Workshop Summary Report

2nd Knowledge-Sharing Forum:

Towards Sustainable Financial Mechanisms for Regional Development in Croatia

15-16 June 2023

Trakošćan, Croatia

"Enhanced Strategic Planning at Regional and Local Levels in Croatia" project

Norway grants

REPUBLIKA HRVATSKA
Ministarstvo regionalnoga razvoja
i fondova Europske unije

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Introduction

What sources can Croatia use to fund and finance its regional development policy? How can a sustainable funding model be developed for Croatia's 21 regional development agencies (RDAs)? How can inter-regional co-operation be fostered to help address development challenges shared by Croatian counties and achieve economies of scale? These were some of the questions explored in the Knowledge-sharing Forum "Towards Sustainable Financial Mechanisms for Regional Development in Croatia", held on 15-16 June, 2023 in Trakošćan, Croatia.

More than 60 participants took part in the forum, organised by the OECD and the Croatian Ministry of Regional Development and EU Funds (MRDEUF), including representatives from national government institutions (e.g. the MRDEUF and the Croatian Bank for Reconstruction and Development), international financial institutions (IFIs) (e.g. the European Investment Bank), and regional development agencies. The event created opportunities for dialogue and exchange among Croatian national and subnational policy makers about the challenges of funding and financing regional development policy and projects, and the financial sustainability of the RDAs. It also facilitated learning from national and international good practices and supported the identification of innovative tools to help all levels of government make the most efficient use of funding and financing for regional development.

The Forum covered three main topics: (i) the benefits and challenges of different mechanisms to fund and finance regional development policy and projects; (ii) the sustainability of funding for regional development agencies; and (iii) forms of inter-regional co-operation to strengthen the outcomes of regional development policy. Each topic was explored through a panel discussion, followed by an interactive workshop. This Summary Report presents the main takeaways from each of these sessions, as well as from the opening keynote speech (listed below).

- **Opening session**: Towards sustainable financial mechanisms for regional development
- **Panel 1**: Strengthening and diversifying financial mechanisms for regional development
- **Interactive discussion 1**: Identifying and securing sources of finance for regional development
- **Panel 2**: Towards the sustainability of regional development agencies
- **Interactive discussion 2**: Further exploring the sustainability of regional development agencies
- **Panel 3**: Fostering inter-regional co-operation and joint projects for regional development
- **Interactive discussion 3**: Identifying ways to foster inter-regional co-operation for regional development

The Forum is part of the "Enhanced Strategic Planning at Regional and Local Levels in Croatia" project (-659845776), which aims to reinforce multi-level governance and strategic planning at the regional and local levels.

Opening session: Towards better financial mechanisms for regional development

In the opening session, the OECD provided context on why effective financial mechanisms for regional development should matter to policy makers. For example, over the past decade, Croatia has reported significant regional disparities in labour productivity and rates of labour productivity growth, which can feed through into income inequalities. In order to ensure that Croatia's regional development policy and regional development plans succeed in addressing challenges such as these, they need to be supported by robust and sustainable financial mechanisms.

Mobilising "diversified, balanced and sustainable financial resources to adequately fund regional development policy at the national and subnational level" is one of the ten principles of the new "OECD

Recommendation on Regional Development Policy", which was adopted by the OECD Council on 8 June 2023. The principle invites national and subnational governments to secure sufficient and adequate financial resources to reduce territorial disparities and promote balanced regional development. It confirms that the adequacy and the sustainability of financial mechanisms to implement regional development policies are critical factors for success.

At the same time, funding and financing regional development is a complex task. It requires that the necessary enabling conditions, as well as adequate financial resources be in place. Enabling conditions include clear regulatory frameworks, a coherent investment strategy, adequate administrative capacity and effective collaboration among levels of government. Funding and financing regional development effectively requires sufficient, adequate and diversified sources of funding and financing.

According to the OECD, there are three main elements that can promote the sustainability of financial mechanisms for regional development. First, it is important to ensure a mix of funding and financing sources for regional development strategies. This includes leveraging EU funds, inter-governmental transfers, national funds for regional development, own-source revenue, IFIs, public-private partnerships, and private finance. This diverse range of sources can be used by national and subnational governments to fund and finance regional development projects, as well as fund bodies in charge of the implementation of regional development policies. Even though Croatia's RDAs do not have the competences to implement regional development projects—they depend on the efforts of the county and local self-governments, among other actors—they can play an important role in diversifying and increasing the availability of funding or regional development. For example, they can help to identify funding and financing opportunities for cities, municipalities and businesses, and provide technical support in the design of project proposals.

Second, it is important to ensure that institutional bodies charged with leading the design and/or implementation of regional development policies (e.g. RDAs) are provided with or can generate sufficient financial resources. Adequate funding should be allocated to cover operational expenses, including staff costs, to enable RDAs to fully pursue regional development goals. For example, adequate and stable financial resources can help to ensure the RDAs can spend most of their resources on carrying out their main tasks (e.g. supporting regional development planning and increasing regional attractiveness) rather than having to identify opportunities to fund the RDA's actions (e.g. by applying to project calls).

