

Policy Paper



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New Business Education Foundation

**“Improving Regional Policy in
Macedonia – Sharing the
German and Slovenian
Experience”**



December, 2012

New Business Education Foundation

Policy Paper

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Preface

The “*Think and Link-Regional Policy Programme 2011/2012*” part of the Envisioning Europe Programme Area, supported by the European Fund for the Balkans has awarded a project grant to New Business Education (NBE) Foundation for the implementation of a research project entitled “*Improving the Regional Development Policies – Sharing the German and Slovenian Experience*”.

This research project has drawn from the immense experience and a long list of publications in the field of regional development of the NBE members that compose the research team: senior researcher Vesna Stojanova, PhD, junior researchers Todor Milchevski MBA, and Ivana Nikiforovska MSc., and assistant researchers Martin Stojanovikj MSc., and Tomche Chaloski.

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Additionally the research team would like to thank all of the respondents who agreed to participate and contribute to the quality of this research.

NOTE: This policy paper was originally written in English. The Macedonian version of this document is translation of the English version.

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Abbreviations

Bureau – Bureau for regional development

CRD – Center for regional development of the planning region

Committee – Committee for evaluation of project proposals

EC – European Commission

EU – European Union

FDI – Foreign Direct Investment

LED Office – Office for Local Economic Development

MLS – Ministry for Local Self-Government

NBE – New Business Education Foundation

NGO – Non-Governmental Organization

NUTS – Nomenclature des Unités Territoriales pour la Statistique

OECD – Organization for Economic Co-operation and Development

RDA – Regional Development Agency

RMU – Regional Management Units

Progress Report – European Commission Progress Report on R. Macedonia

ESDP – European Spatial Development Perspective

Ministry – Ministry of Economic Development and Technology in Slovenia

Office – Government Office of Local Self – Government and Regional Policy in Slovenia

RDP – Regional Development Programme

CoR – Advisory Committee of the Regions

Executive Summary

This policy paper was commissioned to provide an analysis and evaluation of the current institutional setup for regional development in R. Macedonia, by drawing comparisons from the institutional frameworks for regional development in Slovenia and Germany. In 2007 the Law on balanced regional development was enacted, and eight planning regions were established on a NUTS III level. Since then a number of problems surfaced, the implementation has proven to be complex task. It is the appropriate time to provide a snapshot of the current regional policy, and offer recommendations for its improvement.

The methods of analysis include desk research and field research. The field research consists of conduction of semi-structured interviews: 20 interviews in R. Macedonia, 12 interviews in Slovenia and 10 interviews in Germany. Once the data is obtained, the process of data analysis is utilized. A comparative analysis is used as a tool for extraction of key comparable variables, provision of relevant interpretations and construction of adequate recommendations.

The analysis draws the attention on several important issues when discussing regional development in R. Macedonia. The careful examination of the research findings diagnosed several factors that have affected the successful establishment of the setup for regional development throughout the years. The communication flow among the stakeholders involved in regional development in R. Macedonia is capable of improvement, thus identified as time-consuming and lacking in efficiency. Participatory approach is lacking and by introducing it will allow greater sharing of ideas and involvement of the people and organizations concerned. There is a need for a constant capacity-building of the stakeholders at all levels and this encompasses equipping the institutions with adequate employees both quality and quantity-wise.

The paper also investigates the role of the CRD's, as the major drivers of the implementation of the regional development policy. Some of their most notifiable limitations are the ambiguous financing mechanisms and the legal

framework under which they operate. This policy paper tackles the challenged issue of the implementation of regional as contrary to local projects, and often this has been the case in many countries, among them, in the context of R. Macedonia.

The policy paper provides several recommendations: constant capacity-building process for the stakeholders, inclusion of representatives from the business sector and the civil society in the decision-making process (especially in the Council for development of the planning region; 40-30-30 approach), standardizing the communication protocols by establishing a ticketing system (ICT solution), combining both formal and non-formal education for employee capacity-building and utilization of available expertise and advisory services in the field.

1. Introduction

Regional development is a broad term difficult to narrowly define and conceptualize. According to the OECD, regional development is defined as a general effort to reduce regional disparities by supporting economic activities in regions¹. According to Armstrong et al (2000) the concepts of local and regional development have been historically viewed through the prism of economics, prioritizing issues such as employment, growth and income. Local and Regional prosperity depend upon sustained increases in employment, income and productivity (Storper 1997). In the past decade, regional development started incorporating more elements, building upon the already established economic approach, thus broadening its scope. It started addressing social, political, ecological, environmental, and cultural issues (Morgan, 2004). Pike et al (2007) refer to the broadening concept of regional development as a sequence of elements such as: promoting environmental sustainability, social and cultural inclusion of different groups of citizens, reducing social inequality and increasing the tolerance and respect for different diversities.

The regions are facing difficult challenges in today's world. In the current globalization era each region has to maintain its composure and structure, and establish recurrent successful practices of growth and development. According to Camaghi (2002) the regions have to maintain their wellbeing under the rules of absolute competitiveness. Porter (1990) describes the concept of absolute competitiveness as being extremely close with the concept of competitive advantage. Competitive advantage is the ability gained from the available resources to perform better than your competitors in the relevant field (Christensen and Fahey 1984). The territorial competition among the regions to attract capital, labor and FDI, has increased the tendency for performance gaps within the regions. The emergence of disparities among the regions is a very common occurrence in the past two decades. Creating and implementing a successful regional development policy model is a big challenge for each country.

Regional development policy creation is characterized by complex interactions among many levels of government. The embodiment of a different array of stakeholders, including various decision-making levels and economic sectors on the national, regional and local level adds to the complexity of the policy creation process. Inter-sectorial collaboration and communication are the key factors for the successful implementation of a

¹ Organization for Economic Co-operation and Development (OECD) website.
<http://www.oecd.org/gov/regionaldevelopment/regionaldevelopment.htm>

regional development policy. The role of the established policies aims at improving the competitiveness and sustainability of the regions in order to close the inter-regional performance gaps. A vertical distribution of responsibilities and power is required among all levels of government in order to improve the efficiency in the implementation of the regional development policies.

Enhancing the quality and performance of the regional development policy requires a utilization of adequate mechanisms for managing intergovernmental relations. A number of analyses point at the substantial role of regional development policies in the creation of governance mechanisms capable of providing efficient response to the diverse opportunities, demands and characteristics of the various regions. The creation of an effective regional policy incorporates an identification and prioritization of public goods and services that will unlock the region's development potential. Placing the focus on both physical capital and human capital investments and innovation increases the impact and effectiveness of any regional development policy being implemented.

Regional development plays a significant role in the European Union Agenda. The term regional development kick-started in the EU in December 1961, on a conference entitled “Conference on Regional Economies” attended by national administrators and experts in the field.² The main aim of this conference was to present different experiences, and data-driven studies in the field by relevant policy decision-makers and experts. At an institutional level, the results from this conference were introduced at the Community's First Medium-Term Economic Policy Programme in 1964, which set the basis for the first Commission Memorandum on Regional Development in 1965.³ The establishment of the European Regional Development Fund (ERDF) in the 1970's strengthened the focus of the EC authorities in the field of regional development and set the foundations for the establishment of a successful regional development approach.

“...even more than other branches of economic policy, regional policy is clearly the concern of the public authorities in the member states. The measures it involves fall directly under the political, cultural, administrative, sociological and budgetary organization of the States. Regional policy forms an integral part of the system of internal balances on what the State is based.”

Commission of the European Communities (1969) A Regional Policy for the Community, COM (69) 950, 15th of October 1969, Brussels, p. 13

² Manzella, G. P., Mendez, C. “The turning points of EU cohesion policy”, January 2009, Report: An Agenda for a reformed cohesion policy

³ Commission of the European Communities, 1965, First Communication of the EC on Regional Policy in the European Community, SEC (65) 1170 def., Brussels

Since then, several EU countries developed and implemented successful regional development models that serve as a pathway for prosperous regional development and efficacious implementation of regional development policies. On the other hand the transformation of the Central and Eastern European countries has created disparities between the regions. It is a common occurrence that the capital cities in these countries are flourishing with relatively low unemployment rates, high levels of new firm formation and concentrations of foreign investment, while the remaining regions suffer from a lack on an efficient SME structure, active labor force migration, poor infrastructure and environmental problems. The countries of Central and Eastern Europe must adjust the existing and implement novel regional development models that have already delivered positive results.

The adoption of successfully implemented regional development models requires caution and detailed analysis from the policy-makers. Since regional development assembles a number of stakeholders from various backgrounds, different set of elements defining each stakeholder group require a different approach. Thus the intricacy of the regional development policy creation arises. There is no unique approach, applicable for all countries, under which regional development can flourish. The countries from Central and Eastern Europe have to identify the elements which would maximize the efficiency of the proposed model, and incorporate them into one functioning system. It is a difficult task, requiring years of exhaustive work and careful planning and analysis.

Since its independence, R. Macedonia has faced a number of obstacles in the implementation and unification of its regional development policies. The structure of the regional development system was subjected to a number of changes in the past two decades. It wasn't until 2007, that the Law on balanced regional development was enacted, and eight planning regions were established on a NUTS III level. The coordination of the enacted Law, with the complementary legal framework allowed for an increased efficiency in the implementation of the regional development policy in R. Macedonia. In the past five years however, the field of regional development encountered a number of difficulties: occasional lack of coordination among the institutions responsible for regional development, insufficient capacities, ambiguity between the legal form and structure of part of the institutions, and issues with domestic financing and utilization of EU funds.

This policy paper is composed of three sections. Section I of this paper focuses on identifying the main encountered issues in the field that propelled the research team in preparing the policy paper. The identified issues are presented through the prism of the conceived relevant domestic practical experience, and through the analysis of the comments provided by the EC, as part of Chapter 22 from the EU acquis, extracted from the EC Progress Reports on R. Macedonia. In this section, a combination of

domestic and foreign experience is utilized in order to depict the need for the undertaken research in the field.

Section II, focuses on the results acquired from the undertaken desk and field research. It is divided into three subsections, each subsection focusing on a specific country: R. Macedonia, Slovenia and Germany. Each subsection presents the main elements of each established regional development system, analyzed through the coalescence of five crucial elements: competencies, communication, capacities, legal form and financing. These five elements have been chosen, as they present the crucial elements for the functioning of a successful regional development policy.

Section III extracts the main problems identified from the preceding two Sections, and provides three alternative solutions per problem. The alternative solutions present the most viable substituting solutions, to the same problem. Out of the presented alternatives, the research team proposes a relevant recommendation for the identified problem.

The methodology utilized in obtaining the relevant data and conducting the analysis is presented in Annex A at the end of the paper.

2. Problem Identification

R. Macedonia has experienced a historically low progress in the field of regional development. The institutional setup for regional development has been relatively novel, enforced with the enactment of the Law on balanced regional development in 2007. Aligning the goals of domestically implemented policies with the goals of the EU *acquis communautaire* is the main prerequisite for acquiring the status of an EU candidate country. Chapter 22 of the EU *acquis* focuses on the Regional Policy and Coordination of Structural Instruments. Obtaining a status of an EU member state will provide foundations for an increased economic growth and living standard on the entire territory of R. Macedonia. Additionally this will strengthen the inter-regional economic conditions and create a competitive environment among the regions in R. Macedonia. The improved economic performance will address many significant problems R. Macedonia has experienced over the years: active labor force migration (both foreign and inter-regional), high unemployment rates and underdeveloped infrastructure in rural areas.

