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***ROLE OF THE GOVERNMENT IN PROMOTING  
DEVELOPMENT IN THE WEAKER REGIONS***

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## 1. Introduction

Contrary to the doctrine of neo-classical economy, markets are not self-regulating systems. Supply and demand for products and production factors are not automatically balanced by way of the market mechanism of prices and wages. Human beings have different social functions other than working ones, and they participate in the production process with only one of their characteristics – their capability to work and manage. This process takes place in a competitive society, along with other social processes. After all, working and development capabilities are not exclusively individual. They have a strong collective dimension, which again depends on the systematic efforts of upgrading and the quality of the institutional framework.

Furthermore, social processes do not take place outside the economic sphere. They are crucial for the reproduction of work, knowledge, private ownership, exchange of goods, regulation of economic conflicts, and similar. Government institutions do not stand apart from the process of market economy development, but at the same time they cannot be its mere infrastructure. Regardless of how active a participant they are in this process, governmental institutions must retain their autonomy as an arbitrator in conflicts between social actors and suppliers of non-market services. The state is interested in successful economic development since this is crucial for the well-being and maintenance of its own institutions. The right to control and direct, as well as the consequent income redistribution, will again be the consequence of this basic function (Baletić, 1998).

This does not, of course, imply that the role of the state should be idealized. Its institutions often follow contradictory goals and programmes of social action, and it is difficult to secure complete consistency, or at least a balance of its functions. This is the reason why this is often an area of division and confrontation, in which particular social groups try to optimize their own interests. The possibilities for social conflicts and growing disparities are usually greater at the time of major changes and slow economic growth. The need for intervention is then greater, and the available resources are smaller. In such circumstances it is difficult to obtain a social consensus. Nevertheless,

then again the main criterion of state redistribution should be the strengthening of social solidarity, which is obtained by supporting the threatened parts of society and improving efficiency as well as fair social transfers.

## **2. Needs for changing the role of the government**

The above mentioned reflections relate to the state's regional policy also. Regional policy makers are currently faced with the reality of a very unstable global economy. This is particularly so in the politically and economically unstable transition economies. Growing international competition is exerting an increasing pressure on their regional entities. The central governments – which traditionally had the regional development policy under their competence – are left without the necessary resources for protecting and restructuring weaker regions and are accordingly limiting their activities. This is one of the reasons why the issue of decentralisation is coming to the fore in countries of Central and East Europe. Because, since the central governments cannot tackle the key issues of industrial restructuring and improve employment levels in weaker regions, it is not surprising that they are shifting responsibility to the lower levels. Unfortunately, they are still not well equipped, nor do they have the capacity to take such a burden and responsibility so suddenly.

As to the strategically important role of the central government level – it is not going to decline - neither in theory nor in practice. However, with the aim of enhancing more efficient management of regional development and support aimed towards the weaker regions, its role should be redefined and modified. From this point of view new instruments and intervention “techniques” should be implemented, which would counterbalance the shortcomings of the traditional regional policies, with a very stressed centralised, hierarchical and vertically organised role, which was particularly stressed in CEE countries.

Due to the fact that interventionism will always be present - regardless of all the prevailing critiques, it is not necessary to argue endlessly as to whether to find other alternatives to the role of the government, but, rather, to focus on the issue of how to “change” and restrict its role, with the aim of enhancing

economic growth and promoting government's efficiency in managing the regional development process on all levels.

However, just like in other policies, it is necessary to stress that extremes cannot be successful. This is particularly important when observing regional policies in CEE countries, which, after decades of centralized control, are often running into dangers of leaving crucial issues to the forces of the market. The shortcoming of such an approach are already visible related to the promotion of a key factor of regional and local economic development - SMEs - in most countries of the region.

Functioning in global conditions, weaker localities in CEE are seeking a creative answer for the new challenges they are faced with, seeking for new niches in circumstances of scarce technological capabilities. After all, globalization is not a one way process, as is evident from the experience of a great number of emerging dynamic innovative localities throughout Europe, but also from the cases of many weaker regions which remain passive in their reactions to these changes.

Luckily, the needs for decreasing control and coordination which was coming from "outside" and "above", gave rise in the past decade to a great number of local development initiatives in the weaker regions of CEE (as was the case in the more developed market economies in the past two decades). Such initiatives were the result, among other, of the rising consciousness from the part of the local actors and policy makers about their potential role and contribution while implementing local development policy.

