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EUROPEAN UNION REGIONAL POLICY: LESSONS FOR BOSNIA AND HERZEGOVINA

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Abstract

European Union regional policy has fundamental importance in elimination of existing disparities between regions, making conditions for increasing economic growth and achieving full potential of each region. Common policies have proved to be the most complex area of European integrations, particularly in funding and the allocation EU funds. Bosnia and Herzegovina has the same practice that, as pointed out by representatives of Directorate for European Integration (DEI) and Directorate for Economic Planning (DEP), has not developed regional policy or strategic approach to the funds allocation. Object and aim of this research will be identification of lessons that the EU led, leads or will lead for implementation of regional policy that BIH could use in its further development, especially for the period 2014–2020. The document could be used as development document for DEI and DEP, and as a document that would be used as the basis for further programming of funds (obtaining for period 2014–2020), aiming to regional involvement. The necessary methodology in completing this work encompasses using the historical method, method of analysis and synthesis, comparative method and the actual researches overview enriched with secondary data sources. Primary data sources will be collected through semi-structured interviews with representatives of DEI and DEP, and with other relevant institutions' representatives. EU Regional Policy course is for the first time available course at Doctoral program within the Bologna concept of study at the School of Economics and Business Sarajevo in cooperation with University of Vienna and Faculty of Economics, University of Ljubljana, which is of special significance for this research.

Keywords: *EU, EU regional policy, Regional development.*

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Introduction

Regional policy of the EU plays a significant role in reducing economic, social and other disparities between current and future EU member states. The main goal of regional policy is to reduce current regional disparities and to prevent future imbalance within regions through the financial instruments of the EU – structural and cohesion funds. EU regional policy does not aim to replace national regional policies. On the contrary, EU regional policy supports aims to solve their regional problems through their national regional policies (Europedia 2011).

In the case of Bosnia and Herzegovina, the question of regional policy represents a problematic issue. A complex constitutional environment, historic happenings in the last 30 years and slow economic progress have resulted in the politicization of every question which is of importance for ethnic groups which live in Bosnia and Herzegovina. In the process of accession to the EU, Bosnia and Herzegovina can have numerous opportunities such as developing constant and balanced economic growth, maximizing the wellbeing of its citizens and overcoming political and systematic issues. The main goal of implementing EU's regional policy in Bosnia and Herzegovina should be economic growth and lowering the unemployment rate, which in the case of Bosnia and Herzegovina is 45.9% (ARZ, 2012). The reasons for a relatively easier implementation of EU's regional policy in other countries could be the full awareness of the benefits, which come from the accession, and pre-accession funds. Even with these stimulants, Bosnia and Herzegovina has not managed to fulfil the tasks that were assigned by the EU (Savić, interview, 23 April 2013).¹

An integral part of this paper is the overview of available literature, which deals with the topic of EU regional policy, its goals, financial institutions and mechanisms. The paper provides a historic overview of the development of EU's regional policy. The third part focuses on regional policy of Bosnia and Herzegovina in the context of potential lessons that can be drawn from the EU and other countries. The goals of this research are: to offer an overview of literature on the topic of EU regional policy, to present the developing phases of EU's cohesion policy and to elaborate potential lessons for Bosnia and Herzegovina, that are based on the experience of other countries that could help BIH in the exploitation process of all benefits that will come with EU's regional policy.

The paper is based on qualitative research, mainly through the evaluation of available literature on the topic of regional policy. That includes an analysis of available data on official websites of the EU, and of websites that deal with the topic of regional policy, such as: European Parliament, Council of Ministers, European Social Fund, etc. Semi-structured interviews were conducted with the Directorate for European Integration (DEI) and Directorate for Economic Planning (DEP), which

¹ Nevenka Savić holds the position of chairmen of the Direction for European Integrations BH.

are responsible for the implementation and coordination of requests and policies of the EU. A historical method was applied when the developing phases of EU's regional policies and institutions were identified. The comparison method was used while identifying potential lessons for Bosnia and Herzegovina. For this purpose, results of EU's cohesion policies were analyzed on the example of other countries, which went through the phase of implementing EU's regional policies.

