

# **THE REGIONAL POLICY AND REGIONAL POTENTIAL IN SLOVAKIA**

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## **1) SHAPING THE REGIONAL POLICY IN THE S.R.**

The genesis of the regional policy in Slovakia was started in the late 1960s, in a common socialist State with the present-day Czech Republic. Political and economic reforms geared towards democracy, market economy, and the hitherto efforts of integration into the European Union in the 1990s began to change the form and direction of the regional policy in the S.R. In the past, the process of the regional policy shaping was, and still is, impacted by the overall framework conditions (i.e. economic, social, institutional, and the like) of its current operation and also the prospects in the nearest months and years. In this part of our paper the authors wish to give prominence to a retrospective view rather than a formula-type listing of the components of the regional policy of the S.R. It is believed that such an approach is more useful in terms of tracking down the continuity and changes of the system that is still in the process of shaping. Across various developmental stages, individual components, i.e. principles, definitions, legislation, conceptual and program documents, authorized institutions, etc., were attached a different degree of significance, status, and priority.

### ***1.1 Regional Policy of the S.R. Prior to 1990: The Legacy of Central Planning***

Prior to 1990, the issues of space planning had been addressed within the system of regional and territorial (physical) planning. The so-called regional planning was a subsystem of the national economy planning, and its role was to ensure a proportional development of the regional structure of the national economy. Capitalizing on the specificities of natural and economic conditions, a rational organisation of production forces was to be established and the territorial factor of the economy was to be utilized. A planned development of the regional structure was to control the differentiation of the standard of living of the population across the individual regions, address the environmental issues, procure for the defence of the State, and other tasks (Búšik, 1998). To meet these goals, long-term developmental projections were compiled, along with short-term regional plans, and implementation plans.

Territorial planning was part of the system of the society management and it was an activity geared towards the arrangement of functionally-linked components (natural and those created by the society) in a territory, with an objective to ensure a harmonious development of the material ambience for the life in the socialist society. The Act. No. 50.1976 Coll. on territorial planning and building regulations (the Act, several times amended, is still effective) stipulated territorial planning as a systemic activity which, in accordance with the fundamental goals and tasks of the national economy plan, addressed, in a comprehensive manner, a functional use of the territory, set forth the principles of its organisation, materially and timewise coordinated construction and other activities that impacted territorial development. The fundamental instrument of territorial planning was a system of the documentation of territorial planning that required the matching of regional and territorial planning.

However, the umbrella planning of the entire territory was the national economy planning, composed of a set of central national economy plans (state plans of the national economy development, state budgets, monetary plan, economic plans, regional plans) that were elaborated for a long-term, medium-term, and short-term implementation period.

The planning activity at the central government level was ensured by the State Planning Commission, or, the Czech and the Slovak Planning Commissions. These commissions also

finalized the regional planning process (after an administrative restructuring in Slovakia, this role was assumed by the Slovak Commission for Planning, Scientific, Technological, and Investment Development of the S.R.). In the period that followed, the issues of territorial planning were addressed by the Ministry of Construction and Technology of the S.R., followed by the Slovak Commission for Scientific, Technological, and Investment Development, and, eventually, by the Ministry of Construction of the S.R.

Within the framework of the then territorial and administrative structuring, there operated the regional national committees (Bratislava, West-Slovakian, Central-Slovakian, and East-Slovakian), district national committees, town, and local national committees. Towns and communities were not incorporated. Likewise, the budget at all the levels of national committees constituted a part of the state (central) budget. Formally, the concept of local government was non-existent.

At the regional and district levels, regional and territorial planning was implemented by the relevant divisions (the regional planning divisions, town planning divisions, and construction divisions) that operated within the framework of national committees. The planning process was dominated by the sectoral approach in its enforcement form, and regional and town structures and inter-regional relations were shaped under its dominating influence.

The legacy of central planning is summarized by Búšik (1998) as follows:

- the non-existence of value instruments resulting in the companies losing orientation towards a rational use of tangible and financial resources, and, hence, higher social labour costs;
- insufficient focus of companies on the use of internal resources (i.e. extensive development predominates), and, especially external savings, i.e. cost-savings thanks to an efficient use of production and non-production infrastructure;
- too rigid centralisation and the suppression of the role of the former national committees, i.e. state bodies responsible for the socio-economic development of the entrusted territories;
- disregard for the absorption capacity of a territory from the viewpoint of a healthy environment and varying conditions and givennesses across the individual regions.

If we are to consider the regional policy prior to 1990 from the viewpoint of theoretical concepts and strategies of the regional policy that have developed under the conditions of a functional market mechanism, the following may be stated (Buček, 1998):

- regional disparities were resolved by enforcing a command, mobility-oriented strategy, i.e. the development of the given regions was effectuated on the basis of the localisation and distribution of companies to regions and the re-distribution of funds from a single source/centre;
- the role of companies per se was rather passive, without having any significant impact upon the strategic and medium-term localisation decision-making;
- similarly, the role of regional links (i.e. the then regional and district national committees) was predominantly geared towards the economy managed by them, whereby the regional development plans were part of political lobbying in the central decision-making bodies;
- indeed, localisation factors in their neoclassical function were recognized on a perfunctory basis (proximity to resources, consumers, transportation costs, the use of local manpower,

- etc.), however, in the ambience of a centrally managed decision-making, distorted prices, preconception in the localisation decision-making, their actual impact was insignificant;
- in addition, the economic principles of localisation were interlinked with non-economic principles (e.g., the localisation from the military and strategic points of view, self-sufficiency of regions, the balancing of culture and social discrepancies, ensuring the “correct” class structure of a given region or town, localisation taking into account the relations with other COMECON countries, and the like), hence, a single strategy or theoretical concept was difficult to find;
  - among the predominating regional policy instruments were administrative measures (by virtue of a plan, controlled were prices whose role was dormant, as well as that of the currency and finance), whereby not only the individual regional policy instruments (financial instruments, information and counselling were non-existent, as well as infrastructure), but also the policy recipients (i.e. companies, the citizens, communities, and institutions) were subordinated to them.

## ***1.2 Regional Policy of the S.R. Between the Years 1991 and 1995: The Early Years of Transformation***

In the early years of the transformation, the shaping of a comprehensive concept of the regional policy of the S.R. was overshadowed by political changes and sweeping reform steps (price and foreign trade deregulation, privatisation, tax reform, agriculture reform, etc.). As stated by Ochoťnický (1995), “the regional development reform and the shaping of regional policies (despite several attempts at their conceptual guidance) in the S.R. was an outcome of a spontaneous process rather than a reflection of the shaping of other system components”. It entailed organisational changes in the S.R. institutional system (the inception of new ministries) and the public administration management system (the abolition of the regional level, the sharing of powers and funds between the state administration and the local government).

At the beginning of the transformation process, the regional policy-makers were confronted with the essential strategic dilemma (Ochoťnický, 1995):

- is the transformation period (when the fundamental market signals, such as market prices, exchange rate levels, the overall price level, wage level, and the like are only being established) an opportune moment for the enforcement of an active regional economic policy and structure policy? Will the attempts at alleviating regional economic and social problems not disturb the allocation functions of the market mechanism that is being created?
- is it more appropriate to address regional problems from the central or local (regional) level?

In the years 1991 and 1995, an answer to the above dilemma were several conceptual and implementation measures having a regional dimension. The very first task pursued by the Ministry for the Economic Strategy of the S.R. (at that time responsible for the issues related to regional development), in collaboration with district and city part authorities competent in the area of regional development, was that in the first half of 1991, it conducted a survey of the socio-economic standard of the districts of Slovakia. In the economic area, conducted was a survey based on the industrial pattern of districts (343 leading industrial companies, largely

with a headcount over 500) that was composed of the companies accounting for about a 70 per cent share in the overall employment in industry. At that time, this survey, together with the selected basic indicators of the socio-economic standard, represented a significant basis of the knowledge of the existing state, and its results were transposed into a report which, along with the principles of the regional economic policy, were placed on the government agenda, in July 1991 (refer to the Government Resolution No. 390/1991 on the Principles of the Regional Economic Policy).

### 1.2.1. The Principles of the Regional Policy in the S.R.

The principles of the regional economic policy constituted the early document of a trans-sectoral nature, attempting to formulate the government policy in a systemic fashion with a view to improve the economic situation in the problem regions. By this document, Slovakia professed the fundamental principles and objectives declared in the European Regional Planning Charter. The document set forth seven crucial principles, namely:

#### *1) The Principle of a Harmonious Regional Development*

The objective of a regional policy enforcing the above principle is to establish the preconditions for:

- a rational use of resources and a harmonious arrangement of economic and social functions of regions and municipalities
- a balanced economic and social development of regions
- environmental balance of a territory and environmental protection.

#### *2) The Principles of the Coordination of the Activities of the Individual Components of Regional Policy (the government, regions, communities, associations, etc.)*

Vertically, regional policy, being a part of the economic policy, is implemented via a continuous, mutually matched activity of the local self-government, territorial and central state administration bodies, and horizontally, via a territorial coordination of the individual types of sectoral and branch policies. The division of powers of the regional policy entities is laid down by the law.

#### *3) The Principle of Combining Government Support with the Regions' Own Resources*

The central government conducts a targeted activity geared towards the establishment of such an ambience that facilitates the activation of the local and regional development potential.

#### *4) The Principle of the Support of Territorial and Administrative Units and Specifically Delineated Regions*

The regional policy measures need not pertain exclusively to the territories delineated by administrative borders, they, too, may be applicable to the so-called specifically delineated territorial units.

#### *5) The Principle of Regional Support Via Market-Conformable Instruments*

The objective of the state regional policy is the establishment of an ambience stimulating the development of companies and regions (as distinct from the interventionism of central planning of the socialist type) by means of the implementation of the system instruments of tax, loan, and subsidy policies, whereby the possibility of their regional and local differentiation shall be enshrined in the relevant legal norms.

