4th International Conference on
Overcoming Regional Disparities

Implementing Regional Development Policies: What are the key factors for success?

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Workgroup 4: How to finance regional development in an effective and efficient way?

BACKGROUND PAPER
(Executive Summary)

Author: *Dr. Peter Heil*

1. Context

Guiding questions:

- *How can suitable funding mechanisms for Regional Development be designed? What are typical constraints for funding Regional Development?*
- *What types of mechanism ensure / promote sustainability of investments over longer term?*
- *How can different funding sources/modalities be pooled in order to reduce transaction costs?*
- *How can the private sector be best attracted to regional development and what role is there, if any, for innovative financial instruments (e.g. financial engineering)?*

In this workshop, participants are invited to discuss both the sources and the methods of regional development financing. The core issues to be looked at include:

- The different **funding sources** for implementing Regional Development (RD)
- Typical constraints for **financing RD implementation** and implementing structures
- Designing **suitable funding mechanisms**
- **Pooling sources** and place-based approaches
- **Effective and efficient spending**, sustainability
- Attracting the **private sector**

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On behalf of BMZ Federal Ministry for Economic Cooperation and Development
SWEDEN

The conditions for regional development in the countries of the region under review **could not be more diverse**. On the one hand, the current core issues of development policy in Europe – smart, sustainable and inclusive growth – are valid for all participating regions. On the other, their economic and social situations, as well as the geographical, political and institutional contexts of regional development, are very different.

EU member states are currently engaged in **relaunching cohesion policy** under a new legal framework for 2014-2020. This recent policy reform is likely to be substantial. The evergreen notions of concentrating financial resources and focussing on results have led to important political and methodological innovations. A strong link to the Europe 2020 strategy, strict rules on the distribution of funds among development priorities, a common set of thematic objectives and related indicators, making support conditional on actual results, and new instruments to promote place-based approaches are a logical continuation of the evolution of regional policy in the last 20 years. But their cumulative effect should now lead to a quantum leap – from a “policy for the poor” towards a policy of competitiveness. The main question is thus **whether the reform will indeed be successful and perhaps change the face of public investment policies forever.**

The countries of the **Western Balkans** are working on their process of political and economic transformation with the ultimate aim of EU membership. In their case, the challenge of development must be addressed with different financial tools. International assistance, especially grants, are much more limited. Donor programmes often operate in a policy and institutional framework that is separate from national policies. The international community has long realised that the gap between national and international development efforts needs to be closed. The main questions here are perhaps when, and how, this can be achieved – establishing a single framework for financing development in each country.

The lessons from cohesion policy, or EU pre-accession programmes, are also important for **Eastern European countries**. The challenges related to the efficient and effective use of public investment resources, the question of what funding mechanisms should be applied in order to address regional differences and local needs within a coherent national policy framework, and how multi-annual programming, subsidiarity and partnership with the private sector can contribute to the most efficient allocation of scarce resources, are the same.

Against that backdrop, the workshop hopes to instigate a **lively debate**, with experienced development professionals presenting country examples from three contrasting, recently acceded EU member states, and the participants themselves, who are asked to contribute their own personal perspectives.

2. How can suitable funding mechanisms for RD be designed? What are typical constraints for funding RD?

The first issue to be looked at, unsurprisingly, is the **lack of finance for development and the simultaneous difficulty of absorbing available aid resources**. These two **issues** seem to contradict each other, but they are both realities, and have been typical of aid recipient countries throughout the region for decades.

The solution to both problems is an **integrated approach** to all available funds for development: using foreign assistance to shape national policies through a spill-over of international best practices, and ensuring that strategic national priorities determine the use of foreign assistance (along the lines of the Paris Declaration of Aid Effectiveness).

A very important aspect of funding regional development is the distribution / sharing of financial resources between different **levels of government**. In most countries of the region, public financial resources are centralised. Regional and local authorities are financed from the national budget. There are, however, exceptions – such as Poland – where regional and local authorities have considerable powers of raising their own revenues and are able to co-fund regional development. This leads to a substantially different structure of regional development policy as a whole. Which one of the two approaches is the most effective, is one of the most hotly debated issues in regional development.

Questions to debate at the workshop:

- *What national funding sources are available, in your country, to finance regional development?*
- *How do you see the integration of national and international resources for development? How has that relationship developed over time?*
- *How are development resources distributed between different levels of government?*

Financing implementation

Transaction costs related to regional development programmes **can be high**, both because of donor requirements, and the need to apply complex planning and delivery systems involving a multitude of stakeholders and funding sources. The **budget of regional development programmes** – both donor-funded and national – **should directly provide for management costs**.

As regional development is (or at least, should be) planned and implemented in partnership with stakeholders from **different territorial levels**, the issue of financing implementation also arises at several levels. Quite often, national authorities tend to underestimate the importance of ensuring the availability of properly trained and funded implementation capacities at local and regional level. Effective regional policies always entail the realisation of a large number of projects, most of which are conceived and implemented locally. Therefore, regardless of the level of (de)centralisation of public administration, developing and financing local development capacity is a priority.

One of the solutions for assembling the necessary institutional capacities for regional development programmes is acting in **partnership**. Apart from regional and local authorities, social partners (employers, trade unions, civil society organisations) also have considerable knowledge, experience and people who can provide an invaluable contribution to designing and implementing effective regional development programmes. This option, however, is not always fully exploited.