Reflecting upon Croatia, policy makers on the central level, but also from Croatia's weaker regions, are extremely aware of the very delicate position of our country related to the oncoming foreign investments and competition. Being aware of the necessity to be open to foreign competition, they are also considering the experience of Ireland, Scotland and other parts of Europe which were severely affected by foreign competition. Such issues are currently often debated, with many contradictory and conflicting viewpoints. There is still no consensus regarding the way to tackle these strategically important questions - to protect the most sensitive segments of problem regions' economies or to have a completely liberal approach and let the

market mechanisms do its work? The prevailing opinions are somewhere in between: a market-oriented approach with a very active role of the local level and initiatives, combined with a more top-down approach (along with its short-term protective mechanisms) where the least developed regions are concerned, namely, the war affected regions, border regions, and islands.

Croatia's regional policy is currently at a crossroads, and indicates possible options for future approaches and policy measures. Substantial importance is currently given to the still rather sensitive issue of the role of the government, i.e., to the issue of government decentralisation.

Namely, Croatia is known for its markedly centralised government organisation, which was partly understandable in view of the simultaneous economic and political processes that the country was faced with. However, the current circumstances require a shift towards a much more decentralised approach, to go hand in hand with the recent localized development programmes, activities and initiatives in promoting employment, restructuring and overall economic and social development of areas lagging behind in economic development. It is expected that this issue, as well as the proposed alternative approaches which advocate and particularly emphasise the role of the locality, local actors and practitioners, as well as local development factors and initiatives, will give rise to interesting debates (and possibly disputes) among experts and policy makers in the coming months.

### **3. Regional development approach**

Current circumstances, along with the stressed needs for further decentralisation, which implies a changing role of the central government level, are in accordance with a different approach to regional and local development and policy in **Croatia**. Within this new approach, a much more significant role is to be given to the localities in managing, initiating, implementing, monitoring, controlling, evaluating and financing development initiatives geared towards promoting social and economic changes.

The reasons for attributing an important role to the local authorities, but also private entities, can be explained by the fact that it is by now evident in

Croatia also that the central government institutions are not capable of initiating local development and creating an innovative and entrepreneurial environment on the local level. Due to the previous very centralized approach, the central government institutions have failed to show flexibility in tackling local change and supporting local initiatives. This can of course partly be explained by the fact that, like elsewhere, they simply do not have the adequate understanding and knowledge of local problems, nor are they capable of considering all local developmental needs. They also appear to be incapable of mobilizing and coordinating development resources and reacting promptly to developmental problems in the localities (Stöhr, 1989, 1992).

The advantage of local or regional actions and development initiatives in the process of restructuring consists precisely in the fact that they can identify, mobilize and combine different potential local resources much better than the central policy.

In the framework of such an approach in Croatia, among other, the following issues are relevant:

- strong local governments, with good knowledge and understanding of local problems and relations and of the local labor market, capable of reacting and integrating local communities' interests, as well as representing them to the higher government levels
- large number of participants in development initiatives
- developed public-private partnerships, mutual confidence and consensus regarding the main development objectives
- seeking of new compromises with the central government.
- new modalities of financing which enable local control
- focus on the service sector, as well as sector linkages which were previously neglected or very poorly developed,
- international cooperation and internationalization of business.

In the absence of the central government's strategy for overall economic development, as well as regional, SME development and other key government policies (including the legal framework for these policies), in several Croatian counties local authorities, and less frequently local actors initiate developmental changes. Some of these activities receive support from

government institutions and others from non-governmental institutions (mainly foreign).

In comparison to other Central and East European countries, such initiatives are rather rare, owing to the fact that Croatia was not eligible to international technical assistance provided through the EU and other support structures to countries in transition. In such circumstances, the transfer of know how and best practices, as well as the financial resources for carrying out these initiatives were unavailable, and local authorities and initiators have to rely mainly on their own expertise, and partly on the experience of bordering countries (mainly Slovenia, Italy and Austria).

Most of the regional development initiatives came from the more developed counties situated in the north-western part of the country, a fact which makes the already existing regional disparities between these and the problem regions even worse. However, in order to avoid creating a wrong picture, we are talking about only a very small number of initiatives, the results of which can hardly be compared with the results achieved in the neighbouring countries.

These initiatives are mainly focused on the establishment of the first business support centres in Croatia, which are now functioning very successfully, and these experiences are closely analysed and followed by other counties.