*6) The Principle of the Regional Development Programming*

The use of stimulation instruments leans on the analytical-projection, program, and information documents elaborated by the individual entities (protagonists) of regional policy.

*7) The Principle of Interlinking Regional Policy with Territorial Planning*

This entails the matching of two comparatively independent policies that overlap in a concrete territory. The mission of regional policy is to provide guidance to the socio-economic development, while territorial planning is targeted towards an optimum physical arrangement of the space.

Other principles (15 altogether) are listed in the document entitled *The Regional Policy of the S.R. Government* which was elaborated and submitted for comments to the interim government by the Centre for Strategic Studies (the then coordinator and manager in the regional policy area), in May 1994. Basically, the document detailed the seven “philosophical” principles approved in 1991. A novel feature was the accentuation of the principle of subsidiarity. However, the plans spelled out in this document failed to be implemented during the six-month government of prime minister Jozef Moravčík.

## 1.2.2 Regional Problems and Problem Regions

Economic depression associated with a low rate of the so-called transformation adaptation was markedly manifested in the counties of Veľký Krtíš, Lučenec, Rimavská Sobota, Rožňava, Spišská Nová Ves, and Trebišov; in the counties of Čadca, Dolný Kubín, Stará Ľubovňa, and Považská Bystrica, and furthermore, these trends were associated with the highest natural population growth in the S.R. The above counties were listed among those that were given priority treatment (refer to the Government Resolution No. 390/1991), and, in addition, identified were 13 microregions with persisting socio-economic problems. In 1994, their number was reduced to 9, and after 1994, the permanent delineation of marginal areas according to strictly defined criteria was abandoned. In addition, delineated were also nine regions most severely afflicted by environmental problems (Bratislava, Sereď – Šaľa, Žiar nad Hronom, the Upper Nitra region, Ružomberok, Košice, Jelšava – Lubeník, the Central Spiš region, Strážske – Vranov nad Topľou – Humenné).

At that time, the situation across the regions was monitored by the Centre for Strategic Studies, and according to the analyses elaborated by the Centre, the following issues were characteristic of the problem counties and microregions (ref. to the document *The Regional Policy of the S.R. Government, 1994*):

- high unemployment rate (specifically in young people), a high proportion of long-term unemployment
- low absorption capacity of small and medium-size enterprises in terms of employment
- unsatisfactory development of private enterprise (and its concentration in trade)

- after the transformation, a drain of experts from scientific and research and training institutions
- constraints due to an insufficient technical infrastructure.

In 1996, the government monitored 9 counties within the framework of the original territorial and administrative structuring of the S.R. (Lučenec, Rimavská Sobota, Rožňava, Spišská Nová Ves, Svidník, Trebišov, Veľký Krtíš, Michalovce, and Vranov nad Topľou) which, after the new territorial and administrative structuring became effective, were further divided into 16 counties, whereby 7 new counties were added (Poltár, Revúca, Gelnica, Levoča, Stropkov, Sobrance, and part of Detva county). The major criterion of a problem county was an over 20 per cent unemployment rate, whereby each county reporting such a high rate of unemployment automatically became a beneficiary of a package of individual support measures granted by the central government.

According to the state regional policy concept adopted in 1997, the territories of regions and counties pursuant to Act. No. 221/1996 Coll. on the territorial and administrative structuring of the Slovak Republic are deemed the object of regional policy. The government of the S.R. or a regional authority may also delineate specific territorial units, to address the specific problems of regional policy.

### ***1.3 Regional Policy of the S.R. Between the Years 1996 and 1998: A New Territorial and Administrative Structuring***

During 1996-1998, special attention was paid to the legislative, administrative, and institutional framework of regional policy at the central level. In 1996, the second reform step of the local public administration was made, which may be characterized as follows (Búšik, 1998):

- dramatic change in the territorial and administrative structuring of the State
- uniform two-tier system of the general local state administration offices, concentrating a wide range of tasks and powers
- efficient arrangement of the local state administration authorities based on horizontal integration.

#### **1.3.1 Progressing Reform of the Public Administration in the S.R.**

Pursuant to the Act of the National Council of the Slovak Republic No. 221/1996 Coll. on territorial and administrative structuring, the Slovak Republic is divided into regions which are further broken down to counties, and counties are composed of communities and military districts. The new arrangement of administrative units (at January 31, 1996), is shown in Table 1:



**Table 1: Territorial and administrative structuring of the S.R., since 1996**

<b>Administrative Structuring</b>	<b>Number</b>	<b>Nature of the Authority Operating in the Territory</b>
1) Communities, of which: towns military districts	2,871 136 4	the community local government bodies military district administration
2) Counties	79	county offices and territorial authorities of specialized state administration
3) Regions	8	regional offices and territorial offices of specialized state administration
4) Slovak Republic		the government of the S.R. and central state administration bodies

From the regional policy viewpoint, of significance was the amendment of the so-called Authority Act in 1995, by which the **Office for the Strategy of the Development of the Society, Science, and Technology of the S.R. (OSDSST S.R.)** was vested with the role of coordinator and manager of the regional development at the central level. At the regional and county office levels, **the divisions for regional development and other sectoral relations** were set up, whose role was to establish conditions for a more comprehensive and improved performance of the state administration in the regional development area, as distinct from the regional development departments that operated within the framework of the former county and district offices (for instance, the activities of several specialized offices merged, the outcome being the operation of a single office for the environment, education, cadastral issues, and the like).

### 1.3.2 The S.R. Regional Policy Documents

One of the principles of the regional policy in the S.R. states that the utilization of instruments should lean on concept and program documents elaborated by the individual entities of regional policy (refer to the Government Resolution No. 390/1991 on the Principles of the Regional Economic Policy). As early as 1991, the Commission of the Government of the S.R. for Economic Strategy (renamed to the Centre for Strategic Studies later on), leaning on the above principle, recommended to establish a hierarchical system of concept and program documents as follows:

- elaborated and at the nationwide level coordinated strategy of regional development (the program of the space structure of the national economy and regional development), applicable at the republic level;
- elaborated regional plans of socio-economic development that will attune and coordinate the plans of the centre, local self-government bodies, and production and non-production units located across the regions, applicable at the regional level;
- programs of the socio-economic development of towns and communities that will attune the interests of local communities with the plans of economic operators (organisations) located in the territory managed by these entities, elaborated by territorial districts.

The State Regional Policy Concept approved by the government of the S.R. in 1997 leans on the new territorial and administrative structuring. According to this Concept, at the nationwide (republic) level, it is necessary to elaborate the Regional Development Strategy and Support Programs linked to it; at the lower (regional) level, the Concepts of the Socio-economic Development of Regions and the Programs of the Socio-economic Development of Counties (pursuant to Act. No. 222/1996 Coll. on the organisation of the local state administration) are to be elaborated.

Currently, the document entitled **The Regional Development Strategy** is in its negotiation stage; it was drafted and submitted to the government for comments by the Office for the Strategy of the Development of the Society, Science, and Technology of the S.R. (OSDSST S.R.). In its analytical part, the present state of the socio-economic situation in the S.R. is evaluated, and, based on this, proposed are strategic plans, objectives, priorities, and short-, medium-, and long-term measures. This strategic document will serve as the fundamental starting point for the drafting of the Concepts of the Socio-economic Development of Regions and the Programs of the Socio-economic Development of Counties.

**The concept of the socio-economic development of regions** that will be elaborated (and updated every four years) by regional authorities in collaboration with the manager and coordinator responsible for regional development (i.e. the OSDSST S.R. until late 1998) and approved by the government of the S.R. will, first and foremost, contain the following (refer to the State Regional Policy Concept, 1997):

- the analysis of demographic, socio-economic, territorial and technological development of the region
- the use of available human resources with respect to the envisaged demand in the labour market
- the evaluation of strengths and weaknesses of the region in question
- measures proposed to ensure development objectives
- the development objectives quantification.

Under the immediate impact of the Government Resolution No. 390/1991, elaborated were **Programs of the Socio-economic Development of Counties**. Among the counties first elaborating these programs as early as 1991 were the counties of Čadca, Dolný Kubín, and Rimavská Sobota (i.e. counties, in which the transformation process at that time impacted the deterioration of the socio-economic standard most dramatically). To develop these counties, the programs capitalized on the tangible advantages of the region, and their objective was to eliminate the existing barriers to development. Also, they spelled out the solutions to recession and formulated the priority trends in the county development, whereby achieving the envisaged results was projected short- or medium-term. In 1992, over 24 counties disposed of their development programs, and in 1993, practically all the counties in the S.R. disposed of such programs. The drafting of these programs was within the responsibility of county authorities, methodologically and financially assisted by the Commission of the S.R. Government for Economic Strategy and the Centre for Strategic Studies later on, whereby the latter, in a stepwise manner, assumed coordination and management responsibilities for regional development. The work on these program documents continued at the county level in 1994 and 1995, and it resulted in the elaboration of concrete development programs, or, the involvement in specific state branch programs. However, according to the opinions of county authorities, several projects could not be implemented due to a shortage of funds (notably projects concerning the restructuring of the industry, infrastructure, and the like).

The drafting of the state regional policy documents is contingent on a close coordination with territorial planning (ref. to Item 1.2.1 on the regional policy principles in the S.R.). Coordination is to be ensured at the nationwide and regional, or, municipal levels. Hence, there is a need for cooperation in the set up of the **Concept of the Territorial Development of Slovakia** (the CTDS was elaborated by the Ministry of the Environment and its second draft was approved by the government of the S.R. in 1997) and the above-mentioned Strategy of the Regional Development of Slovakia (the draft was submitted in August 1998).

### 1.3.3. Rural Development in the S.R.

If in the classification of the rural area the population density per unit of area is opted for and the limit of 150 inhabitants per sq.km (using the OECD methodology) is taken for the criterion of "rurality", the result will be that 78.4 per cent of the population of Slovakia live in rural areas. Viewed in this light, Slovakia can be categorized as a rural country. This, too, is among the reasons, why the rural development policy is deemed a vital subsystem of the regional policy of the S.R.

