

UDC 332.14/.15.075.2(497.7)  
Original scientific paper

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## MAIN CHALLENGES IN THE IMPLEMENTATION OF REGIONAL DEVELOPMENT IN THE REPUBLIC OF MACEDONIA

### Abstract

Regional development is a current issue not only for the Republic of Macedonia but also for the whole European Union. This problem has just started to attract the attention in the Republic of Macedonia. Europe urges and favours the idea that the development should not be addressed only locally, within the municipality, but from another higher level, that is, regionally. In this paper the authors will specifically explore the institutional forms for implementation of the regional development in the country. Therefore, the aim of this paper is to explain the institution in charge of implementation of the regional policy of the Republic of Macedonia. Thus, the legal status of Bureau for Regional Development as the body having separate legal entity within the Ministry of Local Government and the Centres for Regional Development will be in particular presented. Macedonia is, namely, divided into 8 statistical regions on NUTS 3 level as well as the same number of centres

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responsible for development and promotion of development of separate regions. There will be special emphasis toward legal position and status of these centres under current legislation (2007 Law on Balanced Regional Development and other regulations concerning the regional development of the Republic of Macedonia). Also, the legal position and status of the Bureau for Regional Development as administrative body which takes care for regional development and should be understood as a chief implementer of regional policy in Macedonia will be specifically presented.

**Keywords:** Regional development, Regional policy, Bureau for regional development, Institutional forms, Centres for regional development.

**JEL classification:** R 5, R 58

### **Introduction**

Regional development is a theme that is relevant not only in the Republic of Macedonia but in the whole European Union. This is a problem that has only recently started to gain popularity in the country. The European Union has long been divided in the manner “Europe into regions”. Europe has been trying to push the idea of not thinking just locally and municipally, but at a higher level – the regional level. Although the European Union is one of the richest regions in the world, still there is a great inequality between different regions within it. You can safely say that in a country there is different development among its regions.

The regional policy of the European Union is a policy of investing in creating jobs, competitiveness, economic growth and improved quality of life. The regional policy includes solidarity by the EU towards the less developed countries and regions, concentrating resources in areas where there are large developmental differences. On the other hand, in recent times there is a new understanding of the concept of regional policy between members of scientific circles, weighing towards the fact that from solidary, it should be restructured and transformed into competitive. The meaning of this new thinking incorporates abandonment of the process of “growing up” of certain regions which are expected to cooperate with regions that are less developed, thus helping the disadvantaged regions and cities.

To achieve these goals of regional policy, each EU Member State is entitled to decide on national level about how and which institutions would carry, lead, implement and coordinate this policy. As project leaders and implementers, there have always been different institutions. Nowadays, Europe spends a substantial part of the Budget on the regional policy and cohesion policy of its member states. “The biggest part of the regional spending is reserved for the regions with GDP under 75% of the Union’s average, in order to improve their infrastructure and the development of the human and economic potential,” (Gerg et al.; 2010 p. 3). Innovation and research, as well as sustainable development and training at work in less developed regions, are funded in all EU member states. A small part of these funds is allocated to cross-border cooperation and interregional cooperation projects.

### **Legal base of the Regional Development**

The Law on Balanced Regional Development was adopted on 22 May 2007. The Law regulates the principles and objectives of the policy makers to promote balanced regional development, regional development planning, financing and resource allocation for balanced regional development, monitoring and evaluation of the implementation of planning documents and projects and other issues related to regional development. Legally defined regional development is the process of identifying, promoting, managing and exploiting the development potential of the planned regions and areas with specific development needs. The policy of regional development is a system of goals, instruments and measures aimed at reducing regional disparities and achieving balanced and sustainable development of the Republic of Macedonia. The law set the framework for the future passing of the whole documentation on national, regional and local level. (Anon. 2007)