Crucial issues of Croatia's regional development are the following:

- sustainable development of all parts of Croatia,
- industrial restructuring and diversification of industrial production,
- human resource development,
- development of small and medium sized innovative enterprises,
- physical ("hard" ) infrastructure, but also the economic support infrastructure,
- cooperation of central and local government bodies in promoting change.

On the other hand, **Slovenia's** approach towards regional development and policy is still hindered by the fact that the territorial reform of the country on a new basis has not been completed. This implies serious tasks, as well as problems, and discussions are still under way as to the needs for establishing



regions (only municipalities exist currently), their number, their competencies and organization – “bottom-up” or “top-down”. The municipalities are faced with complex problems related to the division of properties of previous communities.

In 1999 Slovenia adopted the Act on the Promotion of Balanced Regional Development thus setting up a basic institutional framework for implementation of the *acuqis* under the chapter Regional Policy and Coordination of Structural Instruments. Another relevant act – the Public Finance Act, introduces uniform procedures for planning, implementation and controlling of programmes financed from either domestic or foreign sources, as well as multi-year budgetary programming. Both Acts fully comply with the regional structural policy principles of the European Union.

In line with the EU structural policy and negotiating process which is under way, the main principles of the Slovenian regional policy are the principle of concentration, principle of programming, principle of partnership and the principle of additionality.

In regard to the first principle, the government has already embarked on dividing up the Republic of Slovenia’s territory into statistical territorial units on different NUTS levels.

Within the programming principle, the new Strategy for Economic Development of Slovenia and the National Development Plan for the years 2000-2006 are being prepared. The preparations are following the rules of the Structural Funds that apply to Objective 1 regions. The White Paper on the regional development of Slovenia was prepared in 1998 and has served as a basis for preparation of the Act on the Promotion of Balanced Regional Development. It will be upgraded by the Strategy of Regional Development of Slovenia.

Following the principle of partnership of interested ministries with local communities, social partners and other development factors in a region – Slovenia will establish a network of regional development agencies, whereby it will maximise the operations of existing institutions at the regional/local level,

suitably reinforce them and prepare them for effective implementation of its regional policy (Strmšník, 2000)

In the **Czech Republic**, the proposed Czech National Development Plan essentially changes the approach to regional development. By contrast to past practice, which was not based on the interconnected solution of individual measures implemented within the framework of regional or sectoral policies, the National Development Plan is a systematic document that should synthesise and harmonise regional and sectoral interests. The determination of the priority axes and the follow-up priorities distinctly mark out the areas within which these issues will be solved, and, at the same time, the positive and negative features of individual aspects will be considered besides the overlapping of sectoral and regional approaches.

The approach to the solution of regional problems up to now, which was not fully conceptual, has also influenced the form and extent of the maintained data, which are necessary today. The proposed National Development Plan represents a solid framework, which is different from the current approach, even within the area of financial resources. However, a method of adjusting past data for the needs for the proposed National Development Plan structure was found, despite the fact that there have been changes in the budgetary structure in the period of 1994-1999.

**Slovakia's** approach to regional development and policy is based on the combination of different strategies – depending on the type of region we are considering. For example, the Bratislava region emphasises technological and innovative conceptions, and in the peripheral regions more mobility oriented and indigenous conceptions prevail. The general approach is based on the following objectives:

- co-ordination of regional economic and physical country and town planning system, due to unsuccessful and supplementary integration,

- co-ordination of regional policy with other economic policies (specially environmental, industrial and agricultural policy),
- promotion of the principles of subsidiarity into the process of decision making, into the creation of programs, projects and incentives,
- to pay more attention to marketing and regional management,
- reinforcing of the gradual approximation of the Slovak regional policy towards the regional policy of the EU.

An endogenous approach and “bottom-up” initiatives are given considerable importance in Slovakia”. In this regard the “bottom-up” associating of municipalities into different unions is considered as very optimistic development, as well as the Association of Towns and Municipalities, and the Union of Towns in Slovakia. Many interest groups of towns and municipalities have already been established.

