

THE 2014 CHISINAU AGENDA

The Chisinau agenda is the outcome of the 4th International Conference on Overcoming Regional Disparities - Implementing Regional Development Policies: What are the key factors for success? This conference took place in Chisinau during 21-22 May, 2014 and is the result and follow-up to a series of conferences on Overcoming Regional Disparities, which were organized in cooperation with GIZ and other donors. The first conference took place in Ohrid, Macedonia in 2010, followed by Aranjelovac, Serbia in 2011 and Cetinje, Montenegro in 2012.

The conference was hosted by the Government of the Republic of Moldova and was attended by over 150 participants from over 20 countries from South Eastern Europe, Eastern Partnership and Central Asia, making this a unique forum for exchange of experiences related to the development of regions, including best practices and lessons learned, among the decision-makers and practitioners.

The focus of the conference was on the identification of key successes and challenges in the implementation of regional development as part of national development policies. In particular the discussion focused on the following dimensions:

1. What kind of multi-level Governance arrangements should be put in place to ensure effective planning and programming for regional development?
2. How to ensure effective project identification, prioritization and preparation for regional development?
3. How can Regional Development policy best support economic dimension of growth and job creation?
4. How to finance regional development in an effective and efficient way?

The outcome of the conference, the Chisinau agenda, is structured around the following topics: first regional development is put in the context of global development policy framework with the identification of the main principles that should be taken into account. Secondly, key success factors of efficient and effective implementation of regional development policy have been identified. They are structured according to the two main topics that attracted most attention at the conference: (a) From Programming to projects and impact and (b) Institutional, multi-level governance perspective. The Chisinau agenda rounds up with identification of some common themes where further work and exchange of experience would be particularly welcomed.

I. Regional development as key driver of growth

Over the last 20 years countries of South Eastern Europe, Eastern Partnership and Central Asia have shown high level of economic dynamism. At the same time data shows that region as a whole is potentially loosing its attractiveness to countries and regions further to the East, especially Asia. This underlines the importance of strengthened competitiveness and also a need for a clearer positioning of the region with regard to other areas of the world. Competition based on low costs is increasingly unsustainable for number of countries and regions, making reorientation towards more innovation based growth a necessity.

That being said, each country and region is facing its own specific challenges as well as opportunities. Data shows that the concept of the “average region” is not particularly helpful as far as policy making is concerned. Policies need to be adapted to the needs of particular areas, like big regional hubs on the one hand, or peripheral rural regions at the other. The discussion at the conference has also highlighted the need to take the development of a region into account when general policy principles are being translated into action. This is not relevant just in terms of financing capacity but especially as regards institutional capacity.

Regional disparities rightly remain on top of the political agenda of all the participating countries, however regional development is increasingly seem as a driver of growth, across all the regions, supporting their competition in the “world of regions”. Traditional sectoral approach to policy making can and should be complemented by the territorial dimension and integrated approach due to policy complementarities and differentiated outcomes of spatially blind policies. Stronger coordination of policies on the territorial level, on the ground, is increasingly recognised and also accepted as a must, if policy in question is to have sustainable impact.

The need for a territorial, integrated approach is further stressed by lack of funding putting additional pressure on the governments who need to ensure that greater needs are addressed with increasingly limited funds. In other words, it is paramount that governments make sure that funds are being channelled to programmes and projects that are able to achieve a sustainable positive impact. In order to achieve this, clear objectives and priorities have to be set, clear frameworks at the national level ensured. Clear and transparent policy environment represents a precondition for structured policy dialogue across levels of government as well as for active partnership with other stakeholders.

Regional development policy is thus a key engrredient for ensuring accellerated growth, making it an essentian component of good economic policy. Regional development policy is thus not only about the provision of infrastructure. Its value added can be even more clearly recognised in the areas like entrepreneurship, training, innovation, active labour market policies, etc., where policy complementarities in a given territory are particularly relevant.

Last but not least, the discussion has shown that good institutions and administrative capacity represent a precondition, which in spite of all empirical evidence, still does not receive enough attention. Without developed institutional capacity, at all levels, even the most well-intentioned policy initiatives will not deliver desired results. Good policy making is not (just) about allocating the money, but should be seen as a process providing dynamism, motivation, promotion of cooperation, services, thus collectively strengthening social capital and trust.

Especially in low-density regions, where there is a lack of purchasing power, a lack of markets and a lack of knowledge intensive ways of production it will require a different approach to promote competitiveness. It is not only about promoting social development but about creative solutions to promote innovative thinking, learning on markets as well as other instruments.

