In allocating funds, fields yielding long-term benefits are prioritized: exploitation of geothermal and renewable energy resources, sustainable and competitive agriculture, and tourism. For the six years of the duration of the programme, €33 million are available in the central budget for the implementation of the programme. Responsibility is undertaken by the Mura Regional Development Agency, as assigned by the act. The programme needs to be in compliance with the Regional Development Plan, and contain a detailed financial plan of €5.5 million per annum which may be supplemented by the government with further budgetary resources.

In *Macedonia*, enormous regional disparities hindering the development of the country are rooted in the lack of a coherent regional policy characterizing the entire process of transition. The government of Macedonia passed an action plan in 2004 to assist even regional development, a task for future implementation. It clearly indicates that both regional policy and its instruments are in the early stages of development. The schedule of the action plan is as follows:

1. Preparing a regional development strategy and act;
2. Establishing institutions responsible for the implementation of the regional development policy (at NUTS 3 level);

3. Developing the system of criteria allowing for the assessment of levels of development;
4. Preparing NUTS 3-level statistics;
5. Drafting national and regional development plans;
6. Providing funds for the implementation of regional development policies;
7. Improving the instruments and human resources required by the regional policies;
8. Bureaucracy building in the least developed regions;
9. Developing the financial monitoring system of regional development intervention (OP HRD, 2007).

In recent years eight planning regions have been defined at NUTS 3 level: Skopje, Vardar, Polog, Pelagonia, Northeast, Southeast, Southwest and East. Each of these regions has its own specific characteristics and development problems. In 2007, a Law on Equal Regional Development was passed which sought to resolve the problem of lagging development of some regions institutionally. The strategic document on regional development sets out the principles, goals and priorities of regional policy, as well as the measures and instruments for promoting development. A Council for Equal Development has been established with a mandate to coordinate regional development policy, and a Council for the Development of the Planning Regions has been established as a body responsible for the implementation of the policy in each planning region. The former Agency for Economically Underdeveloped Areas has been transformed into the Regional Development Bureau. So far, regional policy has been mainly concerned with economic conditions and with building economic infrastructure, while less attention has been paid to the quality of life and its regional differences.

The National Development Plan (NDP) required by IPA-programming defines five main objectives promoting the competitiveness of the country, supporting sustainable development and expansion of employment:

1. Facilitating economic competitiveness, including the implementation of structural reforms, establishing the business environment and a favourable milieu for investors for economic development and new jobs;
2. Improving the physical infrastructure, with special emphasis on the fields of energy, ECT, protection of the environment and irrigation;
3. Improving the quality of education and training, alignment to market needs, including conditions for knowledge-based economy;
4. Creating the background for a more efficient exploitation of the agricultural capacities of the country by building efficient land management and institutional capabilities, the improvement of rural development and conditions of food production and trade;

5. Creating the pre-requisites of regional policies supporting equal regional development (OP IPARD, 2007).

In *Croatia*, an unequivocal benefit of the CARDS-programme is the fact that the ambition to fight regional disparities was prioritized in national development for the first time in 2002. The National Regional Development Strategy developed in the programme was the first document to treat regional development in a comprehensive manner. The strategy formalised two main objectives: capacity building within the counties and promoting more efficient social-economic county development programmes as well as providing coherent regulation and institutions of regional policy.

The first strategic objective involves three further target fields: the exploitation of the development potential of all counties and wider regions, and reducing the disadvantages stemming from borderline location by facilitating cross-border co-operation. Concerning the legal and institutional background, regional policy legislation and regional institution building were targeted (NTS, 2005). The Act on Regional Development was passed in December 2009; a significant step in a country undertaking the special treatment of highly disadvantaged regions in an institutionalized manner since the turn of the Millennium.

Although the major instrument of Croatian regional development has unequivocally become IPA since 2007 (*Svarc*, 2008), the Regional Development Fund (RDF) established in 2001 continues to be a significant factor in the allocation of national development funds. Regions of special RDF concern involve regions affected by war and depopulation, islands and hilly or mountainous areas (*Figure 90*) concentrating 80% of the resources available.