Literature review²

So far published works can be systematized as a theoretical (books, textbooks, articles) and empirical work (studies, research, legislation, policies, reports, debates, discussions). Special attention should be given to the way this topic is studied in the first, second and third cycle of studies in the EU, and other sources (Dall'Erba 2003; Barca 2009; Ertugal et al. 2011; Komšić 2007; Mirić 2009; Shankar et al. 2003; European Parliament 2009; The Council of the European Union 1988; European Council, n.d.; European Commission 2011).

The EU began to consider regional economic development a lot more seriously in order to achieve the creation of a Single European Market. Next to the customs union, agricultural policy, common market, monetary union and competition policy, regional policy (in the literature also cohesion policy, hereafter also Policy) is one of the most common policies of the EU (Komšić 2007). European Commissioner for Regional Policy, Johannes Hahn in the report "The Role of Regional Policy in the Future of Europe" states that the Commission has expressed its full trust in regional policy to contribute to the recovery of Europe's economy.

Cohesion policy is a development policy whose aim is to mobilise the potentials (the future), and not compensate for the deficiencies (the past) (Mirić 2009 : 89). Considering objectives of regionalization, Komšić (2007 : 147) lists the following: "political objectives, possibly in connection with the ethnic or cultural features, economic objectives and rationalization and modernization of government structures". The aim of cohesion policy is to support key areas such as infrastructure (mainly transport and environment), productive investments (support to small and medium-sized enterprises, research and technological development and innovation) and investment in human resources (Mirić 2009 : 68).

The effectiveness of cohesion policy, as with any place-based development policy, depends on the balance between conditionality and subsidiarity of its multilevel governance system (Barca 2009 : 162). Although there are plenty of advantages and disadvantages of cohesion policy (Barca 2009 : 110) and different attitudes on this

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issue (Komšić 2007 : 65), certain conclusion can be presented: “evaluation and its implementation are the basis for bringing the conclusions on the effects of cohesion policy” (Mirić 2009 : 65). At the macro level, there is visible influence of regional policy on the development of system of multilevel governance, negotiations between the EU member governments are becoming open for the participation of other corporate levels and the cooperation of all of them greatly intensifies and is becoming legally binding (Trnski 2006 : 80). In that purpose, the European Commission has given guidelines for areas which potential members need to improve: public procurement, organizational structure and inter-ministerial coordination, financial management and control, accounting, adequate number of professional and trained personnel, negotiations on programmes, preparation of projects, partnership, including relevant economic and social actors in programme design, monitoring system and national co-financing sources (Mirić 2009 : 111).

In document of Council of Europe, “Regionalisation and its effects on local self-government” (1988 : 11) regionalism corresponds to the definition of “the region as a set of human, cultural, linguistic or other features which justify turning it into a body politic requiring a greater or lesser degree of autonomy”. Regions within EU countries and the potential member have a key role in the integration process into the European Union. Through timely participation in the process of convergence and integration, regions can improve integration process of the potential members in the European Union.

The trends towards greater regionalisation, even in narrow sense, which indicates the development of the territorial structure of the intermediate level, do not necessarily lead towards the creation of new territorial units but rather can imply customizing existing institutions: regionalization can take place in countries where intermediate level of authorities already exists, with new assignment of responsibilities and duties; and theoretically, regionalization can in certain cases lead to a suppression of lower intermediate level (Komšić 2007 : 168) Shankar et al. (2009 : 2) in their paper have a question: should regional development follow a paternalistic approach where a strong centre decides and implements what is in the best interest for regions or should the centre take a hands-off approach and let decentralized regional governments take the lead for their own economic development? Large regional disparities represent serious threats as the inability of the state to deal with such inequalities creates potential for disunity and, in extreme cases, for disintegration (Shankar and Shah 2003 : 1421).

Regionalization inevitably results in consequences for local authorities’ position and intermediate sub-regional authorities, if such authority exists. These consequences appear in relation with the scope of jurisdiction of these authorities and their relationship with the state and the regions (Komšić 2007 : 177). Komšić (2007) lists the following problems related to local authorities: territorial reform and authority

levels; relations between levels of government and the allocation of responsibilities; the level of democracy in local institutions.