Third and finally, it is important to enhance inter-regional co-operation mechanisms, in order to benefit from economies of scale, improve co-ordination, enhance operational efficiency, and achieve higher returns on investment. By implementing projects at an appropriate territorial scale and establishing mechanisms that facilitate co-operation across regions, the benefits of funding can be maximised, and operational efficiency can be enhanced. For RDAs, this could imply, for example, setting up or participating in macro-regional dialogue bodies (e.g. regional development councils), or macro-regional investment programmes and setting up regional working groups. It could also imply pooling financial or human resources across RDAs or even the merger of different RDAs.

Panel 1: Strengthening and diversifying financial mechanisms for regional development

In this session, representatives from the Croatian Bank of Reconstruction and Development, the European Investment Bank and the MRDEUF reflected on the different financial mechanisms for regional development available in Croatia. They also provided examples of good practices using specific financial mechanisms, highlighted challenges in efficiently securing and utilising finance for regional development, and discussed the role of regional and local actors in financing and co-financing regional development.

The OECD opened the session by highlighting how, across OECD Member countries and the EU, regional development policies are funded and financed through a variety of public and private sources. One major source of funding in EU Member States, including Croatia, is EU funds. The EU funds its regional policy directly through different funding mechanisms, including the European Regional Development Fund (ERDF), the European Social Fund Plus (ESF+), the EU Cohesion Fund, and the Just Transition Fund. In response to the COVID-19 pandemic, the EU has introduced new initiatives such as the Recovery and Resilience Facility, and Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU), as part of the NextGenerationEU programme. These financial mechanisms can be used to support territorial development (European Commission, n.d.[1]). Finally, other EU sectoral programmes under direct or indirect management, such as Horizon+ and Erasmus+, can also contribute to the attainment of regional development objectives.

Despite the benefit of their size, a reliance on EU funds may present national and subnational policy makers with a number of challenges. First, smaller regions or localities may not have the financial capacity to provide the necessary co-funding to apply for an EU funding call. Second, ensuring the capacity of subnational governments to adequately manage and absorb EU funds requires appropriate administrative and institutional resources, as well as continuous co-ordination among the different levels of government to align project strategies and implementation. Third and finally, reliance on EU funds for regional development may lead to an overdependence, which risks subjecting regional development to fluctuations in EU budgetary cycles and in funding priorities, which may not necessarily align with local needs.

Another source of funding for regional development is central government grants. These include earmarked grants which can serve several purposes, such as promoting national policy goals at the subnational level, and facilitating risk-sharing and co-operation among different tiers of government. Moreover, national governments can also offer non-earmarked grants to subnational governments or regional development agencies, thereby giving them greater flexibility to tailor policies according to regional or local priorities.

A further source of regional development funding in OECD countries is tax instruments. Most countries use fiscal tools to encourage regional development in specific areas. Fiscal tools may include tax incentives or Special Economic Zones (SEZs), among others. Tax incentives are used to attract firms and investment to specific regions. SEZs aim for the same goal by offering economic regulations and policies that differ from the rest of the country and that, in principle, offer a more favourable business environment, streamlined administrative procedures or tax benefits. However, such tools need to be used in a balanced manner to ensure that the benefits of increased investment, job creation and infrastructure development can compensate for lost tax revenues.

External financing is another source used by national and subnational governments across the OECD to finance regional development policy and projects. Countries may seek financing from IFIs such as the World Bank, the International Monetary Fund, the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). IFIs offer loans and grants to support regional development projects. Their financing generally comes with both conditionalities (e.g. guarantees may be required) and concessional terms (e.g. lower interest rates and longer repayment periods). Governments can also raise funds for regional development by issuing bonds or obtaining loans from domestic or international financial markets. However, challenges to this approach include regulatory and legal frameworks, which can create burdensome requirements for subnational governments and can restrict or even forbid subnational governments from borrowing or issuing bonds. Moreover, subnational governments often have limited borrowing capacity given their constrained budgets and limited tax-raising powers. High levels of debt can further limit their capacity to attract external financing.

Croatia finances its regional development policy and projects through various means. EU funds are particularly important. During the 2014-2020 funding period, Croatia received over EUR 12.1 billion of EU funding, of which EUR 9 billion came from Cohesion Policy funds (as of October 2022). For the current period 2021-2027, over EUR 10 billion has been budgeted, with the ERDF being the primary source of EU funding (62.1%), followed by the ESF+ (22.2%), the Cohesion Fund (13.6%) and the Just Transition Fund

(2.1%) (European Commission, 2023[2]). Croatia has also received funding for sustainable investment projects from the EU's Recovery and Resilience Plan, as well as different national and international financial institutions, including HBOR, the EIB and ERDB. Moreover, while Croatia does not have a national regional development fund, it does provide specific development funding through several grants, including for the development of islands and 'disadvantaged' subnational governments (as qualified through the country's Regional Development Index). Additional funding for the implementation of regional development projects comes from taxes, including own-source taxes of local self-governments and shared taxes (e.g. personal income tax), and loans from national and international financial institutions, including the Croatian Bank for Reconstruction and Development (HBOR), the EIB and ERDB, and private banks (OECD, 2022[3]).