For strategic and long term planning, as well as promoting regional policy, a ten-year strategy was developed. One of the main strategic documents through which regional development is planned in the country, apart from the National Development Plan and the Spatial Plan of the Republic of Macedonia, is the Strategy for Regional Development of the Republic of Macedonia, which was adopted in 2009 with a validity period from 2009–2019. The strategy is a multi-sectoral document, in which two approaches are applied with the definition of objectives – sectoral and regional. The strategy respects the principles

and purposes of the Law on Balanced Regional Development, such as balanced and sustainable development of the territory of the Republic of Macedonia, based on the model of polycentric development, reduction of disparities between and within the planning regions, and increasing of the quality of life of all citizens, increasing of the competitiveness of the planning regions by strengthening their innovation capacity, optimal use and valorisation of natural resources, human capital and economic characteristics of the planning regions. The model of polycentric development is focused on reducing disparities in the development between planning regions, which involves allocating more support to the less developed regions. The programs for development of regions must be aligned with the Strategy. (Anon. 2009)

Just like Law, Strategy also defines the same makers of regional development policy, as well as the implementers. The strategy has assessed the capacity of the main carriers for regional development in the country. The results of the assessment showed that the available institutional capacity for regional development in the country is quite limited. (Anon. 2009 : 74) Insufficient capacity arises from the long absence of policy and system for regional development in the country. The process of capacity building has been identified as a priority in the strategy, which should be a continuous process of upgrading to create a base of trainers in the field of regional development and providing training of trainers in order to use unified methodology for knowledge transfer.

According to the Law, art. 15 of the Law on Balanced Regional Development, the policy holders for promotion of balanced regional development are:

- the Government of RM
- the Council for Balanced Regional Development of the Republic of Macedonia
- the Ministry of Local Government
- the Council for Planned Regional Development. (Anon. 2007)

The Bureau for Regional Development and the Centres for Development of planning regions also participate in the planning of regional development and implementing the planned documents for regional development. The Strategy expanded the list of actors with the units of local government which should apply with proposals for funding in order to maximally utilize the available financial resources for regional

development and other ministries relevant to the design and implementation of regional development policy, which have defined Regional Development in their programs – Ministry of Finance, Ministry of Economy, Ministry of Transport and Communications, Ministry of Agriculture, Forestry and Water Management, the Ministry of Labour and Social Policy, Ministry of Education, Ministry of Environment and Spatial Planning and the Ministry of Culture. What is essential is good coordination between primary carriers of regional development policy and national ministries to harmonize the mutual programs and activities that may have an impact on regional development.

Therefore, for the purposes of this paper, we would consider separately the Ministry of Local Government as the policy holder for Regional Development, Bureau for Regional Development as the main body and implementation centres for development of regions, as regional level to implement this policy. The Council for Regional Development of the Republic of Macedonia is the coordinator of regional policy, which includes Ministers of 8 ministries, the Minister for Local Government, 8 presidents of councils for Regional Development and chaired by the Deputy Prime Minister for Economic Affairs. The Council for Regional Development is a political body comprised of the mayors of the region.

**Figure 1:** Relevant institutions for promotion of balanced regional development

Policy makers	
Council for Balanced Regional Development of the Republic of Macedonia	National level
Ministry of Local Government	National level
Council for Planned Regional Development	Regional level
Operational institutions	
Bureau for Regional Development	National level
Centres for Development of planning regions	Regional level

Source: The Law on Balanced Regional Development, *Off. Gazette*, No. 63/07

The reform of the policy included also preparation of the National Strategy for Regional Development, which, in accordance with the National Development Plan is the leading document destined to reduce the disparities among the Macedonian regions and consequently, in a more advanced stage, help reduce the existing gap between the European and the Macedonian average development index. The Strategy defines the paths that should lead to equal development of the regions in the period between 2009 and 2019 and points out two overall objectives: improvement of the competitiveness of the regions achieved through sustainable development and promotion of greater demographic, economic, social and spatial cohesion of the planning regions. (Cvetanovska and Angelova 2012 : 11)