In the last month of the mid 1998, the Ministry of Agriculture of the S.R. submitted a draft of the Concept of the Rural Development in the S.R. to the S.R. government, and it was approved by the government in September 1998. This is an open, convergence document, and it is envisaged that the document will be updated by late 2006. It spells out the fundamental principles of rural policy, strategic and specific goals and priorities of the rural development in the S.R. It addresses four areas that are to be an object of assistance, namely, the economy and employment, the creation and protection of the environment; human resource development, and the scientific and research base development. The concept is also expected to establish a starting platform for the ratification by the Slovak Republic of the European Charter of Rural Areas.

## **2) THE ANALYSIS OF REGIONAL DISPARITIES IN THE S.R.**

Slovakia is a country whose regions are markedly differentiated. Regional disparities are due to varying historical, cultural, political, geographical, and also economic and demographic development. Some regions have been severely disadvantaged by what sociologists refer to as historical marginalisation. These are regions that have been only marginally affected by industrialisation processes. As a rule, these territories were remote from the communication routes, which accounted for their ever-greater lagging behind the civilisation progress. Indeed, in the latter half of the 20<sup>th</sup> century, industrialisation affected these regions, however, the legacy of the past was not broken. The disparities between urbanized and (marginalized) non-urbanized regions became more marked, which was even true within the limits of a single county (Falt'an, Gajdoš, Pašiak, 1995).

At a time when the devolution of the population in municipalities and the activity deconcentration took place in urbanized countries, Slovakia, on the contrary, witnessed an intensified concentration and centralisation which was manifested in a political and administrative merger of communities. Regions were polarized, and while urbanisation zones were located in the middle altitudes of Slovakia on the one hand, on the other, into existence came peripheral areas in the borderline regions in which the marginalisation process was started (Krivý, 1996).

After 1990, the main impetus for the intensification of the differentiation processes in the S.R. regions was induced by the progressing transformation recession. Significant factors that appeared on the scene were the disintegration of the organized COMECON market, the collapse of the military production sale within the former Warsaw Pact countries, fiscal disturbances due to dramatic cuts in the until then regular state subsidies, the military production conversion was not prepared conceptually, the non-existence of some standard government policies (industrial, technological or a comprehensive regional economic policy), and also the break-up of the common State with the Czech Republic. These facts laid bare the structural weakness and a low capacity of the transformation adaptation of several regions, which has been manifested in the aggravation of the regional disparities in the S.R.

The reaction of the regional policy-makers to the above facts are detailed in chapters 1 and 3. In this chapter, the authors shall make an attempt to describe regions under the conditions of a new territorial and administrative structuring of the S.R. that was put into effect in June 1996. Favouring the current regions over counties in the selection of the basic object of the regional analysis and comparison leans on at least two reasons presented below:

Firstly, in 1995, the earliest more comprehensive study of the economic potential of the Slovak regions from the viewpoint of development opportunities was published. The study was elaborated by a team of researches of the Institute of Prognostication of the Slovak Academy of Sciences (Karasz et. al.). Of the then 38 counties, the study identified seven counties in which the GDP per capita exceeded the nationwide average and which had realistic chances to become "the spark plugs" of the economic development of regions in which they were located. These were the Bratislava, Košice, Trnava, Nitra, Banská Bystrica, Trenčín, and Žilina counties, and according to the current territorial and administrative structuring, each region, except Prešov, contains one of such above-average original counties.

Secondly, it is the current regions that establish the basis for the proposed regionalisation of Slovakia according to the NUTS methodology (ref. to Table 4). These territorial units

correspond to the NUTS 3 classification level, i.e. the last level up to which the direction and administration of the EU structural funds is assessed. Also, these are regions at the level of which the establishment of the local government of superior territorial units is planned, i.e. the so-called regional self-government.

## 2.1 The Economic Potential of the S.R. Regions

The economic potential of regions may be measured in a number of ways, however, for the needs of the regional comparison in this paper, the authors shall use the following indicators: value added per capita, investments per capita, direct foreign investments per capita, the number of business operators per 1,000 inhabitants, and the number of the unemployed per 1,000 inhabitants (refer to M.E.S.A. 10, 1996). Within the framework analysis of the regional disparities in the S.R., the authors shall draw from the published data of the Statistics Office of the S.R. In instances when the official regional statistical data were not available, it was necessary to compute the selected indicators. Table 3 arrays regions on the basis of six (i.e. the above five indicators, plus the total science and research expenditure indicator) selected economic indicators in 1997 (concrete data are shown in Table 2).

**Table 2: Economic Potential of Regions by Selected Indicators in 1997**

Region (1997)	No. of inhabitants	Unemployment rate	Enterprises per 1,000 inhabitants	Investments per inhabitant	FDI per inhabitant	Value added per inhabitant	R&D per inhabitant
BA	618 673	5,6	105	255 107	54 378	306 618	3 985
TT	549 621	11,2	65	25 863	7 097	97 973	3 748
TN	610 349	8,8	53	31 944	4 793	94 574	1 627
NE	717 241	14,4	60	20 282	4 079	76 963	824
ZA	689 504	8,1	57	24 790	1 404	76 071	858
BB	663 845	12,4	56	30 950	5 831	89 343	510
PO	777 301	16,1	48	14 042	4 279	58 172	267
KE	761 116	15	55	35 024	1 583	96 022	652
SR	5 387 650	11,5	61	52 212	9 793	108 866	1 437

Source: Statistics Office of the S.R. and author computations, 1998

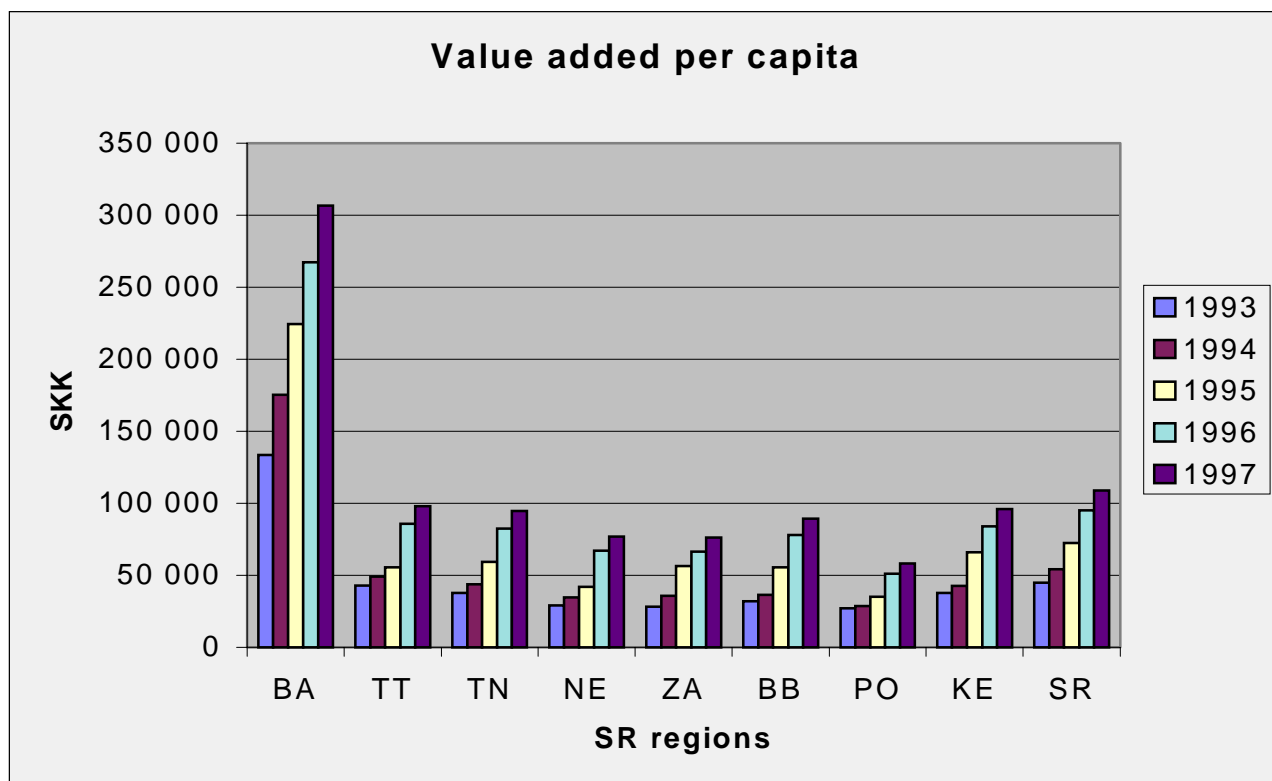
**Table 3: Ranking of Regions, by the 1997 Economic Potential**

Region (1997)	Unemployment rate	Business operators	Investments	FDI	Value added	R&D	Scoring	Ranking
BA	1	1	1	1	1	1	6	1.
TT	4	2	5	2	2	2	17	2.
TN	3	7	3	4	4	3	24	3.
NE	6	3	7	6	6	5	33	7.
ZA	2	4	6	8	7	4	31	5.-6.
BB	5	5	4	3	5	7	29	4.
PO	8	8	8	5	8	8	45	8.
KE	7	6	2	7	3	6	31	5.-6.