Financial solidarity is the basis of EU regional policy, and the evidence for this is that part of the contribution of member states for the EU budget is intended for underdeveloped regions and social groups. The main instruments available to European Commission to provide direct aid to regions are Structural Funds and the European Regional Development Fund (ERDF) established in 1975 and the European Social Fund (ESF) established in 1958 (The World Bank 1995) and the Cohesion Fund, established after the entry into force of the Maastricht Treaty from 1993 (IIE, n.d.). The European Regional Development Fund includes programs to support the development of general infrastructure, innovation and investment to create and safeguard sustainable jobs. The European Social Fund is focused on vocational training and to support employment and create new jobs. The Cohesion Fund finances activities in categories of environment, and projects related to energy or transport (Kesner-Škreb 2009 : 104).

Although it has complex organization, it can be noticed that BIH is not a “desert island” in terms of regional organization and problems of any country in same process. Ertugal et al. (2011 : 1195) state that the domestic impact of the EU is particularly important in the area of regional policy reform, which challenges the existing territorial governance in candidate countries, most of which have centralised and unitary state structures.

The European Commission in reports provides analysis and gives some guidance in terms of regional policy. In the latest report on regional policy the European Commission adopted the following conclusions:

- There is clear and growing evidence of programmes delivering across many policy priorities and Member States;
- Cohesion policy programmes have shown that they have the flexibility to respond to the crisis but with much still to be delivered and risks in some strategic areas;
- The Commission is willing to consider reductions in national co-financing;
- There are important lessons to be drawn from the past and the current programmes and evaluation and use of indicators needs to be strengthened; and
- better programming is needed for the future (European Commission 2013).

Development and the results of EU Regional Policy³

European Union and its regional policy have a very long tradition and still are under the effect of both positive and negative criticism. Five development timelines of Policy are mostly under a highlight in literature, with the first one that begins by signing of the Treaty of Rome. However, it is important to mention its roots that can

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be found even before 1957 and go back to the period after the Second World War. Regarding this, first written public mentioning of united Europe is attributed to the former British Prime Minister Winston Churchill in 1946 in Zurich: "We must create European family and provide the structure within which we can live in peace, safety and freedom. We must build some kind of United States of Europe and the first step to it should be the partnership between Germany and France" (Historiasiglo 2003).

In further gradual development of EU and its regional policy, very important role was played by Robert Schuman, French Minister of Foreign Affairs, who recommends uniting German and French industry of coal and steel. That resulted with Western Germany, France, Italy, Belgium, Netherlands and Luxemburg signing the Paris Agreement in April 1951, which was used for establishment of European Coal and Steel Community (ECSC). The mentioned countries signed the Treaty of Rome in 1957 and formed the European Economic Community (EEC) and European Atomic Energy Community (EUROATOM), which represents the first development timeline of EU (Dall'Erba 2003).

So, *the first phase* begins with signing the Treaty of Rome in 1957 (that was ratified in 1958) by the six members of the Community of those days, and it ends in 1957 (European Commission 2012.). In the preamble of the Treaty, the need for promoting the Community through harmonious, balanced and sustainable development of the economy was highlighted, and there is also the need for reducing the existing regional disproportions. However, there are no concrete measures or instrument needed for balanced and harmonious development, which implies insufficiently developed strategy of regional development (Mirić 2009). The attention is mostly dedicated for encouraging the trade between the member countries and developing mutual agricultural policies. With that purpose, EU formed the European Social Fund (ESF) and European Agricultural Rural Development and Guarantee Fund (EAGGF). Through loans from European Investment Bank, ESF placed the financial resources for professional workforce development and their facilitated movement towards other areas of work and business. On the other side, the efforts of the EAGGF were provision of agricultural grants while modernizing the equipment and working process, with the aim of developing the rural areas (IIE n.d.). In 1968 the General Directorate for regional policies was formed, and in 1972 regional policy is marked as the main factor in empowering the Community (Mirić 2009). During this period first institutions are being formed in EU, and those are European Commission and European Parliament, Council of Ministers and the European Council (Treaty of European Union, act. 15, 1992).