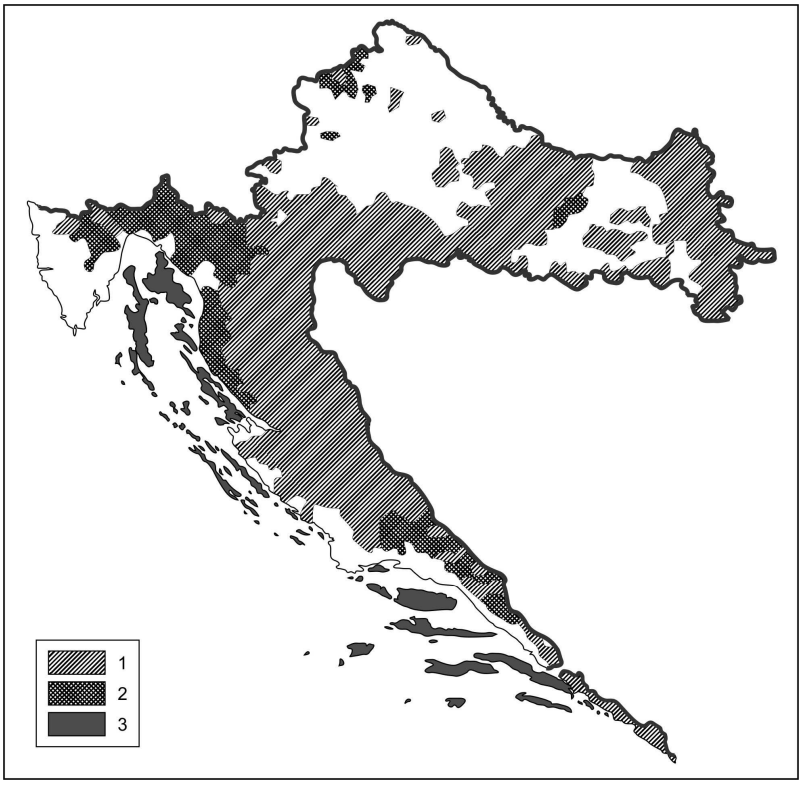
Potential EU resources have accelerated the process of strategic planning. An important document of regional development, a comprehensive national Strategic Development Framework (SDF, 2006) was drafted. One of its major achievements is the integrated approach to sector development (of necessity), which is a big step forward for a country previously thinking exclusively in terms of sectoral development. This fundamental document of Croatia's regional development sets out the directions of development for the country in ten main areas: people, knowledge and education; infrastructure; information interconnection and social cohesion; macroeconomic stability and an effective financial market; sustainable development and balanced regional development; a business-friendly climate; privatization and restructuring; and a new role for the state.

Bosnia and Herzegovina (BiH), for specific reasons, is the most decentralized country of the region. As regional development is not a state obligation, theoretically, it takes place at the level of the individual entities – the Federation of Bosnia and Herzegovina (FBiH) and the Republic of Serbia (RS). As the

administrative borderlines between the two entities have been drawn solely on the grounds of ethnic considerations to keep peace in the country, these entities cannot be considered as organic regions, for the majority of the borders lie on the peripheries of towns cutting across natural districts. As a consequence of the lack of unified regions convenient for strategic planning, and assisted by the international organizations present in the country, five developmental regions were established between 2001 and 2003, with their own development agencies (*Osmanković*, 2004). Economic development strategies were also drafted for these regions.

Figure 90

Assisted areas in Croatia



Key: 1 – Areas of Special State Concern; 2 – Hilly/Mountainous Areas; 3 – Islands.
Source: After RCOP 2007 and HRO 2008 calculated by Mezei.

With the commencement of stabilization and co-operation processes, the thinking of the authorities was beginning to be affected by modern views on strategic planning, although with little result to date. FBiH being a federation itself, according to the constitution economic and regional development are federal responsibilities, whereas the local economy, and, more specifically, the significant sector of tourism are managed at canton level. There has been no development strategy or plan drafted for the entire territory of FBiH.