The development of local incentives – as a significant aspect of the self-government function on the territory – is very large. Municipalities and their associations elaborated and implemented many projects and incentives in co-operation with consulting and information enterprises. Informal and formal ways of co-operation and co-ordination of local activities with entrepreneurs, agricultural enterprises, as a well as with church representatives, voluntary unions, branches of trade chambers and other non-governmental institutions create new power for regional development. Towns and municipalities are still trying to secure the development not only from redistributed but also from their own resources (local taxes and fees, securities, town-bonds). (Bucek, Busik, 1998)

Territorial decentralization in **Hungary** is realized on several levels, but these territorial levels do not have the same institutions or scope of authority. There is no clear division of tasks among the levels, and it is properly defined legally level in what cases and in what territorial and functional magnitudes direct central assistance is justified in intervening in the ‘selected’ and ‘crisis areas’. The scope of the regional level has not been defined and its institutions and functions have not yet developed.

Headway in distributing regional-development resources, decentralizing planning and coordinating partnership has been made at county level by

setting up county development councils. Nationwide experience shows that significant problems were caused by the ambiguous legal status of the councils, but the flexibility facilitated the establishment of these institutions, the first decisions on the distribution of funds, and acceleration of the planning processes.

The principle of **partnership**, emphasized in EU regional policy, seems more important than either the political legitimacy of regional policy decisions or subsidiarity. In this respect the Hungarian system of institutions is progressive.

Another characteristic of Hungarian decentralizations, is that the targets of decentralization are not local authorities or administrative bodies, but special partnership organizations operating on a basis of delegation.

#### **4. Regional development goals**

Regional development goals in the observed countries of CEE are currently quite in line with regional development goals in EU member countries. In Slovenia, The Czech Republic, Slovakia and Hungary, it can immediately be observed that the main objectives of the central government related to regional development are the compatibility of their countries' regional policies with the general EU regional policy. This was to be expected since it is a known fact that the whole negotiation process of adjusting their policies towards the EU has a very strong regional dimension, and that the adjustment of the regional development policy can evidently speed up the compatibility of their economic systems and policies in line with the obligations related to the integration process.

In **Croatia**, however, due to completely different circumstances, this process was delayed. In the second half of the nineties, in the post-war period, the government's regional development goals were mostly focused toward the following:

- rebuilding of the physical infrastructure demolished during the war
- establishing the social, health and educational infrastructure in the regions mostly affected by the war

- demographic revitalisation of the war affected, peripheral, border regions, islands, highland regions and other regions lagging in economic development
- industrial restructuring
- development of the sector of small and medium sized enterprises.

With such aims, the elaboration of several documents was initiated from the part of the central government institutions, among which the following can be mentioned:

- Elements for the Strategy of developing the SME sector
- National programme for the development of the Croatian islands
- Concept for Croatia's regional development
- Development of the Border regions towards Slovenia
- Strategy for the spatial planning of Croatia

A number of other development projects and strategies related to particular sectors (tourism, agriculture, industry) reflected particular problems in the Croatian weaker regions.

According to the Concept for Croatia regional policy, which was initiated from the part of the Ministry of Economy, the following objectives of Croatia's regional development come to the forefront:

- sustainable development
- development of the war-affected regions
- support to all categories of weaker regions (rural, highland, coastal, islands, border regions)
- decrease of regional disparities (particularly related to employment levels)
- support to industrial restructuring in the weaker regions
- development of competitive advantages of the Croatian economy
- creation of stimulatory framework for foreign investment
- stopping of the negative demographic trends
- entrepreneurial development
- adjustment of Croatia's regional policy towards EU standards.

However, due to changes in the Croatian government, this document was still not discussed on the parliamentary level. Also, regarding the last objective, it is precisely this fall that the first adjustment processes will be initiated within the regional policy framework. As is to be expected, the role of the central government level will be particularly stressed in this regard.

Among the main regional development goals of **Slovenia**, the following can be mentioned:

- balanced and sustainable regional development
- improvement of the functioning of municipalities and enlargement of their own resources
- territorial division of the country in line with EU standards, with the aim of creating entities which will be able to apply to the EU Structural funds and function as such in cross-border cooperation
- demographic recovery of weaker regions (particularly rural ones)
- development of services in regional centers
- development of physical infrastructure (priority is given to road infrastructure)

On the other hand, according to the national Development Plan of the **Czech Republic** for 2000-2006, among other, the regional development priorities are the following:

#### Prague

- Reliable transport respecting the city and regional environment.
- Economical and sustainable management of energy, water and other resources.
- Integration of Prague into European structures.

#### Central Bohemia

- Eliminating outdated technical infrastructure/equipment and services.
- Public transport improvements, ensuring transport accessibility.
- Revitalisation of underdeveloped areas.
- Population stability (housing construction, transport accessibility, support to SMEs).