Questions to debate at the workshop:

- *What are the key implementation structures for regional development responsible for programming, implementation and programme supervision in your country? What are the sources of financing for these institutions?*
- *Is available funding to support these structures sufficient?*
- *Are there regional / local development agencies in operation? Who do they report to?*
- *Do appropriate mechanisms exist for the participation of social partners and civil society? Are these structures properly funded?*

3. What types of mechanism ensure / promote sustainability of investments over longer term?

The funding for regional development programmes should generally be based on **multi-annual strategic frameworks**. At both sectoral and regional levels, multi-annual planning improves co-ordination, ensures predictability, and helps influence development partners to actively support overall national priorities.

The, practice of "spreading resources evenly" should be avoided. Effectiveness can be ensured through **focussing funds** on strategically important areas of intervention, where a critical mass of investment is achieved to guarantee qualitative change.
At the **level of projects**, optimum methods and conditions of project financing – be it for large projects, grant schemes or innovative financial instruments – need to be found in every country for themselves. Regardless of the funding sources, practical

challenges and solutions will be similar in all regional development programmes. This is another argument for an integrated approach to all development resources.

A perhaps indispensable element of developing best practices are **consultations with stakeholders** at all stages of the programme cycle, not just strategic programming, but also the detailed design of measures – as practical experience cannot be replaced by studying legal rules.

Questions to debate at the workshop:

- *What are the main programming tools at national, sectoral and regional level in your country?*
- *Is there a coherent (multi-annual) programme approach in operation? Are there mechanisms for multi-annual budget planning and execution in use? Do these function properly?*
- *Who is responsible for the preparation of different types (levels) of plans?*
- *What are the main funding tools used by the different development instruments and programmes? What is their size (significance), and the practical experience with them?*

4. How can different funding sources/modalities be pooled in order to reduce transaction costs?

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. This requires efficient ways of pooling funds from different sources and programmes into a single framework. To make that happen, local partners should have access to capacity building and technical assistance, the same way as central government agencies do.

Subsidiarity and **partnership with local stakeholders** improves the quality of programming and implementation. Local stakeholders should be consulted when regional – and sectoral – strategies are devised, and when projects are designed. They should also have the opportunity to propose their own projects. To ensure ownership, local stakeholders should also be required to co-fund them – taking into account their financial means. Partnership is relevant and positive, regardless of the overall set-up of multi-level governance in a country.

Regarding place-based approaches, EU cohesion policy seems again to be leading the way. Continuing the tradition of earlier community initiatives such as URBAN and LEADER, the new cohesion policy regulations offer a number of new, "**integrated**

territorial instruments". Although these are not entirely new, they still pose challenges to both national and regional stakeholders.

Questions to debate at the workshop:

- *Does your country use integrated territorial instruments?*
- *How is the participation of local players ensured?*
- *Are any planning and implementation tasks decentralised to regional or local players?*
- *What is your experience with a place-based approach in urban and in rural areas?*
- *Are there problems with sustainability?*

Effective and efficient spending

The management of regional development programmes requires considerable skill and experience. The continuous development of human resources in the bodies responsible for programmes and projects is important at all levels. Thinking outside the box, going beyond the usual **organisational and HR management** practice of public administrations, including a performance-oriented approach to remuneration, needs to be considered.

The **effectiveness** of regional policy – and economic development policies in general – can only be achieved through focussing scarce funds on strategically selected, critically important areas of intervention. It is in these areas, where – in order to induce qualitative change – a critical mass of investment needs to be achieved. For this, **multi-annual planning frameworks** with strict qualitative standards are necessary. This also applies to place-based approaches.

The cost-effectiveness of regional development – the **relationship between investment and impact** – is also a question of financing and management techniques. The debate about the use and harm of public investment policies is not restricted to regional development. Nor is the discussion about **fraud and corruption**. But the quality of regional development programme management in any country, inside and outside the EU, plays an important part there.

Questions to debate at the workshop:

- *How efficient are the regional development instruments in your country? Is the cost of operating allocation mechanisms is felt to be acceptable? What is the experience with red tape?*
- *Do regional development programmes and instruments deliver value for money?*

- *What are the typical problems during the implementation phase? (e.g. public procurement, land ownership, licences and permits, etc.) How are these managed?*
- *Is corruption a major issue? What mechanisms are used to fight corruption and fraud in public investment programme?*

5. How can the private sector be best attracted to regional development and what role is there, if any, for innovative financial instruments (e.g. financial engineering)?

Last, but not least, the ways and means to **leverage private sector financing for public investment objectives** need to be discussed. The traditional methods of public grants to enterprises are losing ground to more complex and more innovative financial instruments delivered through commercial banks. This trend is a serious challenge to regional development authorities, requiring the acquisition of specific knowledge and experience. In this area, like in all the others mentioned above, the exchange of experience from different countries is an indispensable stimulus for public sector managers and regional policy stakeholders.

Solutions are offered by newly developed EU-level instruments of the European Investment Bank, as well as multi-beneficiary programmes under the Instrument for Pre-Accession for the Western Balkans. Due to the complexity of practical problems, an **exchange of best practices** in an international context is particularly important in this area.

Questions to debate at the workshop:

- *In your country, are state-funded regional development programmes able to leverage substantial private funding?*
- *In what programmes / sectors / regions is private co-financing most significant?*
- *What are the financing mechanisms in which the private sector is participating?*
- *What is the experience with (and attitude towards) Public-Private Partnerships?*

This background paper was produced in the framework of the 4th International Conference on "Overcoming Regional Disparities - Implementing Regional Development Policies: What are the key factors for success?". The views expressed herein can in no way be taken to reflect the official opinion of the Governments, donors and partners.