### **The Role of the Ministry of Local Government**

The Ministry of Local Government is responsible for adoption and creation of the regional development policy and the process of decentralization. The Macedonian Law on Local Self-Government was enacted in 2002, with a wide consensus from the most influential parties in Macedonian politics. (Davitkovska and Stefanovski 2011 : 203-217). In cooperation with other ministries that deal with regional development, it defines and implements policies to promote balanced regional development, in accordance with the objectives of the Government's policy and the program documents for Macedonia's integration into the European Union. The Council for Regional Development of the Republic of Macedonia is a political body formed by the Government; it coordinates policy to promote balanced regional development with sectoral policies and the macroeconomic policies of Macedonia, it determines the draft strategy for regional development, gives prior approval for programs for Regional Development, initiates consideration of the issues of regional development, which require coordination between the Government, the units of the local government and other stakeholders, as well as performs other duties specified by law. The Council for Regional Development is established for each region, and it is composed of the mayors of the municipalities that are part of the planning region.

The implementer of the policy of Regional Development is the Bureau for Regional Development as a separate entity within the Ministry of Local Government.

### **The Idea of the Bureau for Regional Development**

The efforts that are being made for a faster and more comprehensive development of the areas in the country that are lagging behind in their development have been continuously monitored and systematically elaborated since 1974. The regional policy has undergone several stages so that today we have already adopted the Law on Balanced Regional Development (2007) as a European law (passed according to the example of the Republic of Slovenia) and specific regulations that implement the policy of balanced regional development.

The Bureau for Regional Development is operational body responsible for implementing regional policy in the country. Historically, the institution, or together with its institutional predecessors, has existed for nearly four decades. Although it has repeatedly changed its legal forms, the Bureau in essence remains the only institution that is continuously engaged in implementing policies to promote balanced regional development.

- The operational body responsible for funding the development since its inception in 1974 until today operates in the following legal forms:
- National Fund for crediting faster development of underdeveloped areas, which was formed in 1974. The institution was established under the Law on National Fund for crediting faster development of underdeveloped areas (Anon. 1974);
- Agency for underdeveloped areas, with the Law on encouraging the development of economically underdeveloped areas. (Anon. 1994)
- Bureau for underdeveloped areas, which is the legal successor of the agency. The institution was established with the Law on Organization and Operation of the State Administration (Anon. 2000)
- Bureau for Regional Development, an institution established by transformation of the Bureau for Economically Underdeveloped Areas of 01 January 2008 in accordance with the Law on Balanced Regional Development (Anon. 2007)

The Bureau for Economically Underdeveloped Areas was transformed into Bureau for Regional Development in 2008 and assumed the role of a real task force for the implementation of regional policy in

the country. The Bureau for Regional Development has separate legal entity within the Ministry of Local Government.

The Bureau for Regional Development performs the following tasks:

- Prepares analytical documentation on the development of strategic and operational planning documents for regional development,
- Produces the proposed methodology for the preparation of planning documents,
- Prepares annual reports on the implementation of the Action Plan of the Strategy
- Produces the draft decision on the criteria and indicators to identify areas with specific development needs,
- Produces the draft list of areas with specific development needs
- Prepares the draft criteria for the level of development of Local Government and the Regions,
- Prepares the draft act on classification of local government units and regions according to their level of development,
- Provides technical assistance to the Centres for Regional Development, in the preparation of programs for development of regions and performs other activities related to regional development,
- Informs stakeholders about the types and volume of funds and instruments to encourage regional development,
- Establishes and provides maintenance of the information system for regional development in cooperation with the National Institute of Statistics, and
- Performs other duties related to regional development, defined by law (Anon. 2007)

The Bureau for Regional Development, as provided by the Law on Balanced Regional Development, has an immediate direct communication with implementers of regional development policy. With the new law it is clear that the Bureau has been deprived from many obligations that should be executed as a true institution for implementation. It deals with only purely technical matters (Goceva 2011 : 41). It has been shown as an institution capable to be able to undertake

any additional actions that should naturally be assigned to it, no matter whether they are activities which are currently performed by the Ministry of Local Government or any other department or agency. That would facilitate the work, and transfer of powers from one institution to another will be avoided in case of misunderstanding and inability to produce evidence by law.

