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*Establishment and organization of regional
development in Macedonia.*

Challenges and perspective.

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Abstract

The establishment of the regional policy in Macedonia was needed mainly for two reasons. Firstly, the high level of disparities between the regions i.e. between the capital and the rest of the country plus the lack of integral approach aiming towards improvement of the development indexes of the less developed regions and secondly, the country received the EU candidate status and needed to synchronize its regional development priorities with the European standards as well as with the strategic goals provided by the Lisbon strategy. This strategy mainly consists of raising the long-run growth potential, improvement of the competitiveness between and within regions, development of close partnership by involving the authorities at the central, regional and local level and the social partners and civil society. The importance of quality regional development policy mainly consists of the financial implications, as it prepares candidate countries to use the Structural and the Cohesion Fund for regional development following their accession.

The incentive of the EU membership encouraged Macedonia to start developing the concept of regional policy following the new spatial division which generated the NUTS III regions¹. At the present, the country is focused on implementing the created legal framework based on the Law on Balanced Regional Development, created in 2007, the objectives stipulated by the Regional Development Strategy adopted in 2009 being valid for the period from 2009 till 2019 and developing Multi-Annual Programs for each region. Simultaneously with the process of the policymaking, the country is oriented towards establishment of operational structure consisting of regional institutional network i.e. regional centers for each region and reinforcement of the capacities of the existing national institutions i.e. the Bureau for Regional Development.

The purpose of this paper is to provide a realistic presentation of the country's effort for establishment of a good quality regional development policy in accordance with the European principles, to identify the existing problems regarding the functioning of the policy makers and the operational stakeholders as well as to provide suggestions for their enhancement. The paper also offers analysis of the core activities and projects destined to diminish regional disparities and attempts to reveal the basic issues arising in the implemented projects.

The methodology used for preparation of the present paper is based on the analysis of the existing national and European documents and reports, statistical data and other relevant information and literature.

¹ The European Regional Policy is generally destined to NUTS II regions. According to the NUTS regulation, whereas the minimum and maximum population defines the NUTS level, Macedonia is one region on the NUTS II level (min. 800.000 to 3 million people). For practical and organizational reasons in the field of regional development Macedonia has been divided in eight NUTS III regions.

Keywords

Regions, regional development, regional development institutions, regional disparities, Macedonia

1. Regional disparities

According to the Law on Balanced Regional Development, Macedonia is organized in 8 non administrative planning regions on NUTS 3 level that are formed by grouping of the municipalities as administrative units. The new regional organization of the country was determined by Chapter 21 from the “Acquis communautaire”, the EU legislation framework regarding accession negotiations, whereas the provisional NUTS classification is necessary.

The new kind of organization helped the process of measurement of the development on regional level which, during the past years was one of the most challenging tasks for researchers and policy makers, if the lack of regional data is considered.

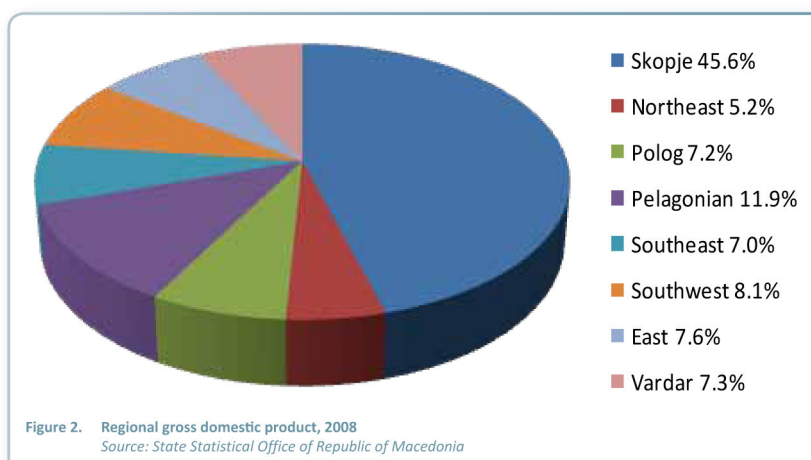


The available data on regional level reveal high percentage of disparities among the regions, i.e. among the Skopje Region, as the most developed, and the rest of the regions, which means that the Macedonian model of development is purely mono-centric with one region as a core, while all the other regions are lagging behind. The disparities between regions are most evident when the GDP of the Republic of Macedonia is considered.