Source: Author computations

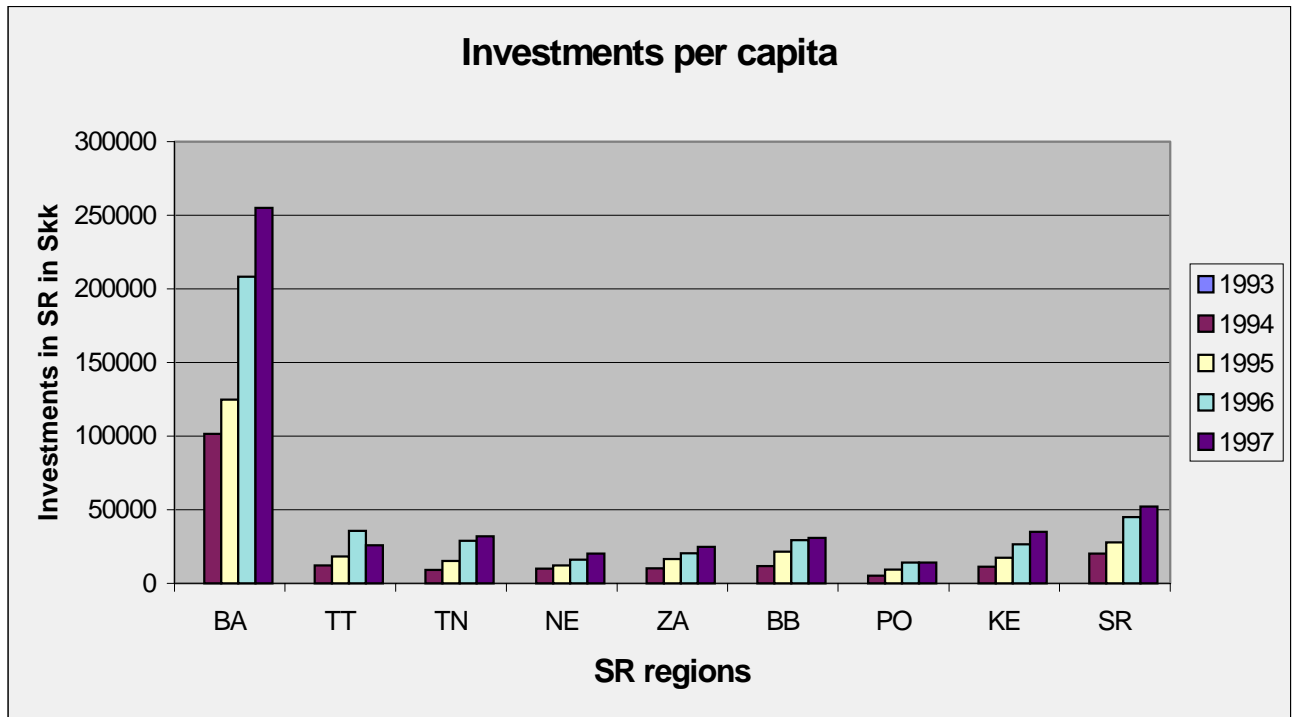
Graphs 1 to 5 show that the Bratislava region enjoys a unique position. Thanks to the economic potential of the city of Bratislava, the economic potential of this region is so big that in three of the five monitored indicators, the data for the Bratislava region raise the nationwide average so high that the remaining seven regions are placed below the Slovak average. For instance, in 1997, the values of the two crucial indicators in the Bratislava region ousted the S.R. average, notably, valued added per capita (about three times higher) and investments per capita (about 5 times higher). Furthermore, in 1997, the GDP per capita in the “most powerful” Bratislava region was computed to be 6 times higher than in the Prešov region - the “weakest” region - and in the case of the unemployment rate indicator, the difference was almost quadruple (Bratislava region – 4.9 per cent, Prešov region – 18.4 per cent, refer to Table 5).

**Graph 1: Value Added per capita according SR regions**



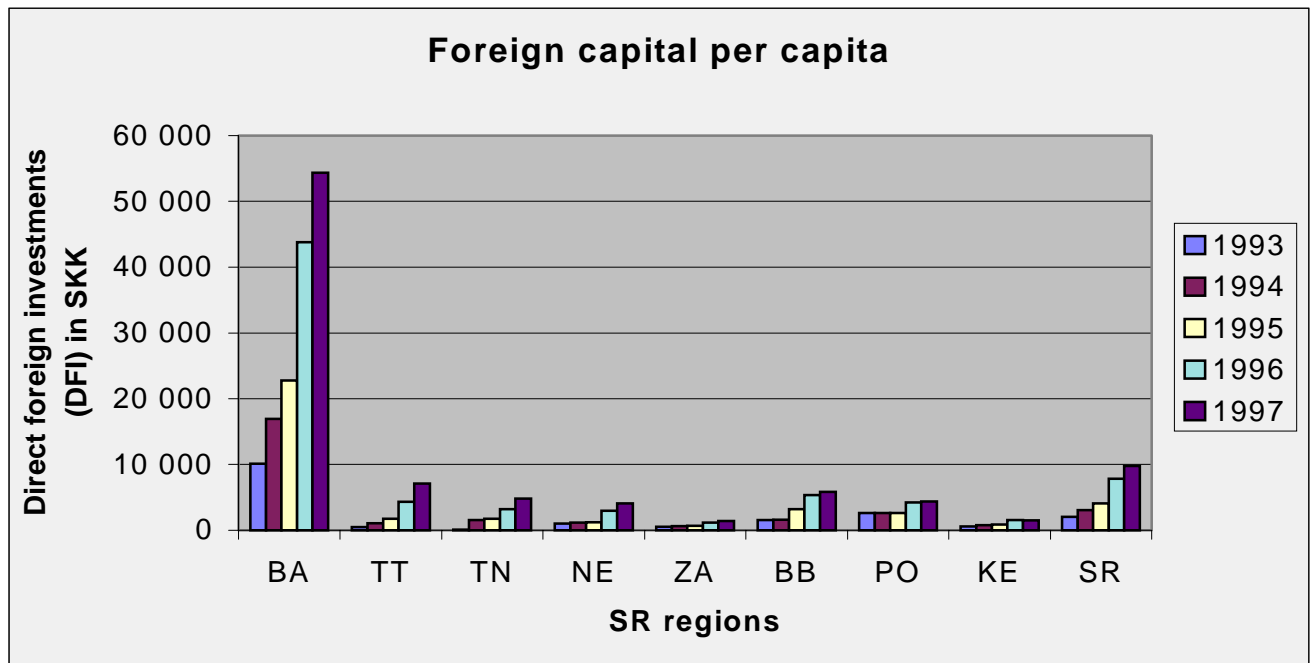
Source: Author computations based on selected data on S.R. regions for 1993-1997, Statistics Office of the S.R., 1994-1998)

**Graph 2: Investments in Slovakia in SKK according SR regions**



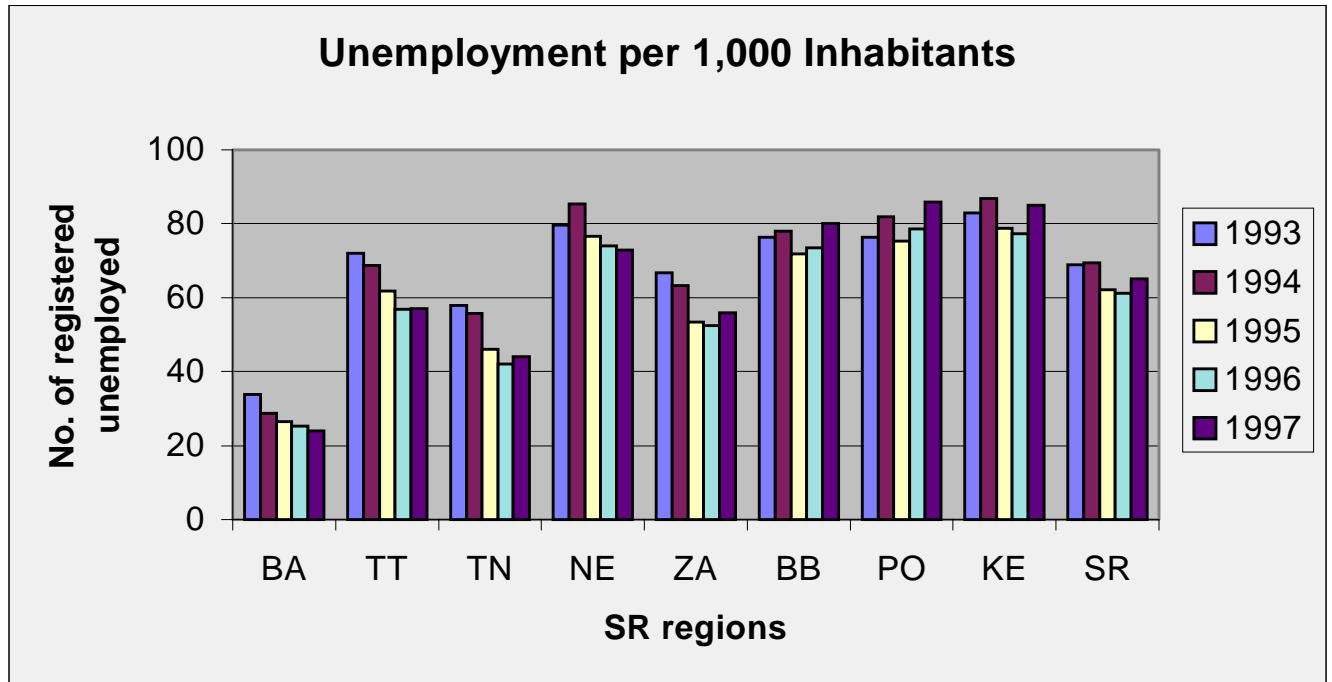
Source: Author computations based on selected data on S.R. regions for 1993-1997, Statistics Office of the S.R., 1994-1998)