The need for progress in the field of regional development has been notified by the European Commission (hereinafter EC) on a number of occasions. The necessity of compliance with the EC requirements is one of the key technical issues for the equivocation of the Pre-Accession negotiations with the EU. Additionally creating an effective regional development setup, will lead to an improved operational structure among the different levels of government in R. Macedonia. An operative setup will improve the efficiency of fund transfers, and serve as a backbone for the implementation of projects from different institutions and Ministries.

We conceptualize the problems that initiated the need for a policy paper in regional development from two different perspectives: the domestic experience, and the EU integration process.

2.1. Previously identified problems in regional development from domestic relevant experience

An in-depth, adequate researching process is a crucial element for the creation of a successful policy. The conduction of a comprehensive research in a certain field will provide answers to many important issues as to: identify an existing or expected problem, assess existing policy, offer new policy models, provide sound data that will serve for future researching purposes, offer viable recommendations. R. Macedonia experiences a lack of research centers, or institutions specialized in conducting research activities in the field of regional development. Despite some individual efforts from the institutions involved in regional development or experts involved in the field, and some researching conducted by the civil society, a constant and exhaustive research is lacking. Quality and founded research activities are crucial for the establishment of new, and the evaluation of existing policies, strategies and action plans in the field. Constant researching raises the awareness and improves the understanding of the stakeholders on different aspects of regional development. Furthermore, what comes as a question is the readiness of the decision makers to accept the research findings and policy recommendations by relevant professionals in the field, their understanding etc.

Several issues were identified during the constant work and involvement of NBE experts in the field of regional development in R. Macedonia throughout the years. Participating in a handful of projects, the experts encountered a number of problems: some institutions have to improve their understanding of the process of regional development, the institutions from the national level experience occasional overlapping in their work, the national authorities should strive to improve the capacity building process, the role of the Centers for development of the planning regions (hereinafter CRD) is sometimes confused by the municipalities, the CRD's should focus on constantly improving their capacities and the decision-making process with respect to regional development should include various stakeholders.

There seems to exist occasional miscommunication between the institutions on the national level. Although the legislative framework is quite clear on the tasks and roles of the Bureau for regional development (hereinafter: Bureau) and the Ministry of Local-Self Government (hereinafter: MLS), further activities in support of team building and roles clarification are needed.

The decision-making process in the field of regional development in R. Macedonia needs improvement. The inclusion of various stakeholders in the decision-making process is expected to increase the efficiency and the impact of the policy. The body that makes the final decision on the projects financed by the national budget is the Council for balanced regional development that is composed of Ministers from several different Ministries, making the decisions on a highly executive level. On the other hand, some of the projects that are submitted to be financed with national funds lack the regional component in them. Additionally the stakeholders involved and affected directly and indirectly by the enacted policies, are unable to provide their own input. This current institutional setup discourages the other stakeholders to provide their input, and enhance their engagement in the regional development policy structuring.

There are eight Centers for development of the planning regions in R. Macedonia; each planning region has a CRD. The CRD's are established as units of local self-government. In the first five years, half of their funds are provided from the state budget, and the other half from the units of local-self government comprising the relevant planning region. Since the CRD's are co-financed by the municipalities, they are subjected to their influence which could jeopardize the regional interest.

Additionally the CRD's should improve the existing capacities in order to undertake all legally-defined and expected functions appropriately. Each CRD has approximately 4 employees, and it has to accomplish a number of different tasks: prepare a proposal Program and proposal action plan for development of the planning region, prepare project proposals for development of the planning region, coordinate the activities of the all stakeholders towards the implementation of the Program, serve as an informer in the relevant planning region, encourage inter-municipal cooperation, and provide assistance and participate in the implementation of regional projects. The current setup of the CRD's imposes difficulties for efficiently performing several of the aforementioned activities.

The networking and experience-sharing mechanisms among the CRD's need to be improved. Some of the donor institutions involved in this field are aware of this problem and are trying to address it appropriately. It is an ongoing effort that is in its starting phase. Considering that now is the time when the CRD's have to prepare new 5 year programme, it is important to understand that each region has its own specifications and therefore one

should expect the regions to have somewhat different programmes with different priorities.

2.2. Identifying regional development progress through the prism of compliance with the EU pre-accession criteria

As part of the set of documents composing the “Enlargement package”, adopted on a yearly basis by the EC, Progress Reports on the achievements of each candidate and potential candidate are included. The Progress Reports offer an analysis of the achievement and the compliance of the implemented policies in R. Macedonia with the EU acquis chapters on a yearly basis.

A five-year span analysis of the Progress Reports is presented (2007-2012), focusing on the first and the last year, and utilizing comparative analysis to notify the progress being made. The EC Progress Report on R. Macedonia 2006 is not included in the analysis, since the Law on balanced regional development was officially introduced in 2007, and it is relevant for this paper to identify the changes in the field since the enactment of the legal framework. We have extracted the Progress Report from 2007, when the Law on balanced regional development in R. Macedonia was first enacted, and the Progress Report from 2012, being the latest Report, in order to compare the obtained results from the implemented policies and measures.

The focus is essentially placed on Chapter 22 from the EU acquis: Regional Policy and Coordination of Structural Instruments. The Chapter is divided in analyzing six parts: legislative framework; institutional framework; administrative capacity; programming; monitoring and evaluation; financial management, control and audit. A detailed analysis on each of the parts brings forth the identified predicaments in the field of regional development, as presented from the EU perspective. Comparing the analysis of each of the parts in a five-year period shall provide a general picture of the progress in the field of regional development in R. Macedonia.

- *European Commission Progress report on the Republic of Macedonia 2007*⁴

Legislative Framework: The establishment of the Law on balanced regional development is noted as a huge progress in the field. Additional strengthening of the legislative framework and coherence in the implementation of policies on national and municipal level is adamant.

Institutional Framework: With the notion of being in an early stage, the capacities for coordinating the pre-accession instruments are described as relatively good, and the need for adequate capacity-building processes is stressed. The report notes the lack of administrative institutions to support the implementation of the Law on balanced regional development.

Administrative capacity: Despite noting the initiation phase of the capacity-building process, the EC highlights the need for constant, extensive and inclusive capacity-building strategy. Additionally the EC declares the inclusion of all stakeholders in the policy-making process as mandatory.

Programming: The EC notifies the good progress accomplished in this area. The development of the Operational Programme on transport and environment and the initiation of the National regional development strategy are highlighted as documents of crucial importance.

Monitoring and Evaluation: A lack of appropriate systems and mechanisms for monitoring and evaluating the quality and impact of the development programmes is notified. The preparations in this area are in the initiation phase.

Financial Management, Control, and Audit: The EC salutes the initial establishment of authorities and procedures for implementation of the pre-accession financial assistance.

⁴ EC Progress report on the Republic of Macedonia (06/11/2007), Government of the Republic of Macedonia, Secretariat for European Affairs, <http://www.sep.gov.mk/Default.aspx?ContentID=36&ControlID=IzvestaiEU.aspx>

- *European Commission Progress report on the Republic of Macedonia 2012*⁵

Legislative Framework: Additional progress in strengthening and broadening the legislative framework is deemed necessary. A lack of progress is especially noted at the co-financing capacities at national and local level, budget flexibility and multi-annual programming.

Institutional Framework: The EC notes a limited progress in the institutional framework, both coordination and capacities wise. The major identified problems are the low inter-ministerial coordination and the inability of absorbance of funds from the IPA components III and IV.

Administrative capacity: The capacity-building process is identified as progressing at a very low pace. The main identified problem is the low staff capacity of the institutions involved in regional development, and a lack of retention policy of the trained employees. A lack of coordination and management of ongoing and planned projects is noted.

Programming: A lack of utilization of the IPA funds, particularly under IPA component III, in the environmental sector is noted. A higher degree of involvement of all stakeholders in the programming process is deemed as mandatory.

Monitoring and Evaluation: The EC acknowledges the establishment and the development of operational capacity of the monitoring committee and a management information system (MIS). Despite the need for administrative strengthening of the monitoring and evaluation process, the advances in this area are adequate and acceptable.

“Limited progress can be reported in the area of regional policy and coordination of structural instruments. Management of IPA programmes needs to be improved in order to ensure full and timely absorption of EU funds. Additional efforts are needed to address deficiencies in management and control systems. In particular, staffing and qualifications within the operating structures and the Central Financing and Contracting Department of the Ministry of Finance need to be substantially strengthened. Preparations in this area are moderately advanced.”

Communication from the Commission to the European Parliament and the Council "Enlargement Strategy and Main Challenges 2012-2013", COM(2012)600 final

⁵ EC Progress report on the Republic of Macedonia (10/10/2012), Government of the Republic of Macedonia, Secretariat for European Affairs, <http://www.sep.gov.mk/Default.aspx?ContentID=36&ControlID=IzvestaiEU.aspx>

Financial Management, Control, and Audit: Despite some noted progress, the EC notes that staff shortages in the Central Financing and Contracting Department (CFCD) are noticeable and cause problems. The capacities for financial management and adequate training for understanding IPA objectives and procedures inside the ministries are deemed as a necessity.

Comparative Analysis

Utilization of comparative analysis provides the recurrence of several important, noticeable and unaddressed problems. The main element is that R. Macedonia since the establishment of the Law on balanced regional development, and setting the institutional setup has not fulfilled its potential for regional development growth and cohesiveness with the EU policies and recommendations.

The need for constant improvement of the institutional capacity is noted as the main problem in the area of regional development. The capacity-building process has progressed relatively slowly in the past five years, without any significant achievement. The EC recommends creating a long-term capacity-building strategy identifying the key deficiencies and acting for their abridgment. Adding more to this problem, is the low consistency level inside the institutions, arising from the constant changes in the personnel. Additionally the most productive employees tend to move on to different posts, thus weakening the institutions.

The EC points at the low levels of utilization of the IPA funds. The primary reasons are the staff shortages at the CFCD, and lack of knowledge and capacities of the employees at the national level about the IPA objectives and procedures.

Taking into consideration the identified problems with the regional development setup in R. Macedonia, conducting an in-depth research and offering founded and testable alternatives and recommendations was deemed as a necessity.

3. Comparative Research Analysis

3.1 Research Findings for R. Macedonia

Communication

This part focuses on the communication flow among the different stakeholders involved in regional development. The accent is placed on the informal communication flow, the availability of information and the willingness of the stakeholders to engage and provide support to other stakeholders. The communication flow among all stakeholders is crucial for maintaining transparency and encouraging involvement in the policy decision-making process.

Overall the communication flow throughout the institutional setup for regional development in R. Macedonia is adequate, although capable of improving its efficiency. The process of attaining the required information is occasionally complicated, and not standardized. The process appears to be unnecessarily time-consuming and lacking in efficiency.

The respondents provided a set of mixed answers on the part of the communication among the institutions involved in regional development. Part of them provided an answer that the communication flow is adequate, the remaining responded that the communication flow is not functioning to its full capacities. Part of the respondents shared an opinion that the institutions at the national level should strive to improve their communication mechanisms and efficiency, while endorsing the communication flow at the local level. Small portion of the respondents provided answers that the institutions at the national level have more efficient communication mechanisms than the other institutions involved in regional development.

However all of the respondents agreed that the communication flow needs improvement and introduction of new mechanisms in order to increase its efficiency. The quality of the communication flow depends upon the institutions involved. Different institutions ensure different communication channels and mechanisms. Thus differences in the provision of information and efficiency in supporting the communication flow do appear.