The second phase of development of the regional policy implies its forming and encompasses the period from 1975 to 1986. The oil crisis in 1973 has reduced the economic growth within the European economy, calling for even bigger need for development of regional policies in the EU, especially after accepting three new

members: Great Britain, Ireland and Denmark. These countries have brought with them not only problems of regional development, but also the new experiences that could help the Union in solving their problems. Furthermore, in 1975 the European Regional Development Fund (ERDF) is founded and it has the task of distribution of the funding in those regions that have been characterized as the poorest. ERDF at the same time is also the first institution that has the exclusive focus on regional disparities. With Greece joining in 1981, the need for further development of the cohesion policy has been marked, and especially when Spain and Portugal joined in 1986. During this period, 85% of the ERDF projects were intended for improving the infrastructure, considering the fact that 91% of the budget was directed to the poor regions of Germany, France, Greece, Italy and Great Britain (The World Bank 2009).

The third phase, that encompasses the period from 1986 to 1999, is characterized with signing of the Single European Act in 1986 that is being considered as the basis of regional policy, because the problem of regional development is first mentioned here as a separate title (Mirić 2009). Also, signing of this Act meant the opening of the path for forming the single market, with free movement of people, as well as goods and capital between the member states (FER 2012). The Act served for modifying the Treaty of European Economic Community, where the new competencies of the Union are being defined, such as social policies, economic and social cohesion, researching and technological development, etc. (Europe 2010).

European Union is formed with signing of the Maastricht Treaty in 1992, which comes into force on 1 November 1993. According to Article 1, “the Treaty represents new phase in the process of making more firm Union between the people of Europe”, while the Article 3 of the Treaty quotes that “the Union is setting the economical and monetary union with the euro currency”. With the Treaty, besides the economical and monetary union aims, the aims of the common external, internal and safety policies are being defined, as well as close cooperation within the justice system (Treaty of European Union 1992). The Maastricht Treaty created two instruments of the cohesion policy, Cohesion Fund for four poorest countries (Greece, Ireland, Portugal and Spain) and European Investment Fund for the poorest regions. The purpose of the Cohesion Fund was to help these countries stabilize their economy, so that they could have the possibility to qualify themselves for the approach to economical and monetary union. The funds of the Fund were also being used in other regions of the member countries, so that, for example, France and Great Britain got 35 million euro as support in this period (IIE, n.d.). As an addition to the Maastricht Treaty, in 1997 the member states signed the Treaty of Amsterdam that enters into force two years after. With this Treaty, political and institutional prerequisites are formed, so that the EU can face with the globalization process and their impacts, such as unemployment, fight against crime and terrorism as well as problems related to saving the environment (DEI 2009).

The fourth phase of the development timeline of the EU and its regional policy encompasses the period from 2000 to 2006 that is marked with the reform of structural funds and new rules of the Policy. In this period the biggest expansion of the EU happened, with accepting ten new members, which brought even greater need for a substantial reconstruction of the funds and policies. Considering the fact that with this expansion the differences in the amount of income per capita changed as well as the unemployment rate, new members were included immediately in all the aims of the Structural funds and the aim of the Cohesion Fund with their entrance in the European family. The budget of regional policies for this period was 213 billion euro (Mirić 2009), while through the ERDF an investment of 123 billion euro was made. The evaluation of this period brings the key aims which are achieved through these financial funds, which include: 1.4 million working places created, 2,000 km of roads built, 4,000 km of railways, 14 million of people got access to clean water and 38,000 projects were supported (European Commission 2011). In Great Britain, over 256,000 working places were created, more than 295,000 small business were supported and more than 1,200 hectares of brownfields were revitalized (European Commission 2011a). On the other side, the Ireland experience shows the raise of GDP of 6% per year, 555 km of highways, lightning and the expansion of the railway traffic and many other benefits from other areas (European Commission 2011b). Guided with experiences of implementation of the funds, the evaluation brought the key messages that should be respected for the following periods of development of regional policies in the EU. In terms of the period from 2000 to 2006, there is a conclusion that the following period should especially empower the strategic focus on policies, meaning that greater attention should be put on the strategic planning of the infrastructure that is strategically significant for development of the specific area. Furthermore, conclusion has been made that the funds are concentrating too much, so that only specific region of the undeveloped region is developing, while the other parts are being unconsidered, so larger attention must be put towards the results, not spending of funds (European Commission 2011).