### Southwest

- Developing of tourism and business infrastructure.
- Linking the region's transport systems with Germany and Austria.
- Reducing regional disparities in employment, developing traditional crafts and production, thereby increasing employment opportunities and population stability.
- Rural development and revitalisation of rural communities.

### Northwest

- Tackling particular unemployment problems (support to all types of business activity).
- Re-cultivation of land following the cessation of mining activities.
- Rehabilitation and development of the tourism and spa industries.

### Northeast

- Connecting the region to European transportation networks (motorway, railways).
- Development of the processing industry, including SMEs and the tourism industry.
- Stabilisation of rural living conditions through traditional as well as innovative types of agricultural and non-agricultural activities.

### Southeast

- Support to cross-border co-operation with Austria.
- Improvement of regional transport accessibility and services.
- Development of sales centres, supporting the completion of agricultural products.

### Central Moravia

- Improving regional transport accessibility and services.
- Protection of residential areas and prevention from floods.
- Revitalisation of mountain and border areas, including social and economic measures.

## Ostrava Region

- Recultivation of the Ostrava and Karvina landscape after the decline in mining.
- Modernisation of the regional motorway network.
- Solving specific unemployment problems (support to all types of business activity).

Among the regional development priorities of **Slovakia**, 2 issues are of key importance:

a) cross-border cooperation – within the Operational INTEREG program of Slovakia and Austria. The priority issues within this programme are the following:

- (technical infrastructure, economic and social development, ecology, labour force, planning, networks, technical assistance and management)
- demographic revitalisation
- transport infrastructure
- technical infrastructure
- labour market development
- development of international trade and comparative advantages.

b) reform of the local public administration and local incentives

*Medium-term* priority objectives of the **Hungarian** regional policy are:

- to remove institutional and technical barriers and use the general instruments of *enterprise promotion* in regions where economic development has already begun or is expected to begin in the near future, to establish enterprise zones and industrial parks;
- to tackle the *crisis* caused by acute social and *employment problems*. In addition to the inevitable provision of unemployment benefit and social assistance, education, training, and retraining, community work, which can help solve the infrastructural, environmental and social problems of settlements;
- to start the restructuring process through concentrated intervention in the regional focal points of the economic crisis;



- to formulate an adequate regional mobilisation policy based on internal development potentials and aimed at the reduction of regional social, demographical and ethnic segregation.

The *long-term* priorities of regional development are:

- to bring the spatial structure of economic activities in line with the requirements of sustainable development and the natural and environmental potential of the individual regions;
- to *create equal opportunities* for communities living in different regions and settlements in terms of economic activities, business opportunities, civilised living conditions and incomes;
- to ensure that Hungarian regions, large cities and other central settlements of different levels and with various functions are integrated into the European region with common and open borders.

## **5. Instruments/institutions of regional policy**

The instruments/institutions of regional policy in the considered countries are in line with their regional development goals. Namely, since all the countries in the region are giving priority to accession and adjustment issues and the compatibility of their regional policy in regard to EU policy – as is to be expected – all the observed countries have established a number of institutions on the central level for tackling these issues. Some of the countries have already embarked upon the second step - the development of regional institutions, for example Regional development agencies, Regional advisory councils and Regional development funds. Even though they are still an extension of the central government institutions and their policy, it is to be expected that in due time they will become more independent, linked to the private sector, and part of well developed network of such agencies not only in CEE, but also in the EU countries. After all, this is along the line with the regional development approach in all observed countries – in the framework of which the principles of subsidiarity, participation and additionality are given considerable importance. This trend towards decentralization is of key

importance and in the longterm will benefit not only the central, regional and local government, but even more so the entrepreneurial sector, business and other associations, NGO's focused on local development issues and local population on the whole.

Alongside with the governmental institutions developed so far in CEE countries, major importance was given in the past decade in all the countries of the region to the establishment of the economic support infrastructure for SMEs (small and medium sized enterprises) – business support centers, business incubators, and similar. Due to their potential role in speeding up the process of industrial restructuring by way of supporting entrepreneurial development, they were considered as a crucial instrument of local and regional policy both from the part of donor countries as well as countries in transition. However, as will be explained further on, the development of these instruments had its major drawbacks, particularly regarding the damage done to economic departments and similar local government offices on the local level in the countries in which they were established by way of international technical assistance.