The major problems identified by the respondents are the needs for increased transparency, and standardized communication. The need for introducing standardized communication mechanisms is related to another important issue, constant capacity-building process for the personnel in charge for communication. It was pointed out by the majority of respondents that they tended to receive dual information, about the same subject of interest, from the same or different institutions. This was identified as both confusing and time-consuming. Some of the respondents placed the accent on the occasional lack of urgency of the institutions responsible for providing the relevant information. Information responses were delayed, and sometimes the anticipated information was not even provided.

Capacities

This part depicts the institutional setup for regional development in R. Macedonia, and elaborates the capacities of the institutions at the local, regional and national level involved in regional development.

The regional development policy in R. Macedonia has five goals⁶:

- Balanced and sustainable development of the whole territory of the Republic of Macedonia based on the model of polycentric development;
- Lowered disparities between and within the planning regions and improved quality of life of all citizens;
- Increased competitiveness of the planning regions through the strengthening of their innovation capacity, optimal utilization and valorization of natural resources, human resources and economic specifics of the different regions;

“Regional development is a process of identification, stimulation, management and utilization of the development potentials of the planning regions in the areas with specific development needs”

Section 1, Article 2, Law on balanced regional development, Official Gazette of R. Macedonia (no.63, 22.05.2007)

- Preservation and development of the specific identity of the individual planning regions, as well as their affirmation and development;
- Revitalization of villages and development of the areas with specific development needs; and Support of the inter-municipal and cross-border cooperation of the units of local self-government for the purpose of stimulating balanced regional development.

The goals of the regional development policy clearly point to the main purpose which is to provide sustainable and balanced development among all planning regions in R. Macedonia. The aforementioned goals are in accordance with the ESDP⁷ which is to work towards a balanced and sustainable development of the territory of the EU⁸.

The regional development in R. Macedonia has a defined institutional structure. The whole territory of R. Macedonia is divided in eight planning regions on NUTS⁹ III level: Skopje planning region, East planning region, South-east planning region, North-east planning region, Pelagonija planning region, Vardar planning region, South-west planning region and Polog planning region. Each of these regions presents a statistical unit.

There are five institutions or bodies directly responsible for implementing regional development policies in R. Macedonia, and one institution responsible for monitoring and evaluating the project proposals: The Government of R. Macedonia which establishes the Council for balanced regional development of R. Macedonia; Ministry of Local Self-Government, a Council for development of the planning region (one council for each planning region); the Bureau for regional development; the Centers for development of the planning regions (one center for each planning region); and the Committee for evaluation of project proposals (hereinafter Committee).

⁷ European Spatial Development Perspective

⁸ European Spatial Development Perspective (ESDP), May 1999, Potsdam, Germany, pg. 10-12

⁹ Nomenclature of territorial units for statistics

The Council for balanced regional development is composed of the following members:

- Vice President of the Government of the Republic of Macedonia, in charge of Economic affairs;
- Ministers in charge of the Ministries for: Local self-government, Finance, Economy, Transport and Communications, Labor and Social Policy, Culture, Environment and Spatial Planning, and Agriculture, Forestry and Water Management;
- Presidents of the Councils of the planning regions;
- President of the Union of the Units of Local Self-Government

The Council for balanced regional development has a strategic role in the process of implementing the regional development policy in R. Macedonia. Its main obligations are to monitor the implementation of the regional policy and ensure that its goals coincide with the goals of the macroeconomic policy of R. Macedonia, and the policies of the related Ministries. This body is crucial for providing conformance of the programmes for development of each of the planning regions, and responsible for drafting the proposal for financing specific projects from the budget of R. Macedonia.

MLS is the main authority at the national level responsible for the implementation and monitoring of policies in the field of regional development in R. Macedonia. The Ministry is responsible for organizing and coordinating the preparation of the strategic documents for regional development, organizing and coordinating the activities for the implementation of the regional development planning documents and prepares evaluation reports to the Government of R. Macedonia on the implementation of regional development planning documents.

The Bureau for regional development is a body functioning within the MLS. The Director of the Bureau is appointed with a decision from the Government of R. Macedonia. The Bureau's main role is to prepare the analytical and documentation basis for drafting the strategic and operative planning documents for regional development. It is in the Bureau's jurisdiction to set the criteria for choosing regional development projects, and to maintain constant communication with the Centers for regional development in order to provide assistance in the creation of the plans for development of the planning regions.

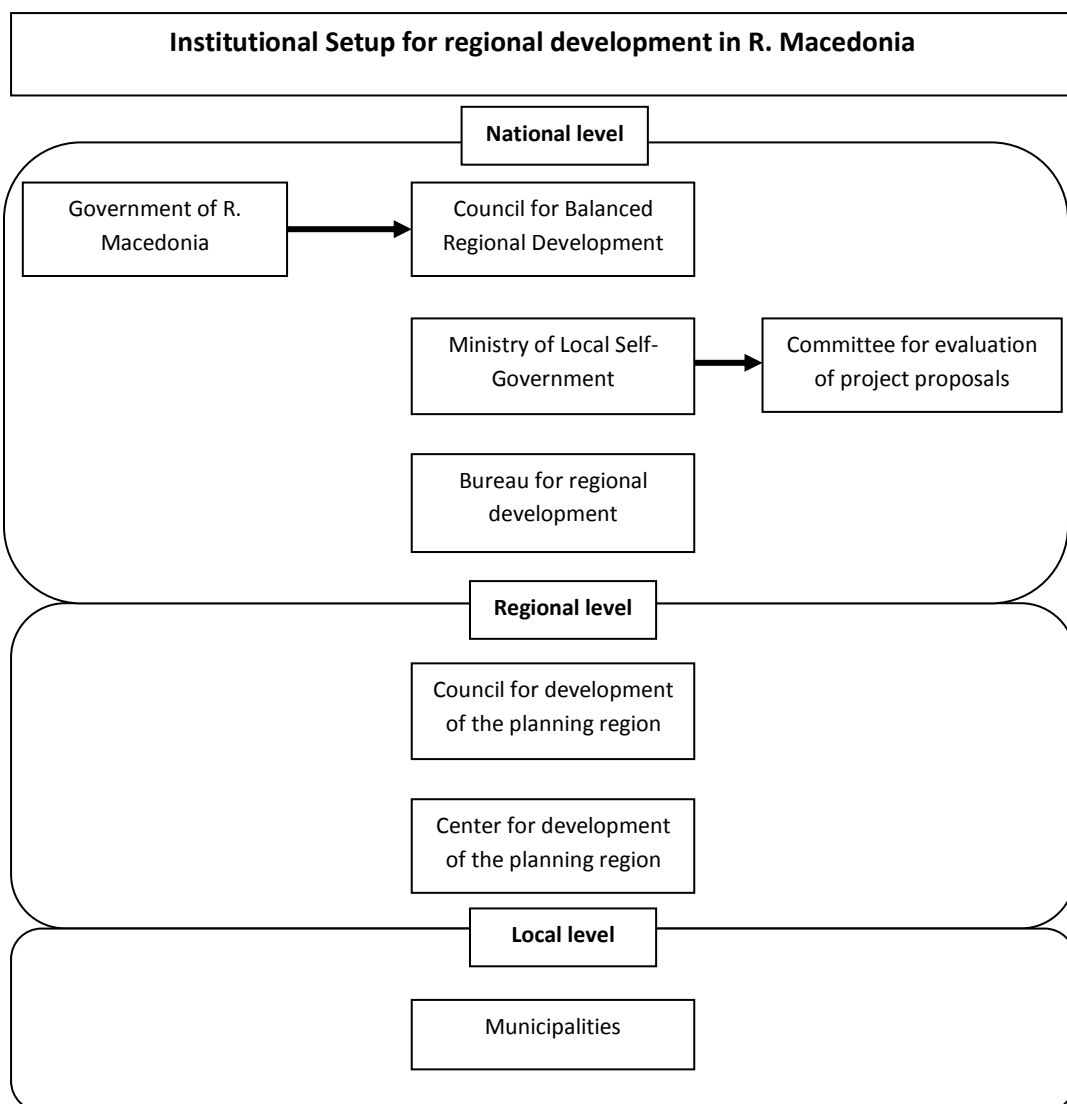


Figure 1: Institutional structure for Regional development in R. Macedonia

Each planning region has established its own Council for development of the planning region. The Council is composed of the mayors from all municipalities included in the planning region. They elect a president, which must be a member of the Council, with a mandate of two years. The Law on

balanced regional development prescribes that additional assistance in the Council's work might be provided from experts, civil society representatives, syndicates, chambers of comers and so forth. The Council for development of the planning region approves a preliminary list of project proposals for development of the relevant planning region. The Council for development of the planning region adopts a Programme for development of the planning region and an Action plan for the implementation of the Programme, once the Council for balanced regional development approves it. Additionally it is in the Council's responsibility to organize and coordinate the activities and monitor the implementation of the strategic programmes for regional development in its relevant planning region.

A Center for development of the planning region is established in the municipality with the largest population, in each of the planning regions. The CRD is a legal entity, founded by the units of local self-government in each planning region. The Head of the CRD is appointed through a Public Call, and given a four year mandate by the Council for development of the planning region. The CRD has the obligation of coordinating and implementing the projects for development of the planning region. Additionally the CRD assembles a preliminary programme and action plan for development of the planning region and has the role to coordinate and inform all stakeholders in the relevant planning region about the activities in the field of regional development, provide assistance to the units of local self-government in the preparation of their development programmes and the task of implementing projects for improving the regional development of the planning region, financed from EU funding sources.

The operations of the CRD's are financed mutually from the budget of R. Macedonia and the budgets of the municipalities included in the planning region. The adopted financing principle is 50-50%.

The Committee for evaluation of project proposals is established by the Minister of Local Self-Government and it operates under close collaboration with the relevant Ministry. The Committee is comprised of seven members:

- President of the Committee is appointed from the ranks of the management civil servants from the Ministry of Local Self-Government;

- One member of the Committee is appointed from the ranks of the management civil servants from the Ministry of Local Self-Government.
- Two members of the Committee are appointed from the ranks of the civil servants from the Bureau for regional development.
- Three members are appointed from the ranks of professionals working in the area of regional development.

The task of the Committee is to evaluate project proposals of each of the planning regions separately and based on the evaluations construct a list of project proposals (this refers to the projects that are to be financed from the national budget). The list is submitted to the Council for balanced regional development of R. Macedonia. Based on this list of project proposals the Council allocates the money to different projects. It is the Council's duty to take account of the balanced financing of each of the planning regions when allocating the funds.

The majority of the respondents identified the current institutional setup for regional development as somewhat adequate. They identified the importance of the political will and consensus as crucial for the functioning of the institutional setup for regional development and utilizing the operative capacities of the involved institutions. Several respondents provided an opinion that the institutional setup should have a smaller number of decision-making instances, noting some of the steps as being unnecessary. They identified the need for reconsidering the composition and the role of the Council for balanced regional development of R. Macedonia. Here, two things are in question: first is the high level of members (the ministers) and their availability and second, the issues they should discuss (should they discuss only about the project proposals?). In this sense, the Council for balanced regional development as a highest body on national level should consider the cross sectorial character of the regional policy and deal with such macro policies.

Almost all of the respondents stated that the institutions responsible for regional development at the national level should strive to improve their capacities. The body that can contribute additionally for the efficient functioning of the regional development system is the Council for balanced regional development. A body with mainly a strategic purpose composed solely of Ministers is a very high decision-making level for deciding about

the importance of regional projects. MLS should put additional effort in strengthening its capacities. The Bureau is described by the majority of the respondents as an institution capable of playing a more active role in the current institutional setup, achievable by constantly rebuilding the capacities of the existing employees and increasing the employee retention capacities.