The GDP per capita of the Skopje region of MKD 314.531 is high above the average of the country which is MKD 201.147. The Skopje Region and the Pelagonia Region with GDP per capita of MKD 208.990 are the only regions with higher GDP per capita than the average of the country. The Vardar Region with 97% of the country's average is next, and the Eastern and the South Eastern Regions follow with 86% and 84%. The remaining three regions have less than 75% of the average GDP per capita of the country².

²Source: State Statistical Office, Gross domestic product in the Republic of Macedonia, by regions 2008.

The biggest share of the gross domestic product of the Republic of Macedonia is created in the Skopje Region, 45.6% in 2008, while the smallest share belongs to the North Eastern Region, with 5.2%.



Even though the Skopje region encompasses only 7.3% of the territory it contains 29.1% of the population³. This region, as economic and administrative center, represents important employment center for the surrounding population and it is the largest immigration area if considering the internal migrations. The density of the population in the most developed region is 329 per km², which is more than four times than the national average.

Opposite the most developed region is the North Eastern Region. It covers 9.3% of the territory with population density of 75 people per km² which is 8.5% of the total population of the country. This region has the smallest GDP, only 5.2% in the total GDP and the employment rate is very low i.e. 25% with unemployment rate of 58% which is the highest unemployment rate in the country⁴.

As far as other regions are concerned it is rather interesting that the South Eastern Region demonstrates high level of employment rate 62.3%, the highest in the whole country and the lowest unemployment rate 11.7%⁵.

When considering the shares of the regions in the gross domestic product, one has to bear in mind that even though the Skopje Region is the most developed in the country, its GDP represents only 44.5% of the average GDP in EU27, while the less developed region, the North Eastern region has GDP of only 13.1% of the EU 27 average GDP. Macedonia's GDP per capita represents 35% of the GDP in EU 27⁶.

Additional indicators of economic development confirm the high level of disparities and demonstrate the dominance of the Skopje Region with the high share of 2/3 of the total value added from industrial output, 45% from the total exports, 62% from the total imports and share of 47% in the total employment⁷.

³Source: State Statistical Office, Regions of the Republic of Macedonia 2009, Skopje 2010.

⁴Idem.

⁵Idem.

⁶Source: EUROSTAT, GDP per capita for the European Union and for each of its 27 member states 2009.

⁷Source: State Statistical Office, Regions of the Republic of Macedonia 2009, Skopje 2010.

It is therefore of crucial importance to augment the use of potentials in other regions in order to promote economic and social development and guarantee their sustainable future, but, in line with the principles based on polycentric model of development, the Skopje Region must not be disregarded and policy measures should also provide constant development of this region.

Furthermore the available data on the regions demonstrate high level of disparities on demographic, infrastructural, social, cultural level etc.

Planning region	Development index	Economic-social index	Demographic index
1. Skopje Region	1.48*	1.86	1.25
2. South-eastern Region	0.89	1.38	0.58
3. Pelagonija Region	0.73	0.79	0.69
4. South-western Region	0.72	0.50	0.86
5. Polog Region	0.72	0.18	1.05
6. Vardar Region	0.69	0.63	0.73
7. Eastern Region	0.67	0.95	0.50
8. North-eastern Region	0.56	0.33	0.70

Table 1. Decision for classification of the planning regions in Macedonia according to the development indices for the period 2008-2012, Official Gazette of Republic of Macedonia n. 162, 25.12.2008
*Index 1 = average national development level of Macedonia

As the Table 1 reveals there is a vast gap mainly between the Skopje Region and the rest of the territory, consisting of less developed regions.

The development index of the Skopje Region is 2.6 times higher than the development index of the North Eastern Region. Moreover, the disparities result even bigger if the economic-social index is considered. The Skopje Region has ten times higher economic-social index than the least developed Polog region.