Following the OECD's presentation, HBOR delivered a presentation on its activities to support regional development. In fact, one the HBOR's strategic goals is to contribute to balanced and sustainable socio-economic regional, rural and urban development. HBOR relevant lending programmes that can be accessed by subnational governments include public sector investment and EU projects. For example, HBOR provides interest rate subsidies of between 50%-75% for selected public sector investment projects, such as projects supporting the net-zero transition, digitalisation or lagging regions. HBOR urged regional and local authorities to build their expertise related to the green/net-zero transition. The representatives stressed that this will help them to obtain funding and financing from HBOR and other institutions, which are increasingly providing funding and financing for projects related to issues such as energy efficiency. HBOR indicated financing from national and international financial institutions increasingly targets the net-zero transition. As such, if the necessary capacity to develop robust projects is not available, particularly in this area, subnational governments will increasingly miss out on funding opportunities.

Next, the EIB in Croatia delivered a presentation on its financing mechanisms to support territorial cohesion in the EU and Croatia. In particular, it highlighted EIB products for regions and cities, which include standard investment loans, framework loans, multi-beneficiary intermediated loans and structural programme loans. EIB funding generally starts at about EUR 25 million, meaning it is not able to fund small/very local projects. As such, in order to become eligible for EIB financing, it makes sense for local and regional self-governments, and RDAs, to work together and submit joint project proposals. The EIB also highlighted how local authorities can obtain investment advisory support (e.g. to help prepare quality investment proposals) through its Jaspers mechanism[1].

Following the EIB, MRDEUF delivered a presentation on different financial instruments created by the EU, and supported by the Ministry that contribute to regional development in Croatia. In particular, it discussed the new urban development fund that seeks to encourage investment in public and business infrastructure for commercial purposes. Supportive elements from the fund include long-term investment loans with minimal interest, with the possibility of writing off a rebate. Part of the initial loan can be converted into a grant (capital rebait) if certain indicators are met (e.g. if energy savings of 60% are achieved through the project), meaning that part of the initial loan would not have to be paid back.

Workshop 1: Identifying and securing sources of finance for regional development

In this workshop, Forum participants were divided into four groups to explore different potential sources for funding and financing regional development in Croatia. These included EU funds, central government grants, financing from national and international development banks, and private sector borrowing. Each group focused on a particular source and engaged in reflective conversations regarding their experiences

[1] https://jaspers.eib.org/

with applying for and managing funding or financing from that source. The aim was to identify both challenges and opportunities associated with each funding option.

Regarding EU funds, participants indicated that all RDAs have ample experience with attracting and managing EU funding. Particular challenges faced by the RDAs include accessing the co-funding necessary to be eligible for EU funding opportunities, the long application process, and the limited capacity of local stakeholders (public and private) to prepare mature project proposals. With regard to the latter, many RDAs indicated they already work closely with potential beneficiaries to help them prepare and implement mature project proposals, yet additional capacity building support may be needed. Moreover, several RDAs indicated they face capacity challenges in areas such as procurement, engineering and the net-zero transition to support the preparation of mature project proposals and ensure quality implementation. Different RDAs specified they are often not able to offer competitive salaries, hampering their capacity to attract or retain skilled experts. However, the RDAs could explore partnering with non-governmental actors (e.g. cluster organisations, higher education institutions) to bring in their expertise on topics such as the net-zero transition.

Regarding central government grants, participants indicated that funds are available for islands and regional and local self-governments that qualify as 'disadvantaged' through the Regional Development Index. Frequently, the Ministry launches calls to fund projects in such territories. Some participants found that the criteria used to award funding in these instance were sometimes unclear, creating uncertainty about the project application, selection and award process. Representatives from the Ministry acknowledged the variations in the forms of different calls, but they assured participants each call is accompanied with documentation outlining the project selection criteria and process. Moreover, it stated that after the publication of each call the Ministry is open to receiving and answering questions for clarification from potential beneficiaries. The different perceptions among the participants about the available information on calls for proposals may require organising periodic, virtual or in person meetings in which the Ministry shares news on upcoming funding opportunities and the RDAs have the possibility to ask questions for clarification. To avoid further information gaps, a summary of this conversation could be published online.

Some RDAs also mentioned the need to update or review the Regional Development Index, which defines which regional and local self-governments are considered 'disadvantaged' and are therefore eligible for specific project funding. There were two primary reasons for this consideration. First, the developmental trajectories of different counties might have changed significantly, warranting a revision of the areas eligible for subsidies. Second, the Regional Development Index may have inadvertently created perverse incentives, as there are indications that some regional and local self-governments aim to score low in order to receive more development funds from the Ministry. Finally, different RDAs indicated that there is often a wide gap between the funds requested by regional and local self-governments in their project proposals, and the funds awarded by the Ministry, hampering their ability to achieve the project outcomes as originally contemplated. The Ministry indicated that the difference between the funds requested and awarded is a function of the limited amount of funds available that can be distributed among the projects that pass the review process.

Regarding loans from national and international banks and private sector borrowing, the vast majority of RDAs indicated that they did not have much experience with these sources. Reasons for this include a fear among regional and local decision makers not to be able to pay back the loans. In addition, participants indicated that at the subnational level there is not much knowledge on how borrowing works and what the procedures, risks and opportunities are. Moreover, some participants stressed that many regional and local self-governments have limited creditworthiness, hampering their ability to obtain loans. Improving the understanding among RDAs about borrowing from national and international and private sector banks works—including regarding financial risks, conditionalities, etc.—may generate more interest in obtaining public or private sector loans. This could be achieved through measures such as creating an online database with information on the relevant legislation, practical guidelines and examples of successful borrowing by Croatian subnational governments.