Regarding **Croatia**, the institutional infrastructure and related instruments for regional development have been poorly developed. The fact that Croatia was not eligible for most international technical assistance programmes, and had not made concrete steps in the process of accession to the EU, hindered the development of such institutions. Currently the process is gaining momentum, and the Ministry for European Integration, as well as some other institutions on the central level are giving regional policy issues key importance.

The business support institutions on the local/regional level which have been established were the result of very successful local initiatives and strong commitment and motivation from the part of a small number of local actors. The only related institutions developed on the local/regional level which have a potentially important role to play in supporting regional development were the first local development agencies which were established through EU financial assistance, and UNOPS and ILO technical assistance. It is expected however that the forthcoming months will see a major progress in this

segment – particularly related to the accession issues and compatibility of the Croatian regional policy towards EU standards.

According to the new Act on the Promotion of Balanced Regional Development in **Slovenia**, the key institutions responsible for implementing the structural policy at the national level are the Structural Policy Council, the National Regional Development Agency, the Fund for Regional Development and the Preservation of the Settlement of Slovenian Rural Areas. Other bodies competent for implementation of the structural policy are the ministries that allocate development incentives.

The Structural Policy Council will function as a coordinating authority of the Government responsible for coordinating the proposed documents for implementation of structural policy at the national level and for the formation and coordination of national development incentives and structural assistance allocated by the European Union. The Council's members will be ministers, headed by the Minister of Economic Relations and Development.

The legal instrument for the transfer of government resources into the weaker regions is the Law on the stimulation of development in areas in demographic decline, since the resources from the Fund for regional development are insufficient and independent sources of local financing are still undeveloped. Other instruments also exist for supporting the development of weaker regions, towards which around 1% of GDP is allocated.

The National Regional Development Agency is a constituent body within the Ministry of Economic Relations and Development. The agency will be responsible for carrying out the development, counselling, promotional and coordination tasks of the state related to the promotion of development. Within the framework of the budget preparation procedure, it will prepare professional documentation for coordinating sectoral development programmes and allocating development incentives of various ministries. (Strmšnik, 2000).

In the **Czech Republic**, the National Programming Committee for Economic and Social Cohesion (NPC-ESC) and the Monitoring Committee for Economic

and Social Cohesion (MC-ESC) were established. One of the main activities of the NPC-EXC is the overall co-ordination and monitoring of preparations of programming documentation (National Development Plan, other). It co-ordinates activities connected with economic and social cohesion issues, and, in particular, the activities of the Regional and Sectoral Management and Monitoring Committees (RMMSs and SMMCs respectively). The Monitoring Committee has a broader composition. The scope of its activity consists of co-ordination, monitoring and reporting concerning economic and social cohesion issues. The sessions of the Monitoring Committee are held at least twice a year.

The Ministry for Regional Development chairs both these committees, their membership includes representatives of ministries, chairpersons of RMMSs and of other organisations relevant for policy of economic and social cohesion.

Sectoral Management Monitoring Committees (SMMC) will also be established. These committees should be also composed of representatives of the main partners, i.e. of entrepreneurial associations, chambers of commerce, trade unions, regions and/or experts from large private companies.

The situation on the regional level is more complicated. Units appointed by regional self-governments and/or by regional councils will manage selected regional activities derived from the RDP (National Development Plan) from their inauguration in 2001. Such units and organisational parts thereof (e.g. regional development departments) will ensure the necessary specialised background for the activities of the Regional Management and Monitoring Committees. In relation to the RDP and regional development programmes, the scope of work of the self-governing units should consist of monitoring, ensuring standard evaluation and preparation of documentation for the selection of projects and for the allocation of financial resources. A department of regional representation and/or a unit or the regional council will ensure ongoing management functions with respect to regional development agencies and liaison with other development entities. The preparation of development programmes and projects should become a permanent process.

Financial flows forms a relatively independent organisational line. The Joint Monitoring Committee (JMC) has ultimate responsibility for the co-ordination of EU financial assistance. Its role is to follow the implementation of programmes, evaluate the use of EU funds and recommend their possible reallocation if appropriate to different sub-programmes in the scope of the Financing Memorandum, in order for the optimal fulfilment of the stated aims. It is assumed that EU financial resources will be transferred to the Ministry of Finance – the National Fund. From there the money will be allocated to an Implementing Agency of the respective ministry for sectoral programmes. As for the Regional Operational Programmes, funds will go through the Centre for Regional Development (CRD) as the Implementing Agency of these programmes, to the NUTS II regions.