At present, among the ten cantons of FbiH only Tuzla has a regional plan and development strategy for the time frame of 2008–2013. The strategy identifies five objectives (economic development, human resource development and improving life quality, developing canton identity, continuous and sustainable development, and institutional infrastructure). It forecasts a 10% annual rate of economic development and a 50% increase in employment by 2013. Its financial resources include the instruments of local authorities, international funds, investors, loans, income from the sale of emission-quota, and, to a smaller amount, IPA (EI, 2008).

The aim of the development plan drafted for the territory of the Republic of Serbia is to give guidelines for the future comprehensive development plan, and supposedly later for the national development plan and its operational programmes. An overt aim of the document is to adapt the example of Ireland. One of the major resources of the programme is income from privatization, more specifically, the sale of Telecom Srpske. The programme defines the principles of the allocation of such resources as: programme-based planning, efficiency, elimination of regional disparities, continual investment of instruments (additionality and sustainability). The programme identifies the following macroeconomic objectives for the period 2007–2010: sustainable economic development and increasing employment, improving the competitiveness of the economy of the republic, balanced regional development, promotion of social inclusion.

The preparation and implementation of a development programme for the *Republic of Serbia* proves that, parallel to regional planning supported by the EU, as well as aligning to the principles of participative planning, but not taking the peculiar political environment into consideration, the development policy of medium levels owing quasi state attributes evolves together with political consolidation.

In respect of the fact that the republic is the strongest power centre in BiH owing to its special political structure, it possesses the necessary instruments for the successful implementation of development policy, unlike the federation and the cantons. Since the development programme of the republic methodologically displays European good practice (PCM, logframe-approach, socialization), its successful implementation may serve as an example for other regions, thus

contributing to improving the reputation of the country as worded in the programme (VRS, 2007). Although the Republic of Serbia has a special legal status, its development programme can be viewed as the first roots of regional planning in BiH.

In *Serbia*, the process of establishing the institutional system of development policy began in 2005 with the acceptance of the regional development strategy by the state. This framework-like document determined the following objectives (RDB, 2007):

- Establishing development levels: categorization and typology of regions,
- Drafting appropriate development policy to enhance regional development,
- Drafting an institution development strategy.

The issue of the strategy was followed by the drafting and the issue of the Regional Development Act in July 2009, whereas issuing the National Economic Development Strategy for Serbia in 2006 predated the establishment of institutional infrastructure for regional development. The document sets out the main directions of national economic development by 2012. A comprehensive objective of the programme is raising the standard of living of the inhabitants, served by the following specific objectives (MERR, 2006; *Nagy–Miletič–Todorović,* 2009):

- Favourable business climate as a basis of improving competitiveness;
- Knowledge-based development;
- Efficient business infrastructure;
- Harmonizing the stabilizing, developing and social functions of the state;
- Balanced regional development;
- Sustainable development.

In addition to the general framework-like economic development strategy for the country, specific regional development strategies were drafted for the two most underdeveloped regions (*Figure 91*).

The long-term economic development strategy of the Southern parts of the country includes three local authorities (Medveđa, Bujanovac, Preševo) in the two least developed districts of Serbia. The aim of the strategy is to accelerate economic growth in the target area via the following specific objectives:

- Favourable business climate for investments, as the region is lacking in investment potential,
- Developing the capacities of local authorities in respect of promoting entrepreneurship;

– Use of local resources with respect to the fact that the regional is exceptionally rich in natural resources. This involves the construction of the relevant parts of Trans-European Corridor X.

Figure 91

Underdeveloped regions of Serbia with independent regional development strategies



Source: Adapted from RS 2006a–b by the authors.

The strategy for the development of *Kosovo and Metohija* drafted in 2006 had similar aims. The document, realistically, does not target the entire province: certain parts of the four local authorities with Serb majority in the Northern territories of Serbia, and sporadic areas in South Kosovo. In terms of the vision formulated in the strategy, their main objective is to build strong economic contacts with the mother country in order to make progress from the pre-

sent level of development, stop population loss and increase the standard of living, all in harmony with European cohesion policy. In spite of its pragmatic approach, the strategy clearly states that Kosovo is part of Serbia with a special type of autonomy (RS, 2006b).