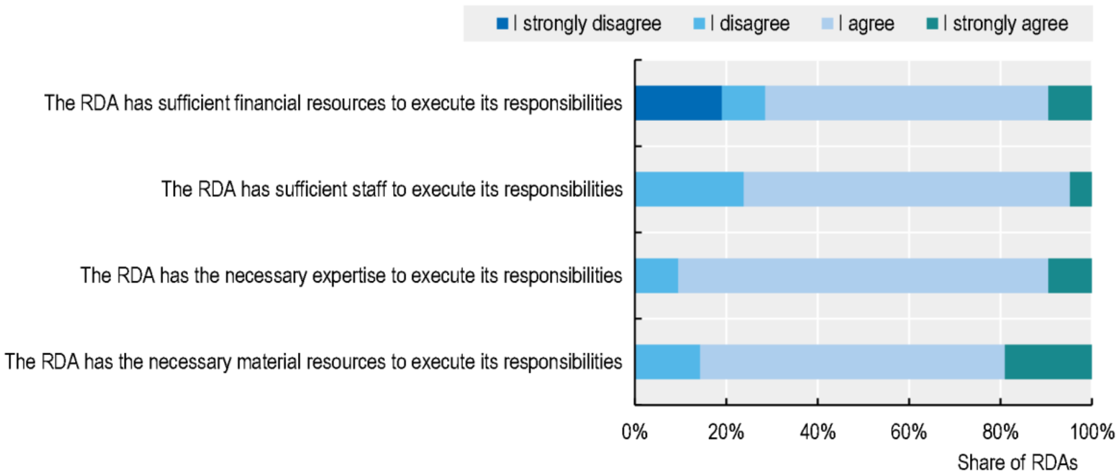
Overall, the workshop provided an invaluable platform for participants to delve into the various sources of finance for regional development. Through insightful discussions, the challenges and opportunities associated with each funding option were explored, fostering a deeper understanding of the complexities involved in securing and managing funding and financing for regional development projects.

Panel 2: Towards the sustainability of regional development agencies

In this session, the OECD explored the topic of funding-sustainability for RDAs to support achieving regional development objectives. The OECD opened the session by taking stock of funding arrangements for Croatian RDAs. Currently, EU Technical Assistance represents between 70% and 85% of total RDA revenues (OECD, 2023[4]; OECD, 2022[3]). County budget allocations make up most of the remaining funding. Some RDAs may also have a small amount of funding left over from prior to 2018, when they functioned as Limited Liability Corporations (LLCs) and could offer paid services to businesses.

The OECD indicated that in 2022 a large majority of RDAs (72%) considered they had sufficient financial resources to execute their responsibilities (Figure 1) (OECD, 2022[3]). Supported by EU- and county-level funding, a large majority of RDAs also reported having the necessary resources to support their operations, notably sufficient staff (71%), necessary expertise (90%) and sufficient material resources (86%). However, the survey results reflect how RDAs considered the financial situation in 2022. The provision of EU Technical Assistance, on which the RDAs relied heavily in 2022, will be significantly reduced by the end of 2023, creating much uncertainty about their financial sustainability and capacity to fully carry out their mandate.

Figure 1. Perception of Croatian RDAs with regard to their resources 2022



Note: Full statements as included in the survey: The RDA has the necessary material resources (e.g. office space, computers) to support its operations; The RDA's staff have the necessary expertise to execute their responsibilities; The RDA has sufficient staff to execute its responsibilities; and The RDA has sufficient financial resources to execute its responsibilities?
Source: Author's elaboration, based on the 2022 OECD online survey (OECD, 2022[3]).

As part of this session, the Director of the European Association of Development Agencies (EURADA) delivered a presentation on sustainable funding of RDAs. In particular, the presentation gave concrete examples of the different sources used to fund RDAs across Europe. These include:

- Funding from the EU (e.g. through the European Regional Development Fund);
- Funding from national and regional governments, including project funding and membership fees (from the members of the RDAs);
- Funding obtained from assets (e.g. real estate and property management);
- Funding from the provision of paid services (e.g. consultancy and support services, training);
- Capital from direct investment.

For instance, the Valencian Institute of Business Competitiveness[2], one of Spain's 19 RDAs, obtains funding from a variety of sources, including from the Regional Ministry for Economic Development (53%), EU transfers (37%) and RDA activities (e.g. revenues from fees, services, property and financial assets) (10%). For its part, the Attractiveness Research Territory Emilia-Romagna (ART-ER)[3], which represents a consortium consisting of the regional government, universities and the regional Union of Chambers of Commerce, derives 55% of its funding from the regional government. This is complemented by EU funding (15%) and paid service delivery (e.g. energy certification) (30%). EURADA also gave the example of the Agency for the Transformation and Economic Development of Andalusia, Spain (Andalucía Trade)[4], which was created in 2021 by merging three smaller development agencies. The majority of its funding (85%) is linked to EU funds, followed by regional government transfers (11%) and own revenues (e.g. taxes, capital income and financial assets – 4%).

Workshop 2: Further exploring the sustainability of regional development agencies

In the Forum's second workshop, participants worked in four groups to identify actions to increase and diversify RDA funding sources, as well as discuss the potential impact of this diversification on the RDAs' work.