The majority of the interviewees remained patient and careful in evaluating the performance of the institutions at the regional level. The lack of personnel was identified as the main obstacle that these institutions are facing. The number of personnel does not coincide with the number of tasks these institutions ought to accomplish. A couple of the respondents addressed the constant changes of the personnel as being a major problem in the inconsistency of the performance of the CRD's. Issues connected with financing the CRD's remain in the focus, and are identified by the respondents as having an adverse effect on the motivation of the employees in the CRD's. The role of the Council for development of the planning region is misunderstood, and a long-term capacity-building strategy is required to strengthen the capacities of the stakeholders at the regional level.

Almost all of the respondents agree that the CRD's should improve the existing capacities both quantity and quality wise. The CRD's need to broaden the established networks and include all stakeholders in their respective regions. However the respondents agree that the functionality of the CRD depends on the Head of the CRD as well. In the current institutional setup for regional development in R. Macedonia, there are CRD's which are capable and efficient, and others that perform less efficiently.

Competencies

The majority of the respondents agree that the setup as defined in the Law on balanced regional development is somewhat adequate, and has the potential to function efficiently. The competencies of the institutions involved in regional development are separated and categorized among the national, regional and local level. However it is on the operational level that occasional problems do occur. Usually the employees in the institutions involved lack the capacities and the knowledge about their obligations.

The majority of the respondents agreed that the institutions at the national level are operating in accordance with their tasks, and a minor overlapping of competencies exists. This overlap in competencies is noticeable in the task management of the MLS and the Bureau. A couple of the respondents stated that the focus should remain on the long-term strategy, when making decisions in the short-term.

On the other hand the institutions at the regional level should continue to strengthen their capacities and raise the awareness in order to operate

“The CRD’s perform their networking task adequately taking into account the establishment period (2009). They have to strengthen their relationship with the business sector”

**respondent from R.
Macedonia**

“The CRD’s should achieve additional progress in establishing a regional network. The focus should be especially placed on the relationship with the business sector.”

**respondent from R.
Macedonia**

accordingly to the tasks foreseen. One of the most indicated issues is the inadequate number of employees in accordance with the different tasks of the CRD’s. Providing both quality and quantity to the CRD’s present personnel would increase their operative efficiency and ensure that the completion of their actual tasks is in accordance with the legal framework and the pre-defined objectives of the CRD’s.

When asked whether the CRD’s act as networks, connecting the stakeholders in the respected planning regions, the respondents provided mixed answers. Some of the respondents claimed that although there are some initiatives and efforts, the CRD’s still have not reached the status at which they can identify themselves as a network of all stakeholders in the planning region. The other part of the respondents claimed that taking into consideration the recent establishment of the CRD’s, and the relatively low experience with this role, the task of networking can be identified as

adequately progressing. All of the respondents agreed that the CRD’s should strive at improving their role in connecting all stakeholders in the particular planning region.

The formal communication among the institutions was identified as having the potential to improve and increase its efficiency. All of the interviewees claimed that there are mechanisms for formal communication, however

occasionally different institutions utilize different sets of mechanisms. The level of formal communication additionally depends on the bonds and connections among the institutions, as well as the background and capacities of the employees responsible for the communication flow.

The majority of the respondents claimed that the Law on balanced regional development defines and categorizes the tasks of the relevant institutions. Occasionally conflicts of jurisdiction occur, when a couple of institutions carry on the implementation of the same task. Despite operating accordingly to their tasks in general, there is some occurrence of conflicts of jurisdiction among the institutions at the national level.

Legal form

The CRD's take the legal form as “units of local self-government”. There is a dual opinion on this subject among the respondents we examined. It seems that the CRD's are more in favor of the idea of becoming civil servants if they are to remain functional. The main explanation is that the CRD's have not yet become fully functional, and if they are left without the support of the central government the majority of them will face difficulties. On the other hand the remaining respondents stated that the CRD's need to take a different legal form that would allow them to become competitive on the market and in that way secure their position and increase their capacities. They agreed that the legal form has to be more flexible that would allow the CRD's to apply for different kinds of foreign grants, and remain in competition for the budget funds. One of the most highly proposed legal forms under which the CRD's should operate was a consulting firm. Couple of the respondents stated that the legal form is not important as long as the CRD's remain active, competent and comply with their tasks accordingly. Operating to their full potential would help them strengthen their position in the region and gain confidence from the remaining stakeholders in the planning region. As an example they identified several CRD's operating on the territory of R. Macedonia that are extremely successful despite their restrictive legal status.

Financing

Section 1, Article 27 of the Law on balanced regional development presents the sources of financing¹⁰:

- Budget of the Republic of Macedonia;
- The budgets of the units of local self-government;
- European Union Funds;
- Other international sources;
- Donations and sponsorships from natural persons and legal entities;
- Other funds stipulated by law.

Article 28, Sections 1 and 2 present the instruments for financing balanced regional development in R. Macedonia¹¹:

- Capital investments;
- Non-repayable grants;
- Financing and co-financing of preparation of analyses, studies, planning documents and action plans;
- Financing regional development-related institutional capacity building in the Republic of Macedonia;
- State aid (favorable loans, loan insurance, tax facilities, subsidies etc.).

In order to improve the regional development in R. Macedonia, in accordance with the Law on Balanced Regional Development, funds in the amount of at least 1% of GDP should be allocated on a yearly basis from the budget of R. Macedonia. According to Section 2, Article 29 of the Law

¹⁰ Section 1, Article 27, Law on balanced regional development, Official Gazette of R. Macedonia (no.63, 22.05.2007)

¹¹ Section 1, Section 2, Article 28, Law on balanced regional development, Official Gazette of R. Macedonia (no.63, 22.05.2007)

on balanced regional development this 1% is divided in the following manner:

- 70% for financing projects for development of the planning regions,
- 20% for financing projects for development of areas with specific development needs,
- 10% for financing projects for development of villages.

All of the interviewed respondents stated that the allocation mechanism for the budget funds in the field of regional development should improve. The respondents also stated that the institutions should focus on the trend of financing regional development projects, which over the course of the past couple of years experiences a negative slope. The respondents went on to claim that a larger budget amount of finances should be devoted to projects in the field of regional development.

The process for obtaining the budget funds for projects in the field of regional development involves several entities. Each of the Councils for development of the planning region has a deadline until 15th December of the prospective year to construct the list of potential project proposals, and submit it to the Bureau for regional development. The list is then submitted to the Committee which evaluates the fulfillment of the criteria by the proposed projects. Once the lists of potential project proposals are filtered, they are submitted to the Council for balanced regional development of R. Macedonia. The Council then decides to which projects it will award financing.

When the respondents were asked about their opinion on the existing mechanism for fund allocation, the responses were highly diversified. One part of the respondents provided an opinion that the existing mechanism should decrease the number of decision-making instances. Simplifying the process will increase its efficiency and lead to an improved decision-making process. Another part of the interviewees stated that the main element determining the efficiency of the existing fund allocation mechanism are the capacities of all stakeholders involved in the field of regional development. The remaining respondents stated that instead of transferring approximately equal amount to each planning region, the planning regions have to compete with projects among themselves. In that way the overall quality of project proposals would improve.

The majority of the respondents stated that the CRD's method of financing should place its weight more on the municipalities and other financing sources, and lower the amount of budget funds devoted for financing. The remaining respondents stated that the CRD's should acquire their funds completely from the MLS and the Bureau. This will increase the independence and responsibility of the CRD's, which will in turn lead to an increased implementation of regional projects in the relevant planning regions.

As a final commentary all respondents agreed that the system is capable of operating efficiently as long as all institutions have adequate capacities and all stakeholders are included in the decision-making process.

3.2. Research Findings for Slovenia

Competencies

The institutional structure for regional development in Slovenia has significant similarities compared to Macedonia. Therefore the Slovenian experiences in the field are of great importance and relevance to the Macedonian case.

There are a total of 12 statistical regions in Slovenia. Each region has an RDA responsible for the development of the respective region. The municipalities and the statistical regions are on NUTS III level, while for the purpose of implementing the EU cohesion policy two cohesion regions on NUTS II level have been created. These two cohesion regions have development councils comprised of 5 representatives of each statistical region.

On the national level, the Ministry of Economic Development and Technology (hereinafter the Ministry) is the institution responsible for the regional policy in Slovenia. Until recently, the Government Office of Local Self – Government and Regional Policy (hereinafter the Office) was responsible for the regional development in the country, however the Slovenian authorities have decided to restructure the institutional framework and let the Ministry to take over the responsibilities on the national level, by

abolishing the Office. The main responsibilities of the Ministry are to ensure the enforcement of the appropriate legislation, perform regional policy, guide and support the RDA's, guide the implementation process of the regional development programmes, coordinate the Slovenian Regional Development Fund, and coordinate the draft agreements for regional development.

Similar to R. Macedonia and its Council for balanced regional development on the national level, Slovenia has created a Council for the Territorial Co-ordination of Development Initiatives in order to coordinate the work of the different ministries that influence and support the implementation of the regional policy¹². This body is chaired by the Prime Minister. This approach will support the cross sectorial character of the regional policy and make sure that the sectorial policies are coordinated for the benefit of the regional development in the country.

Slovenia has also established a Slovenian Regional Development Fund which aims to promote balanced regional development and rural development. The purpose of this fund is to financially support the efforts for development of the key stakeholders (municipalities, entrepreneurs, agriculture industry) in their respective regions. The fund is founded by the Government and the members of the managing bodies are appointed by the Government.

On the regional level, the RDA's and the regional development councils are the institutions responsible for the regional development in the respective regions.

In each statistical region there is an RDA with the main tasks of preparing and implementing the regional development programme, implementation of regional projects, and preparation of the agreement for the development of the region. As an additional activity, some RDA's have the responsibility of implementing regional financial schemes and scholarship schemes. The RDA's are founded mostly by municipalities, but are authorized by the national level authorities to work in favor and for the development of the respective region. In case some of the RDA's do not perform in accordance with their obligations, the provided authorization could be revoked. The RDA's also collaborate with the regional development councils and all of the stakeholders in the region. According to the Slovenian respondents the RDA's tasks coincide with the tasks prescribed by law; however they also

¹² OECD Territorial Reviews: Slovenia, 2011

agree that the priority tasks of the RDA's should be the establishment of a network and connecting the stakeholders in the region. The RDA's should not implement every regional project in the region, but should rather provide support for those institutions / organizations willing to implement them. Furthermore, some of the respondents have stated that the authority of the RDA's is questioned in some regions. Namely, considering the fact that the regions are statistical, not administrative, the RDA's cannot attain the necessary influence to lead and coordinate all stakeholders in the respective region.

With the latest changes in the legal framework for regional development, the Slovenian government made an effort to merge, or better yet to combine the regional council and the regional development council. These institutions exist in every region. The regional council consists of the mayors in the respective region, while the regional development council is tripartite body comprised of the representatives of the municipalities, representatives of the private sector and representatives of the non-governmental sector. The division of membership is as follows: 2/5 of the members represent the municipalities, 2/5 of the members represent the private sector and 1/5 of the members represent the NGO's. One of the reasons or motivators behind these changes lies in the character of the projects that have been identified as regional. Namely, one of the key issues identified by the respondents in the field of regional development in Slovenia is the character of the projects. Due to high influence of the mayors in the councils on regional level, many of the projects that have been submitted or implemented as regional in essence have local impact. This situation is quite similar to Macedonia. In attempt to solve this problem, the tripartite body was established. However, it is important to mention that even though there is a mixed membership in the regional development council, the votes of the representatives of the municipalities count twice. The regional development council is one of the most important bodies on the regional level and has the tasks of ensuring that the regional development programme is implemented, approving the agreements¹³ for region's development and so forth. Also the council can form committees comprised of experts, representatives of local government etc. that will work on particular issues. Head of these committees is the RDA.