The Ministry for Economic Strategy established in all 38 districts of **Slovakia** Regional Information and Consulting Centers (RICC). Many of them were consecutively transformed to private enterprises or merged into a new founded network of the National agency for Small and Middle Enterprises. 12 RICC with 5 branches and 5 innovation centres (BIC – Business Innovation Centre) are established. Regional development agencies are established in most problem districts. The National Agency for Regional Development shall co-ordinate activities of public administration and self-government in the field of regional policy. It shall improve the use of internal and external resources for regional development.

The Regional Development Foundation is one of the main shareholders of investment fund Povazsky and Kysucky Entrepreneurial Fund in Zilina, is preparing and implementing projects on the revival and support to the development in the Upper Povazie districts.

The National Labour Office (and its regional and district Labour Offices) are in charge of solving unemployment problems in regions and districts.

The instruments of direct financial support are used with some restrictions. Direct governmental support is about 0,02% GDP. Most of this support is oriented towards the Regional Development Agency in Zilina and problem districts. We can hardly speak of a supportive regional policy in comparison with the EU regional policy. Other supportive financial instruments to influence

factor (labour, capital, technical development) mobility are not developed enough. The most commonly used instruments are credit policy (state guarantee of credits, diminishing of interest rate, delay of credit payment, prolonging of payment) and instruments of tax policy (tax releases).

Furthermore, Regional Economic and Social Councils for regional policy co-ordination were created in 1991 in most districts. Representatives from state territorial administration, local self-government, important enterprises, representatives from research institutes, universities, financial and consulting institutions, trade unions, association of cities etc. are incorporated in this Council.

Slovakia begun to develop a framework of modern regional policy instruments (information and consultancy, financial motivation, infrastructure, administrative regulations) – in spite of many problems. A rational combination of instruments, based on some development strategy in relation to enterprises, inhabitants and municipalities is needed.

An especially important instrument is the regional-development support specified in the budget allocation for the Ministry of Environment and Regional Policy, earmarked for tasks taken over from the Regional Development Fund. This provides grants, loans and interest subsidies to assist the development efforts of beneficiary regions.

The other significant financial instrument is the Regional Equalization Framework. This support infrastructural development by local authorities, and is wholly decentralized, based on indicators of development.

## **6. Some Lessons to be Learned**

While considering the role to be played from the part of local and regional government institutions in CEE countries it is important to bear in mind the past both positive, but unfortunately even more so the negative experience in the past decade through international support to the process of reconstruction, restructuring and development in these countries. This particularly comes to the forefront when observing the support provided to the development of the

SME sector on the local and regional development of these countries. Namely, very interesting recent research conducted by EU experts<sup>1</sup> shows that the potential role of the local and regional state in the first phases of the transition process was significantly downplayed.

This international support was mainly aimed at supporting the establishment of private business support centers in these countries. However, it appears now that most of these centers in the CEE countries are deteriorating rapidly - with some of them actually ceasing operating after the international funding ran out. The main reason for this situation is that there has been a persistent shortfall of financial support for the business support centers from the host central and local, governments, which were meant to take over after once international financial support terminated. Although many central governments have been reluctant to continue supporting them due to lack of financial resources, it is clear that those governments which have most resisted offering financial support are also those which most fully bought into the neo-liberal idea that the "invisible hand" was all that was needed in order to have a dynamic entrepreneurial environment. Local governments have generally tried to be more supportive, but they often resist offering anything more than small support to an institutional structure which they rightly perceive to have been deliberately designed to reduce their role and scope for local economic intervention, and which was very clearly headed towards the private sector in the very beginning.

In Slovakia, for example, small enterprise support was initially channelled through the regional development departments located within district government offices, but heavy pressure from western consultants to build private sector institutions was ultimately successful.

A great number of such centers are currently planning to survive by way of their transformation to private sector consultancies, with little immediate concern for the wider local economy. Meanwhile, the channelling of financial support overwhelmingly into the independent business support centers –

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<sup>1</sup> Information based on draft paper prepared by Bateman, M. (1999) SME development and the role of business support centres in the transition economies: progress with the wrong model?, Working paper, University of Wolverhampton.

particularly that from the international community – has left local governments in CEE countries generally incapable of confronting the complex tasks related to economic restructuring and development of their weaker region.

This process of channelling a great part of international financial support for SME development into the establishment of such centers, the previously existing economic departments/offices located within most local authorities in CEE have actually been allowed to atrophy – even though this was an area which should have become one of their *most* important tasks.