Participants in all four groups expressed their concern about the possible significant reduction of EU Technical Assistance funding at the end of 2023, which would put severe pressure on the RDAs to either find complementary funding or reduce the scope of their activities, potentially having to lay off staff. Consequently, and to avoid this, the importance of finding alternative funding sources was broadly recognised.

Various suggestions were put forth by the groups, including legislative changes to broaden the scope of activities in which RDAs can engage. One proposed change involved allowing RDAs to provide paid services to public a non-governmental actors (e.g. local business, civil society organisations). This would enable them to generate revenue by offering services to clients. While some RDAs viewed this as a viable complementary funding source, others expressed concerns about the difficulty and resource-intensive nature of attracting private-sector clients in particular. Moreover, compliance with competition law would be a crucial consideration in this approach, in other to ensure that the RDAs would not have an unfair competitive advantage over private sector consultants. A group of RDAs opposed the idea of amending

[2] https://www.gva.es/va/inicio/presentacion.

[3] https://www.art-er.it/

[4] www.eurada.org/calendar/events/unification-of-the-andalusian-agencies; www.juntadeandalucia.es/organismos/presidenciainteriordialogosocialysimplificacionadministrativa/adscritos/trade.html

legislation to allow RDAs to provide paid services, highlighting that since the 2018 RDA reform, they have been able to focus more on strategic planning for regional development. A crucial factor, however, would be to ensure that the RDAs have the necessary tools, including funding, to support implementation of their regional development plans.

Furthermore, some RDAs highlighted the need to expand the role of counties and the central government in funding RDA operations. Specific proposals were made, suggesting that counties cover 50% of RDA costs, with the remaining portion being funded by the central government. However, the feasibility of this proposal hinges on the counties having the necessary financial resources, which currently may not be the case. Other RDAs wanted to explore the possibility of having local self-governments contribute financially to the RDAs, as they are an important beneficiary of the RDAs work.

The RDAs also indicated reducing EU technical assistance may lead to RDAs prioritising the securing EU project funding to cover their operational costs. This would risk shifting the emphasis away from carrying out their core tasks, including strategic planning for regional development. Moreover, it could lead to a situation in which RDAs pursue EU projects without due consideration of their appropriateness and adequacy, and imply competition for funding between RDAs.

To address these funding challenges, the Ministry announced the formation of a working group comprised of representatives from the MRDEUF, the RDAs and the Association of Counties. The primary objective of the group is to decide on the new funding model for RDAs.

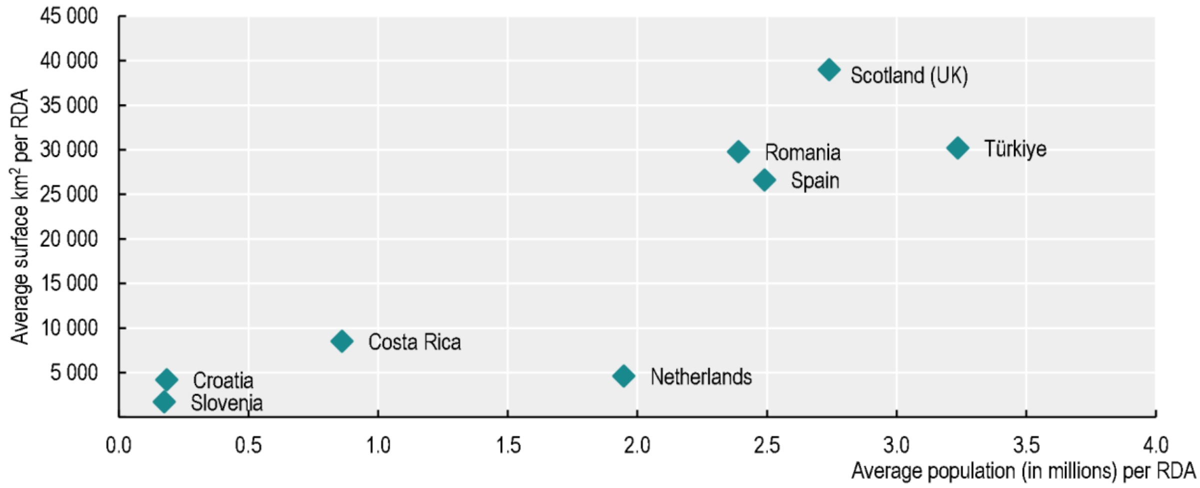
Overall, the workshop provided a platform for participants to actively and productively discuss diversifying RDA funding in Croatia. The challenges and opportunities associated with this endeavour were thoroughly examined, and the establishment of a working group signalled a proactive step toward finding sustainable solutions for ensuring the financial stability of the RDAs.

Panel 3: Fostering inter-regional co-operation and joint projects for regional development

This session opened with a short presentation by the OECD about how Croatian RDAs compare to their international peers in terms of the scale at which they operate. It then delved into the challenges that having RDAs operate at a relatively small territorial scale can create for the effectiveness of regional development projects and the efficiency of public investment. Finally, the session discussed different types of inter-regional co-operation, from informal to more stable co-operation arrangements, as well as ways in which they can support joint financing of regional development projects at a greater territorial scale.

