

REGIONAL DEVELOPMENT IN MONTENEGRO – ENTREPRENEURIAL ASPECT

REGIONALNI RAZVOJ U CRNOJ GORI – PREDUZETNIČKI ASPEKT

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Abstract : *Regional development is defined as a long-term process of improving sustainable economic and social development of certain areas, which is achieved through recognition, promotion and management of development potential of certain areas. Regional development policy is a set of objectives, priorities and measures aimed at achieving economic growth and sustainable development, reducing regional disparities within the country in order to achieve balanced sustainable economic development. In Montenegro, there are significant differences in the degree of development of three regions: Southern, Middle (Central) and the North, as well as the development gaps within the region.*

Key words: *regional development policy, balanced regional development, institutional framework.*

Apstrakt : *Regionalni razvoj se definiše kao dugoročni proces unapređenja održivog ekonomskog i društvenog razvoja određenog područja, koji se ostvaruje kroz prepoznavanje, podsticanje i upravljanje razvojnim potencijalima tog područja. Politika regionalnog razvoja predstavlja skup ciljeva, prioriteta i mjera usmjerenih ka ostvarenju ekonomskog rasta i održivog razvoja, smanjenja regionalnih razlika unutar države u cilju postizanja uravnoteženog razvoja. U Crnoj Gori postoje značajne razlike u stepenu razvijenosti tri regiona: južnog, centralnog i sjevernog, kao i razlike u razvijenosti unutar regiona.*

Ključne riječi: *politika regionalnog razvoja, izbalansirani regionalni razvoj, institucionalni okvir.*

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1. Introduction

Regional development is defined as a long-term process of improving sustainable economic and social development of certain areas, which is achieved through recognition, promotion and management of development potential of certain areas. Regional development policy is a set of objectives, priorities and measures aimed at achieving economic growth and sustainable development, reducing regional disparities within the country in order to achieve balanced sustainable economic development.

The main objective of regional development policy is a better life of citizens, through the overall development, reduction of the negative demographic trends and rising living standard and quality of life in local communities. The goal is balanced development of the region, which will enable all citizens to feel the rise in living standard, including investments, investments in infrastructure, job creation, and social consensus and cooperation of all subjects (stakeholders) at the national and local levels.

Regional development should be viewed as a process, during which development potential of each area is recognized and in which all available resources and funds are used for the purpose of economic, social and economic progress.

2. Regional Development Strategy

Regional development strategy should define the objectives and instruments for the construction of the overall development potential, contribute to reducing inequalities in regional development and enhance the potential of those parts of the country which are lagging behind in the direction of the greater competitiveness.

The relevant objectives of the Regional Development Strategy are:

- Adjusting and better links between development needs on local and regional levels with development priorities at the state level;
- Adjusting development needs on local and regional level with the available national and EU funds intended for development;
- Providing support to less developed regions / municipalities that is focused on identifying, enhancing and optimal use of their development potential, through the elimination of the causes that prevent their development.

Regional Development Strategy of Montenegro should be based on following: a) determination of the level of development - classification and typology of the

area, b) definition of development policies used to encourage regional development and c) strategy of development of institutions. In Montenegro, there are significant differences in the degree of development of three regions: Southern, Middle (Central) and the North, as well as the development gaps within the region. In this division, the geographic approach was used while at the same word used by the European Union, the region includes the so-called economic region, i.e. division of territory into regions by their development in accordance with certain socio-economic indicators.

3. Sectoral and regional approach to economic development

Contemporary theoretical analysis of carriers of growth focuses on the structural changes in the economy - it starts with the concept that development is actually the creation of new industries and sectors and disappearance of old ones. Development process is therefore characterized by differentiated development rates of different industrial sectors, i.e. development flows unevenly moving away from the stationary sectoral balance. New industries create a cumulative process of growth. Around new industries are concentrated, as grapes, other related activities. Thanks to technical progress, the development is polarized in certain technically leading sectors of the industry. These sectoral polarization makes one of essential elements in the theory of regional growth.

Purpose of territorial grouping of economic activity does not just come down to the major economic effects and higher rates of economic growth. Development impulses from the bearers of the growth spread to other parts of the region and to other regions. Growth bearers, i.e. set up industrial complexes must be

sufficiently strong to expand their stimulating effects to until then insufficiently economically activated areas through price, commodity and cash flows. The effects of polarization come prior to expansion effects and, by the most part, cause their origination. One of the important questions is what kind of carrier of growth should be and what requirements it should fulfill in order to produce the desired economic change in the region, in accordance with regional conditions.