With the budget of over 347 billions of euro, regional policy represents the most important and the biggest source of financial funds in support of the economic growth and creating new working places for the period from 2007 to 2013. That is the *fifth phase* of policy development (Mirić 2009). In this period it is noticeable that the countries such as Great Britain and Ireland had excellent progress and achievement of aims of the regional policies, which implies focus of their governments towards raising the national wealth. Great Britain managed to invest, through cohesion policy, 4.5 billions in research and development and innovations, so that the scientific work and research can be promoted, as well as the knowledge transfer and commercialization. In order to empower the small and medium business, the support focus to that sector was 1.8 billion euro, while 1.6 billion was invested in the environment (European Commission 2011a).

Lessons for Bosnia and Herezgovina

From all mentioned in previous Chapters of this research it becomes clear that regional policy has an important role in Europe's political efforts, not just for Bosnia and Herzegovina, but also for the European Union in general. By analyzing the historic development of regional policy, we can conclude that these policies will become one of the priorities in BIH's effort to become an EU member state, which will have direct consequences for Bosnia and Herzegovina.

From the two conducted interviews with the Directorate for European Integration (DEI), and the Directorate for Economic Planning (DEP), it became clear that EU regional policy plays an important role in the work of these two institutions. It is important to state that these two institutions are the two most credible interlocutors when it comes to the relations between Bosnia and Herzegovina and the European Union, which also includes EU regional policy. Despite all problems that these two institutions face, they manage to coordinate and implement certain requests of the European Union. Time showed that the success rate of these institutions is more dependent on political circumstances in Bosnia and Herzegovina than on technical issues in the implementation and coordination process. A complex constitutional environment of Bosnia Herzegovina determines and narrows every effort of these institutions. The ethnic groups in Bosnia and Herzegovina, which are almost exclusively grouped in homogenous territorial units makes it harder to implement EU's regional policy in its full capacity, with respect to all norms, ideals and rules that they bring.

This unique situation forces these institutions into questionable compromises, when it comes to the implementation, recommendation and coordination of certain requests. One of such compromises was made in the regionalization process of Bosnia and Herzegovina, which was almost identical to the present constitutional territorial framework. It is questionable how much these solutions respect the cultural, sociological, economical, political and even natural laws of logic, which are defined in form of goals and missions of EU's regional policy. This results in slow adaptation process of necessary legal frameworks and development of strategic documents, which would deal with regional policy. Such a situation is determined by:

- prohibition of any intervention in the territorial integrity of the local territories, even when it comes to regional policy of the European Union;
- expected benefits of ethnic groups and local territories from the EU accession and pre-accession funds;
- the inability of achieving any adequate compromise solution which would satisfy the primal goals of EU's regional policy on one side, and achieving a solution which would respect the will of ethnic groups in Bosnia and Herzegovina on the other side.

In the interview process, these two intuitions made it clear that any implementation in the sense of EU's regional policy is primarily and almost exclusively achieved through political processes within Bosnia and Herzegovina. It became obvious that every reform and every request from the EU is a subject of political leverage, which ethnic representatives use to achieve their goals.

The redistribution of power and administration capacity is one of the goals of EU's policy in general, but avoiding any geographical and economic logic in their existence will serve only to the satisfaction of local political leaders in achieving their own and ethnical satisfactions. Such a state won't lead to cultural, economic and political sustainability. Quah (1996) claims that physical logic and geographical overlapping (intra-territorial regions) must be more important than macro factors in the process of forming regional distribution. If we assume that the political factors are more similar within nations, then it becomes clear that the market environment is more important than the political one. Quah (2006) also claims that geographical factors are more important than political. Such claims lead to the conclusion that Bosnia and Herzegovina, in the process of a successful implementation of EU's regional policy, must reach a compromise, which will not threaten the main fundamentals of EU's regional policy. The conditional weakening of central governments and strengthening local communities in the adaptation process of EU's regional policy is certainly one goal. However, maintaining geographical, economical and other logics cannot be overruled.

Reaching a compromise between these two goals is a key in BIH's success in a successful implementation of EU's regional policy and a maximal exploitation of benefits which come with such a process. Such benefits are not only reflected through the exploitation of accession and pre-accession funds. More importantly, the goal is to create and develop sustainability in the long term. This goal can only be achieved if geographical and economical criteria are applied in the regionalization process of Bosnia and Herzegovina.

This is the only way, which will serve future generation in achieving sustainability in local communities and developing a fair redistribution of benefits.