The relatively high economic social index (1.38) for the South Eastern Region is correlated to the above mentioned high employment rate of 62.3%.

The other regions, the Pelagonija Region, the Vardar Region, the South Western Region, the Eastern Region and the Polog Region have similar development indices, but they are characterized by the significant differences when the economic social index and the demographic index are considered. For example, the development index of the Polog Region is 0.72, whereas the economic social index is only 0.18 and the demographic index is 1.05.

The above evidenced differences need to be considered when the Programs for development of the regions are created, because only by proper consideration of the particularities of each region, sustainable and long term effects can be produced.

2. Legal and institutional framework for balanced regional development

2.1 Legal framework

Even though the term regional policy is relatively new for the Macedonian state, the concept has its roots in the distant 1970s. Macedonia, as the part of Yugoslavia, following the regional development policies of the federal state, created the Lending Fund for Purposes of Faster Development of Economically Underdeveloped Areas. Since 1974 problem areas have received special assistance, mostly financial, from the state. This policy continuously evolved and in 1994 the Law for stimulation of insufficiently developed areas was enacted. The legal provisions of this Law provided the necessary mechanism for development of rural and other specific areas (hilly mountainous areas, borderline areas and other underdeveloped areas).

In 2007 a huge reform of regional policy was made. The new Law on Balanced Regional Development (enacted in 2007) is a completely new page in Macedonian regional development, if one has in mind that the previous legal basis of the regional development policy was more aid to underdeveloped areas than sustainable mechanism for promoting operative regional policy.

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.

The quality regional policy is to be completed by the five years Programs for development of each of the eight planning regions defining the development priorities and the necessary measures, instruments and financial means for each region separately.

In encouraging more balanced regional development, the policy approach, as defined by the Law, is based not only on the idea of diminishment of the disparities between regions, but also destined to diminish the disparities within regions. Therefore the Law on Balanced Regional Development provides special approach to areas with specific development needs which comprise: borderline, rural, hilly-mountainous and other areas that are insufficiently developed, areas with natural and cultural heritage protected by the Law, other areas with specific development needs⁸. The particularities of each area determine the development priorities for the available funds and regional development instruments. The outlined areas are

⁸Decision for determination of the areas with specific development needs in the Republic of Macedonia for the period between 2009 and 2013. The Official Gazette 78, 22.06.2009.

financially supported not only as part of the planning regions, but they also receive additional funds distributed in basis of the specific development needs⁹.

2.2. Institutional framework

In line with the transformation of the legal framework, Macedonia is oriented towards establishment of a quality institutional model for regional development which is also needed for achieving the EU standards. So far, the country has determined the institutions that affect the process of regional development in Macedonia: the policy makers, on one side and the operational bodies, on the other. The relevant institutions are presented in the tables below.

Policy makers	Level	Main Functions
Council for Balanced regional bodies	National level	Mainly responsible for harmonization of the regional development policy with the other sector policy and the macroeconomic policy
Ministry of Local Self Government	National level	Creation of national balanced regional development policy.
Councils for development of the planning region	Regional level	Creation of development policy within their own region.

Table 2. List of the regional policy makers
Source: Law on Balanced Regional Development

Operational Bodies	Level	Main Functions
Bureau for regional development	National level	Implementation of the regional policy
Centers for development of the planning regions	Regional level	Implementation of regional development projects
The Municipalities ¹⁰	Local Level	Implementation of projects in the villages and in the areas with specific development needs

Table 3. List of the operational bodies
Law on Balanced Regional Development

As tables 2 and 3 reveal, the Macedonian efforts towards establishment of firm institutional network have resulted with the creation of new (National Council, Regional Council and Centers for Development of the Planning Regions) and use of the already existing institutional bodies (Ministry of Local Self Government, Bureau for Regional Development and the Municipalities).