It is very important to note that sectoral and regional approaches have conflicted character in the regional economy. Sectoral aspect emphasizes more the economic benefits of spatial concentration, while regional approach gives priority to the spatial dispersion of production. The first one represents the interests of individual industries, and the other represents interests of the regional communities. It can be said that the sectoral approach prevailed over regional, since it hasn't been found a model that would lead to their optimal combination.

4. Balanced regional development

There are evident differences between the regions in minimal and maximal values of taxable income per capita in Montenegro. The lowest value of the taxable income per capita has a continental region, i.e. municipality of Andrijevica. On the other hand, the maximal value of the taxable income per capita has a coastal region, i.e. municipality of Budva. It is the same situation with the budget revenues.

Indicator of unemployment, i.e. average unemployment rate is the highest in the municipality of Bijelo Polje,

Table 1: Socio-economic differences in the local government level and by region

Indicator	Differences in local governments in continental region			Differences in local governments in central region			Differences in local governments in coastal region		
	<i>Min</i>	<i>Max</i>	<i>Range</i>	<i>Min</i>	<i>Max</i>	<i>Range</i>	<i>Min</i>	<i>Max</i>	<i>Range</i>
Total taxable income per capita (in €) in 2009.	0.3	13.7	13.4	18.6	69.2	50.6	11.9	164.0	152.1
Local government budget revenues per capita in € in 2009	49.5	482.4	432.9	90.5	296.0	205.5	173.1	2416.1	2243.0
The average unemployment rate in 2009.	-6.5	-18.9	12.4	-8.5	-10.6	2.1	-6.5	-15.4	8.9
The share of educated population in the population aged from 15 to 64 years., 2003	44.9	77.9	33.0	71.9	79.2	7.3	53.8	91.6	37.8
The general movement of population in 2003. (1991 = 100)	-1.2	-28.5	27.3	0.7	12.3	11.6	-16.2	35.8	52.0

and the lowest in the Municipality of Budva and Plužine. Indicator of education of the population is the largest in

the coastal region in the municipality of Herceg Novi, and the lowest in the municipality of Rozaje.

Table 2: Number of SMEs by municipality

Municipality	Micro	Small	Medium	Number of SMEs
Andrijevića	27	8	1	36
Berane	220	41	15	276
Bijelo Polje	453	92	15	560
Kolašin	89	13	7	109
Mojkovac	62	15	5	82
Plav	48	8	5	61
Pljevlja	232	43	15	290
Plužine	21	7	4	32
Rožaje	235	25	6	266
Šavnik	12	7	0	19
Žabljak	39	10	3	52
Nikšić	649	145	42	836
Continental region	2087	414	118	2619
Danilovgrad	171	30	11	212
Podgorica	3718	539	171	4428
Central region	3889	569	182	4640
Cetinje	219	47	15	281
Bar	1154	102	25	1281
Budva	1154	102	25	1281
Herceg Novi	1156	107	25	1288
Tivat	530	39		577
Kotor	656	69	19	744
Ulcinj	487	43	10	540
Coastal region	5356	509	127	5992
Montenegro	11332	1492	427	13251

The term „equalized regional development“ has two aspects of observation: the socio-political and economical. The phenomenon of equalized regional development could be defined in short as "creation of equal opportunities for all people", but from the fact that equal opportunities have numerous economic, social and political aspects, we can conclude that equality has multiple meanings. The basis of process of creation of equal opportunities for all regions includes a domination of economic relations, i.e. priority of economic factors. Practice has shown that overcoming the dual character of equalization is possible only on certain level of development of the overall economy. For inter-regional relations, development of all regions takes central place as well as provision of such institutional solutions that will regulate the conditions of exchange.

The overall objective of the strategy of regional development in Montenegro is that all parts of the country become able to contribute to national sustainable development and competitiveness through improved connectivity of local and regional needs, especially in insufficiently developed areas, with the available state level resources intended for development. The fundamental objectives of regional development strategy can be sum-

marized as: a) sustainable development, b) the growth of regional competitiveness, c) reduction of regional inequality and poverty, d) stopping the negative demographic trends, and e) continuation of the decentralization process.