In this context, at least related to SME development, which had its evident draw back on local and regional development in CEE countries, it is clear that the neo-liberal agenda was too influential to effectively preclude from the policy debate in these countries any meaningful discussion of wider state intervention.

Namely, so far, the neo-liberal approach seems to have undermined the sustained and efficient operations of these centers or their networks, rather than make a contribution. As the first phase of transition is effectively coming to an end, it is to be hoped that this extremely problematic experience will be incorporated into the new SME support programmes aiming to promote local economic development, which are currently being discussed in many of the major international assistance agencies. In particular, the role of local government in SME development needs to be re-assessed with the aim of helping local governments assume a more expansive, direct and creative role in SME development.

Because, it cannot be argued that local and regional economies have an endogenous growth potential which can be explored and exploited by local and regional governments and related bodies. In this regard, CEE countries should consider the transfer of experience in EU member countries in which the local and regional governments played a noteworthy role – Spain, Italy, Germany, but also the experiences in, for example, Japan, Asian “tiger” and other countries - which could provide the starting point for a policy framework for SMEs – a key factor for promoting the process of privatization, industrial restructuring and local and regional economic development in these countries. Also, the great importance of sharing and transfer of experiences among CEE



countries should not be underestimated. This experience is particularly relevant for Croatia and countries of South and East Europe which are only embarking on this process. The transfer of such experiences would lessen the shortcomings related to the neo-liberal approach, which is on the rise in all Central and East European countries.

## **7. Concluding remarks**

The role of the central level will in the future always be irreplaceable in restructuring the economy and redistributing income, but it is evident that such a role is not sufficient. Developmental processes ask for a combined role of the activities of the central, regional and local level, enterprises, business associations and investors.

Evidently, it seems that a balance should be achieved between the forces acting “from below” and those affecting development “from above” – including market processes and the role, although changed, of the government. A “bottom-up” approach, namely, makes for guidance, for proposals, incentives, training, informing, linkage, complementation and adjustment, all of which act in favour of regional, industrial and technological development and growth of entrepreneurship. It is also to be expected that the current debates and political pressures will produce planning processes that will be not only more flexible but also operate in both directions, “bottom-up” and “top-down”, including closer cooperation and compromise between local, county and central levels of government.

After all, current research and analysis in the field of economic policy goes hand in hand with the argument that strong central governments should go along with strong local governments – i.e. that local governments should not be an alternative to the central ones, but, rather, they should develop in parallel. Furthermore, however minor the role of the central government level is, and however much the wishes related to its withdrawal from the particularly strong role in regional policy – it can in no way be argued that its role is of strategic importance for the development of the weaker regions.

Countries of CEE have a lot to learn in this regard not only from the experiences of EU (Spain, Great Britain, other), but also from each other.

It is clear that the development of the weaker CEE localities cannot be the concern of only the inhabitants and local actors of these particular regions, neither should we look upon them as a possible solution for all economic and social problems. Local development of weaker regions should be incorporated into the whole framework of measures of economic policy which will encompass both supra local goals, as well as supra local actors.

After all, as Sengenberger stressed, local development does not imply a “de-activation” of the higher government levels, nor a simplification of decentralisation by way of replacing management and organisation on the central level with the local one, but rather the development of such a local policy which would be complementary to the central government’s policy, and which would be a part of a coordinated, integral approach with the aim of creating a more independent and stronger local economy .

The central question related to the role of the government in supporting the development of the weaker regions is not its intervention as such, but the type of intervention. The government is actually in a contradictory position, from the point of view that the invisible hand of the market cannot still manage successfully the process of complex changes. After the specific institutions will be developed in CEE countries, as well as the still lacking intermediary institutions between industry and science, as well as other economic support and development institutions, the government should limit its interventions and pave the way for more decentralised activities of the relevant private and autonomous subjects. In this regard, it is already a recognised fact from the part of some international institutions that there is a major pro-active role for local and regional government to play in promoting the private sector as a vital part of the process of reconstruction, industrial restructuring and economic development in all countries of CEE:

According to such a role, the government does not directly interfere in the operation of market mechanisms but imposes non-selective horizontal industrial policy measures. Such measures support the development of all sectors of economy by way of assisting the development of human resources,

“soft” and “hard” infrastructure and technological development, anti monopoly laws and similar. In the long-term period, the weaker regions would benefit much more from such a policy.

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