Within Serbia, the status of the Vojvodina is somewhat special. The constitution of the Autonomous Province of the Vojvodina took effect on 1st January, 2010. According to Article 15 of the constitution, the province takes responsibility for its own economic, sectoral, as well as regionally balanced development. According to the Act on Regional Development, the Vojvodina is an autonomous province constituting a NUTS 2 region, the only region with political and administrative authority; consequently, its regional development strategy is to be issued in the near future. At present, a detailed study of all sectors – accepted in 2003 – is available, although, no document of strategic development planning has been prepared as yet.

The development fund of the autonomous province was established in 2002. This was necessary for the development of the infrastructure, economy and balanced regional development (RDB, 2007). The resources of the fund involve the resources of the province, income from privatization and capital market operations, foreign resources and loans.

In respect of the entire country, the most significant development instrument is the Development Fund for the Republic of Serbia, which targets – among other objectives – the promotion of balanced regional development, including the underdeveloped regions identified by the Act on Regional Development. In compliance with the regulations of the fund, underdeveloped regions are to be prioritized, whereas, in practice, developed regions receive more support, since underdeveloped regions are unable to meet the criteria – for example, the repayment of loans is impossible for underdeveloped regions even with favourable loan conditions (RDB, 2007). The resources of the fund are provided by its own income, from the central budget, as well as from other sources. In 2010, the Fund is planning the outsourcing of 13,540 million RSD (Serbian Dinars) in the form of loans and guarantees (FRRS, 2010a).

Specifically for assisting underdeveloped regions – with GDP per capita below the national average – a programme of 10 billion RSD was launched in 2010; 5 billion RSD provided by the Fund, together with 1.5 billion RSD of private capital. The sub-programmes are:

- Programme for the promotion of production and employment in the areas under depression;
- Programme for assisting the entrepreneurs and businesses in backward regions;

– Investment programme in the labour-intensive sectors of manufacturing industry.

According to the Act, the programme makes long-term loans available (FRRS, 2010b).

In *Kosovo,* there are huge regional disparities in terms of war losses, ethnic composition or economic status. Regional policy should, therefore, justifiably be part of governmental policy. However, due to the circumstances surrounding the formation of the country, its legislative capacities are at present fully engaged in building the system of sector regulation and management, rather than of inter-sectoral co-ordination.

However, Regional Economic Development (RED) has emerged in Kosovo as an important model for creating sustainable development in regions while, at the same time, helping to mitigate the social costs of transition, particularly by addressing unemployment. A number of areas have already begun to embrace this approach, and business incubators have been established in Gjilan, Deçan and Shtime with support from the CARDS 2005 programme. Some planning support has been provided for an industrial park scheme in Drenas/Glogocs and a separate grant programme for industrial development addresses the issues related to Northern Kosovo.

The Kosovo authorities have embarked in an assessment of EU compatible sector reforms and financing needs with the preparation of a Kosovo Development and Strategy Plan (KDSP) and Medium-Term Expenditure Framework (MTEF). This included a long-term vision, a macroeconomic framework for 2007–2013, sector policies and priority projects. This package of documents is a base for further planning and programming. The objectives of the European Partnership, lessons learnt from past and on-going donor assistance (EU and other), and analysis of the current situation and challenges ahead have informed the strategic choices for Kosovo made in the multi annual indicative planning document. In the wake of proclaimed independence of the country in February 2008 the government adopted a Plan for Europe integration and updated its European partnership action plan in August 2009.

On the basis of the Regional Development Plan both central and local authorities prepare reform and development plans. The Ministry of Environment and Spatial Planning is responsible for the harmonization and co-ordination of the plans and provides assistance in drafting local plans. To accomplish this, the Ministry operates its institute (Spatial Planning Institute), departments and central office. Whilst at local level, planning councils need to be formed to assist planning and implementation an advisory board has been established to support the decisions of the central government (MEPS, 2010). Two types of regional plan are identified by law: plans for the whole of Kosovo or the municipalities.