5. Development strategies of the institutional framework for regional development

Large differences in the level of regional development in Montenegro, among others, are consequence of lack of necessary institutional framework for balanced regional development, which would allow flexibility in the formulation of goals, mechanisms and instruments of regional policy. Montenegro still has no Law on Regional Development, and still has not built any institutional network. Therefore, this important issue should be treated as soon as possible. Legislation that would regulate the field of regional development of Montenegro should regulate the following issues: a) the basic principles of regional development, b) definition and application of basic strategic planning documents of regional development, both at national and other levels, c) institutional framework and mechanisms for managing regional development, d) the new model of categorization of all local and regional authorities towards real development indicators, e) the basis for the operational application development tools provided by the Strategy, f) sources of financing for implementation of regional development policy and g) set the foundation for the development of methodology for monitoring and evaluating regional development policy of Montenegro. A particular indicator of the previous conclusions are the following indicators in the table 3.

Table 3: Socio-economic differences in the local government level

Indicator	Local government unit		
	Minimum	Maksimum	Range
Total taxable income per capita (in €) in 2009.	0,0	61,36	-
Local government budget revenues per capita in €	34,61	2.298,55	66,41
The average nemployment rate in 2009.	6,72%	17,80%	2,65
The share of educated population in the population aged from 15 to 64 years	44,90%	90,40%	2,01
The general movement of population in 2003. (1991 = 100)	71,51	135,78	1,89

For the last three years, there are obvious differences in the amount of taxable income per capita, both

between local governments, and for different years at the same local government unit.

Furthermore, differences in budget revenues of local governments per capita are visible, both among local government units, and for different years at the same local government unit.

6. About some mechanisms and instruments that should serve regional development

For the past decade, the Government has supported northern region with variety of projects and mechanisms. I recall the project "Jobs for you", which has given good results over the past few years. One of the participating institutions is IDF, which has implemented 305 projects of small and medium enterprises. Participation of IDF in the implementation of these loans amounted to 31.60 million €. Out of the total loans, 74.01% has been realized in less developed municipalities in Montenegro, which represents 72.72% of the total value of realized loans. Therefore, it can be stated that regional component was included in the process of providing credit support by the Fund.

In addition, the Bjelasica and Komovi region is very important, where there is a lower level of interest in foreign direct investment compared to other regions of Montenegro, where in the period 1997-2007 around 4 million of direct foreign investment was realized, with a obligation of additional investment amounting to around 6.5 million euros. Out of the total investment amount, about half refers to tourism (Ski Centre Bjelasica and Jezerine), while the other half refers to the former military industry company "4. Novembar" (now the company Tara Aerospace and Defence Products AD Mojkovac) which soon will produce Montenegrin pistol with Swiss capital and know-how.

Montenegro as a small and very open economic system has the potential to flexibly blend into global trends of FDI, and in that sense it primarily has to devote its attention to improvement of the overall economic environment. Activities of attracting foreign investments, in addition to changes that go towards the liberalization of FDI regimes (protection of ownership rights, tax exemptions, labor law), requires the simultaneous promotion of positive change and education of the local population.

6.1 Education and the return of students

According to the apparent demographic trends and the surveys of the Faculty of Economics, over the past two years, a large concentration of population in Podgorica is noticeable, while the number of inhabitants in municipalities in northern Montenegro is reducing. Research conducted in 2009, showed that 45% of students (first year) of the Faculty of Economics wish to stay in Podgorica for employment, and only 15% want to return to the municipality from which they come from and work there.

According to the survey results for 2010, the attraction of the Montenegrin capital town for employ-

ment and life in general is reflected in intention of 46% of students to stay after completion of studies, while 17% intend to return to their home town and work there. What can be done in order to implement best practices from both near and distant environment in order to provide more equalized regional development? Maybe it is a high time to introduce the following: entrepreneurial zones, business incubators, clusters and outsourcing.

6.2 Entrepreneurial zones and business incubators

A form of support to small and medium enterprises, which became a reality and an imperative in conditions of expressed needs for adjusting regional and European standards of entrepreneurial business conducting. Incubators of knowledge, entrepreneurial incubators or business incubators are different terms and approaches to the same process, i.e. promotion of entrepreneurial spirit in business or a social environment.

In Montenegro, business incubators operate in the municipalities of Berane, Podgorica and Bar, but still they are ideas in the embryonic stage.