**Graph 3: The volume of direct foreign investments (DFI) per capita, by S.R. regions**



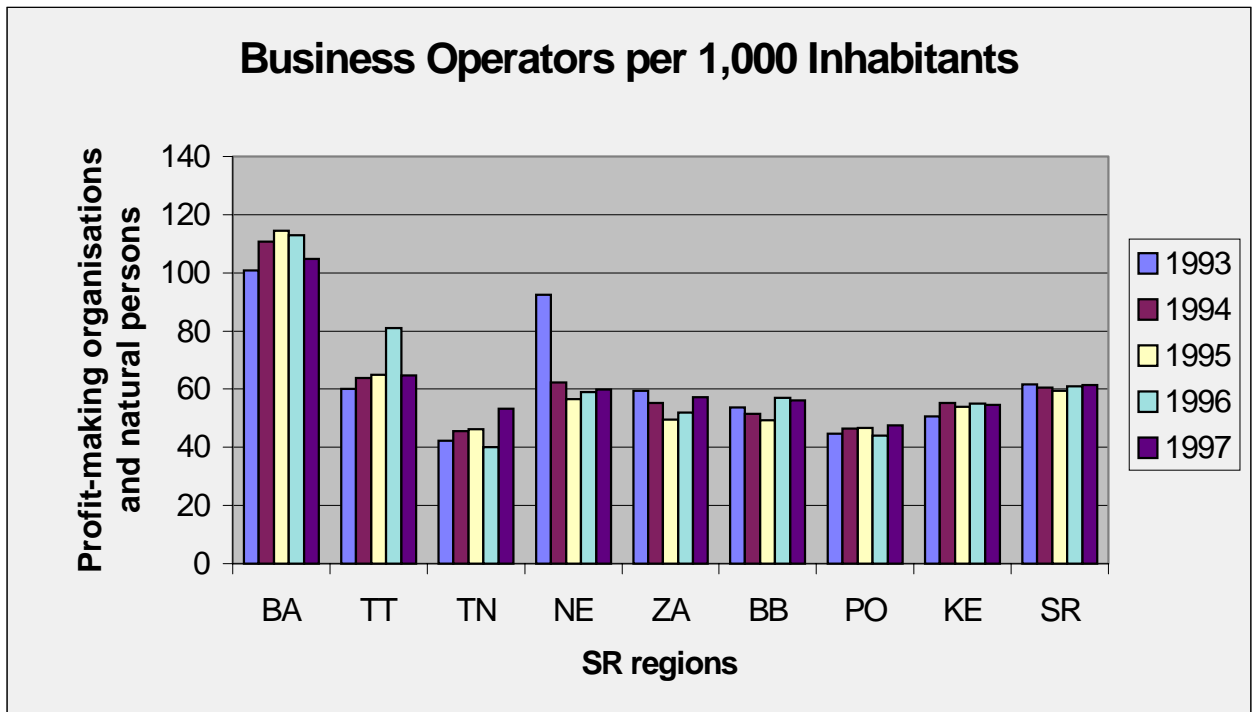
Source: Author computations based on selected data on S.R. regions for 1993-1997, Statistics Office of the S.R., 1994-1998)

Graph 4: No. of registered unemployed per 1,000 inhabitants, by S.R. regions



Source: Author computations based on selected data on S.R. regions for 1993-1997, Statistics Office of the S.R., 1994-1998)

Graph 5: No. of business operators (profit-oriented organisations and natural persons), by S.R. regions



Source: Author computations based on selected data on S.R. regions for 1993-1997, Statistics Office of the S.R., 1994-1998)



In the first quarter of 1998, a keener interest of foreign investors in Prešov and Košice regions was reported, and altogether, 42.1 per cent of the total growth of foreign direct investments was placed in these regions; in the investmentwise most attractive Bratislava region the then percentage was somewhat higher, 53.8 per cent. In 1997, the difference was much more dramatic – 62.6 per cent in the Bratislava region, and only 0.9 per cent in Prešov and Košice regions (source: Newsletter of the Statistics Office of the S.R., 1998). As regards the territorial placing of direct foreign investments, leaning on a detailed analysis of their long-term localisation in the territory of Slovakia, it may be stated that three localisation centres were established, namely, Bratislava and environs (the 1997 volume of direct foreign investments exceeded the S.R. average 5.5 times), followed by the counties of Trnava, Senica, Nitra, and Trenčín, and the third centre were the counties of Banská Bystrica, Žiar nad Hronom, and Prievidza. Basically, they create a compact area in central Považie (i.e. along the central part of the Váh River), the upper and central parts of Ponitrie (the Nitra River), and the central part of Pohronie (the Hron River). In eastern Slovakia, it covers the counties of Rožňava, Poprad, and Humenné (Gedopen, 1998).

## 2.2 Comparison with the E.U.

Table 4 shows the proposal of the regional classification levels of the Slovak Republic elaborated by the Statistics Office of the S.R. in collaboration with the European Commission in early 1998. Table 6 shows the status of the NUTS 2 regions in Slovakia, compared with the E.U. average.

**Table 4: The Regionalization of Slovakia according to NUTS (ref. to Búšik, 1998)**

Classification Level		No. of Territorial Units
NUTS 1	Republic	1
NUTS 2	New regions aggregation	4
NUTS 3	New regions	8
NUTS 4	New counties	79
NUTS 5	Communities	2,871

At the NUTS 2 level, the aggregations are:

- 1) Bratislava region (BA)
- 2) Trnava (TT), Trenčín (TN), Nitra (NE) regions
- 3) Žilina (ZA), Banská Bystrica (BB) regions
- 4) Prešov (PO), Košice (KE) regions

**Table 5: NUTS 2 and NUTS 3 Regions in Slovakia in the First Quarter of 1997 (Buček, 1998)**

NUTS 2 REGION	NUTS 3 REGION	Share per capita (% S.R.)	Share in GDP (% S.R.)	GDP/per capita (SKK)	Unemployment rate (%)	Investments (% S.R.)
Bratislava	Bratislava	11.5	35.0	292,900	4.9	52.1
West Slovakia	Trnava	10.2	25.4	70,070	12.3	20.9
	Trenčín	11.3				
	Nitra	13.3				
Central Slovakia	Žilina	12.8	19.3	73,975	13.6	13.8
	Banská	12.3				

	Bystrica					
Eastern Slovakia	Prešov Košice	14.4 14.1	20.3	68,880	18.3	13.2
Average		12.5	25.0	96,500	13.4	25.0
S.R. Total		100.0	100.0	96,500	13.4	100.0

**Table 6: GDP in the NUTS 2 Regions in Slovakia in the First Quarter of 1997 and Comparison with the E.U. Average (Buček, 1998)**

<b>NUTS 2 REGION</b>	<b>GDP per capita (SKK)</b>	<b>GDP per capita (ECU)</b>	<b>% of E.U. average</b>
Bratislava	292,900	21,536	122.5
West Slovakia	70,070	5,152	29.3
Central Slovakia	73,975	5,438	30.9
Eastern Slovakia	68,880	5,065	28.8
<b>Slovak Republic (S.R.)</b>	<b>96,500</b>	<b>7,096</b>	<b>40.4</b>
<b>European Union (E.U.)</b>		<b>17,580</b>	<b>100.0</b>

### 2.3 Summary

The dominant characteristics of the economic structure and potential of the S.R. regions is the centre – periphery relationship. In the majority of economic activities and indicators, the central position of Bratislava is given prominence, followed by Košice, and, when evaluating the situation more comprehensively, these regions are followed by the counties with markedly developed and urbanized centres, i.e. Žilina, Banská Bystrica, Prešov, Trnava, Trenčín, and Nitra (current seats of regions). The central location of Bratislava, the country's capital, with its location directly on the borderline with the E.U. (along with the re-orientation of foreign-trade relations to the advanced market economies of the West) is indelibly imprinted in the whole region-oriented development of the S.R. This will be the decisive direction of the development impulses in the future. Hence, the centre – periphery relationship ought to be also viewed in the light of the status of Bratislava as a centre of development immediately linked to the E.U. impulses and as a mediator of the impulses for the future development of other, notably marginal, counties of Slovakia. Therefore, some indicators, although enhancing marginality at first sight (e.g. a high share of foreign investments in Bratislava), ought to be viewed within the above development and time context (Buček, 1998).

At this point it should be noted that the extent and quality of available statistical data are vital for the determination of the extent and interpretative value of any regional analysis under the S.R. conditions. If the analysis of the regional development potential (economic, social, political, and the like) is to provide a sound basis for the conclusion formulation, it is necessary to supplement the quantitative computations with the processing of the so-called soft data, i.e. miscellaneous information that detail the situation in the individual Slovak regions (ref. to Chapter 3).

### **3) THE FURTHERANCE OF REGIONAL AND RURAL DEVELOPMENT IN THE S.R.**

In Chapter 1, the authors attempted to provide a view in retrospect of the regional policy of the S.R. prior to 1990 up to the present. In retrospect, principles, goals, and program documents were mentioned, on which the regional policy in the S.R. leans, or, should lean. In Chapter 2, analyzed were regional disparities based on the selected indicators of economic development. In this Chapter, the authors shall focus on regional policy as a targeted activity of the centre geared towards the solution of the abovementioned regional disparities: first, focus will be placed on institutions and agencies that, within the framework of their agenda and powers, partake in the drafting and implementation of the state regional policy (institutional framework effective prior to 1998), and, subsequently, addressed will be concrete government instruments furthering the regional and rural development in Slovakia.

#### ***3.1 The Institutional Framework of the Regional Policy of the S.R.***

The 1997 concept of the state regional policy spells out goals and their procurement via a system of concept and program documents at the nationwide (republic) and regional levels. It is this core government document that sets forth the institutional procurement of the drafting and implementation of the S.R. regional policy, and, in a framework fashion, proposes its modification to suit the use of the E.U. structural fund mechanism.

Individual entities partake in the process of the state economic policy creation and implementation as follows:

##### **The government of the Slovak Republic**

- approves the Strategy of the Regional Development of Slovakia
- approves the State Regional Policy Concept
- approves the Concepts of the Socio-economic Development of Regions
- approves the Criteria for the Evaluation, Approval, and Funding of Projects promoting regional development
- approves the S.R. Regional Support Programs.

