

Executive Summary

Central and Eastern Europe has been swept by a wave of reforms since 1989 and is still in a state of profound transformation. While the region is today one of the fastest growing in the world, it is facing some tremendous challenges. The extensive restructuring of the economy has created large scale unemployment in some regions while in others, the emerging private sector lacks the labour and skills it needs to grow. Many of those who have lost their jobs have been unable to qualify for the new employment being created and are affected by financial hardship and the erosion of public support.

This difficult situation has led to important movements of labour, as many have left their countries of origin in search of a better life. Migration, combined with a declining fertility rate and a rising mortality rate, has been an important phenomenon since the beginning of transition, with a number of countries losing significant shares of their population. This has led to soaring wages in some areas. Conversely, in areas in which private sector investment is slow, skilled workers are performing jobs that do not reflect their levels of education. Labour is thus used inefficiently and skills are becoming obsolete. Internal labour mobility could be expected to offset such problems, but it is often hampered by an underdeveloped housing market and an ill-adapted transport infrastructure. These factors have contributed to a worsening situation for large swathes of the population and the widening of regional disparities.

A more sustainable track

These conditions explain why the countries of Central and Eastern Europe have for some time been seeking to put economic development on a more self-sustaining track, counting more on their local assets than on foreign capital to stimulate local growth. Policies are increasingly being formulated so as to encourage the effective implementation of integrated development strategies which take into account the economic, labour market, social and environmental dimensions of development. These strategies are designed to build on local assets and competitive advantage, to take a long-term perspective and to make use of resources and expertise from all sectors of society (government, the private sector, civil society) and at all levels (local,

regional and national). They promote the drivers of growth on which local stakeholders can have an impact: skills, innovation, entrepreneurship and social cohesion.

Many such initiatives have been performing well by all standards. They have succeeded in fostering the development of SMEs, contributed to specialising or diversifying their industrial base, recycled the skills of laid-off workers, promoted social inclusion to share more evenly the benefits of growth and tackled market failures in the financing of small scale economic development initiatives, thereby leveraging economic activities locally.

These achievements have had to overcome significant obstacles, which are not necessarily different from those encountered in advanced economies: lack of financial resources, lack of capacity and leadership, reluctance to work in partnership, centralisation and compartmentalisation of policies, lack of disaggregated data to guide decisions, lack of evaluation to avoid repeating failures, and several other practical problems in the implementation phases of local development strategies. The region has been a formidable laboratory for economic development since the beginning of transition. Other emerging economies – in Latin America, Africa and Asia – as well as advanced economies can benefit from this experience.

Nearly 20 years after the fall of the Berlin Wall, it is timely to learn the lessons from the experience of Central and Eastern Europe in local economic and employment development. How do successful initiatives overcome the current challenges that local development faces in Central and Eastern Europe? What can government do to facilitate the process by which localities respond to the challenges of globalisation and seize the opportunities it offers?

Establishing local development structures and mechanisms

The book first looks at the governance structures that have been set up to foster local economic and employment development. It examines the experience of selected countries (Croatia, Poland, Serbia and Slovenia) in restructuring their institutional framework and compares this with similar initiatives in Canada, Finland and Ireland. The analysis shows that the regional and sub-regional institutional landscape is marked by considerable diversity throughout Central and Eastern Europe, especially in terms of administrative arrangements.

Self-governing units, at regional or sub-regional level, can act as a catalyst for economic and social development. To play this role fully they need to work towards building a consensual development strategy that can give orientation

to central government policy as well as to local actions. The size of such administrative units may influence this capacity. As the situation in both Croatia and Slovenia indicates, overly small areas lack the critical mass needed to have any influence on national policies and local action. The size of administrative structures should ideally reflect the interdependencies between cities and rural areas and the need to link them. This would help to determine the specialisation of regions and stimulate their capacity for innovation.

The problem of size and the comparison with advanced economies suggest that much can be done by introducing new forms of governance, such as partnerships or regional strategic platforms. The partnership structures that have been set up in rural counties and broad urban agglomerations have made it possible to reinforce the complementarities between urban centres and their surrounding areas and to overcome the difficulty introduced by administrative boundaries. Partnerships have also been active in these countries in building capacity for local economic and employment development.

The examination of many countries in the region signals that the potential benefits from establishing multi-sector partnerships are considerable. They can provide solutions to burning development issues in local communities while also bringing about welcome transformations within and across sectors by expanding access to resources, encouraging service-focused leadership, building participatory and inclusive decision-making practices, and achieving results that build on synergies.