As part of its presentation, the OECD compared Croatian RDAs to peers in other countries, such as Costa Rica, the Netherlands, Romania, Slovenia, Spain and Türkiye (Figure 2). Compared to most international peers, Croatian RDAs operate at a relatively local scale. In terms of average population, only Slovenian RDAs are comparable to those in Croatia, in each case with fewer than 200 000 inhabitants per RDA. In other EU countries (e.g. the Netherlands and Romania) RDAs operate at the NUTS 2 level, serving populations of between 1.8 and 2.5 million. Moreover, only Slovenian and Dutch RDAs cover similarly small surface areas as their Croatian counterparts. It should also be noted that, out of the different comparator countries, only in Slovenia and Croatia do RDAs operate at the NUTS 3 level.

Figure 2. Average population and surface area in km² by RDA (or similar entity)



Source: Author's elaboration based on: population data, except for Scotland: (OECD, 2022[5]); Costa Rica: (OECD/UCLG, 2022[6]); Netherlands: (Netherlands' Regionale Ontwikkelingsmaatschappijen, n.d.[7]); Romania: (ROREG, 2022[8]; EURADA, n.d.[9]); Scotland (United Kingdom): (Office for National Statistics, 2022[10]; Scottish Hub for Regional Economic Development, n.d.[11]); Slovenia: (Republic of Slovenia, 2023[12]); Spain: (Foro ARD, n.d.[13]; EURADA, n.d.[14]); Turkey (OECD, 2019[15]).

There can be significant benefits to organising regional development planning and promoting economic development and investment at a smaller territorial scale. For example, the proximity of the RDA to local self-governments, civil society organisations, local businesses and citizens in the territory being served, can help RDAs design development plans and investment strategies that closely match local needs, priorities and capacities. It can also ensure regular communication with local actors and help to build trust-based relationships.

At the same time, operating at a relatively small territorial scale can present a series of challenges. First, regional and local self-governments may lack some of the technical skills or expertise that is necessary to design, implement and monitor development strategies and investment projects. Second, investment funding for regional and local development risks either being fragmented or used in a suboptimal way, as many smaller projects being implemented by different counties may be targeting issues that could be better addressed through inter-regional intervention (e.g. specialised healthcare, secondary and higher education, waste and water management). Third, operating at the more local level can limit the capacity of RDAs to attract financing in at least two ways. Creditworthiness may suffer if an RDA—or the government it is part of—has a small budget or is heavily indebted. As a result, lenders may be unwilling to provide loans, or they may charge higher interest rates to compensate for the perceived risk. Furthermore, investment projects proposed by development agencies that represent a relatively small area might not be eligible for funding from institutions such as the EIB, which only lend for the implementation of projects of a certain financial volume. In response to these challenges, inter-regional co-operation mechanisms can help counties address development challenges and achieve economies of scale.

Across OECD Member countries, a range of inter-regional co-operation mechanisms are applied. One mechanism relates to the design of joint investment strategies among regions, which can help to align objectives across county governments and bridge information, capacity and financing gaps. For example, Canada's Atlantic Growth Strategy brings together four provinces to collaborate on initiatives such as infrastructure development, innovation and skills training (Government of Canada, 2022[16]).

Another mechanism to support inter-regional co-operation includes joint regional authorities, which are forms of institutionalised collaboration across counties that enable them to take advantage of economies of scale. These entities typically bring together representatives of regional and/or local governments that are involved in the specific areas where the joint authorities are allowed to operate. They receive money and powers from the national government to make decisions at the regional level. Examples include combined authorities in the United Kingdom, which are responsible for strategic planning, economic development and investment co-ordination across multiple local councils within a region (OECD/UCLG, 2019[17]; OECD/UCLG, 2022[18]; West Midlands Combined Authority, n.d.[19]).

A more maximalist type of inter-regional co-operation can be achieved by adjusting territorial governance structures or by modifying the institutional framework that governs the responsibilities and resources of subnational entities. This approach could involve merging smaller counties or local governments. For example, in 2015, France passed a reform that reduced the number of regions from 27 to 18, with the aim of reinforcing strategic planning capacities and supporting economic development. An alternative approach could be to create a new level of government. For example, in 2010-11 Greece created a new level of government comprising 13 fully self-governing regions, which were granted responsibilities in the fields of regional planning and development (OECD, 2022[20]; OECD/UCLG, 2022[6]).

Following the OECD's presentation, the General Director of Romania's West Regional Development Agency, who is also the President of the Association of Romanian Regional Development Agencies (ROREG), delivered a presentation on the evolution and the characteristics of Romania's regional development agencies. Their history in the country dates back to 1996, when four County Economic Development Agencies were created as pilot projects in the Western part of Romania. In 1998, after the publication of a report that stressed that "[t]he current administrative-territorial structure of the country (characterised by the existence of 42 counties) cannot provide an effective basis for regional development", the government passed a Regional Development Law establishing eight non-administrative Development Regions as NUTS II territorial units (Government of Romania-European Commission, 1997[21]). Each of these development regions is comprised of four to seven counties, has an average population of approximately three million people, and is managed by an RDA. The work of each RDA is overseen by a Regional Development Board, on which sit representatives from county and local self-governments. Each Board approves their regional RDA's budget and strategic planning initiatives, while also co-ordinating regional development policy. Contrary to many of their international peers, the Romanian RDAs are non-governmental organisations, which reduces the impact of political changes at the national and subnational levels on RDA operations.