The focus of BIH's governments must be on solving social and economic problems. Implementing adequate regional policies will provide a chance for creating long-term sustainability and development. Compromise political solutions are the only way for a successful implementation of EU's regional policy. However, these compromises must fulfil the cornerstones of EU's regional policy, with the final goal being creating sustainability in the long-term.

Besides all political problems, it is of crucial importance to analyze the topic of regional policy on a scientific and objective level. The specific problem of Bosnia

Herzegovina can be generalized into the centralized vs. decentralized debate in dealing with regional policy. If political conditions would be similar to other EU countries, then it would be possible to develop a debate upon economic arguments, whether to implement a centralized approach or to handle the topic of regional policy in a decentralized manner. Shankar et al. (2009) debated about this issue on a cross literature basis, and developed significant arguments for both approaches. The debate of centralized vs. decentralized approach in implementing and dealing with regional policy was a conversation topic in most EU countries. The arguments for both approaches are significant. Shankar et al. (2009) states the following arguments for the centralized approach:

- The first problem is that less developed regions have fewer resources and therefore less capacity to attract investments. It is argued that the central government is needed to overcome the gap between highly developed regions and less developed regions. The paradox is that highly developed regions are able to attract investments due to their negotiation power, infrastructure, etc., and that they are not willing to give away this position. On the other hand, less developed regions do not possess such capacity and they are not able to attract investments in order to achieve high growth rates. In this sense, the liberal market mechanism proves inefficient, and this phenomenon is called the financing gap approach.
- The second argument is that less developed regions have lower administrative, institutional and technological capacities (Shankar et al. 2009). The argument is that these regions are not able to cope with the challenges of development and to overcome the gap between them and highly developed regions. It becomes clear that handling investments must come from a better-equipped central government (Shankar et al. 2009).

These two arguments are mainly used to debate this issue. In the case of Bosnia and Herzegovina, this approach can represent the tool how to overcome regional imbalance, and more importantly political issues. Shankar et al. (2009) developed the following arguments for the decentralized approach (bottom-up approach):

- Regions should be responsible for themselves. The theory is that regional governments should best know the specific problems of their regions. Central governments will follow policies, which are in the best interest of the overall nation. Sometimes that can mean concentrating investments in already developed regions (Shankar et al. 2009). In other words, if central governments must choose between overall economic growth and curing regional imbalance, they would choose the first option.
- The second argument is that local governments have better information about the needs and problems of their communities. This is a significant advantage when implementing regional policy.
- The third argument is that strong central redistribution may create moral hazards.
- The fourth reason is that centralized policies create reverse accountability especially if central transfers come with strings attached (Shankar et al. 2009).

Shankar et al. (2009) provide evidence in favour of the bottom-up approach. It is stated that there is evidence that countries with a decentralized approach have lower inequalities in the sense of regional policy. All these arguments should be considered as valuable in the debate of regional policy and Bosnia and Herzegovina. Learning from these lessons could lead to an optimal solution for Bosnia and Herzegovina. It is clear that there must be a certain centralized approach, at least in the starting phase of implementing regional policy. This approach may be applicable in the phase of defining policies, strategic documents and other important matters like the regionalization process of the country. On the other hand, the decentralized approach brings clear advantages too. Allowing local governments to lead the process of regional policy might be the key to success. These levels of government should be able to react best to the needs of their regions. It seems that there is a middle way in dealing with regional policy, and that Bosnia and Herzegovina might be the country in which this middle approach between centralized and decentralized regional policy could lead to success.

If we ignore political factors, which determine the implementation of EU regional policy, Bosnia and Herzegovina will face other problems, which will determine the implementation of regional policies. From the example of countries in the region, and from other examples of demographically similar EU countries, we can conclude lessons which might be of importance for Bosnia and Herzegovina. If we focus on the countries within the region, Slovenia must be mentioned and its experiences with the regional policies. For the period from 2007 to 2013 Slovenia got over 4 billion euro from the financial funds, and its development priorities were implemented through three programs. The first one was the program for “Empowering regional development potential”. The funds were ensured from the ERDF. This program was to improve competitiveness, with aim in creating new working places, encouraging the entrepreneurship, development of the information and communication technology, improving the innovations and technological development. The other program was marked as a program for “Developing human resources” financed from ESF (focus of this program was investing in creating better skills and training with the aim of support to employment and development), while the third one was defined as a program for “Protection of the environment and development of the traffic infrastructure”. Slovenia’s experiences, but also of other countries, prove their conscience and mark it as the one that has the crucial meaning in creating the conditions for developing the network with other regions: creating networks urges the cooperation and changing of experiences between regions and can be very important factor in the process of dynamic development process (European Commission 2011c).