The former category involves future plans for the territories needing special attention in the country. At local level integration plans may be developed for towns, whereas development plans may concern both towns and municipalities.

The Kosovo Government and the municipalities signed the agreement for the establishment of five agencies on regional development at the end of 2008. The agencies in Priština, Mitrovica, Peja, Prizren and Gjilan are independent organizations whose mission is to guide and strengthen regional economic development, including surrounding areas. Their mission consists of building capacities and strengthening skills, supporting the implementation of economic initiatives and coordinating their activities towards development policies. The mission of these agencies will be to strengthen the economic development of Kosovo municipalities. Thanks to the establishment of the agencies on regional development, the municipalities will benefit from more funds for their development projects. The European Commission has allocated an initial amount of €7m for these projects.

In Montenegro, a fundamental characteristic of central governmental policy is the lack of inter-sectoral approach. Not even the elections of 2009 brought significant changes in this respect (EC, 2009). There is no ministry responsible for regional policy, which belongs to the tasks of secretariats subordinated to the central government.

A draft of the regional development strategy prepared by the development secretariat of the government was completed in 2005. The strategy was built on the development strategy of Montenegro and elaborates on the objectives in the field of regional development in detail. A reason for drafting the strategy was the significant disparities in the development of the three planning regions – primarily concerning the least developed Northern region (*Figure 92*).

The primary objective addressed by the document is accelerating the development of the underdeveloped regions, with respect to the fact that the majority of investments focused on the Middle and Southern territories of the country. The aim is to reduce developmental disparities, preserving the population of the endangered regions, sustainable development and restoring ecological balance.

To achieve these aims a new approach is required in several fields: assisting business and entrepreneurs, facilitating the development of villages, HR development (including the development of management skills, creating an innovative climate, preparing business plans etc.), establishing agencies for regional development and rational spatial planning to prevent the deterioration of the environment.

Figure 92

The least developed Northern region of Montenegro



Source: Designed by the authors.

Subsequent to the clarification of the basic principles, the document drafts development areas for the three regions which can be summarized briefly as:

– Northern (mountainous) region: transport, agriculture, sustainable tourism in the mountains, processing industry (timber industry and the sale of water supplies), developing services and the ecological revitalization of the environment;

- Central region: manufacturing industry (mining, quarrying and machine industry), developing agriculture and services, investment in tourism, scientific, professional and health care institutions, sustainable development;
- Southern (coastal) region: developing tourism, promoting typically Mediterranean agriculture, enhancing marine-transport and related services (ports, marine equipment industry), ecology-based spatial planning (VRCG, 2005).

The final regional development strategy prioritizing the issues of sustainable development, as well as the preparation of the regional development act are involved in the government's 2010 work plan.

An equalization system is in operation within municipal budgets. These receive from central government a share of property tax (50%), property transfer tax, residence tax, inheritance duties and gift tax, personal income tax (15% of the local share). A government support grant is allocated to 11 underdeveloped municipalities (7.7% of the total revenue of these municipalities). With the new reform of local finance, the equalization fund has been consolidated.

Up to the late 1990s strategy planning *in Albania* served the purpose of fighting poverty by supporting donor organizations. Most of the strategies formulated at that time were drafted with external assistance and were accepted without sectoral and local consultation. The majority of these "external" strategies did not match local conditions and real problems, the authorities responsible for implementation were most often unable to interpret what to do, as neither the objectives nor the tasks were clearly defined. The first truly rational long-term strategy and its related programmes were drafted in 2001, known as *Growth and Poverty Reduction Strategy* (GPRS). This defined development objectives based on an analysis of the social and economic situation of the counties, and discussed sectoral development capacities in detail. The strategy addressed medium-term objectives in harmony with long-term national objectives, although the financial background of the programmes and the process of monitoring and assessment were not clarified, so generating difficulties in implementation (UNDP, 2002).