Since 1999, Romanian RDAs have been responsible for regional and strategic planning, managing EU Funds (e.g. PHARE and Cohesion), attracting foreign investment, supporting regional innovation, clusters and small and medium-sized enterprises (SMEs), in addition to managing international projects. In the 2021-2027 planning period, they are acting as the regional Managing Authorities for Cohesion Policy funds in Romania, which is worth an estimated EUR 15 billion. Areas of intervention by the Romanian RDAs include road infrastructure, health, education and social infrastructure, energy efficiency, green spaces, cultural heritage and tourism, and SMEs. Beneficiaries of RDA activities include counties and local self-governments, as well as business associations, SMEs, universities and civil society organisations.

For its part, ROREG plays an important role in supporting the work of RDAs. In particular, it helps co-ordinate regional activities across RDAs, strengthen RDA capacity to manage EU funds and lobbies national government institutions and international organisations on behalf of the RDAs.

Subsequently, representatives of the Croatian RDAs responded to the presentations with insights on inter-regional co-operation within the country. They indicated that RDAs in Croatia are increasingly involved in inter-regional initiatives, such as the Northern Croatia and Slavonia development agreements, the "Dalmatinska Zagora" and "Gorski Kotar" regional development programmes, Integrated Territorial Investments and various cross-border initiatives, including with subnational authorities in Bosnia and

Herzegovina. They also suggested that while additional inter-regional co-operation is necessary, merging RDAs, as per some of the examples provided by the representative from EURADA and ROREG, are not considered necessary at this stage.

Workshop 3: Identifying ways to foster inter-regional co-operation for regional development

In this workshop, participants were divided into two groups to explore the importance of and constraints to enhancing inter-regional co-operation. The groups also discussed how enhanced inter-regional co-operation could be achieved.

During the workshop, participants highlighted that informal inter-regional co-operation does take place. For instance, county prefects frequently engage in informal discussions with RDAs, leading to collaborative project proposals, in the field of industrial transition, for example. Furthermore, certain groups of RDAs, such as those in the Adriatic or the North macro-regions, hold regular meetings showing an openness to collaborate.

Participants also highlighted obstacles that hinder further horizontal co-operation at the county and inter-regional level. These obstacles include limited trust among counties, as well as the challenges of reaching consensus when the characteristics of different regions vary significantly, and when the county governments are led by representatives of different political parties.

While merging RDAs was generally not seen as a viable option in the short-term, some RDAs proposed the creation of regional associations, as well as a national association. The associations could either formalise or complement the existing informal meetings and discussions. Over time, such associations could foster trust among the RDAs, and promote more cohesive and collaborative efforts. Additionally, leveraging existing activities, such as joint capacity building initiatives and bringing together staff from different RDAs, could contribute to creating a shared sense of purpose and direction, and further enhance trust among the participants.

Overall, the workshop provided a valuable platform for participants to delve into the significance of inter-regional co-operation. By exploring the constraints and potential of different forms of collaboration, as well as discussing the essential elements needed for effective co-operation, the workshop contributed to a deeper understanding of the importance of fostering inter-regional collaboration. Moreover, it helped identify potential strategies to overcome existing obstacles.

Conclusion

The Forum helped achieve multiple objectives. First, it offered a platform for dialogue and exchange among Croatian national and subnational policy makers about the challenges of funding and financing regional development policy and projects. Second, it facilitated learning from national and international good practices and identifying tools to help all levels of government make the most efficient use of funding and financing for regional development. Key topics discussed in this light included the benefits of and challenges associated with different sources to fund and finance regional development policy and projects, the sustainability of funding for regional development agencies and mechanisms to foster inter-regional co-operation.

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Annex 1. “Enhanced Strategic Planning at Regional and Local Levels in Croatia” project

The MRDEUF, with the financial support from Norway Grants, is working to strengthen the governance capacity of regional and local actors to best implement the National Development Strategy: Croatia 2030. To support this objective, the MRDEUF and OECD are collaborating on a two-year project to enhance strategic planning at the regional and local levels in Croatia.

The project aims to strengthen the capacity of regional and local actors to design, implement, monitor and evaluate evidence-informed development plans, thereby contributing to the objectives of Croatia’s National Development Strategy. In addition, the project supports the MRDEUF and subnational governments reinforce the strategic governance of integrated investment for territorial development.

To reach these objectives, the OECD will develop an analytical report on Croatia’s multi-level governance arrangements for regional development and issue tailored policy recommendations. In addition, it will organise different knowledge-sharing fora and capacity building activities over the project’s two-year period. For more information about the project, please visit: https://www.oecd.org/regional/multi-level-governance/Croatia_Project%20flyer.pdf