Building trust and capacities

Partnership development in Central and Eastern Europe is constrained by a low level of trust between stakeholders of different sectors (public, private and civil society) that also inhibits collaboration across policy areas. Bridging the various organisations and linking the various stakeholders is a central subject of concern in the region and specific action needs to be undertaken to develop participatory democracy. There is an overall lack of resources and expertise in local development in Central and Eastern Europe, and a contribution from each sector of society is required to ensure success. In particular, an active civil society can put forward its own initiatives to complement or modify existing ones. This appears to be particularly important in poor communities in rural areas, which face multiple disadvantages.

Analysis shows that recognition that local and regional authorities are a vital element in a sound democratic state structure conditions the development of participatory democracy in Central and Eastern Europe. Local government can

provide guidance to the community, create an enabling environment and facilitate fund raising and institutional support. Also, the studies show that mobilisation works best if it is institutionalised within local government.

Local government officials can usually play this role effectively provided that their capacities are enhanced to the required level. Training should be targeted towards the staff involved in planning and decision making on local development initiatives, and should include advice on accounting procedures. It should aim to strengthen transparency and accountability, better define the responsibilities of each stakeholder, increase the capacity and the professionalism of local authority officials, provide training on how to communicate effectively with citizens and take their initiatives into account, and promote the core values of citizens' participation in local community affairs.

The need to build capacities locally and to provide a link between government and stakeholders from the private sector and civil society in the determination of strategic objectives are key aspects of successful local initiatives for growth. Partnerships are a standard feature of modern governance in advanced economies and their establishment is generally conducive to better outcomes if implemented with care. However, as the experience of advanced economies suggests, partnership and new forms of governance are only part of a broader picture.

Adjusting the national policy framework

The analysis indicates that not all can be achieved by local initiatives. National governments have a strong role to play in making things happen locally. This involvement mainly concerns national policy coherence and flexibility in the management of programmes. Not much can be expected from partnership development at a local level if a similar partnership approach is not taken at the national level. To open up possibilities locally, national government departments and social partners should, as in Ireland, first agree on what they expect from joint action at local level, and establish a joint strategic framework for these activities. Instead of fuelling the proliferation of fragmented local initiatives in various policy areas, making an integrated approach almost impossible, they should allow for the development of consistent initiatives associated with long-term strategic priorities. This can be achieved by the adoption of more flexible policy frameworks enabling policies to be adapted to local conditions. The analysis also suggests that the establishment of integrated regional government departments, as in Finland, can make a positive contribution to the promotion of the regional consistency of policy initiatives.

Overall it is well worthwhile to devote significant attention to reducing the complexity of the institutional landscape, avoiding the proliferation of new statutory or governance structures. Participatory democracy should not be seen as a tool to change power relations, as this risks diverting the focus away from the implementation of strategies with the consequent loss, of credibility and accountability. A more realistic goal is to set up a process through which diverse interest groups reveal problems, various experts propose potential measures, and administrators implement policies in the most effective manner, possibly with the support of elected officials and within a transparent framework.

Fostering entrepreneurship is a useful case study for understanding better what the respective role of central government and local initiatives should be in promoting local economic and employment development. Given the critical local dimension of entrepreneurship, policies must, to be effective, take into account various location-specific factors and tailor business assistance schemes to local conditions. Local and regional governments, business organisations, training service providers and economic development organisations are useful partners for governments in this endeavour.

The challenges associated with the governance of entrepreneurship have been particularly wide-ranging in the case of Central and Eastern Europe. One of the key roles for the state has been to develop a well co-ordinated relationship between the various actors involved in promoting and regulating enterprise creation and development at the national, regional and local levels. Analysis shows that more remains to be done on these aspects.

Setting the local finances right

More specifically, government should undertake action to provide local administrative units with the capacity to support economic development strategies financially when they are appraised positively and judged relevant. Local government can do much to finance entrepreneurship and SME development, notably in partnership with the private sector and financial institutions, as well as drawing on the non-profit sector fully to tackle market failures. This does not imply further subsidising local projects or enhancing government transfers. It rather consists in providing a clear and transparent framework for raising and allocating funds, supporting a broad strategic development process that can provide clear guidelines for the support of local development projects, and providing financial guarantees where needed. As case studies in Poland, Hungary and the Eastern *Länder* of Germany reveal, this would facilitate the establishment of public-private partnerships to finance SME development and the involvement of the non-profit sector in tackling market failures for small loans.