¹³ See more information on the agreements on the next page

On the regional level there are two key “mechanisms” for regional development: regional development programme and agreement for the development of the region.

The regional development programme (hereinafter RDP) refers to the EU programming period (seven years) and is in relation to the national development strategy of Slovenia. The general guidelines for the preparation of the RDP's are provided by the government. The purpose of the RDP is to serve as a strategic framework for development of the respective region. It elaborates the current situation in the region, its perspective and objectives that need to be achieved. The RDP's have three-year operational implementation plan, however they are not obligatory for the municipalities or the institutions on national level¹⁴. Each RDP is adopted by the respective regional development council.

In response to the problems that have emerged in Slovenia, due to the non-binding character of the RDP's, legislative changes have been made in attempt to integrate the priorities of the RDP's in the work of the authorities. Namely, with the recent legislative changes, “Agreements on development of regions” have been introduced as a sort of regional development instrument or mechanism. These agreements are valid for a four-year period and serve as contracts, i.e. lists of projects agreed between the government and the regional development council, obligatory for both sides. In this way, a number of regional development projects are integrated in the authorities' budget. To put it in a few words, the agreements are the implementing mechanisms of the RDP's. In this regard, it is important to stress that many of the respondents have identified the occasional influence of some mayors as an obstacle for the preparation of regional projects. Thus far, the mayors (driven by their municipalities' local interests) have pushed for local projects even though the area of interest is regional development. However, the new changes in the law have addressed this issue by introducing participatory approach in the regional development councils and providing influence to the other stakeholders in the region. In the same time, the abovementioned agreements with the national authorities contribute to ensuring the regional interest of the projects.

¹⁴ OECD Territorial Reviews: Slovenia, 2011

Communication

In general, the communication between the stakeholders involved in regional development in Slovenia is satisfactory. As stakeholders here we consider the national, regional and local level state institutions, the private sector and the non-profit sector. The cooperation between them is good and the appropriate institutions are accessible.

However, the level of communication between different stakeholders may differ, largely because of the legal status of the RDA's. Namely, those RDA's that have the legal form of a company, have better collaboration and communication with the private sector, while those that are public and entirely founded by the municipalities have better communication with the mayors, i.e. the municipalities.

The majority of the respondents located the main problem with respect to the communication and collaboration with the RDA's in the perception of the stakeholders, but foremost the private sector about the power, influence and competencies of the RDA's. This relates to the fact that the regions are statistical, not administrative and therefore according to some, the authority of the RDA's is disputed.

With respect to the political orientation, significant problems are not found. This means that the public servants take professional attitude when it comes to doing their job.

The communication with the Ministry is adequate. In each RDA there is a desk officer who is responsible for the communication with the Ministry. One problem that was mentioned few times during the interviews was the lack of continuity when it comes to the head of the national institution responsible for regional development. In other words, there have been plenty of changes in the ministerial position that contributed to less persistent policy and occasional miscommunication.

The interaction between the stakeholders will additionally be strengthened due to the introduction of the changes in the structure of the regional development councils (2/5 representatives of the municipalities, 2/5 representatives of the private, 1/5 representatives of the non-profit sector).

Therefore it is expected that the communication and collaboration among the stakeholders in the field of regional development will improve.

Capacities

With respect to the quality of the workforce engaged in regional development and foremost the RDA's; we could say that they have relatively good capacities (although there are evident differences from one RDA to another). Several learning methods were used by the RDA's:

1. *Pre-accession assistance* – The pre-accession instruments such as PHARE, SAPARD etc. (before they integrate in IPA) helped a lot in relation to building capacities for project preparation, project proposal writing and project implementation. In this regard, it is important to highlight what was stressed by the respondents and that is that besides project proposal writing it is crucial to be included in project implementation as well.
2. *Learning by doing* – this approach has helped the RDA's to strengthen their capacities. But we have to be careful, learning by doing is only possible if the institutions involved in regional development are sincerely dedicated to their job and if the employees have strong will to learn and work.
3. *Informal education* – the employees in the RDA's have participated in plenty of trainings, workshops, study visits etc. However participating in these activities does not consequently lead to improved capacities, i.e. this would have not positively resulted if the employees were not really committed and willing to learn.

The respondents in Slovenia have also identified the need for labor specialization, meaning that each employee in the RDA's has to specialize for a particular task(s). This allows them to carry out activities in more efficient and effective manner.

Something that was recognized as a problem in Slovenia and is directly related to the capacities is the tendency of the mayors to think locally even when they are discussing regional development. In this regard, the respondents stressed the need to strengthen the capacities of the mayors to

have better understanding of the regional development which hopefully would lead to improved implementation of the regional policy.

Related to the quantity of people, the RDA's are doing quite well especially compared to Macedonia. Namely, the number of employees in the RDA's differs, however there are RDA's with even more than 30 people engaged. It is important to know that some of those people are engaged on different projects (do not influence the RDA's budget), but regardless the RDAs have those people at disposal and that shows the capacity of the RDA's to engage appropriate number of workforce.

Another thing is that some of the RDA's tend to outsource some of their activities. That also shows capacity for prioritizing and understanding of the role of the RDA's. In this way, the RDA's very effectively engage their partners (or stakeholders) in the development of the regions.

The horizontal coordination among the regional level institutions has been a subject of criticism. It has been recorded that there is lack of cooperation among these institutions. This impedes processes such as exchange of experiences, synergies etc.

Legal status

There are two types of RDA's in Slovenia:

- *Private RDA's* – these RDA's in the past have been dealing with entrepreneurship support activities.
- *Public RDA's* – foremost founded by the municipalities.

“The RDA must meet the following conditions:

- it has a majority of its share capital in public ownership and within this, the municipalities may hold more than one-third of the founder's share.

- it has professionally trained staff to carry out general development tasks in the region;

- it provides evidence that it is a part of the regional development network and covers the area of the entire region;

- it works out a strategy to carry out general development tasks in the region;

- it provides evidence that it has concluded a contractual relationship with the area development partnership regarding the division of general development tasks in the region

- it provides evidence that it has a concluded contractual relationship with other legal entities in which a majority of the share capital is in public ownership regarding the division of general development tasks in the region.”

Promotion of Balanced Regional Development Act (Unofficial Consolidated Text), 2012

The laws in Slovenia are more flexible than in Macedonia, meaning that even a company can be an RDA with a simple statement that their interest will be non-profit. Any organization interested in becoming an RDA has to be authorized by the authorities. Also, not every municipality has to be among the founders of a particular RDA and if needed, several RDA's can be established in one region. It was interesting to find that the behavior of the RDA's in Slovenia is much related to their past and founders, meaning that the private RDA's still tend to pursue entrepreneurship related activities, while that is not the case among the public RDA's.

All of the respondents were well aware of the pros and cons of the different legal forms and interesting enough their opinions were almost equally divided when they were asked to choose which legal form is best. Overall two important questions emerged, one is the regional interest and the other is the flexibility. Having the form of private entity does allow greater flexibility, however the regional interest can be put in question. The authorities have to find the appropriate mechanisms to make sure that the RDA will work in regional interest and not pursue its own profit interests. On the other hand, it was said that the publicly owned RDA's have several disadvantages such as low flexibility, lack of pro-activeness, and influence of the mayors, i.e. the founders. Nevertheless, the greatest benefit among the public RDA's is that it is most likely that they will not pursue profit interest and their work will be directed towards good of the public.

Financing

When it comes to the financing of regional development we can separate this part in financing the RDA's for their proper functioning and financing regional development projects.

According to the new legislative changes, the national government is obliged to co-finance 60% of the costs needed for the RDA's to conduct the tasks foreseen by their competencies (as explained above). The other 40% are provided by the municipalities. This means that the national and local governments have the obligation to cover simple costs so that RDA's can exist and be functional. However, as it was mentioned some RDA's have larger team of people and some of those people are engaged on different projects, meaning that the national and local governments are not the ones providing for their salaries. When it comes to the basic functioning of the

RDA's, the issue of sustainability has surfaced just like in many other countries. In Slovenia, experiences show that at least basic support from either the national or the local government is necessary, nonetheless some of the respondents stated that 100% financial support for the RDA's might decrease their efficiency.

Related to the funds for regional development, Slovenia has proven as quite successful. They have managed to acquire two times more funds from EU, than they have contributed. There are plenty of financing opportunities for the institutions and organizations involved in regional development, such as the EU Structural Funds, national special programmes for development of less development regions etc. The municipalities are also eligible to apply for many of the European funds and they even can have their municipal investment projects co-financed by the government (from 10% to 70% depending on the investment).

The Slovenian Regional Development Fund that was mentioned earlier is a great supporter of the regional development; however RDA's are not eligible to apply for these funds. Nevertheless, municipalities, farmers and companies can acquire these funds that can have the form of loans, subsidies, guarantees etc.

3.3. Research Findings for Germany

Competencies

We can describe Germany as a prototype of co-operative Federalism. Germany is characterized by strong inter-dependence between the Federal, state, regional and local level. The institutional setup for regional development in Germany is comprised of four levels:

1. Federal government
2. Lander¹⁵ (*Country/Federal State*)

¹⁵ Länder - The Federal Republic of Germany is a Federal state made up of 16 constituent states - the Länder. Accordingly, there are Federal laws that apply for the whole territory of the Federation, and Land laws that only have validity in the Land in question. Some Länders

3. Kreise¹⁶ (*District*)

4. Municipalities (*Gemeinden*)

At the top of the decision-making pyramid in the field of regional development in Germany are the Federal and Lander governments. The Federal level is composed of five main ministries which coordinate and monitor the implementation of regional development policies in Germany:

- Federal Ministry of Food, Agriculture and Consumer Protection (BMELV)
- Federal Ministry for Economic Cooperation and Development (BMZ)
- Federal Ministry of Labor and Social Affairs (BMAS)
- Federal Ministry for Economics and Technology (BMWt)
- Federal Ministry for the Environment , Nature Conservation and Nuclear Safety (BfE)

The Federal government defines the framework under which the Lander should operate and coordinates and monitors the implementation of the enacted policies. The Federal level is equipped with two main tools that allow it to monitor the implementation of the strategic goals of the regional policy:

- Unique competencies to formulate the regional development policy at the national level;
- The power to define a framework within which the regional policies at the Lander level should operate.

The whole territory of Germany is divided on 16 constituent states – Lander. Except the city states of Berlin, Bremen and Hamburg, every Lander contains a large number of municipalities (*gemeinden*). Each of the Lander acts as a separate governing area, enforcing its own legal framework, and respectively creating a unique regional policy. Thus in Germany there is as many regional policies as there are Lander, adding to the complexity of the system. The Lander are the main authorities responsible for coordinating and monitoring the implementation of the regional policy at the land level (lands planning)¹⁷. Each Lander prepares regional policy programmes, plans

have been divided in subdivisions called *Regierungsbezirke* or Government District. The NUTS level to which an administrative unit belongs is determined on the basis of population. *Regierungsbezirke* is German name for regions, or is similar to the provinces in France. Belong to the NUTS 2 level in EU classification of territorial units.

¹⁶ Kreise – District. Kreise belongs to the NUTS 3 level in EU classification of territorial units.