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Annex 2. Forum agenda

Thursday 15 June	
14:30 – 15:00	**Arrival of participants and registration**
15:00 – 15:15	**Opening remarks** • **Stephan Visser,** Policy Analyst, Governance and Strategic Planning for Regional Development Unit, CFE, OECD • **His Excellency Haakon Blankenborg,** Ambassador of Kingdom of Norway • **Spomenka Đurić**, State Secretary, Ministry of Regional Development and EU Funds
15:15 – 15:35	**Towards better financial mechanisms for regional development, OECD** This session outlines the different topics featured in this Forum: mechanisms used to finance regional development projects across OECD countries, including EU funds, national funding and subsidies for regional development, fiscal tools such as equalisation and tax incentives, and external financing (including from private actors). The presentation will also briefly touch upon the mandate and the resources of regional development agencies in other OECD countries and will highlight different arrangements that can foster effective inter-regional co-operation. • **Antti Moisio**, Senior Economist, Decentralisation, Subnational Finance and Infrastructure, CFE, OECD
15:35 – 17:00	**Panel 1. Strengthening and diversifying financial mechanisms for regional development** This session concentrates on the state of financial mechanisms for regional development in Croatia. The keynote presentations and discussants will reflect on: • The different financial mechanisms for regional development available in Croatia, including to the regional development agencies, with a focus on those that are being utilised more rarely. • Examples of good practices using specific financial mechanisms, as well as key challenges in securing and utilising finance for regional development efficiently. • The role of regional and local actors in financing/co-financing regional development. **Keynote presentations** • **Hrvoje Galičić,** Croatian Bank for Reconstruction and Development • **Slađana Ćosić,** European Investment Bank in Croatia • **Iva Međugorac**, Ministry Advisor to the Management board Head of Office, • of Regional Development and EU Funds **Moderator** • **Miquel Vidal-Bover**, Policy Analyst, Decentralisation, Subnational Finance and Infrastructure Unit, CFE, OECD
17:00 – 17:15	**Coffee break**
17:15 – 18:15	**Interactive discussion 1. Identifying and securing sources of finance for regional development projects** Through a collective intelligence exercise, participants will work together to identify how different sources for funding or financing regional development are used; what challenges subnational governments encounter in

	accessing/using those funds; and how the access to and use of the different sources of funding can be improved. **Moderator** • **Miquel Vidal-Bover**, Policy Analyst, Decentralisation, Subnational Finance and Infrastructure Unit, CFE, OECD
18:15 – 18:25	**Closing remarks day 1** • **Antti Moisio**, Senior Economist, Decentralisation, Subnational Finance and Infrastructure, CFE, OECD • **Luka Novosel,** Adviser to Minister, Ministry of Regional Development and EU Funds

Friday 16 June

09:30 – 10:00	**Arrival of participants and registration**
10:00 – 11:00	**Panel 2. Towards the sustainability of regional development agencies** This session will delve into the sustainability of funding for regional development agencies in order to guarantee the achievement of regional development objectives. An international expert will deliver a presentation on the different types of institutional frameworks and funding mechanisms for regional development agencies across the OECD. The discussants will react to the presentation by the international expert by providing insights on funding and governing regional development agencies in Croatia. **International expert** • **Roberta Dall'Olio**, Director of the European Association of Development Agencies (EURADA); Expert at the Attractiveness Research Territory Emilia-Romagna (ART-ER) **Discussants** • **Anamarija Protega,** Head of the sector, Regional and local level support sector, MRDEUF • **Andreja Šeperac**, Director, Development Agency Sisačko-moslavačka County **Moderator** • **Antti Moisio**, Senior Economist, Decentralisation, Subnational Finance and Infrastructure, CFE, OECD

11:00 – 12:00	**Interactive discussion 2. Further exploring the sustainability of regional development agencies** Through a collective intelligence exercise, participants will work together to identify how the RDAs can increase and diversify their funding levels in order to ensure their continued capacity to effectively support regional development. **Moderator** • **Miquel Vidal-Bover**, Policy Analyst, Decentralisation, Subnational Finance and Infrastructure Unit, CFE, OECD
12:00 – 13:00	**Lunch**
13:00 – 14:00	**Panel 3. Fostering inter-regional co-operation and joint projects for regional development** This session will concentrate on the different types of inter-regional co-operation, from informal to more stable co-operation arrangements, as well as on the benefits it can produce to foster the financing of regional development projects jointly and at a greater territorial scale. Panel members will discuss: • Current inter-regional co-operation formats and platforms in Croatia (e.g. informal meetings, formal agreements) • Lessons learnt from the inter-regional agreement in Northern and Eastern Croatia • Inter-regional co-operation for regional development in other OECD countries The international expert will deliver a presentation on the evolution and the characteristics of their country's regional development agencies. The discussants will react to the presentation by the international expert by providing insights on inter-regional co-operation in Croatia, making special reference to the inter-regional agreements in place (e.g. Northern and/or Eastern Croatia). **International expert** • **Sorin Maxim,** General Director of the West Regional Development Agency in Romania and President of the Association of Romanian Regional Development Agencies (ROREG) (virtual) **Discussants** • **Karolina Barilar**, Director, Regional Development Agency Krapinsko-Zagorska County • **Marina Dujmović Vuković**, Director – Regional Coordinator Zadarska County **Moderator** • **Stephan Visser**, Policy Analyst, Governance and Strategic Planning for Regional Development Unit, CFE, OECD
14:00 – 15:00	**Interactive discussion 3. Identifying ways to foster inter-regional co-operation for regional development** Through a collective intelligence exercise, participants will work together to identify ways to foster inter-regional co-operation for regional development. **Moderator** • **Stephan Visser,** Policy Analyst, Governance and Strategic Planning for Regional Development Unit, CFE, OECD
15:00 – 15:15	**Closing remarks, including next steps** • **Stephan Visser,** Policy Analyst, Governance and Strategic Planning for Regional Development Unit, CFE, OECD • **Spomenka Đurić**, State Secretary, Ministry of Regional Development and EU Funds

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