II. Key success factors of efficient and effective implementation of regional development policy

II.1. From Programming to projects and impact

From planning (strategies) to doing (priority interventions)

The efficient allocation of development efforts and resources requires coherent strategic planning, which primarily refers to:

1. A clear national development policy must be in place, guiding strategic and operational choices in all sectors and in all regions.
2. Policies must be translated into a set of interlinked strategies, based on sound methodologies, with clear development objectives and indicators.
3. In order to get implemented, strategies must be translated into programmes, equipped with appropriate budgets, determined on a multi-annual basis, but allowing for the necessary flexibility to react to eventual changes in the economic environment.

Plans and strategies should not be prepared for their own sake. They are needed in order to provide guidance for all the stakeholders in what direction a country or region intends to go and how does it intend to come there. Experience shows that oftentimes too much focus is put on formal requirements (e.g. long analytical parts), while not enough attention is put on actual strategy development.

Strategies should establish clear goals. Discussion has highlighted the need for a careful balance that needs to be struck between demand oriented investments that improve quality of life (e.g. provision of local amenities) on the one hand and supply side, economic development oriented interventions that increase the efficiency of production factors (transport and communication infrastructure, new technologies, increased skills etc.). Experience seems to suggest that there is a tendency to put too much focus on the former while latter does not receive enough attention. Experience of some of the large cohesion policy recipients illustrate the potential detrimental long term effects that out-of-balance strategies might entail.

The programming set-up, the hierarchy of regional development policy relevant planning documents (at these levels), does not need to be too complex. The aim should be a more targeted and better concentration of interventions based on the region-specific priorities, needs and development potentials.

Furthermore, goals should not be numerous thereby leading to dispersion of effort. Instead, given limited funding but also human capacity, goal setting should be meaningful and real, making choices for the future. In doing this focus should be put on strategic issues and identification of opportunities, which should be done in as open as possible partnership process.

What is thus needed is a predictable, measurable and transparent regional planning process, nationally coordinated, though regionally harmonised and integrated. Processes need to be designed and established that lead to integrated and strategic projects. Such processes need to include participation of the relevant actors along the vertical planning hierarchy as well as development of coordination and cooperation mechanisms to integrate/align projects from particular sector-approaches into integrated regional development strategy implementation. This requires, inter alia, strong political will, especially at national level and a cross-sectoral understanding of the regional development approach.

The integrated use of development funding needs to be ensured at three levels. Donor funds and domestic funds should serve the same strategy, led and owned by national governments. Financial resources in different sectors (ministries) are to be planned and spent in synergy with each other. The use of public funds at national, regional and local levels needs to be aligned with each other, so that the development efforts of all public authorities are mutually reinforcing.

Taking a territorial approach to development, a dialogue with regional and local stakeholders, a mutually-reinforcing relationship between sector policies and regional programmes, can do a lot to make development policy more relevant to real needs and more effective in delivering results. Partnership and multi-level governance enhance the quality of programming, and help to focus the efforts of all stakeholders on commonly defined goals in line with public policies. Thereby, consultation with regional authorities should not be limited to the “sector” of regional policy. All sector policies should be required

to have an explicit regional dimension, and be based on an organised and continuous dialogue with stakeholders.

Integrated cross-sectoral approach, if done properly, promotes focusing on a limited set of goals supported by bundled set of measures which go across different policy domains (business environment, human capital formation, infrastructure provision). Many countries are reforming in this direction, but implementation is still difficult. In order to be better able to define policy measures more could be done to better understand the challenges and policy options. Understanding of market failures and government failures require more innovative tools and instruments than those traditionally used (like SWOT, business surveys or needs assessments). It is important to identify e.g. market niches, product and process development requirements at firm level, matching requirements between businesses and support organisations, the identification of business strategies, or the key forces of competition in specific markets in order to be able to develop targeted, needs based and mutually reinforcing policy measures.

Between strategy and projects

Close and tight linkage between strategy and its implementation through programmes, and especially on the ground, has been recognised as particularly important. The absence or inadequacy of this link has been a recurrent and major problem in number of cases. In order to achieve this prospective project-makers need to know as early as possible how many of which kind of projects will be promoted, under what conditions and by when.

This is not a straightforward requirement as strategies and programmes might not necessarily be able to provide enough detail, however desired those details might be. Given that this is often the case, pragmatic solutions should be sought at the intermediate level of planning if necessary, i.e. through definition of some kind of action plans, operational policy frameworks, more detailed operational plans etc., which should provide clear and rather detailed policy framework. At this level, number of good and tangible (!) operational plans should not be seen as a weakness but rather as a strength provided that they provide clear enough guidance for development stakeholders. The level of detail and their complexity, including the strategies should however take into account the available funding and the identified needs: the relationship between these two dimension should namely be an important starting point for deciding how the path from strategy development to project implementation should be managed.

Such operational policy frameworks should be sufficiently simple and transparent so that they would be understood by the citizens. They should preferably also include project ideas and envisaged amount of funds needed for their implementation. Furthermore, even the best of frameworks will not deliver if they will not be prepared on time. Experience shows

that time management is an element of good policy making whose importance is oftentimes not appreciated enough.