### **Centres for development of planned regions**

In accordance with the Law on Balanced Regional Development (Anon. 2007), as one of the carriers in regional development planning and implementation of planning documents for regional development is the Centre for Development of planned regions (Art. 12-2b, The Law on Balanced Regional Development), The Republic of Macedonia is divided in eight regions, with different level of development. The funds are allocated to the regions on the basis of a Decision of the Government of the Republic of Macedonia on classification of the planning regions according to the level of development. Furthermore, in the same law, the legislators are trying to define the Centre for Development of planned regions, and thus determine its legal status (Anon. 2008). Therefore according to the law, a Centre for Regional Development has been established, in favour of performing professional activities relevant to the development of the planning region. This centre is established for each region and the founders are the municipalities within the planned region. The decision to establish the centres adopted by the local government should closely regulate its organization, operation and financing. The Centre is a legal entity and its headquarters are located in the local government unit which has the largest population in the planning region.

The lawmaker governs how the head of the Centre is elected as well as their mandate and the budget, which comes from the budgets of local governments that are part of the planning region.

The Law, in a separate article, lists the powers of the Centre for Regional Development. Thus, under Article 26 of the Law, the Centre:

- prepares a draft program for regional development,
- prepares proposals – Action Plan for implementation of the Programme for Regional Development,
- prepares proposals – projects for regional development and for areas with specific development needs,

- coordinates activities related to the implementation of the Programme for Regional Development and realizes projects for regional development,
- prepares an annual report on implementation of the Programme for Regional Development,
- provides information to stakeholders on the implementation of the program for regional development and other issues related to regional development,
- provides professional and technical assistance to local governments in the preparation of their development programs,
- provides professional services to associations and other stakeholders in the preparation of projects for regional development
- encourages cooperation between municipalities within the planning development,
- implements projects to promote regional development, funded by the European Union and other international sources,
- promotes the development possibilities of the planning area and
- performs professional and administrative – technical work for the council for development of the regional development.

In order to determine the legal status of the Centre, the legislator has not invested much effort nor paid enough attention to it. It raises the question of the nature of the legal status of the Centre derived from the question of what kind of institution it is. If we take the general law, we can locate that such a centre would arise from Article 14, which refers to the inter-municipal cooperation. But the fact is that as a separate organ of the local administration, the centre is not provided for in this general law (Anon. 2002). This is perhaps due to the fact that this law was enacted five years before the adoption of the Law on Regional Development. So the basis for the legal status of the Centre should be sought in this law. As noted by the provisions of this law, the Centre is defined as a body which performs professional activities relevant to the development of region. The legislator did not attempt to define the nature of this body nor whether it is a public company established by the local government, public institution performing activities of the public or some kind of pairs

local authority established by the local government unit to perform professional activities (Davitkovski 2012 : 21).

According to the Law on the organization and operation of the administrative bodies (Anon. 2011) as authorities on the territory of the Republic of Macedonia that perform professional activities, there are the administrative bodies established by the Republic. So for this kind of institutions and similar ones, the legislator set the competence at central level, which does not mean that the local governing units cannot establish similar bodies. Yet it remains an open question about the nature of the activities of this centre and it will result in the type of organizational form through which the professional activities that are crucial for regional development will be realized.

The dilemma that there are inconsistencies regarding the nature of the centre exists. First, in the analysis of the decisions brought forth by the municipalities participating in the eight regions, as well as the registrations at the Central Registry of the Republic of Macedonia, where these centres are all registered under the code 01.4 – local government, without specifying and defining the legal status and dominant competence in performing professional work of these centres.