##### **The Office for the Strategy of the Development of the Society, Science, and Technology (by late 1998)**

- coordinates the drafting and implementation of the state regional policy
- elaborates the State Regional Policy Concept
- elaborates the Strategy of the Regional Development of Slovakia
- elaborates the Criteria for the Evaluation, Approval, and Funding of Projects promoting regional development
- issues methodological guidelines and rules, to guide the contents of the elaboration of concept and program documents
- methodologically guides the activity of the regional development divisions and other sectoral relations at regional and county offices
- initiates and organizes inter-regional and cross-border collaboration
- coordinates the elaboration of the Regional Support Programs of the S.R.
- elaborates the drafts of legislative provisions for the regional policy implementation.

### **Ministries and Other State Administration Central Bodies**

- partake in the elaboration of the Strategy of the Regional Development of Slovakia and Regional Support Programs of the S.R.
- within their powers and sectoral policies, procure for the goals and tasks that follow from the approved Strategy of the Regional Development of Slovakia
- collaborate with regional authorities in the elaboration and implementation of the Concepts of the Regional Socio-economic Development.

### **Regional Authorities**

- procure for the elaboration of the Concept of the Regional Socio-economic Development
- collaborate with ministries and other state administration bodies in the implementation of the State Regional Policy Concept
- collaborate with regional and county authorities in the area of employment and labour market policies
- procure for the elaboration of the Strategy of the Regional Development of Slovakia, taking into account the conditions in their respective territory
- conduct the monitoring of the socio-economic situation in a region
- in conjunction with the elaboration of analytical and program development documents, coordinate the activity of county authorities in the region with other state bodies in the region
- on an annual basis, elaborate reports on the state and implementation of development goals within their respective territorial jurisdiction that are submitted to the OSDSST S.R.

### **County Authorities**

- procure for the elaboration of the Program of the Socio-economic Development of Counties
- provide for the necessary background documentation and analyses essential for the elaboration of concept and development documents
- conduct the monitoring of the socio-economic situation at the county level
- collaborate with regional and county employment agencies in the area of the employment and labour market policies
- collaborate with communities in the implementation of goals and targets of the state regional policy.

According to the Concept, after the self-government of the so-called superior territorial units (regional self-government) has been incepted, this is to partake in the process of the elaboration and implementation of the development programs in a territory as follows:

### **Regional Self-government**

- collaborates in the creation of the Concept of the Regional Socio-economic Development
- in collaboration with the local state administration bodies and communities, elaborates regional development programs and projects
- procures for the coordination (pursuant to the Bill on the Self-government of Superior Territorial Units) of communities in addressing problems concerning several communities.

## **The National Regional Development Agency**

Within the framework of the institutional infrastructure building, the government of the S.R. is in the preparatory stage of establishing the National Agency for the Regional Development in the S.R. that will act as an umbrella institution for the E.U. structural and cohesion funds. Tying into it will be a network of Regional Development Agencies (RDA). Via the National Agency for the Regional Development in the S.R., the priorities of the regional development of Slovakia will be implemented, assisted by the PHARE funding whereby the principle of co-financing by the national government and the relevant local bodies will be accepted. Also, the Agency is intended to coordinate the PHARE programs of cross-border cooperation (CBC, CREDO) and other horizontal (ECOS, OUVERTURE, PARTNERSHIP, etc.) and PHARE sectoral programs (the furtherance of small and medium-size enterprises, the labour market, the power sector, etc.). The Agency will coordinate and methodologically guide the elaboration of regional development studies and the preparation of individual projects (The State Regional Policy Concept, 1997).

### **3.2 The Instruments of the Regional Policy in the S.R.**

By their types and influence, regional-political instruments may be broken down into four basic categories, namely: financial motivation, information and counselling, infrastructure support, and administrative measures (Maier and Tödling, 1996). If the above classification is adopted and applied to Slovak conditions, it may be stated that of the instruments the regional policy in the S.R. currently disposes of, the most commonly used are the first two types, i.e. financial and information-consultancy instruments.

#### **3.2.1 Financial Motivation**

In 1994, the government of the S.R. embarked on **the National Program of the Support of Small and Medium-size Enterprise** under the auspices of the **Ministry of Economy of the S.R.** Funds are allocated from the state budget and other sources (i.e. PHARE, the EIB, the Slovak-American Enterprise Fund, EXIM Bank of Japan, and others). The above national program has found its legal embodiment in Act No. 100/1995, and in 1994-1995, based on the said Act, the responsible Ministry ushered in financial Support Programs with distinct regional implications as listed below:

- Loan Programs
  - loan support program for small and medium-size enterprise (SME)
  - the Small-scale Loan Scheme
  - the Microloan Scheme
  
- State sectoral development contributory programs (in coordination with the relevant ministry)
  - Development Program of the S.R. Tourism
  - Support Program of the Local Raw Material-based Industrial Production
  - Support Program of the Economic Activities Geared Towards Energy- and Imported Raw Materials-saving
  - Program of Energy-saving in apartment buildings and apartments

- the SME Support Program in Agriculture
- the Combined Production Development Program, and others
  
- Guarantee Programs:
  - SME Support Programs
  - Big Enterprise and Privatisation Assistance Program
  - SME Support Program in Agriculture
  - Seasonal Agricultural Work Support Program
  - SME Guarantee Program
  - Support Program in the Consturction and Retrofit of Small Hydro Power Plants
  - SME Support Program in the Form of Assuming Guarantees for the Local Financial Leasing
  - Enterprise Support Program in the Form of Assuming Counter-guarantees for Foreign Loans
  - SME Support Program in the Form of Assuming Guarantees in Selected Regions
  - Support Program in Arts and Crafts Production Geared Towards Consumer Services in the Form of Guarantee Provision
  
- Other Support Funds and Programs:
  - foreign credit lines extended by the European Investment Bank and EXIM Bank of Japan, American Loan Program (Slovak-American Enterprise Fund and Poľnobanka, Inc.)
  - The Foundation for Regional Development based in Bratislava (in support of the regions of Kysuce and the Upper Vah River, with PHARE as co-founder)
  - the Vah River and Kysuce Regions Enterprise Fund (PHARE as co-founder)
  - the Seed Capital Company, Ltd. (NADSME as founder) and others.

The Ministry of Economy of the S.R. implements its programs via:

- the National Agency for the Development of Small and Medium-size Enterprise (NADSME)
- the state Slovak Guarantee and Development Bank and some Slovak commercial banks (Tatrabanka), the Czechoslovak Commercial Bank, the General Credit Bank (VUB), the Slovak Savings Bank, Poľnobanka, and Istrobanka).

**The Ministry of Finance of the S.R.** allocates investment subsidies that help arrange the overall financial relationship between the state budget and local budgets (the mandatory financial relationship of the state budget and the budget title The General Treasury Administration). Also, the Ministry sets territorial compensatory subsidies to local budgets.

Also, the Ministry of Labour, Social Affairs, and the Family of the S.R. takes the regional specificities into account within the framework of the labour market policy, and does so via a network of district employment agencies. Until late 1996, the Employment Fund had been the source of funding these programs, and in 1997, its tasks and powers were assumed by the **National Labour Office** (the current Fund administrator). Recently, the projects of public interest have become a significant part of the rural development assistance. This entails works of manual and administrative nature that need to be carried out in city offices and local non-governmental organisations furthering rural development. Of similar significance are

programs geared towards the provision of the so-called socially useful jobs that are largely used by small and medium-size companies in urban and rural areas.

Within the environmental sector (the Ministry of the Environment of the S.R.), **the Environmental State Fund** was started as early as 1991. Its target group are local governments in towns and communities that may apply for assistance with environmental projects. This assistance is rendered in the form of a subsidy to cover part of the financial needs in the relevant year, whereby other expenditure must be covered by the communities from their own sources, or, via a loan granted by the First Municipal Bank Inc., or other banks.

In March 1997, by Resolution No. 222/1997, the government of the S.R. approved **The Rural Area Revitalisation Program**. The responsibility for the program was assumed by the Ministry of the Environment of the S.R., and the Ministry of Agriculture of the S.R. co-implemented the program. Within the program, five areas are rendered financial assistance, namely:

- the elaboration of the Community Revitalisation Program viewed as a development document
- the elaboration of the documentation of territorial planning
- the elaboration of the project documentation of individual structures
- the implementation of smaller projects
- other activities.

Within the sector of the **Ministry of Agriculture of the S.R.** (hereinafter the MA S.R.), the following rural development assistance tools are in existence: subsidies, credits, loans, interest rate support. Annually, the subsidy system is amended by the directive of the MA S.R. on the allocation of subsidies from the state budget. In addition to the system of subsidies in this sector, there are 5 earmarked funds (currently legally independent of the MA S.R.) which, in line with their status, directly assist rural development, namely:

- The State Support Fund in Agriculture and Foodstuff Industry

The Fund assists business operators in agriculture and the foodstuff industry, the environment, and the forest revitalisation. The assistance is rendered in the form of:

- a loan equivalent up to 70 per cent of acquisition costs
- a guarantee up to 40-70 per cent of the budget costs
- interest rate support (6-10 per cent interest rates).

In 1996, the Fund disposed of SKK 937.1 million, of which SKK 805.3 million were allocated for loans and SKK 131.1 million for guarantees.

- The Forestry Improvement Fund

The Fund extends loans and furnishes guarantees to forest proprietors, for growing and environment-friendly activities in forest management. In 1994, the Fund was allocated SKK 100 million, in 1996, it was SKK 546 million.

- The Land Protection and Improvement Fund

The Fund grants loans and furnishes guarantees on investments geared towards the land fertility improvement (amelioration, irrigation, etc.) The beneficiaries are owners of land and the amelioration equipment administrators (in 1994, the Fund disposed of SKK 200 million, in 1996, of SKK 156.8 million).

- Guarantee Fund

The Guarantee Fund furnishes guarantees to small and medium-size enterprise in agriculture via the state Slovak Guarantee and Development Bank in Bratislava. In 1995, 32 projects were allocated SKK 7.926 million, in 1996, SKK 150 million were allocated for the above purpose. The Fund activities are part of the Program of the SME Guarantees, and they are conducted in collaboration with the Ministry of Economy of the S.R.

