



Economic cooperation and economic development at local level in the Eastern Partnership countries

CORLEAP REPORT

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Introduction

The Conference of the Regional and Local Authorities for the Eastern Partnership (CORLEAP) was established by the European Committee of the Regions (CoR) to bring a regional and local dimension into the EU's Eastern Partnership (EaP) and foster internal reform and capacity-building at the local and regional level¹.

Among the 20 deliverables for 2020 endorsed at the 5th EaP Summit, five (deliverables 4 to 8) correspond to the priority "stronger economy", meaning economic development and market opportunities².

Within this scope, the report will assess economic cooperation and development at local level in the Eastern Partnership countries.

Decentralisation and strengthening of the EaP local and regional authorities are seen as fundamental for reinforcing local democracy, boosting economic development based on economic cooperation and building civil society, thus providing additional leverage for reforms. In this manner, central governments of the EaP countries should take steps towards greater fiscal decentralisation, liberalisation of local legislation aimed at increasing the independence of local self-governments and, consequently, decreasing central regulation.

Overall, the EaP countries are in a transitional period of decentralisation and approximation to the standards of the social market economy. Thus, the main objective for them should be to gain the ability to create new formats of economic cooperation between local authorities, SMEs and NGOs.

¹ <https://cor.europa.eu/en/our-work/Pages/CORLEAP.aspx>

² https://eeas.europa.eu/sites/eeas/files/20_deliverables_for_2020.pdf

Analysis

Territorial/local authorities need sufficient power to shape their economic future and their own economic and social development against the background of the specific conditions and potential which would largely determine their prospects in the internal market. All EaP countries except for the Republic of Belarus have signed the European Charter of Local Self-Government; however, the central governments of the EaP countries have a dominant position in all policies relevant to the regions. Thus the democratic deficit at regional and local level is an obstacle to the economic development of these regions. All countries started fiscal decentralisation, but have now stopped it or are developing it very slowly.

In Georgia, municipal property management is mostly performed by central government bodies; in Moldova just a few procedural competences are assigned to municipal bodies; in Ukraine, where local self-government (LSG) bodies bear responsibility for school and pre-school education, primary healthcare, cultural institutions and municipal infrastructure improvements, the powers of local executive authorities and local government bodies have not been properly separated, leading to overlapping; in Armenia, only minor administrative competences have been transferred to local authorities, but not the delivery of services, and they are actually unable to exercise their responsibilities; in Azerbaijan, the division of competences between municipalities and local executives bodies is unbalanced and the majority of public services are provided by the local executive bodies appointed by the government.

At the same time, in many countries, regional and local authorities, as well as other regional stakeholders (NGOs, unions, associations, consortia, farmers, etc.) do not have enough independence (powers, financial resources, etc.) to cope with global challenges locally, and are unable to respond adequately to the new requirements arising from deeper European integration.

There is a lack of economic cooperation at territorial level between companies in a given EaP country, or in different countries. Although former Soviet methods of cooperation still exist (e.g. the "Kolkhoz" method of amalgamating companies on a regional basis in Belarus), they do not generate significant economic development.

With SMEs being concentrated in regions outside the large cities (as is the case for Armenia, Azerbaijan and Georgia), and the buyers of their products being mainly large companies from big cities, it is quite difficult to foster economic growth and cooperation at territorial level, especially when local self-government is not strong.

The level of trade between the EaP countries is uneven, and more should be done to increase it. The EU is the main foreign trade partner for most EaP countries. The figures are starting to grow for the trade of finished products between the EaP countries and the EU, as well as for total foreign trade.

What could be done to foster economic development and cooperation within and between EaP countries?

Besides fostering decentralisation, there are other activities aimed at promoting economic development and cooperation.