Another expression of communication problems can be recognised in how difficult it is to get business sector representatives involved. Most of existing strategies are namely designed by public sector representatives and consultancies, who should make the effort and adapt their way of operation closer to the business sector. For example the strategies often lack a clear focus on the understanding of business strategies and market dynamics.

As it was stated in the working groups: „The private sector does not understand what we are doing and we do not understand what the private sector is really doing“. It leads to a lack of trust and blaming the other one. Only through real involvement, through visiting businesses in their environment and to understand their markets it will be possible to overcome mistrust and to identify the right interventions (beyond just financial fund access).

On the other hand also donor community and development partners could and should do more as far as their coordination is concerned. Extent to which they are able to work hand in hand, thus complementing their efforts and not engaging in harmful competition, will also facilitate beneficiary countries and regions to be able to engage in better coordinated and integrated development policies.

Towards the project level and impact

Achieving a lasting impact and project sustainability starts with planning and programming. The

- prioritisation of objectives on the basis of an integrated strategy,
- the concentration of resources to achieve a critical mass of interventions, and
- a clear performance framework.

are at the heart of the recent reform of the EU's cohesion policy. These methodologies are applicable in candidate and partner countries as well.

At the level of projects, the key elements of sound allocation decisions are

- a “market test” of the necessity of public intervention, including a formal cost-benefit analysis at least above a certain project size;
- the assessment of project applications based on qualitative (substantive) rather than formal criteria;
- transparent and simple selection procedures keeping transaction costs at bay;

- a realistic co-financing requirement from the beneficiaries to ensure proper ownership and reduce rent-seeking.

The access to development financing – e.g. by local authorities – may also be subject to ex-ante conditionalities, such as a transparent management of public funds, the application of the partnership principle, etc.

In large majority of countries of the region capacity for project generation and preparation still remains a challenge. Best practice examples show that organization of a pipeline can significantly improve the situation provided that project pipelines are properly managed. That firstly requires development of real capacity on the public administration side as those who own the assets should also be the ones who develop the projects. This in turn requires significant number of people to be empowered. This is a demanding exercise, which is often at least initially consultancy driven.

Identified project concept however represent only a necessary condition as there remains the challenge in preparing and developing them in time in order for them to be synchronized with the available funding.

The discussion at the conference has suggested that best practice examples allow for measurement of project progress in an organized fashion. That should allow administration to make sure that project are not developed too far beyond the concept stage if the policy framework is not ready and vice versa. Project preparation is namely a costly process and this should be taken into account. Hence throwing huge resources into project preparation and then thinking about how those project would actually be financed certainly cannot be considered as a good practice. On the other hand an organized project pipeline draws in sources of funding, while the donor funding can in turn further accelerate the development of good project pipeline.

II.2. Institutional, multi-level governance perspective

Key challenges:

Discussion on the multi-level governance starts with the recognition of the subsidiarity principle, i.e. that public goods and services should be provided at the lowest level still deemed efficient. This fundamental principle of cohesion policy and EU as a whole rests on the idea that lower levels have better information on what should be done, where and how, than higher levels.

This is of particular importance for development policy, which needs to build on local and regional capacities, needs to connect them and direct them towards limited number of activities where change and progress is possible.

At the same time, given limited resources, one needs to be careful that such considerations do not lead to inefficient territorial dispersion, fragmentation and loss of critical mass. Regions, for example, are increasingly recognised as the most appropriate level at which development should be promoted.

In spite of all the discussion on the importance of the sub-national levels, especially developments after the outburst of the crisis have shown that national policy, including macroeconomic and regulatory contexts, continue to play a crucial role. The importance of national level for development promotion should thus not be underplayed. This is especially relevant in smaller countries lagging behind where low capacity, critical mass and accessibility represent major obstacles for faster growth.

It is on the basis of these considerations it is possible to reconcile challenges that have been most often mentioned in the discussion:

1. While national level is very important for development, understanding of the importance of multi-level governance, i.e. close vertical coordination with lower levels and the importance of promoting bottom-up initiatives, remains a challenge. Top-down approaches with just some participatory elements in the programming processes represent a dominant practice, which is not sufficient. As a consequence centralisation continues to be perceived as too strong.
2. Development institutions at the regional level do not have clear policy frameworks, lack capacity and / or are even faced with uncertain institutional environment themselves, often forcing them to follow local interests instead of leading the way, pursuing public interest. Regional policies often do not provide results expected as they are not able to counteract local interest. As a consequence, if we are faced with too strong centralisation on the one hand, there also appears to be too much localism on the other end of the spectrum at the same time.
3. Institutions and their capacity matter: this is universally perceived as one the key challenges that will need to receive a lot of attention not just in the short but also in the medium to long term as capacity cannot be developed overnight.