This in turn calls for greater autonomy in local financing so that local authorities can play an effective role in supporting local development. The analysis of the experience of Croatia, Belarus and Bulgaria shows that local and regional governments everywhere face the same problem of inadequate financing. The main revenue source for financing local development projects is locally raised budgets, and the funding sources for capital investment are limited. This reveals a problem of capacity as it is the responsibility of local authorities to identify and analyse technical and financial options and show investors that they have adequate and reliable revenues to meet their debt service obligations. Municipalities should also be able to define strategic orientations for economic development, which can in turn provide a rationale for the joint funding of relevant projects that meet strategic objectives.

Fiscal decentralisation can enhance the capacity of local governments in financing local development. In many countries of Central and Eastern Europe, there is a mismatch between the responsibility of local authorities in terms of service provision and the share of local budgets in the state budget. Fiscal decentralisation can contribute to the development of a favourable investment climate and foster sustainable development. A gradual devolution of taxation power to local authorities as well as the development and adoption of a stable legal framework for the principles and mechanisms of the intergovernmental transfer system would contribute to greater financial independence of municipalities.

ANNEX

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Table of Contents

Executive Summary	13
<i>Chapter 1. Local Innovations for Growth in Central and Eastern Europe:</i>	
Policy and Governance Issues	
By Sylvain Giguère	19
Introduction	20
New orientations for policies and institutions	21
What local strategies try to achieve	22
Obstacles	24
The governance structures of local development	27
From representative to participatory democracy	31
The governance of entrepreneurship and economic development .	33
Local development financing and fiscal autonomy	36
Main lessons and conclusions	38
Note	41
References	41
<i>Chapter 2. Local Governance for Economic Development: A Comparative</i>	
Analysis of Canadian and Irish Conditions and its Lessons for Poland	
By David J.A. Douglas	43
Introduction	44
Local development in rural Ontario: deficits and challenges	45
The institutional infrastructure	47
Toward a policy and programme response	48
Some contextual challenges	50
Ireland: progress and challenges relating to local development ...	52
Local governance in the Polish context: some challenges	
and transferables	56
Conclusions	61
Notes	63
References	63
<i>Chapter 3. Governance and Local Economic Development: In Search</i>	
of an Appropriate Governance Structure for Croatia	
By Ivana Rašić Bakarić, Marijana Sumpor and Jelena Šišinački.	69
Introduction	70

Theoretical basis for local and regional economic development . . .	71
An analysis of the institutional framework for local economic governance	77
Analysis of the local economies and economic governance in Croatia	80
Analysis of fiscal capacity for local economic development	84
Conclusion	87
Notes	88
References	89
Annex 3.A1. Functions and Responsibilities across Levels of Government	91
Chapter 4. Building a Governance Framework that Enables the Establishment of Partnerships in Slovenia: Comparison with Ireland and Finland	
By <i>Zdenka Kovač</i>	93
Introduction	94
Slovenia as a case study: the background	95
Experimenting with the self-management system	96
Looking for new models	98
Establishing local development partnerships for the first time	100
Initiating regional structures as a “top down” approach	103
New efforts in building decentralised governance	105
Keeping the partnerships going	107
Comparison with Ireland and Finland	109
Lessons to be learnt	115
References	117
Chapter 5. Strengthening Non-governmental Organisations for More Effective Local Governance and Partnerships in Serbia	
By <i>Vladan Jeremić and Željko Šević</i>	119
Introduction	120
Re-examining partnerships	121
What is needed to make a successful partnership?	126
Rethinking the Serbian case: Government and civil society on a joint mission?	128
The problems of setting-up local partnerships: Is there hope on the horizon?	132
Conclusion: The future of inter-sector co-operation	135
References	136
Chapter 6. Enforcing the Participation of Civil Society in Local Decision Making: The Lessons from the South-East Europe Experience	
By <i>Haralambos Kondonis</i>	139