¹⁷ Dr. Günter Mertins and Dra. Michaela Paal (2006) “Regional planning in Germany, institutional framework, instruments and effectiveness” Phillips Marburg University paper

and sub regional plans containing guidelines and objectives of the regional policy and half of the amount for financing the sub-regional planning. The sub regional plans are of special significance because they are the link between the development programmes and plans of the Lander, and the local development plans of the municipalities. The main strategic documents in the field of regional development in Germany are the: Federal Regional Policy Programme, Lander Development Programmes and Plans, and the Sub regional plans. The following tasks are defined by these documents:

- Coordinate the actions of the Federal, state and local authorities;
- Provide a long-term strategic framework for Regional development;
- Decide which of the competitive projects have an implementation priority;
- Highlight the areas that require special financing aid and regional support.

The majority of the respondents have identified the structural socio-economic disparities between the old and new Lander as one of the main issues in the regional development system in Germany. The new Lander lag behind the old Lander and are characterized by high rates of unemployment and low levels of GDP per capita. In the past three years the economic crisis put additional pressure on the performance of the new Lander.¹⁸ The Federal government in Germany encounters new issues related to the establishment of an adequate regional policy in order to ensure sustainable development and low active labor force migration in the new Lander.

The implementation of regional development policies is the responsibility of the Lander, their districts and municipalities.¹⁹ Each Lander is divided into several administrative districts. In each of the administrative districts municipalities are joined together into rural districts (landkreise). The district formation provides an opportunity for the municipalities to implement projects and utilize resources beyond the individual capacities of each municipality, and to operate in a regional framework. Each of the main Ministries have established departments in each of the districts, through which they monitor the implementation of the regional development policy.

Local governmental tasks are clearly divided between the rural districts and the municipalities. If some services cannot be provided by the municipalities they should be provided by the higher-level districts. For example if some task exceeds the financial means of an individual municipality, the district takes on this task for all the municipalities belonging in the district.

¹⁸ Rodriguez-Pose, A. and Zademach, H.M. (2003) Rising metropoli: the geography of mergers and acquisitions in Germany. *Urban Studies*, 40 , 10, 1895-923

¹⁹ Articles 28 and 30 in the Basic Law for the Federal Republic of Germany.

On the local level there are three types of organizations operating in the field of regional development: Local Action Groups (hereinafter LAG), Regional Management Units (hereinafter RMU) and Integrated Rural Development (hereinafter ILE). The LAGs are established as part of LEADER²⁰ plus programme, in accordance with the Regional and Rural Development Policy of the EU. The LAGs are associations endowed with a team of practitioners and stakeholders in the field. The LAGs are extremely efficient in providing a bottom-up approach in the decision-making process in the field of regional development. They connect an array of economic and social partners, such as farmers, rural women, young people and their associations, as well as representatives of the civil society sector. The LAGs have the following main tasks:²¹

- Combine and optimize the utilization of the available human and financial resources from the public sector, the private sector, the civic and voluntary sectors;
- Encourage the inclusion of different sectors in collective projects and multi-sectorial actions, in order to achieve synergies, joint ownership, and the critical mass needed to improve the area's economic competitiveness;
- Strengthen the dialogue and cooperation between different rural actors, who often have little experience in working together;
- Facilitate, through the interaction between different partners, the processes of adaptation and change in the agricultural sector (for example, quality products, food chains), the integration of environmental concerns, the diversification of the rural economy and quality of life.

²⁰ http://ec.europa.eu/agriculture/rur/leaderplus/index_en.htm

²¹ Jörg Eggers, Evy Mettepenningen, Volker Beckmann (2007); Assessing the efficiency of local action groups and auctions for designing and implementing agri-environmental measures in the EU,
http://oega.boku.ac.at/fileadmin/user_upload/Tagung/2007/07_eggerts_mettepenningen.pdf

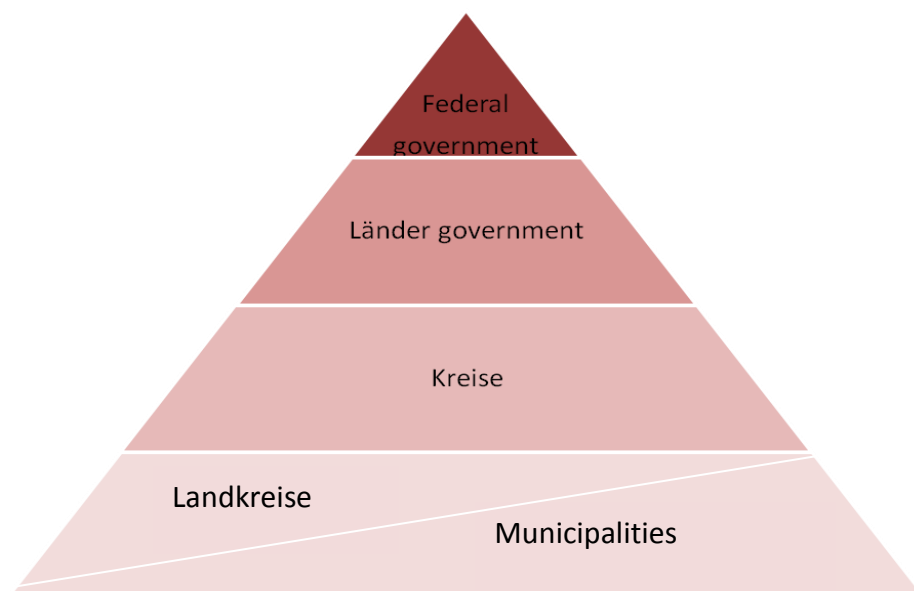


Figure 2: Institutional structure for Regional development in Germany

The LAGs cooperate closely with the RMUs. In fact the LAGs and RMUs sometimes operate as one organization, utilizing the same capacities, sharing the same facilities, personnel and other available recourses. This concept is beneficial for both organizations since they share the costs, and are able to draw financial recourses from different sources.

The RMUs operate in close cooperation with the LAGs. The main tasks of the RMUs are: project development, project implementation, and identification of calls for proposals. The LAGs and the RMU's write project proposals, and often the implementation is coordinated between the LAGs and the RMU's. The focus of the LAGs is placed more on “soft” investments, while the ILE are focused more on “hard” infrastructure investments.

Every LAG and RMU has their own steering group. The steering group is responsible for drafting the strategic documents and providing an opinion on which projects should get funded. The steering group usually is composed from 12-15 people, however the number of members can vary and there is no maximum boundary set. It is composed of representatives from the public and private sector, with the majority being from the private sector. The members from the private sector attribute to 51%, while the members of the public sector to 49% of the total participants of the steering group. The steering group meets 2 times a year. The private sector has a huge interest in engaging in these meetings, since they can actively participate in drafting

regional development policies, thus impacting the development of the region according to their own requirements.

A highly utilized instrument of regional policy in Germany is the Joint Task for the Improvement of Regional Economic Structure (Gemeinschaftsaufgabe Verbesserung der regionalen Wirtschaftsstruktur - GRW)²². The assistance measure used by the GRW is the Investment Grant, a capital grant paid out of the GRW funds in the areas²³. The aim of the GRW is to reduce disparities among regions, and to facilitate the participation of the weaker regions in broader economic development processes. The GRW is jointly financed by Federal and Land authorities.

Isn't the relative size of the budgets in each of the three countries a factor in understanding how well regional development works? I'm surprised you don't mention budgets. It might be difficult to get hold of accurate figures, but it would at least be worth recognizing the issue, don't you think? I know you talk about financing, but that's mainly around financing mechanisms, not the overall size of the budget.

Communication

This part describes the communication among the different levels of government in Germany, involved in regional development. The efficient communication among all institutions has a special significance in the process of regional development of the country.

Regional development is a complex process with a high level of vertical inter-dependence among the institutions. The Federal and Lander levels cooperate in different ways which extend beyond fiscal relationship. They work on the principle of co-decision. This means that “top-down” and “bottom-up” approaches are used complementarily in the decision-making process. The Ministries at the Federal level have the main task of coordinating the implementation of the regional policy among all regions in Germany.

The Lander have an obligation to submit regular reports to the Federal government and the chambers of the parliament about the performance of

²² The Joint Task for the Improvement of Regional Economic Structures (GRW) provides an example of a formal, rules-based approach to the use of conditionality's in a Federal context. GRW co-funds regional-level activities based on nationally-agreed eligibility conditionality's and award criteria. There is a joint approach to assurance: the Federal level is responsible for compliance but verification of expenditure is the task of the Länder.

²³ OECD (2010) *Regional development Policies in OECD Countries*

the implementation of the Joint Task for the Improvement of Regional Economic Structure. The reporting process includes: submission of notifications of approval, reports on expenditure of funds; reports on employment effects five years after the investment period has finished; information on Land-level funding priorities and eligibility rules, and monthly reports on absorption of GRW funds²⁴.

The Co-ordination Committee is a co-ordination body established at the Federal level, made up of Federal and Lander ministries in charge of economy²⁵ and responsible for submitting reports to the Bundestag about the implementation of the regional policy. There is a Sub-committee as part of the Co-ordination Committee, composed of Federal and Lander servants, where the procedural issues part of the regional policy are discussed and adopted.

A planning committee is a body that links the Federal and Lander level and is composed of the Federal Minister for finance, and respective Ministers from each of the Lander. It is through the planning committee that each Lander interacts directly with the Federal level concerning specific issues connected with regional development. Both, the Lander and the Federal government actively participate in the preparation of the initial strategic planning documents for regional development. The decision-making power in the planning committee is divided among the Federal and the Lander level, on the principle of 50:50, where the Federal government has 50 % (16 votes) of the total votes and the other 50 % of the votes (16 votes) are equally divided among each of the Lander (each Lander has one vote). The planning committee adopts decisions with three-fourths of the majority from the total number of votes.

The Advisory Committee of the Regions (CoR)²⁶ adopts a “bottom-up” approach and shifts the decision-making power closer to the people in Germany. The main issues concerning the work of the CoR are the regional and economic development and local and regional finances.

²⁴H. Jakoby (2006) *Evaluation as part of the regional policy life cycle: the example of North Rhine-Westphalia*, Regional Studies 40(2)

²⁵ OECD (2010) Regional Development Policies in OECD Countries

²⁶The Advisory Committee of the Regions (CoR) was established in 1994 in Maastricht

Capacities

There is a highly complex hierarchy among the institutions involved in regional development in Germany. The institutional structure for regional development in Germany is well-defined. On the Federal level, the tasks are clearly divided among the aforementioned five main ministries²⁷.

The Federal units are responsible for coordinating the implementation of the regional policy, the process of utilization of the EU funds, and monitoring the cooperation among the Lander. Each Lander has its own government responsible for the preparation of Lander Development Programmes and Plans²⁸. Regional development in Germany began broadening its scope during the last decade. The first generation of stakeholders directly involved in the field of regional development had no previous educational events and programmes, instead "experiential learning" and on the job training were used as an educational approaches and mechanisms for capacity building in Germany. The first curricula for regional development in Germany were established 6-7 years ago. The project "Active Regions" ²⁹ was developed in Germany as a model project in 2001, with the aim of creating and strengthening the regional partnership networks for integrated rural development in selected model regions. These aims were to be achieved by applying the five principles of regionalism, partnership, reflexivity, integration and competition and their respective implementation tools. The positive results of this project are used for effectively linking the regional management measures with the individual priorities for development of the regions.