Success factors and best practices to be followed

Regional development policy practitioners need to recognise that good policy making starts with strong leadership and clear vision. This is as true for the national as is for the regional

level. Precondition for this is however that the potential leaders have credibility that directions and actions agreed would eventually be put in practice.

Such credibility in fact often represents a challenge, especially on the regional level where no fiscal autonomy exists. In such cases regional development institutions are depended on structures higher up and lower down at the same time, seriously reducing their ability to enact agreement into practice. Leadership and vision should hence be seen as the other face of clear and transparent multi-level governance structure with developed capacity.

The role of institutions and actors as well as the position of the regional development policy process need to be well defined and also well communicated. Smart decisions need a constructive environment, as well as time: the processes needs to be well-structured, avoiding lengthy procedures, but at the same time making use of participation and evaluation processes as a corrective measures.

In this framework it is crucial that policy development and policy decisions are taken at the *scale that makes sense for growth*. This is not an easy task to do even conceptually, while political reality makes such decision even harder. Nevertheless, operating at the appropriate scale is of fundamental importance and experience shows that there is only rarely congruance between the policy and scale that one would expect.

Multi-level governance and regional development policy could be said is about *balancing top-down leadership and bottom-up initiative*, thereby combining the best of top-down with bottom-up approaches. Governments need to stimulate regions to enage, develop different reforms, tools and activities, which without incentives and coordination would not have happened. The leading role of the national governments is especially relevant in the countries and regions lagging behind in development, as there it is much more likely that capacities at the regional level are even more constrained. In fact discussion has shown that there was almost universal agreement that *at the beginning of the reform process the importance of the central level is especially high, while in a more advanced stages the regional level should have increasing and eventually even dominant role.*

Structures established at regional level thus need to be equipped and trained in a way that they can fulfill their roles and act as cooperation partners for both municipalities and national authorities. In the majority of countries present, proper political regions do not exist so that they need to rely on the non-political regional institutions, usually regional development agencies and different kinds of regional councils.

Given challenges mentioned above the following seems to represent the dominant experience:

1. *RDAs do not take over a strong role as mediators (of Public-Private Dialogue and between the national and local level)*

Many RDAs could take over a strong role as mediator between businesses or value chain actors and public representatives at local and regional level. But this role has not really been taken up in many regions. RDAs often rather act as implementing agencies of programmes than as intermediators to promote dialogue and change.

2. Lack of funding towards priority interventions

Many RDAs are responsible to support projects in different fields without really setting priorities.

3. Proper regulatory framework and funds for regional development

Without funds and an officially defined role RDAs are rather forced to become mainly commercially oriented or donor-driven organisations that fight for their own survival. Without a financial basis with which to operate and with which also to provide incentives for structural change projects, RDAs are not able to take a strong role in aligning communication and facilitating real change in the region.

4. The knowledge about private sector and municipality requirements could become a key asset to strengthen the coordination role of RDAs

One of the success factors to strengthen the coordination role of RDAs with the national level is to create and make use of a knowledge advantage. This again requires stronger cooperation with and understanding of the private sector and municipal requirements. Becoming an advocate on the promotion of competitiveness and job creation in this respect strengthens the RDAs advocacy power for more effective policies at the national level.

Last but not least, one of the key messages of the conference refers to capacity development. Sufficient attention needs to be given to public servants at all, but especially at local and regional, levels, in order to invest and develop their capacity. Experience shows that inputs of civil servants (and citizens through consultations as well) are usually weak and a lot of encouragements is needed in practice that their ideas are shaped and put forward.

III. Where next

What follows are some common themes where discussion has shown that further work and exchange of experience would be particularly welcomed.

1. Multilevel governance seems to be the most pressing issue and challenge facing the region. The institutional dimension is also important. In all sectors, development policy needs the inputs and efforts of regional and local stakeholders. The role and practical functioning of regional development councils and regional development agencies – especially in situations where a decentralisation of public administration, or public funds, is limited – could also be explored together.
2. As regards funding regional development, the first challenge to be met is the integrated and synergetic use of donor and domestic funds. The principles of the Paris Agenda for Aid Effectiveness should be translated into reality in all countries. This requires efforts by both the donors and the recipient countries. Sharing lessons and practices as regards the establishment of integrated strategic frameworks, a sound and transparent management of public resources, as well as efficient allocation mechanisms are good topics for future co-operation.
3. The partnership with the private sector, and leveraging private funds for public policy should be further discussed. Across the region, in cohesion policy, IPA and ENPI, new, innovative financial instruments are being introduced. How they can be applied in developing economies merits further discussion.
4. Project generation and selection procedures continue to represent a challenge. Key elements of sound allocation decisions have been already discussed however further reflection on a more detailed level would be needed.
5. What are the best way for capacity building and empowerment especially at the regional and local levels as well as other key development stakeholders.