- The Water Management Fund

To date, it has not been allocated any funding. According to its statutes, its activities are geared towards communities, notably the building of water mains, water treatment plants, and sewerage.

### 3.2.2 Information and Consulting

In 1993, the **National Agency for the Development of Small and Medium-size Enterprise (the NADSME)** was established as a nationwide institution funded from the state budget, its main mission being institutional support of small and medium-size enterprise (SME). The NADSME collaborates with the Ministry of Economy of the S.R. and other sectors in drafting support programs and co-creates framework conditions, including legislation. In this respect, it has a coordination function. In addition, it also operates as an information centre for entrepreneurs, both locally and internationally, and as organizer of training and consulting programs and coordinator of financial assistance. It, too, acts as the PHARE project task force for small and medium-size enterprise. Twice a year, it submits reports to the government of the S.R. on the SME development.

In 1994, on the initiative of the Ministry for Economic Strategy of the S.R., Regional Consulting and Information Centres (RCICs) were established in 38 districts of the S.R. A number of them were gradually transformed to business operators, or, were incorporated in the RCIC network within the NADSME framework, whereby the latter does not manage the former. Currently, 13 RCICs operate in the S.R., with five field offices and five business and innovation centers (BICs).

The RCICs are non-profit organisations founded on regional initiative and in partnership with the public and private sectors as independent associations of legal entities (state administration, local government, regional entrepreneurs). In terms of funding, they are assisted by Slovak and foreign funds that render assistance to small and medium-size enterprise. The RCICs deliver comprehensive consulting, information, and training services to:



- entrepreneurs-beginners as founders of new small and medium-size businesses, notably the unemployed who wish to implement their business ideas
- the existing small and medium-size enterprises that need to resolve their business problems, or, are interested in expanding the scope of their entrepreneurial activity.

Business Innovation Centres (BICs) are independent legal entities – limited liability companies. In addition to the delivery of comprehensive services to entrepreneurs, their aim is to establish an entrepreneurial ambience for companies that come with innovative business plans - a new product, service, or technology, and these are rendered a long-term assistance by the BICs (2 – 3-year incubation supervision). BICs enforce regional preferences.

The Government Rural Area Revitalisation Program is implemented by two agencies, i.e. the **Slovak Environmental Agency** based in Banská Bystrica, and the **Rural Development Agency** based in Nitra. The elaboration of the Community Revitalisation Program is conducted via a facilitator, i.e. a person that compiles background documentation, organizes meetings with citizens, and acts as a liaison officer between the agencies and the local government.

The Rural Development Agency is a consulting institution, and among its major tasks is rendering assistance to communities and entrepreneurs in communities in planning and projecting their development. In the initial stage (1995-1996), the Agency gathered experiences in programming largely through contacts with its foreign partners. The FAQ rural areas programming procedures and methodologies and the experiences of LEADER II groups were the source of the Agency methodology which the Agency staff applied in pilot regions later on. This methodology has also become an official procedure in the drafting of the Community Revitalisation Program within the framework of the government Rural Area Revitalisation Program. The basis of this methodology is sytem thinking, integrated approach, partnership and participation,, bottom-up procedure, and a maximum use of own resources in the socio-economic development (Tvrdoňová, 1998).

Furthermore, development agencies (currently, there are five of them) are being established in problem regions. After the National Agency for the Regional Development of the S.R. has been established, the idea is to set up **Regional Development Agencies (RDAs)**, whereby the regional Development Agency Inc., Žilina is expected to transform into a regional development agency. As regards the existing county development agencies, their transformation into the field workplaces of regional development agencies is envisaged. The RDA core activity would comprise the coordination of the setting-up of regional development projects, fund-raising in support of SME, regional mobilisation in the support fund raising (grants), the development of interregional and cross-border cooperation, attracting external investments (seed and venture capital), and the like.

### ***3.3 The Activation of Local Components and Building a Flexible Infrastructure in the Territory***

In 1990, town and community local governments were incepted and a two-tier local state administration was established in the form of 38 counties and 121 districts. It was the regional component of self-government that was non-existent in the system, since no territorial self-

government body operated between city councils and the National Council of the Slovak Republic. A rather dramatic reform of the local state administration took place in 1996, which entailed switching to a two-tier system of 8 regions and 79 counties. Under way is the Self-Government Act at the level of superior territorial units (most likely, regions) that are expected to assume tasks associated with regional development in their respective territory. To coordinate regional policy at the regional level, as early as 1991 (on the motion of the Resolution of the government of the S.R. No. 390/1991) regional socio-economic councils (the so-called regional tripartite bodies) began to emerge across the S.R. counties that were to operate as consulting bodies of the county office city managers. Their task was to start a common platform for all the important players, and, hence, on the councils were the representatives of state (including specialized) administration, local government, leading industrial companies, financial institutions, academic community, trade unions, and the association of towns and communities of the relevant region.

Slovak communities have also declared their common interests and have started various associations within the framework of the State as well as within the framework of foreign aid and cooperation. In addition to nationwide organisations, such as the Association of Towns and Communities of Slovakia and the Union of Towns and Communities of the S.R., as early as 1992, the communities established fairly extensive regional associations of towns and communities (which included over 40 associations, for instance, in the Transmontane region (Záhorie), the Rye Island – Žitný ostrov, Liptov, Kysuce, Spiš regions, and also communities located in the proximity of a nuclear power plant, mayors of regional towns, and others).

Within the framework of inter-municipal cooperation, communities and their associations have elaborated numerous projects and come up with initiatives in which they actively participate, provide information and counselling to entrepreneurs in the area of rural tourism, or, agritourism (for instance, the Low Carpathian Wine Route), elaborate marketing offers for investors. Both formal and informal cooperation and coordination of the activities of city councils with local entrepreneurs, farmers, and the representatives of churches, voluntary associations, with regional chambers of commerce in larger towns (the Slovak Chamber of Commerce and Industry), the third sector (charitable organisations, for instance), and others, represent a new force of the regional bottom-up development. Towns and communities are increasingly involved in the procurement of the development by means of redistributed and own funds (local taxes and fees, share taxes, and lately, by issuing municipal bonds).

Lately, the significance of soft infrastructure in a territory has been growing. In the case of Slovakia, included in it are existing regional development agencies (5), RCICs (13), and BICs (5), regional offices of the Slovak Chamber of Commerce and Industry, regional and county employment agencies, regional branches and subbranches of banks and insurance companies, universities and scientific and research centres (including R&D workplaces within the framework of some companies), secondary technical schools, various professional associations, associations of communities, various agencies, foundations, international organisations, etc.

### **3.4 Conclusion**

Following the spirit of the Regional Policy Principles, adopted in 1991, comparatively extensive foundations for the development of a wide range of the regional and rural development tools have been gradually laid down in Slovakia. However, their efficient

application is impeded by several deficiencies of financial, legislative, and institutional nature. Currently, regional policy is largely implemented via the state administration central bodies (state sectoral programs). The collaboration between the centre and the local government is only in its initial stage; this collaboration is carried out at a very slow pace and is facilitated via several pilot projects aided financially and expertwise from abroad.

Although the economic potential of regions is a clear precondition of their promising development, to activate the endogenous development forces, of equal significance is the support network of various government, private, or, semi-private consulting and development agencies, particularly, dedicated local entities that prepare and implement this development as a long-term process, leaning on their individual understanding of the needs and potential of the respective region. Also in Slovakia, regional partnership and cooperation networks begin to gradually emerge.

#### **4) REGIONAL POLICY OF THE S.R.: PROBLEM SOLVING AND OPPORTUNITY SEEKING**

There is a fairly spread opinion across Europe that although the elimination of regional disparities is feasible only long-term, regional policy should be implemented in a fashion that gives each region a chance. This is also one of the challenges the Slovak Republic must take in its E.U. integration efforts into account. Problems and bottlenecks the current regional policy-makers in the S.R. will have to cope with may be covered under the phrase “building the regional development institutional infrastructure”.

##### ***4.1 Re.: The Principles and Goals of the Regional Policy of the S.R.***

In the Slovak Republic, the State Regional Policy Concept interprets regional policy as a “targeted influence of the government (at central, regional, and local levels) upon the dynamism and the development structure of regions and also the changes under the conditions and structure of the space arrangement of the national economy.” Regional policy ought to be geared long-term towards the establishment of the preconditions for an efficient use of resources and a harmonious arrangement of all the socio-economic functions of municipalities and regions, a balanced socio-economic development, environmental balance in a territory, and environmental protection (the State Regional Policy Concept, 1997).

Basically, this is how regional policy is approached in the E.U. countries. A feature peculiar to the regional policy in the countries undergoing a transition in Central and Eastern Europe is its effort to prevent socio-economic backwardness of the regions having greatest problems with the adaptation in the process of transition to new socio-economic conditions. Viewed in this light, the S.R. must especially observe the so-called operational principles of the E.U. regional policy and establish such mechanisms that will make the assistance of the E.U. structural and cohesion funds feasible in the future. This concerns the need to concentrate (pool) the funds of the S.R. regional policy for the so-called problem regions (concentration principle) and the need to stretch out planning over several years and enhance concept-orientation (programming principle) in this area. In accordance with the E.U. practice, emphasis will have to be laid on devolution (decentralisation) in decision-making and assuming responsibilities (the principle of subsidiarity), including the co-financing requirement (the principle of complementarity), and also the cooperation with various parties in addressing regional problems (partnership principle).

The declared “Europeisation” of the Slovak regional policy may also be viewed in the light of the above requirements. To some extent, the current shortage of funding and an insufficient institutional back-up of the regional policy instruments account for “the declarative nature” of the approved basic principles (refer to section 1.2.1). In addition, the principles of the S.R. regional policy are very broadly conceived at the present, and for the time being, have not undergone the inevitable “operationalisation” process; this condition could result in problems with the E.U. structural fund integration into the S.R. regional policy system (for instance, the concentration principle assumes a precise ex ante formulation of the so-called problem regions that are eligible for a concentrated structural support, which, despite several proposals, remains unresolved in the S.R.).