The institutions that are involved in the field of regional development in Germany on the Federal, Lander, and local level, possess adequate capacities, which allow for an efficient implementation of regional development policies. The respondents identified the situation of the RMUs as worthy of mentioning. The RMUs are experiencing some difficulties in the process of obtaining self-sustainability and possessing low capacities related to the number of employees. The issue of self-sustainability is related to the mechanisms of financing of the RMUs. The RMUs are financed on the principle of 3+2+3 years. This means that the first three

²⁷ For a detailed view on the involved Ministries, see page 31 of this paper

²⁸ OECD (2007) Linking Regions and Central Governments

²⁹ See also <http://www.modellregionen.de>

years 50% of the funding of the RMUs is provided by the Lander government, and the remaining 50% are provided by the districts and the municipalities. The funding for the following two years is optional, depending on the capability of the RMUs to become self-sustainable. The funding pattern remains the same. The funding scheme for the last three years is optional as well, and depends on the capability of the RMUs to become self-sustainable. The percentage of the financing sources for the last three years are hereby amended, 25 % of the funding of the RMUs is provided by the Lander Governments, 50% is provided by the districts and municipalities, and 25% is provided by the RMUs. The second problem is related to the number of the employees engaged and actively working in the field of regional development as part of the RMUs. The majority of the respondents agreed that in order to efficiently perform the necessary activities, the RMUs should hire additional qualified personnel.

Legal Form

On the local level, regional development is the responsibility of the LAGs, RMUs and ILE. Essentially, the local action groups (LAG) take the legal form of an association. They hold regular coordination meetings during the entire year, where they propose an integrated local development strategy and ideas. The LAGs facilitate an increased economic efficiency and environmental effectiveness in the region.

The RMUs work on the principle of a Public Private Partnership. They are engaged by the LAGs for the implementation of different tasks related to regional development. In the German Law there is no directive under which the legal form of the RMUs is defined. The legal form of the RMUs is flexible and depends on the ideas and requirements of the LAGs. In general RMUs proclaim themselves as either Limited Companies or Foundations. The RMUs are an object of supervision by the Ministry of Justice of the regional governments of the Lander.

Financing

Regional development in Germany is financed from several main sources: the EU programmes, the administrative units, the municipalities and the Lander.

As part of the European Union, Germany have available three EU Funds that contribute to reducing regional disparities:

- The European Regional Development Fund (ERDF)
- The European Social Fund (ESF)
- The Cohesion Fund

Germany has agreed to use the Federal - Lander approach of regional policy³⁰. To reduce the location disadvantages of structurally weak regions, thus facilitating their participation in broader economic development processes and reducing overall developmental disparities, Germany has decided that the Lander level should be responsible for the regional policy implementation (project selection, aid rates, and priorities) and the Federal level should be responsible for creating and coordinating the implementation of the regional policy. The EU funds provide 50% of the total financing of the regional projects. The remaining 50% are provided by national co-financing from Federal government, Lander and municipalities.

The GRW is a highly utilized instrument of regional policy in Germany. The Federal government and the individual Lander provide funding for the GRW according to a 50:50 funding scheme. The projects that are oriented towards economic development and business activity are co-financed by the GRW. The resources are in the form of non-refundable investment grants (Investitionszuschuss) which provide direct aid for businesses. Through the GRW, funds can be provided in the range of 10-50% of the project value, depending on the eligible area and firm size.

In the last decade the level of financing of regional development in Germany started to decline. There are two reasons for the declining level of regional development financing³¹. Primarily, the funds for regional development have decreased due to the system of funds allocation. Namely, the ratio of the distribution of financial resources between the new and old Lander is 6:1, established on the basis of four indicators (unemployment, wage level, employment forecast and infrastructure indicator). Secondly, the growth

³⁰Final Report (2011) "EU Cohesion policy in a global context: comparative study on EU Cohesion and third country and international development policies" European Policies Research Centre University of Strathclyde

³¹OECD (2010) Regional Development Policies in OECD Countries

of the demand on public resources (pension, health care, social aid) imposed greater costs and more funds are needed. The new Lander, despite all undertaken cuts in the resources for regional development, are still enjoying additional financial allocation sources contrary to the old Lander.

Something that is relevant for Macedonia is the understanding of the regional development by all levels of government in Germany. Namely, there is a high level of awareness by all the stakeholders for co-financing. Also, the regional component is fully understood, meaning that not all the projects have to consider every municipality in the region.

4. Alternative Solutions and Policy Recommendations

Problem: *Improving the communication flow among the institutions at the national level*

Alternative solution 1: Conducting mutual capacity-building events

The conduction of mutual capacity-building events will provide the employees at the national level institutions with an opportunity for team building. This will ease the formal communication processes on the national level, thus easing the information flow on a cross-regional level. Creating bonds among the employees and the constant sharing of information will ease the introduction of new employees in the system, which will adapt more efficiently, and use the already established communication channels.

Alternative solution 2: Standardizing the communication protocols

The institutions engaged in regional development on national level should introduce new and standardized mechanisms of communication. The current formal communication is mostly conducted through letters of correspondence, while part of communication is conducted through mail. The informal communication is conducted through mail or the telephone. Different institutions communicate in a different manner. A standardized communication protocol will decrease the confusion in information provision among the correspondents. Thus we propose the establishment of a ticketing system for all institutions involved in regional development. This will allow for involvement of all stakeholders in the communication process, while diversifying the communicated information to appropriate users. Additionally it will formalize all communication

A **tracking system** (also **ITS**) is a computer software that manages and maintains lists of issues. Tracking systems are commonly used to create, update, and resolve reported customer issues, or even issues reported by that organization's other employees. The tracking systems have proven to be an effective software solution in optimizing the communication protocols.

among the stakeholders. The introduction of a standardized communication protocol will require an in-depth acquaintance of the stakeholders with the communication mechanism. Adequate technical equipment, capacities and securing the communication mechanisms will be mandatory in the standardization process. Introducing software for sharing information should ease and standardize the communication protocols in the field.

Alternative solution 3: Organizing frequent meetings among the stakeholders at the national level

In order to increase the availability of information for all stakeholders at the national level, constant and frequent meetings should take place. The presence of relevant members from all institutions will be mandatory, and different problems in the field will be discussed. The frequent meetings will provide an opportunity for the stakeholders to share different ideas and views on the same or different issues, as well as communicate on a constant basis. The frequent meetings can also include stakeholders from the regional and local level, thus spreading its impact to all active participants in the regional development policy creation and implementation process.

Recommendation: *We recommend alternative two, an introduction of a standardization process for the communication protocols, which is a key element for the success of the formal communication mechanism. The establishment of a ticketing system will formalize and improve the information flow among the institutions working the field of regional development. In addition the introduction of such an ICT solution (in the form of communication software) would increase the efficiency and modernize the communication flows at the same time. The ticketing system is accompanied with some costs for creating and maintaining the system. However considering the efficiency it will provide, it is a feasible long-term investment.*

Problem: *Improving the communication flow among regional stakeholders*

Alternative solution 1: Introducing a participatory approach

All stakeholders engaged in or affected by regional development should be included in all phases of the policy decision-making process: the research phase, the policy design phase, the implementation phase and the evaluation phase. The inclusion of all stakeholders will increase the engagement and commitment, as well as provide a broader range of ideas, comments and suggestions. Additionally it will strengthen the bonds among the stakeholders, and create mutual trust and respect among them. Introducing all stakeholders in the decision-making process carries a risk of prolonging the process unnecessarily.

Alternative solution 2: Modernizing the communication mechanisms

At the regional level the stakeholder base in the field of regional development is composed of an array of different types of institutions and organizations, institutional backgrounds, employee backgrounds and institutional capacities. It is difficult to establish an information flow available for all relevant stakeholders. This requires a process of targeting and careful information dissemination. Introducing the social networks and the Internet as a communication mechanism should ease the communication flows. Additionally, other software solutions for communication among the relevant institutions and organizations can be established, as a means of constant, updated and relevant source of information.

Alternative solution 3: Introducing a constant process of mutual trainings for all stakeholders at the regional level

Through the attendance of mutual trainings, the stakeholders at the regional level will strengthen the work relationships and improve the communication flows. Creating bonds among the different stakeholder groups should ease both the information flows at the regional level and the implementation of the regional development policies. The constant process of mutual trainings will improve the level of cooperation and confidence among the stakeholders.

Recommendation: *We recommend foremost the first alternative, improving the participatory approach – particularly including representatives from the business sector and the civil society. Business sector and civil society representatives should have a saying in the Council for development of the planning region, when drafting the list of regional projects and discussing regional development related issues. In addition, the implementation of the third alternative will also improve the communication between the regional stakeholders and allow future partnerships to build.*

Problem: *The human capital of the institutions involved in Regional Development*

Alternative solution 1: Experiential learning (learning-by-doing)

Experiential learning is a capacity-building process resulting from practical experience and learning-by-doing processes. The respondents from Slovenia and Germany have agreed that the employees in regional development acquired the highest benefits from the implementation of different projects, especially cross-border projects which allowed them to share different experiences and ideas, and introduce them domestically. Such an experiential learning process is crucial for the employees involved in regional development in R. Macedonia. The enhanced practical experience equips the employees with the necessary confidence and ability to overcome all challenges on the workplace. Additionally, it provides them with the opportunity to discover and implement efficient solutions from better functioning regional development systems.

Alternative solution 2: Introducing formal education programmes

It is unfortunate that the awareness of the topic called regional development is on a very low level. The young population seems to lack interest in studying regional development. The same is relevant for the policy makers and those working in the field. If these stakeholders engage in formal education programmes in the field of regional development, their capacities would be enhanced and they will definitely have head start compared to those that have not had any formal education in this area. However, the policy makers need to stress the need for this kind of human capacity by

asking for knowledge in the field of regional development as a prerequisite for employment in the institutions concerned.

Alternative solution 3: Organizing capacity-building events connected to certain goals

The introduction of capacity-building events connected to certain goals limits the risk of low commitment and under achievement of the participants. The Slovenian respondents claimed that this kind of capacity-building provided improved results than the regular capacity-building events. Dividing the capacity-building process into several short-term goals increases the commitment and provides a filtration of the participants. The most committed and engaged participants will be the ones that will successfully complete the capacity-building programme and obtain the qualification. In this way those obtaining the qualification will be the ones that have truly improved their skills from the events.

Recommendation: *Dedication to learn! The education process for the potential employees in the field of regional development has to start in the tertiary education level. An integral component of the education of the employees in the field of regional development is the experiential learning (learning-by-doing) – supporting and encouraging the Centers for development of the planning regions to start joining and implementing more projects, especially cross-border projects. It is through these projects, that they will be able to learn new ideas, acquaint themselves with new opinions and skills as well as share experiences with their foreign colleagues. All of the respondents from Slovenia, Germany and R. Macedonia pointed this element as the main pathway to building employee capacities. Overall, the crucial element is the willingness and commitment to learn by the people involved, whether it is a formal education, informal and learning by doing.*

Problem: *The number of employees in the CRD's*

Alternative solution 1: Increasing the personnel in the institutions involved in regional development

The institutions involved in regional development lack an adequate number of personnel. This is especially the case for the CRD's. Considering the tasks in hand, their employee number is inadequate. Increasing the number of employees will increase the flexibility and efficiency of the institutions, as well as the capacity to undertake different tasks simultaneously. In increasing the personnel a special attention should be placed on the quality of the newly employed personnel. The employment of unqualified personnel may lead to an inefficient and time-consuming working environment in which all stakeholders will face negative consequences. Only qualified and capable personnel should be selected through a carefully crafted employment process.