On the other hand, Mirić (2011) states problems which the Republic of Serbia faces while implementing regional policies of the EU and provides advices. From his paper, it becomes clear that defining a national strategy is of key importance for a

successful and long-term sustainable implementation of regional policies. The national strategy for regional policy in the Republic of Serbia identified three goals:

- determining the level of development, categorization and typology of areas, as well as the statistical regionalization of the country;
- defining the development policies for regional development purposes;
- forming institutions responsible for the implementation of strategies.

Furthermore, it is stated that the formation of statistical regions must be done strategically and with long-term orientation, with the final goal of balanced regional development and a focused effort in helping the poorest regions. In the sense of available financial instruments, a country must have the following goals:

- maximizing the consumption of available resources, which would lead to fulfilment of deadlines for their spending;
- minimizing the return of resources through superior applications and adequate preparedness of applicants;
- maximizing the efficiency and effectiveness of resource consumption.

Shankar et al. (2009), in their research about the implications of regional policies and a comparative analysis of states, which implemented EU's regional policy, offered the following advices for a successful implementation of EU's regional policy and regional policy in general:

- erasing any barriers for trade, work-force, know-how and technology is very important for national and European regional policies;
- minimizing the central redistribution of subventions could help the regions that are least developed;
- making sure that investments that are managed from the "top" are redistributed to the regions which need them the most;
- to make sure that regional governments lead the process of regional development and regional policy;
- the role of national and supra-national governments must be limited.

EU's regional policy holds an important place in Europe's general political ambitions. Overcoming imbalances between EU countries and regions within these countries might lead to a more stable and prosperous EU. This should be reason enough why political structures in Bosnia and Herzegovina should reopen the dialogue when it comes to regional policy. As for the EU, a well-implemented regional policy in Bosnia and Herzegovina might lead to stability and prosperity within the country, with respect to the general constitutional framework of Bosnia and Herzegovina. It seems that the first step must be to recognize the importance of regional policy for BIH's long-term stability and prosperity. Although Bosnia and Herzegovina experiences problems in the accession negotiations with the EU – and with that in the implementation of regional policies as well – the chance is that lessons can be learned from countries that went through that process. Such an opportunity could lead to a

sustainable implementation of regional policies. It must be remembered that implementing these policies has to start simultaneously at every governing level, with a special focus on the least developed regions.

Based upon previous research, and the specific issues of Bosnia Herzegovina, we can summarize the following lessons:

- The dialogue about regional policy in Bosnia and Herzegovina must be conducted on objective and scientific arguments, which doesn't mean that the political reality of Bosnia and Herzegovina has to be ignored. In order to fulfil the goals of regional policy, strategic documents must be developed which will define future strategies and policy approaches for this topic. Only this can create a sustainable long-term regional policy.
- The specific problems of Bosnia and Herzegovina should be generalized into the centralized vs. decentralized debate. By doing so, it would be possible to start a debate upon objective and scientific arguments, which could lead to a superior solution when it comes to regional policy. It is clear that Bosnia and Herzegovina is a highly decentralized country, with strong constitutional responsibilities on regional levels. Besides, the multiethnic composition of Bosnia and Herzegovina would suggest that a decentralized approach should be adapted. However, previous research suggest that in other countries national governments were better able to take advantage of EU's single market than regional governments (Shankar et al. 2009). In their research, Shankar et al. (2009) argued that there is a presence of national convergence and an absence of regional convergence in EU countries. Shankar et al. (2009) provide examples whereby countries like Ireland, Spain and even Greece managed to achieve high growth rates and to catch up with highly developed countries of the EU. Most of the reasons for a fast and continuous growth can be found on the national level. Their countries managed to implement monetary and fiscal policies, which enabled them to exploit the single market conditions of the EU and to attract significant foreign direct investments to their countries. The arguments used to explain such a state are that regional governments in the EU have less authority and responsibility to implement regional policy and qualitatively use EU's structural funds. However, it is questionable if this is applicable for Bosnia and Herzegovina were BIH Entities and Cantons have jurisdictions which are typical for national governments in some EU countries. Nevertheless, the foundation of regional policy must be built on the national level. Questions like the regionalization of Bosnia and Herzegovina must be conducted on the national level with respect to EU's goals of regional policy.
- The third important issue for Bosnia and Herzegovina is the statistical regionalization of the country, which is the fundament for regional development and regional policy in general. As already stated by Quah (1996), physical location and geographical spillovers matter more than national factors in the regionalization process. This means that geographical, physical and economical logics must be employed in the regionalization process. All this is ignored in Bosnia and