To be able to expect for the Centres for Regional Development to really exist in the future as organizational forms that are of utmost importance for the regional development, certain measures should be taken. The next amendments to the Law on Balanced Regional Development in Article 24 should precisely define the organizational form of the Centre and its legal status and, in particular, greater autonomy in Founding Act should be provided, which would allow editing and original organization, operation and financing of such organizational forms exclusively to the development of the planning region. One of the most highly proposed legal forms under which the CRD's should operate was a consulting firm. (Stojanova et al. 2012 : 30)

According to the needs of the region, it should be left at free disposition of the founder, that the act of establishing a centre is to provide a new and specific jurisdiction as well as specific educational preparation which should be required for the head of the centre, and it should be especially made available for the assets of the local government units that are part of the planning region for themselves to predict the appropriate financing of the centre. In this way, the Centre for Regional Development will result from the needs and specificities of the local government, as legal and organizational form that the founders of the centre prefer and mostly know about the regional development.

### **Overview of the situation regarding Regional Development starting from 2009**

For the regional development policy to develop in the right direction in line with EU requirements, the Republic of Macedonia has started this process by passing the Law on Balanced Regional Development in 2007 which was the basis for the adoption of the Strategy for Regional Development of the Republic of Macedonia 2009–2019. Two additional Action Plans 2010–2012 and 2013–2015 were adopted for the implementation of the Strategy. During the following years, all regulations were passed to implement the policy, such as the decision to classify regions according to their level of development, the decision on determination of areas with specific development needs (at national level), programs for development planning regions (at regional level) and local development strategies (at local level). This largely opened the door for the process of legislation in line with the European standards. Based on the Law at end of 2008 and beginning of 2009 the Centres for Regional Development were established, whose main task is to participate in the development of the region by finding and applying for funding projects to boost economic growth and development of the region, as well as highlighting its competitive value. This set up a network of institutions in charge of this policy. The results of these newly established institutions can be seen only in the last 2 years, with the application of mature regional projects to the Regional Development Bureau and through the use of the EU funds. The whole system that was set up with the law and a new strategy was new for all parties involved and quite a lot of time was lost to meet the need for adequate staffing of the centres and the national institutions as well. The problem arises in that the regional policy is a complex field and a multisectoral policy. In a way there is a gap between policy and the system that runs the Ministry of Local Government and the policies of other ministries. The Funds from the Ministry of Local Government and Regional Development Bureau are divided according to the Decision for classification of regions according to the degree of development of the regions (the old decision was valid until 2012 and for the period from 2013 to 2017 a new one was made), while other ministries share according to their own criteria without paying attention to balanced development. Centres for regional development programs in almost all the ministries are not recognized as institutions which can apply for projects. In the period 2009 to 2012, the Bureau for Regional Development announced 3 public calls for proposals

in which the Centres could participate with their own projects on the development of regions and local government development in areas with specific development needs and development of the villages. In 2010 there was no public call as yet because the projects from 2009 were still being paid and implemented. During these 3 public calls a total of 187 projects were funded to promote balanced regional development. The Law established the right of use of funds as 1% of GDP. In the past five years (2008–2012) of the implementation of the Law on Balanced Regional Development, the Ministry of Local Government and Regional Development Bureau accounted for 839.7 million, which represents only 0.04% of GDP. In 2009 major funding 0.06% or 243 million MKD were provided, but with the passing of time the percentage of the funds was reduced in 2012, and only 0.02% of GDP was allocated. According to the statistics of the Government, in accordance with the programs of the ministries and other state institutions, for the year of 2012 the allocated funds directly or indirectly provide promotion of regional development and they amount to 1.5% of the GDP. Starting from what is said above, we are coming to the conclusion that despite the priorities and objectives of the Strategy for a balanced and polycentric development, the funds are not spent according to a unified way. Macedonia faces the problem of ineffective coordination between nonlinear ministries and the overlapping of responsibilities. The justifications by linear ministries for not using the degree of development of the regions refer to the specific area they cover. Therefore, we can say that the Ministry of Health and its programs for drug delivery and treatment of people with diabetes cannot divide their services by regions according to their level of development, but according to a need for therapy for diabetes in a given region or municipality. This is quite true, but there are programs that can include this criterion.

As a conclusion to all of this, the following can be stated:

- The legal framework is set almost entirely in the country, but it is not fully respected by the linear ministries which have programs for regional development.
- The institutional framework has strong fundamentals, with established network of institutions implementing this policy and leading the policy from the highest national governing units to the units of local government, which should be the main beneficiaries of this policy.