Alternative solution 2: Outsourcing of parts or entire activities

If the tasks and obligations on hand are unmanageable with the current number of staff, parts or entire activities can be outsourced. Outsourcing is the process of contracting out a business process or activity to an outside organization capable of completing it. Through outsourcing the CRD's can transfer part of its obligations to experts and organizations outside the institution that have an experience in the field and previous successes in conducting similar activities. Besides taking into account the type of activities that can be outsourced, in general outsourcing increases the costs for conducting the activity. On the other hand outsourcing can increase the expertise and relevance of the task being conducted, if the outsourcer is specialized in the particular contracted task. Outsourcing of tasks additionally presents an informal, indirect way of involving all stakeholders in the decision-making process, especially stakeholders with a relevant expertise in the field.

Alternative solution 3: Mobilizing the stakeholders in the region

While creating a network among the stakeholders in each planning region is a crucial element for each CRD, it is important that the network is utilized in the most efficient way possible. The interest of the stakeholders in the field of regional development and in the impact of the implementation of particular activities can be used for increasing the performance efficiency of the task completion process. When implementing some activities, which require a specific operational aid, it is more efficient if some stakeholders in the particular area are hired to conduct the activity. For example if some events are to be organized an NGO in the area might have the better resources to perform the particular activity. Additionally through the established contacts of its partners, the CRD can mobilize and attain the target group necessary for attending the events.

Recommendation: *Optimizing the utilization of its network, thus mobilizing the stakeholders in the region is crucial for the successful implementation of the CRD tasks. Parts of the tasks that cannot be performed with the existing capacities of the CRD's, should be contracted out to relevant experts or organizations with expertise in the particular field, with an experience that can guarantee a successful implementation of the tasks. It is through these activities that the CRD's will build their capacities over the long run, and obtain confident and solid work relationships with other institutions and organizations.*

Problem: *Sustainable financing of the CRD's for their successful functioning*

Alternative solution 1: The CRD's should be self-sustainable

At the moment, with the completion of the first regional development programmes of the CRD's, they are supposed to be self-sustainable and continue to work for the interest of the development of the region. With the financial support received from the national government and the municipalities so far, the CRD's should have strengthened their capacities and therefore-should be able to continue their work in accordance to their mandate.

Alternative solution 2: The CRD's should be supported 100% by the national authorities

The second solution of the problem of sustainability could be the provision of a full financial support by the national authorities. Some of the CRD's in Macedonia have experienced difficulties with the current financing mechanism (50% by national government, 50% by local government). Occasionally some of the municipalities are not willing to support the CRD's, while at the same time the national government is waiting for the municipalities to transfer their funds first. If the national authorities fully finance the functioning of the CRD's this will no longer be a problem.

Alternative solution 3: The CRD's should be partly supported by the authorities

Both the national government and the local government should support the CRD's. This will ensure greater commitment to the regional development in the country. Two things need to be considered:

- First, the support should be divided in accordance to the capabilities of the institutions. If it is known that the municipalities are not sufficiently financially viable to support the CRD's, then smaller support from their side should be expected.
- Second, the CRD's should not receive full financial support. This will ensure pro-active approach by the CRD's and will avoid any possibilities for passive or indolent attitude towards their tasks and obligations.

Recommendation: *We recommend the third alternative as a solution for the problem of sustainability of the CRD's. In almost any country in the EU, one can hear opinions that the CRD's (or RDA's) should be self-sustainable, however the fact is that there is almost no evidence of self-sustainability of these institutions. Neither the regional governance in Germany (RMU), nor in Slovenia (RDA's) are self-sustainable and this debate has been going on for years. By looking at other experiences, it does not make sense forcing the CRD's to be capable of self-sustainability. Another issue that is quite important is the public or regional interest. The activities of the RDA's are in public interest, therefore the support from the authorities, i.e. the taxpayers is expected.*

Problem: Regional Vs. Local projects***Alternative solution 1: Changing the structure of the Council for development of the planning region***

The introduction of a participatory approach at the level of regional governance is something to be found often. By changing the structure of the Council for development of the planning region, the private sector and the non-profit sector will have a chance to directly take part in the regional policy in the country. Recently this has happened in Slovenia and Croatia, and is something that is ongoing in Germany. This problem, as explained above, was also found in Slovenia and this is one of the solutions that the national authorities have settled with.

This draws similarity to the structure of the Regional Development Councils in Slovenia. The number of representatives from the non-profit sector should be no more than $\frac{1}{2}$ and not less than $\frac{1}{4}$ of the number of representatives from the municipalities.

Alternative solution 2: Improving the understanding of the mayors about regional development

If the mayors do really understand the meaning and importance of regional development, it is expected that they would have been more supportive of regional projects. Of course this does not undermine the importance of local projects, but simply stresses the need to think regionally when it comes to sources of funding that support regional development. Germany has dealt with this issue mostly by building the capacities of the mayors and making them understand the importance of the regional interest. This issue is resolved in Germany and the need for regional projects is absolutely not debatable.

Alternative solution 3: Introducing agreements for regional projects

This alternative solution is based on the Slovenian experience. As explained above, Slovenia has newly introduced this mechanism where the regional development council and the national authorities sign an agreement that more or less is a list of projects that these two levels of government commit to implement. In this way, these projects receive budget support, while at

the same time the national government has the instrument of controlling the character of the projects proposed by the regional authorities.

Recommendation: *We recommend implementation of the first and second alternative solutions. Both of these alternatives are complementary and could significantly contribute to the solution of the problem, which is the realization of regional projects. The idea is to introduce a participatory approach in the Council for development of the planning region that will allow the stakeholders to be heard and share their ideas and views. What we suggest is the following composition of the Council for development of the planning region membership:*

- 40% representatives of the municipalities
- 30% representatives of the private sector
- 30% representatives of the non-profit sector

The idea for our recommendation has empirical background. As already explained, this has already been introduced in plenty of countries (including Germany and Slovenia). This would also be an effective way for building partnerships in the region among the stakeholders and increasing the visibility of the regional governance.

With respect to increasing the understating of regional development by the local government and the mayors, all foremostly we suggest advising (advisory services) and sharing experiences of other regions and other mayors that contribute to successful regional policy.

Problem: *Selection of regional development projects (which project should be given a priority, the funds are limited)*

Alternative solution 1: Let the regions decide for themselves

One thing that is questionable with the Council for balanced regional development is their sense of prioritization which project is needed in what region. If this matter is not addressed appropriately, the risk is that the projects that are selected for funding are not the ones that should have a priority. Bearing this in mind, one way to solve this issue is giving the responsibility to the regions and letting the regions decide for themselves. This will provoke discussion among the stakeholders in the region, press the regional governance to take full responsibility for the selection of projects

and will also increase their involvement and dedication knowing that it is up to them to decide the allocation of the funds in the region.

Alternative solution 2: Improve the functioning of the Council for balanced regional development

The members of the Council for balanced regional development are ministers of the different concerned ministries and they meet only few times a year. It appears that this decision-making level is too high, especially when the funds available for regional projects (through the Bureau) have been significantly decreased. Two issues should be addressed:

- Besides the Council for balanced regional development, working groups representing the different ministries should be formed to make this body more operational. These working groups will meet frequently which will allow for a greater continuity of the process of regional development and better monitoring of the ongoing activities.
- One thing that the Council for balanced regional development should discuss about is the allocation of funds for the projects submitted to the Bureau. However, that is only part of the reasons why this body should meet. Regional development is a cross – sectorial issue and requires coordination and alignment of measures and policies in different sectors. This is a very important issue that requires great understanding, commitment and dedication.

Alternative solution 3: Increase the expert involvement in the Committee for evaluation of project proposals submitted to the Bureau

Although at the moment the Committee for evaluation of project proposals submitted to the Bureau for Regional Development has several experts, still their right to be heard and influence is quite limited. Increasing the number of experts will allow for better selection of the projects and more unbiased (free from any kind of discrimination) selection process.

Recommendation: *We recommend both alternative number 2 and alternative number 3. Considering the low amount of funds allocated for regional development through the Bureau for Regional Development, it does not make sense for such a high level body as the Council for balanced*

regional development *to meet and decide on this issue. Instead, increasing the experts' involvement in the evaluation committee and the creation of working group with representatives from the ministries would be enough for more effective and efficient selection of regional projects. In addition, the Council for balanced regional development is a body highly needed most of all for ensuring coordinated and well planned regional policy.*

Problem: *Identification of the most appropriate legal form for the CRD's*

Alternative solution 1: *Provide flexibility to the CRD's*

The largest problem for the legal status of the CRD's is the inflexible character of the Macedonian legislation when it comes to finding a right legal form. In Slovenia, organizations/institutions with different legal form can be RDA's as long as they have an authorization from the national authorities. This is not the case in Macedonia. Providing greater flexibility to the CRD's, foremost in the form of lower administrative procedures for the CRD's, will allow them to focus more on the development of the region. In this regard, something to think about is the form of a non-profit organization to act with a mandate for regional development.

Alternative solution 2: *CRD's with employees as civil servants*

This is an ongoing debate in Macedonia. Should the employees in the CRD's be civil servants? If the answer is yes, this will allow the CRD's to focus strictly on the regional development and not to be concerned with issues such as self-sustainability etc. On the other hand, being a civil servant means abiding to plenty of rules and procedures that might negatively influence the flexibility of the employees.

Alternative solution 3: *CRD's as companies*

The good thing about this alternative is the motivation for the employees. The private sector has proven to be a better manager in many occasions than the public sector. This might be true for the regional development as

well. This legal form will allow the CRD's to be more flexible, have more opportunities for higher earnings and maybe be more pro-active.

Recommendation: *There are pros and cons to every legal form. This issue is especially difficult to be answered in the current constellation of things. The key problem is the restrictive character of the Macedonian legislation. Two things need to happen:*

- *First, comprehensive analysis of this problem with appropriate methodology how to approach this issue (focus groups etc.) and maybe even more importantly clear determination and commitment by the stakeholders (most of all the CRD's) to participate in this process*
- *Second, readiness by the national decision makers to address this issue and implement the necessary steps*

However, having all this in mind, we recommend that the CRD's have to be free of the basic financial concerns. This will prevent the CRD's to think only about their existence and therefore neglect the public regional interest. In the same time, whatever is the legal form; proper monitoring mechanisms need to be put in place to ensure the interest of the region.

Annex A. Methodology

The policy paper utilizes both qualitative and quantitative data collection tools. The process of data collection is completed using two methods: desk research and field research. Once the data is obtained, the process of data analysis is utilized. A comparative analysis is used as a tool for extraction of key comparable variables, provision of relevant interpretations and construction of adequate recommendations.

The policy paper revolves around “a posteriori” knowledge acquired from the utilization of a combined approach of desk and field research.

The desk research imparts the theoretical foundations and the construction of the working hypothesis. Desk research revolves around the collection of relevant literature, and examination of the tested hypotheses and their validity, in relevance to the identified problem.

Direct survey, in the form of a semi-structured interview is utilized for conducting the field research. The semi-structured interview consists of questions divided in five main sections: communication, capacities, competencies, legal status and financing. The interviews were conducted in the three target countries, in accordance with the usability of acquired results, thereafter: R. Macedonia – 20 interviews; Slovenia – 12 interviews; Germany – 10 interviews. The identified target groups were relevant stakeholders: public servants, Ministry officials, RDA representatives, civil society activists, consultants and participants in the policy-making process.

The comparative analysis serves as a tool for extracting valuable information from the acquired data, and forming the key comparable variables. Identifying and examining the key drivers is crucial step undertaken for providing relevant recommendations.

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