Introduction	140
Building a strategy and the challenge of implementation	141
Capacity building and fiscal decentralisation	145
Promoting participative democracy at the local level	147
Linking local democracy and cross-border co-operation	149
Conclusion	151
Notes	152
Chapter 7. Participatory Democracy: From Ideals to Realities – the Lessons from Three Localities in Croatia	
<i>By Irena Đokic, Nenad Starc and Paul Stubbs</i>	155
Old practices: alive and kicking	156
Dealing with the inflow of resources	159
New contexts, new initiatives	160
An interim report card	166
Notes	172
References	172
Chapter 8. Mobilising the Population for Maximum Impact: UNDP's Experience in Albania	
<i>By Kalyan Pandey</i>	175
Introduction	176
The conceptual package of Social Mobilisation	177
Basic approach to Social Mobilisation	180
How can social mobilisation efforts help local governance and development?	180
A case study: a local development initiative supported by the Community Mobilisation Process	183
Conclusion	189
Chapter 9. Institutions, Governance and the Development of Entrepreneurship in Central and Eastern Europe	
<i>By David Smallbone</i>	191
Introduction	192
Entrepreneurship and government policy	193
Transitional environments with major institutional deficiencies ..	195
Institutions and SME development in accession States	199
Some governance issues	202
Conclusions and key policy issues	209
Notes	211
References	212
Chapter 10. The Experience of Public-private Partnerships in Financing Entrepreneurship in Eastern Germany and Poland	
<i>By Holger Kuhle</i>	215

Introduction	216
Local policy and credit provision for SMEs	216
Reducing the risk for private sector investments – the case of a Polish guarantee scheme	219
Using public sector funds – a micro credit scheme in Germany ...	222
Innovative financing models	224
Conclusion	226
Notes	228
Chapter 11. Community Development Banking to Foster Entrepreneurship: A Comparison between Experiments in Hungary and Poland	
By <i>Željko Šević</i>	231
Introduction	232
The entrepreneur and the SME	234
Rethinking the role of the state in promoting sustainable growth .	238
Different models for financing SMEs	244
Conclusion: Perspectives for financing social capital	250
References	253
Chapter 12. Tackling the Problem of Inadequate Financing for Local Development: The Case of Croatia	
By <i>Dubravka Jurlina Alibegović</i>	257
Present model of financing of local self-government units	258
Sources for financing local development projects	263
Limitations at local level in financing local development projects .	271
Recommendations for improving the financing of local development	272
Notes	275
References	276
Chapter 13. Fostering Local Development in Bulgaria: The Need of Fiscal Decentralisation	
By <i>Desislava Stoilova</i>	277
Introduction	278
Fiscal decentralisation and local governance	278
Local own-source revenues	281
Intergovernmental transfer system: Financial dependence of local governments	283
Municipal borrowing and local investment financing	287
Conclusions and issues for consideration	290
Notes	291
References	291
Chapter 14. Fiscal Autonomy and the Incentives to Stimulate Business Growth and Efficient Public Goods Provision: The Case of Belarus	
By <i>Irina Kolesnikova</i>	293

Introduction	294
Fiscal relations across government levels	295
The impact of fiscal incentives on business growth and the efficiency of provision of public goods	297
Conclusion	301
References	301
<i>Annex. About the Authors</i>	303

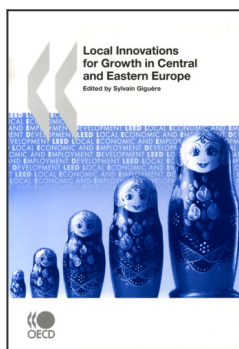
List of tables

6.1. Administrative organisation of SEE countries	142
6.2. Local and general government budgets	146
8.1. Financing the MDG targets	187
12.1. Local and regional self-governments' taxes	259
12.2. Distribution of shared taxes	260
12.3. Additional share of income tax for decentralised functions	261
12.4. Total revenues and grants of sub-national budgets	262
12.5. Sub-national budget expenditures, by economic classification ...	262
14.1. Indicators of fiscal decentralisation in Belarus	297
14.2. Composition of expenditures and revenues of an average locality's budget	298
14.3. Outcomes of public goods provision and new business formation	299
14.4. Pair-wise correlation coefficients	300

List of figures

4.1. The regional development partnerships structure as proposed in the new Law	106
5.1. Inter-sector partnership model	123
6.1. Fields of local governmental assistance in Stability Pact beneficiary countries (2003)	145
8.1. The CBO process	180
8.2. Programme coverage (villages)	185
8.3. Number and type of CBOs	185
8.4. Concentration of MCG projects	187
10.1. Advantages of a fund model	226
13.1. Bulgaria: Basic macroeconomic and budgetary indicators	280
13.2. Municipal revenue assignment (% of total local revenues)	280
13.3. Rates of local taxes and fees proceeds increase in comparison with local budgets increase	282
13.4. Local fees structure in FY 2004	282
13.5. Intergovernmental transfer system	285

13.6. Intergovernmental transfer structure	285
13.7. Additionally allocated subsidies	286
13.8. Local investments relative share in municipal budgets	287
13.9. Sources for local investment financing	288
13.10. Public sector debt indicators	289



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