- Since the implementation of the Strategy in 2009, there has been significant progress in the sense of capacity building for the implementation of regional policy and the use of national resources as well as the European funds (this would include IPA). Regional development centres are already starting to be recognized as a serious factor in the use of these funds and the assistance to the local governments for collecting funds for projects.

### **Concluding Remarks**

Although the European Union is one of the richest places in the world, it spends nearly a third of its budget for the regions that are lagging behind in their development. The most recent recommendations of the European Commission to the Republic of Macedonia for regional policy are concerning the correct allocation of funds under the principle of balanced development and proper implementation of this policy. Statistics show that the funds earmarked for regional development are not shared by the key for balanced development, but most remain in the city of Skopje. The whole economy was (and in great extent is even now) concentrated in and around the city of Skopje. This resulted in unfavourable polarized development, by favouring the development of cities to the detriment of villages and the achieved monocentric development, with the biggest concentration of economic activities in the capital city (Slaveska 2000 : 159). In order to be able to endure as a state in the European family, it is necessary and it is required to create similar and competitive regions even before we become a member state. Our budget is modest and limited regarding the funds for regional development, so we should use the pre-accession funds that offer great opportunities for the candidate states for membership in EU. The joint regional economic policy constitutes one of the pillars for achieving the economic and social cohesion between the constitutive parts of the Union.

Although the allocation of funds from the budget is performed by other departments in accordance with the Regional Development Strategy, it still does not guarantee proper implementation of regional policy and should therefore be reconsidered. The institutions involved in the distribution of funds to promote balanced regional development funds are not allocated according to the degree of development of the regions.

The Council for Regional Development of the Republic of Macedonia as the coordinator of this policy could certainly help in proper understanding and execution of the policy and policy coordination between ministries, municipalities and centres as regional level.

The function of the Bureau is marginalized in the Law on regional development. It cannot happen that the body which should be a key player in the field of regional policy is to be stuffed with purely technical work. The Bureau for Regional Development, as implementer of the regional development policy in the country, has to work on improving its effectiveness. In this regard, the Bureau must continue to concentrate on improving the internal functioning in order to continue improving its capacity as an institution, and to continue to work to improve its performance or the quality of its activities in order to achieve functional results in the implementation of the regional development policy. Raising efficiency will mean a further transformation of the institution into a modern European institution in the future, the accession of the Republic of Macedonia to the European Union will play an important role in the implementation of EU regional policy and the promotion of regional development.

The Bureau should be given the status of Regional Development Agency, which will no longer be under the Ministry of Local Government, but would be directly under the Government. It would be granted credentials that all regional development agencies in European countries have. It is required that an agency should be composed of highly trained personnel and staff who will be ready to address all the needs of the municipalities, as well as the other requirements of the European Union. It would organize trainings in all the regions from different areas of regional development. It would be the coordinator of the centres for the development of regions, which, on the other hand, would use their experiences for the development of their region. The Ministry is a huge institution and the Agency in this case would be carrying out their functions promptly and efficiently. Then there would be an institution which would derive the policy – the ministry, and a body that implements this policy – the Agency. In addition to this, the Agency will be the trainer and will connect regions. In any case it would have the function of a bridge between local and central government. Knowing the problems of local government, regional development centres would be able to propose laws and acts, which could in practice work well.

Also, according to the needs of the region, it should be left at free disposition of the founder, that the act of establishing a centre is to provide a new and specific jurisdiction as well as specific educational preparation which should be required for the head of the centre, and it should be especially made available for the assets of the local government units that are part of the planning region for themselves to predict the appropriate financing of the centre. In this way, the Centre for Regional Development will result from the needs and specificities of the local government, as legal and organizational form that the founders of the centre prefer and mostly know about the regional development.

All of the abovementioned is an excellent basis for implementation of the regional policy in the right direction and continuation of building the necessary and capable institutions for implementation of this policy.

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