Herzegovina. The statistical regionalization is purely done on political arguments, which could lead to a poor convergence in the future. However, Quah (1996) states that market environment matters more than political environment only if we assume that political conditions are more similar within the country than across nations. It is clear that this is not the case in Bosnia and Herzegovina. A compromise must be established between the political reality of Bosnia and Herzegovina and the scientific and objective nature of regional policy.

All this suggests that Bosnia and Herzegovina will face many challenges while dealing with EU regional policy. The most important lesson is that no one should forget the importance of regional policy and its long-term implications for Bosnia and Herzegovina.

Significance, implications and conclusions of the research

This work contributes to the understanding of the importance of EU regional policy, which occupies a very important place to the potential and current member states. Certainly it can be argued that regional policy defines the essence of the European Union implementing its goals and achieving social and economic cohesion, which is evident from the example of the countries mentioned in the paper. It should be noted that the EU and its cohesion policy is not a threat to national government policies which all countries should be aware of. It seeks to state, independently and in accordance with its constitutional organization, form and implement regional policies.

A lot of countries are faced with the problems of regional policy implementation, as is the case with Bosnia and Herzegovina, and there is a wide range of evidence for that. One of them is absence of strategy for regional development and stable institutions with harmonious coordination: implementation of strategies must begin at all levels simultaneously with a special focus on the least developed regions. The main objectives of balanced regional development should be maximizing the consumption of available resources, minimizing the return of resources through superior applications and adequate preparedness of applicants and maximizing the efficiency and effectiveness of resource consumption.

The next, but no less of a problem, is a complex constitutional environment of Bosnia and Herzegovina. Solving social and economic problems should be in focus of BIH's governments instead of political problems – that is the only way to create national prosperity. Also, it is necessary to develop stable institutions that guarantee democracy, rule of law and protection of human and minority rights. Successful examples of other countries, presented in this paper, should serve BIH as a starting point for the implementation of regional policy. Those examples have valuable lessons and experience from others can be extremely useful for BIH.

It is very important to keep in mind the fact that EU regional policy provides the ability to create sustainable development in many spheres of society. It supports the creation of competition, offering funding to those areas in which a nation can achieve competitiveness and membership in the European family. Competitiveness can be achieved through strengthening critical areas that prevent the general progression of BIH. For example, encouraging of small and medium entrepreneurship is completely neglected and should be one of the important items. Just one look at statistics can show extremely high number of unemployed or uneducated persons and it is one more critical point in creating BIH's competitiveness.

BIH should use programs of regional policy as a tool for developing and maintaining comparative advantages. Besides, fact that regional policy is particularly important for EU, with the goal to reduce disparities between regions in EU, provides opportunity for BIH to build a connection in the development with the EU countries. On the other hand, it must be remembered that EU has clear and strict rules for countries willing to participate in the programs of regional policy. Thus, BIH in the forthcoming period faces further reconciliation, but also strengthening of its institutions in order to take advantage of all the benefits of regional policy, primarily through financial assistance.

The main limitations of the research could be found in every stage, starting from deficit of literature on regional policy with BIH's examples. Since there is no interest for regional development among current governments that results with absence of written evidence. That means that the first step – formulating a strategy – for a proper implementation of EU regional policy is not conducted.

The paper gives an opportunity to open debate on importance of regional policies in BIH, especially through the prism of BIH's future in EU context. Also, this research may be a cornerstone for all future scientific researches, especially because of the fact that the works on this topic do not exist. This step could mean a lot for Bosnia and Herzegovina, particularly because of the increase of awareness of the regional development importance, which could cause plenty of positive changes that Bosnia and Herzegovina urgently needs.

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