#### ***4.2 Re.: The Instruments of the Regional Policy in the S.R.***

Despite the fact that autonomous regional policy is still in the process of shaping, fairly extensive foundations for the development of a wide range of the support instruments of regional and rural development have been laid down. However, attention should also be paid to bottlenecks that hamper a more efficient implementation of the declared development plans in a territory.

The regional policy **financial instruments** have been used to a limited extent. A direct government financial support of the regions ranges between 0.02 per cent of the GDP (in 1996 and 1997, it amounted to about SKK 100 million p.a.). About 80 per cent of all the funds (allocated in the General Treasury Administration within the state budget) are directed towards the activities of the Regional Development Agency that operates in Žilina region, and problem counties that were identified by the government of the S.R. in the early years of transformation (refer to section 1.2.2). In the majority of cases, the decisive criterion for the allocation of the government support is a high unemployment rate which is also considered the main indicator of a low transformation adaptation of a county/region (for instance, General Agreement within the tripartite arrangement obligates the government to adopt adequate measures in those regions where the unemployment rate exceeds 20 per cent).

As regards the instruments in the **information and consultancy** area, after four years of the operation of RCICs and BICs, it may be said that they have had a positive impact upon the entrepreneurial ambience of regions. However, RCICs and BICs operate in towns and their clientele is largely urban. They have only negligible impact upon the rural areas where entrepreneurial culture is either non-existent or lags behind the urban areas. The inhabitants lack information and institutions they could turn to and trust and that would help cultivate this trust (Tvrdoňová, 1998). An attempt to remedy the situation was the establishment of the enterprise support centres (ESCs) in the White Carpathian and Podhorie (Submontane) microregions whose mission was to cultivate enterprise awareness in rural areas. However, these institutions are only in their initial stage and it is too early to evaluate their activities.

#### ***4.3 Re.: The Legislative and Institutional Frameworks of the Regional Policy in the S.R.***

The experiences of the OECD countries show that the structure of regional institutions is the crucial factor to decide on the effect of a region's responsiveness to the ongoing global structural changes (OECD, 1993). The relations between the regional government and industry or other institutions, such as universities and regional development agencies, have a significant effect upon the innovation processes in a region. Rigid organisational structures established within the framework of old and inefficient industrial branches, or in regions with a non-existent advanced industrial culture, show relative poor signs of innovative spirit and innovation activity, which is especially true of peripheral (marginalized) regions. In immediate and more distant future, these regions will become the beneficiaries of several concrete measures geared towards the improvement of the existing legislative, organisation, financial, and other mechanisms within the framework of the agreed pre-accession strategy.

#### 4.3.1 The Non-existence of Core Legislation

The drafting of the Regional Policy bill that is to become the fundamental (binding) legislative instrument of regional policy was commenced in 1995. To date, it has not been passed in the parliament and only its working version is available. This Act is intended to legalize a system approach to regional policy and stipulate its goals, tools, territorial units as objects (beneficiaries) of support, and the institutional framework (i.e. authorized entities and organisational procedures).

For several years, the solution of other legislative issues concerning regional and rural development has been postponed. The non-existence of the legislative powers that local governments ought to be vested with if they are to develop cross-border partnerships and further cooperation within the Euro-region framework (Carpathian Euro-region and Tatry Euro-region) serve a good example, not to mention the absence of the S.R. in the Europe Framework Agreement on Cross-border Cooperation. In conjunction with the plans of starting the so-called special economic zones (business and industrial zones, parks of science and technology, etc.) that are frequently used as an effective mechanism of the territorial development support abroad, not only the financial back-up of these projects but also legislation is non-existent (tax and related legal norms).

#### 4.3.2 The Institutional Ambience Volatility

Since 1991, numerous regional policy concept documents have been elaborated at the central level. Continuous competence changes in the institutional system (during the 1991-1998 period, the coordination and management of regional policy was under the responsibility of five institutions, namely, the Ministry for Economic Strategy, the Government Council for Regional Development, the Government Council for the Economic Strategy of the S.R., the Centre for Strategic Studies, and the Office for the Strategy of the Development of the Society, Science, and Technology of the S.R.) interfere with the continuity of the regional-political efforts. Concept work on the Regional Policy Act, the establishment of the State Regional Development Fund, the Regional Self-government Act, the setting up of a government research workplace of the regional policy research institute type, the National Regional Development Agency, etc. was started fairly long ago, however, the unclarity and shifts in the regional policy powers account for much too lengthy and counterproductive discussions.

#### 4.3.3. Lack of Communication and Coordination

Currently, in addition to the government of the S.R., ten central state administration bodies directly and six indirectly, and about ten other institutions linked to the state budget partake in the regional policy set-up and implementation. This fragmentariness not only complicates the existing regional development cashflows, but under Slovak conditions, it may eventually become a serious impediment to drafting the program documents (the Operational Program – OP - type) for the drawing of the E.U. structural support preaccession funds.

First and foremost, the OP is a political document that is among the basic tools of the enforcement of one's own interests vis-à-vis other parties applying for the financial support

from public funds. Hence, the negotiation process calls for team cooperation in the OP preparatory stage; this cooperation is based on pragmatic communication, understandable and transparent background documentation elaborated within an agreed deadline, and respect for the differing views of partners. The OP has an extensive interdisciplinary operation range (which holds for both the regional and sectoral OPs), therefore, it cannot be assumed that each ministry, office, or institution will draft its own OP.

The current deficiency of communication and coordination that needs to be overcome in a step-by-step fashion is manifested in institutional relations, at the intersectoral (interministerial) level, as well as the relations of the centre with the lower levels of the public administration system in the S.R.

At the intersectoral level, this is reflected in inadequate coordination and the regional policy isolation from other government horizontal policies (environmental, industrial, agricultural, and social policies). A good example of this are infrastructure projects that are currently under way (transportation and telecommunications) - these are being implemented within the industrial policy technological and funding framework without any particular regard for regional criteria and aspects.

Furthermore, despite the fact that the regional policy coordination and territorial planning are clearly enshrined in the 1991 Regional Policy Principles and the 1997 State Regional Policy Concept, its persistent failure accounts for the fact that the sector is isolated in its drafting efforts and implementing the territorial development goals (for instance, regional development falls under the management and coordination of the Office for the Strategy of the Development of the Society, Science, and Technology of the S.R., rural development falls under the Ministry of Agriculture of the S.R., and territorial planning falls under the Ministry of the Environment). In this respect, the Czech Republic in which both these interdependent subsystems of territorial development (i.e. regional economic policy and territorial planning) were integrated under the sector of the Ministry for Local Development serves a good example.

Among the reasons of the present state is the non-existence of the regional component of self-government which is currently the main barrier to a full implementation of the subsidiarity principle in the centre-lower levels relationship, and, eventually, a problem for the management of the planned E.U. structural support. The sense of the principles of subsidiarity and partnership is best manifested vis-à-vis the elaboration of concept and program documents, development projects, the local initiatives support, and other regional decision-making processes.

#### 4.3.4 Disintegrated R&D Base

In the initial stage of the transformation process, the capacity of regional policy to react to new challenges adequately and basically in the right direction was also facilitated by a good research and knowledge base (Buček, 1998). Until late 1992, the Research Institute of Regional Planning had been in operation and, from 1996 onwards, it represented an expert base for the regional policy set-up in the S.R. (it was abolished by an administrative decision of Vladimír Mečiar's government); also, R&D workplaces have been operating at some institutions of higher education. The idea to re-establish a similar expert workplace has been considered since 1994, however, up until now, this goal has not been met (The Office for the

Strategy of the Development of the Society, Science, and Technology of the S.R., within whose framework the workplace was to be established, was closed down in late 1998).

In order to strengthen the development capacities, it is necessary to establish applied research centres and technology transfer centres that are intended to co-create the local technological base for the companies operating in the relevant region. Local industrial branches must have access to readily available technical capacities. Although meeting this objective is unlikely short-term, development services will be rendered to companies by local experts; geographic proximity and easy access to the technical preparation facilities and the availability of consultancy services and information will have to become, more than ever, commonplace.

#### 4.3.5 An Undeveloped Regional Player Training System

Under the current conditions of globalisation and regional integration, the planning and implementation of the regional development strategy calls for the adoption of such a methodology and skills that shift the program document drafting and the goal implementation to the marketing and management areas. This requirement is topical especially in conjunction with the negotiation of the E.U. structural fund support (this is especially true of the so-called operational programs - OPs), and the issues of the quality of the negotiating team and the analytical materials an OP draws from are of paramount importance. Even an able negotiating team cannot fully defend the OP requirements without a solid argument background, and, naturally, inappropriately selected negotiators may even damage an OP plan prepared with due care.

Viewed in this light, the training of all the regional players (meaning the state administration staff, local government staff, inhabitants, etc.) is crucial and at the same time the weakest link in the regional policy system in Slovakia. The situation improvement assumes a systemic monitoring and evaluation of the requirements in the quantity, and, above all, quality of human resources in regional economies and also the adaptation of the higher education system in the spirit of these requirements. Under the conditions of Slovak regions (and the S.R. in general), it is true that the higher education system is geared towards general education rather than an intensive training of future top specialists. Although research shows that general training will continue to be a prerequisite to an efficient workforce, the experiences of many countries show that successful economies, as a rule, dispose of a developed system of technical training. In order to simultaneously meet the current and future needs of the local business sector especially in the marginal regions, a closer cooperation of affinity groups is called for, i.e. managers, technical lecturers, specialized labour market agencies, and the like. The hitherto experiences in Slovakia indicate that in a number of cases new companies were established thanks to technical training arranged in this fashion.



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