- *Creating platforms for exchange of experience and of good practice*

- A. Platform for exchange of experience and good practice in the fields of local governance, economic cooperation and economic development.
- B. Platform for exchange of experience regarding the establishment and effective operation and management of consortia of SMEs operating in the same sectors and/or clusters, within one country, as well as with EU and other EaP countries.
- C. Online platform where local governing bodies and local SMEs can present their economic and business opportunities.

A flexible government policy needs to be developed as a legal basis for the effective implementation of the above-mentioned platforms.

- *Implementing the principles of the "Leipzig Charter on Sustainable European Cities"*

In particular, the promotion of integrated urban development and related governance of its implementation is another effective tool for the formulation of new flexible and adaptive economic development policies at local government level. The dissemination and support of the introduction to this tool in EaP countries would assist the development of new adaptive economic policies, becoming an incentive for inclusive and sustainable development at the local level.

- *Identifying priorities for regional economic development*

For the development of the required economic policies, the identification of priorities for regional economic development will be vital, the keystone of which is effective and inclusive strategic planning, based on the smart specialisation method and the integrated approach. To identify the regional economic development priorities, the potential of local bodies needs to be assessed in its various dimensions: economic; infrastructural; administrative and as regards human resources.

Regional economic development needs to be embedded within a broader process, shaping a facilitating environment and featuring inter alia:

1. Reform of the public administration: the process of modifying rules and incentives to obtain a more effective, efficient and dedicated government labour force in the newly decentralised environment;
2. Building local capacity;
3. Setting long-term participative economic strategies alongside the priorities of the implementation of the Sustainable Development Goals (SDG);
4. Developing general guidelines for country-specific strategies with the focus on a legal framework which clearly defines responsibilities and standards to address issues related to financing and reporting, to determine the type of control mechanisms and who is accountable for them, to evaluate hiring practices and compensation schemes as well as addressing issues related to the procurement of public works.

5. Consistency and transparency;
6. The creation of channels for citizen-civil servant communication, accessible for everyone, based on local capacity and conditions; furthermore, the creation of mediation structures as ombudsman should be encouraged;
7. Further analysis to:
 - Describe how industries and services in a region compare to each other;
 - Identify growth trends through regional location-quotient analysis of industry clusters;
 - Reveal emerging industries and services in a region;
 - Analyse the mix of clusters in a diverse region that might include both rural and urban areas;
 - Apply a cluster matrix analysis to evaluate potential growth opportunities;
 - Rethink business expansion strategies using cluster analysis;
 - Reveal groups of industries that have similar workforce needs;
 - Build sustained business-to-business connections;
 - Prioritise groups of firms that have growth potential but in full respect to the rules concerning state aid established by the WTO and the EU;
 - Create regional identities and improve marketing effectiveness.

At the same time it has to be clear whether local authorities and communities are able to manage their new responsibilities, including but not limited to:

1. Analysing and solving local problems;
2. Determining community needs;
3. Organising local and national political support for programmes;
4. Mobilising national resources for programmes;
5. Raising tax revenues or collecting user fees;
6. Writing specifications for the technical elements of programmes;
7. Maintaining and sustaining the service;
8. Evaluating the impact of the programme on the local environment;
9. Providing for those affected adversely by the programme;
10. Contracting of services and purchasing of equipment within a legislative framework on public procurement and concessions.

In addition, it is important to look at:

1. Outputs vs. outcomes;
2. People vs. institutions;
3. Bureaucratic and technical infrastructure;
4. The role of civil society, etc.

- *Applying innovative methods*

It is imperative to identify and develop sources of knowledge and innovation in a regional/territorial economy. Today's economy is neither about goods nor services per se. It is about our ability, both individually and collectively, to generate and apply knowledge.

In the EaP countries there are neither enough resources for financing innovative activity neither the culture to create a mind-set towards innovation, nor the necessary legal framework to support it. The economy of the EaP countries is also characterised by a large share of the state sector and limited competition in some industries, and limits the potential for innovation development.