6.3 Cluster

A model of connecting companies in a network, where development of small and medium enterprises is driven in a flexible way and based on that ground the incentives are provided for local and regional economic development. It involves the cooperation of local governments, financial institutions, educational institutions, companies that are candidates for the cluster ... They are developed in a place where the development of small business has already reached a significant level. Clusters are mentioned in the *Strategy of tourism development in Montenegro until 2020*, in terms of promotion of regional clusters to enhance the tourism potential in all regions of Montenegro, but they can also develop within other industries (such as wood-processing, organic food production, water exploitation, collection and processing of medicinal herbs and wild fruit ...).

The importance of clusters is that they allow companies to become more productive, more innovative and more competitive than they could be if operating independently. The atmosphere in the cluster is very competitive. The objective of associated companies in the market is not only creating new products, but also the achievement of added value per unit, which enables their continued existence on the market.

The main reason why Montenegro should apply the cluster model is the necessity to increase the competitiveness of the economy. Cluster development in Montenegro should contribute to increasing the competitive advantages of Montenegrin SMEs companies in the region.

6.4 Outsourcing

Outsourcing represents the relocation of certain activities outside the company, i.e. transferring of certain

company operations to external partner - another company or individual, specialized just for the work they are hired for. Outsourcing firm has the experience and knowledge and has expert resources and equipment necessary to perform these tasks. In order to reduce costs, save time and resources, which can be used to address core competencies and increase business results, one part of operations is left to the outsourcing partner. Depending on the incentives in environment, the efficiency, productivity and labor costs, foreign companies should dislocate a part of their business to destinations such as our northern region. How many foreign companies will recognize their own motives for arrival depends on local self-government, Government of Montenegro, Government institutions and individuals. The more stakeholders have friendly mood regarding the business, the more they can expect greater results ...

7. What does it take for a local government to be attractive for investment ?

Successful local government attractive to investors is characterized by good infrastructure, and that means having good roads, water supply and sewage system, electrification and gas supply. In addition, that includes the existence of good business infrastructure, i.e. defined spatial planning and location studies, simple administrative procedures, and attractive conditions which the municipality provides for new investors. We should not ignore the fact that we need trained and friendly human resources, employed in local public administration, and qualified local residents that the municipality can offer to investors for employment. Successful local government must actively promote their capabilities and diversities to potential investors. Therefore, in order for a local government to be interesting to investors, it must have all the preconditions for it and work on active animating of investors.

Last but not least, local government should have the proposal of fiscal measures that involve different treatment of economic operators that invest in manufacturing and services in the undeveloped area whether it includes the entire local government or only one of its segments. Special treatment should have the investments in office buildings and equipment intended for production. Does this violate the principles of the market and is this intervention? Probably yes! But such measures exist everywhere in the world and have no other treatment than the treatment of state aid. It makes sense to simulate the market only if it significantly increases demand and consumption for some time, on balanced level and the specific market segment in spatial terms.

In order to stop the negative trends it is necessary at all costs to attract foreign investors (green field) and not just because of money they invest, as much as due to changes in the system of values and the way of thinking in the environment in which they invest. Therefore, it is necessary to introduce the entrepreneurial culture that encourages entry into new businesses, and breaks

up with the value system in which a life success is to be employed in local or national government, and the peak of that success is to make a transfer to Podgorica. Should the only ambition of people living in the north of Montenegro be gaining of high office as minister, mayor, director of a public company or an entrepreneur, manager, owner and employee in a SMEs? And therefore, in the area of balanced regional development Montenegro needs minimal and efficient public administration on the state and local levels that will instead of institutions own the quality and adaptable instruments. Similar features should have the Strategy and the Law on Regional Development that would eliminate business barriers on the north of Montenegro...

It is therefore necessary to use a range of instruments and measures that should be designed for the purpose of sustainable economic development. Measures may be financial and non-financial and for the northern region it is important to think of differentiated instruments and measures that can provide results in short, medium and long term. The theoretical dilemma - whether intervention is needed in terms of balancing sustainable economic development - makes sense only if they include the overall circumstances in which the Montenegrin economy develops. In this sense it is very important to have a minimal and efficient set of the state and local government instruments that provide results in the long run.

8. Conclusion

Montenegro as a small and very open economic system has the potential to flexibly blend into global trends of FDI, and in that sense it primarily has to devote its attention to improvement of the overall economic environment. Activities of attracting foreign investments, in addition to changes that go towards the liberalization of FDI regimes (protection of ownership rights, tax exemptions, labor law), requires the simultaneous promotion of positive change and education of the local population. In order to stop the negative trends it is necessary at all costs to attract foreign investors (green field) and not just because of money they invest, as much as due to changes in the system of values and the way of thinking in the environment in which they invest.

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