The beginnings of an integrated, inter-sectoral approach to planning date back to 2005, when the Integrated Planning System (IPS) was introduced with the aim of supporting a coherent, efficient and integrated government policy in the process of planning, implementation and monitoring. IPS is basically a new governmental decision making system-treating strategic planning and resource-allocation as one unit. The two corner stones of IPS are a national development plan and a medium-term budget.

By 2005, all 12 regional authorities of Albania had formulated regional development strategies and reports. During this process, donor organizations

promoted participatory community development to ensure people's participation in local development initiatives and the decision-making process. For example, the UN has supported the Regional Councils of Kukes, Vlora and Fier in introducing Devinfo development software for data collection and management for decision-making at regional level.

International organizations and the EU are supporting the development of national and local capacities and the establishment of management structures for the implementation of regional policies. They are promoting the Government's proposed Disadvantaged Areas Development Programme and preparing the country and its regions to comply with EU requirements and expectations for managing regional development support.

The National Strategy for Development and Integration (NSDI) is a planning document integrating the tasks of the government of Albania in terms of sustainable economic and social development, accession to the EU and NATO. By 2008, thirty-NSDI-related seven sectoral strategies had been prepared, all promoting social and economic development.

The main objectives of NSDI are:

- Accession to the European Union and NATO;
- Laying the foundations of a democratic country;
- Fast, balanced and sustainable social and economic development.

The document stipulates that a coherent policy is fundamental to achieving balanced regional development. The Ministry of Economy, Trade and Energy is responsible for the implementation of this objective by drafting a regional development strategy and implementing the regional development programmes and other actions specified by the strategy (NSDI, 2007).

Even though the new regional development strategy was drafted in 2007, it has yet to be implemented. The aim of the strategy is to transfer the currently available funds into a new system by establishing a new institute responsible for planning and the allocation and management of funds. In the meantime, central and local authorities, decentralized and de-concentrated bodies, continue to operate in the same way as earlier. The novelty is the will to reduce regional disparities, coupled with the new, inter-sectoral approach (*Schläppi* et al. 2009).

Objective 1: reducing regional disparities by supporting the sustainable development and competitiveness of each region. In order to achieve this goal, two programmes are defined: one targeting the development of the regions, the other promoting the development of backward territories.

Objective 2: Efficient management of regional development by legislative and institutional instruments.

Regarding legislation:

a) Regional Development Act. (A draft has already been prepared with the assistance of the Development Programme of the United Nations and CARDS; it is being finalized by the Ministry of the Economy.)
b) In terms of strategic planning, underdeveloped regions need to be identified for at least five years, a government programme has to be prepared for these regions and separate funds allocated to them. Ratings need to be done by weighting the following measures, i.e. calculating the social and economic development index of the region:
   – Number of people in poverty/national average (20%);
   – Unemployment rate/national average (20%);
   – Locally produced income/national average (10%);
   – Number of people having running water/national average (10%);
   – Number of doctor-patient contacts/national average (10%);
   – Number of people completing compulsory education/national level (10%).

   Both at county and municipality level, five developmental categories are defined. Figures below 50% of the socio-economic index would constitute the least developed category in both cases; however, candidates below 75 percent would also be supported.
c) Standardized development policy integrating the local development needs of the regions.
d) Drafting regional development strategies, national recommendations for standardization. (Although there have been various Regional Development Programmes planned, these were lacking co-operation between central and local level, and so these plans were not related either to national development strategies or to the budget, which makes their implementation dubious).
e) Regional development agreement that is a combination of strategic, operational and financial plans defining the development interventions of the government in the given region for a five-year period.

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CBC 2007e: IPA Cross-border Programme Croatia–Montenegro 2007–2013.

CBC 2007f: IPA Cross-border Programme Croatia–Serbia 2007–2013.

CBC 2007g: Cross-border Programme 2007–2013 IPA CBC The Former Yugoslavian Republic of Macedonia–Albania.

CBC 2007h: Cross-border Programme 2007–2013 IPA CBC Serbia–Bosnia and Herzegovina.

CBC 2007i: Cross-border Programme 2007–2013 IPA CBC Serbia–Montenegro.

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