It is vital to meet citizens' needs and expectations by:

1. Putting citizens first – although many governments do not have data-driven assessments of their citizens' needs for improved public services;
2. Establishing “one-stop shops” - centralised service centres (physical and digital) for citizens and companies;
3. Combining public feedback with internal data to uncover hidden weaknesses.

It is also important to take into consideration the economic challenges arising for the economics of the EaP countries during “trade wars” between the USA and the EU, the EU and Russia, and the USA and China. They create obstacles, but at the same time opportunities for the LSGs. An adaptation and upgrade of the principles and strategies of the "Leipzig Charter on Sustainable European Cities" could ameliorate the vulnerability of LSGs.

Overall, LSGs in EaP countries face the following challenges:

- Globalisation;
- Absence of any regulation on increasing the role, engagement and involvement of disabled persons in LSGs;
- Misinterpretation of the concept of social enterprises;
- Engagement in “necessity entrepreneurship” to the exclusion of “opportunity entrepreneurship”;
- Limited access to markets (local & international);
- Lack of technology;
- Lack (and/or excessive cost of different kinds and different levels of sources of information);
- Poor infrastructure;
- Lack of understanding of unified branding (at country and regional level) to increase production and export opportunities and cut business costs;
- Lack of any government promotion of agglomeration / reinforcement of LSGs without violating the rights of the parts involved;
- Lack of understanding and acceptance of the benefits of agglomeration of LSGs;
- Lack of mass media information and training programmes in business culture and education;
- Lack of and/or obsolete laboratory equipment, and high cost of providing local authority services;
- Considering each other as competitors rather than sources of cooperation; etc.

There are, however, also major opportunities:

- Great potential for local authorities to make a significant contribution to job creation and economic growth, especially in the innovative sectors;
- Great potential for opportunity entrepreneurship in the country leading to greater regional integration;

- Preferential access to the different markets CIS, EU (GSP+);
- Possible willingness of governments to assist local authority development; etc.

Recommendations

1. Foster the decentralisation process in accordance with EU and Council of Europe standards;
2. Create a platform allowing local authorities to connect to each other and share their experiences, innovations and best practices at regional level;
3. Encourage cross-border economic growth and cooperation among local authorities by reducing red-tape and establishing cross-border local government associations;
4. Create a platform for easy access to information (including tax, regulatory frameworks and requirements, market advisory, contacts and support services);
5. Enhance incentives for public-private partnership initiatives that alleviate the burden for local authorities in economic areas where public intervention has limited added value to reach global markets, especially innovative products, access foreign sources of advanced technologies and knowledge;
6. Raise awareness among EU companies about local authorities in EaP countries, for mutual beneficial cooperation;
7. Explain the meaning of social enterprises through the mass media;
8. Develop quality infrastructure that is affordable for local authorities;
9. Organise training on sharing information about local authority business cooperation opportunities within the EaP;
10. Promote innovation at territorial level;
11. Initiate the creation of the platforms (see points A-C in the report) for the exchange of experience and of good practice, as outlined in the report;
12. For the purpose of planning and implementing fiscal and financial decentralisation, liberalising local legislation and developing a legislative basis for economic cooperation between local authorities, the EaP countries need to promote the institutional development of associations of local authorities, which could be implemented with newly initiated/established projects for the institutional development of associations;
13. Defining a minimum level/indicator for decentralisation which will promote the fiscal and financial decentralisation and liberalisation of local legislation in Eastern Partnership countries;
14. Enhance participatory approach for civil society groups and citizens to decentralised cooperation;
15. Encourage the development of participatory budgeting and planning at the local level; engage citizens into the local budget process;
16. The EaP countries should guarantee local self-governance, guided by the "European Charter of Local Self-Government" (15.10.1985, Strasbourg), according to which local authorities should be consulted, in an appropriate manner, on the way in which redistributed resources are to be allocated to them. The main institutions for consultation in the field of fiscal and financial decentralisation and liberalisation of local legislation could be institutionally developed/strong associations of local authorities.