Regarding the creation of policy, the Law provides the National Council operating on central level, composed of 18 members, 9 of them from the central government (The Vice president of the Government for economic affairs and the Ministers of Local Self-Government, Economy, Transport and Communications, Finance, Labor, Environment and Physical planning, Culture and Agriculture, Forestry and Water Economy); and 9 members from the local government (the 8 Presidents of the Councils for development of the planning regions and the President of ZELS-the Macedonian Association of the Units of the Local Self Government) and 8

⁹The areas with specific development needs, as already pointed above, receive constant financial aid over the last forty years.

¹⁰The Municipalities are considered operational bodies because they implement the projects for development of the villages and the projects for development of the areas with specific development needs.

Councils on regional level, composed by the Mayors of the Municipalities which form the respective planning region responsible for creation of sustainable policy measures. The National and Regional Councils can involve experts on regional development or in other fields of expertise if they are considered necessary. The Regional Councils can also involve representatives of the economic chambers, the civil sector, the private sector etc. what reflects the practical approach that permits joint meetings with different stakeholders on the regional and local level supporting in that way the best possible solutions and minimizing the eventual negative outcomes.

At the present, an evident limitation on the implementation of the requirements of the EU regional policy principle is related to the responsibilities of the Ministry of Local Self Government, which, despite its responsibility for the balanced regional development national policy, is not included in the management of the funds provided by the Component 3 of the IPA funds – Regional Development. Therefore a major objective, for the next period, will be to secure coherency of the national policy with the European in order to successfully introduce the future EU cohesion policy and the Structural funds.

Regarding the operational level, the Law has transformed the already existing Bureau for Development of Economically Underdeveloped Areas into Bureau for Regional Development using all the positive effects of its so called ‘institutional memory’ and it upgraded it with the newly accepted regional approach. It is believed that this institution is in possession of all the necessary skills and capacities for implementation of the adopted policy measures and it is capable of equitable development promotion.

With regard to this institution, perhaps, better results can be achieved if the Bureau is transformed into National Agency for Regional Development which will lead to establishment of a strong independent national body¹¹ in accordance with the operational bodies that operate in the countries of the European Union. Only in that way, the Bureau can evolve into an effective and efficient institution capable of timely identification of sectoral or overall development problems, selection of a range of opportunities or methodologies for their solving and maximization of the solutions to the identified problems¹². The eventual transformation would mean creation of a strong bridge among national, regional and European institutions in the implementation and monitoring of regional development programs relying on quality cooperation with the relevant regional bodies – the Centers for Development of the Planning Regions.

The newly established Centers for Development of the Planning Regions, entitled to carry out all professional tasks regarding regional development and to facilitate the inter municipal cooperation, are the regional operational bodies. At the present, these institutions are facing serious financial uncertainty. According to the Law, the Centers should be financed by the Municipalities they are formed from, but at the moment, because of the low financial capacities of some of the municipalities, the

¹¹The eventual transformation of the Bureau into National Agency for Regional Development will mean creation of appropriate operational body operating on NUTS II level (like most Regional Development Agencies in European countries) in accordance with European standards and practices.

¹²Definition of Regional Development Agency according to EURADA – the European Association of Regional Development Agencies

Centers are financed also from the Central Government, i.e. the Ministry of Local Self Government. Some of the small municipalities have difficulties in paying the prescribed quote to the Center and this provokes their financial uncertainty. In addition to this, the Centers are to be financed from the Ministry of Local Self Government only during the first five years of their existence which augments their financial vagueness. All of this demonstrates the high level of unsustainability of the main operational regional bodies. In order to prevent future problems it is necessary to encourage advancement of the present institutional arrangement by introduction of public private partnership for example. The Centers should rely on cooperation between different partners such as chambers of commerce, banks, associations, enterprises etc. This will mean not only guaranteed financial sustainability for the centers, but it will also mean integrated regional development that evaluates the interests of all stakeholders. This kind of functioning is widely accepted in the countries members of the European Union, but not only in those countries. Even the countries from our nearest neighborhood, like Serbia, have accepted this sustainable way of organization.

For now, the Macedonian Centers for regional development, as described above, rely only on the municipalities they are formed from. This means that the process of the regional development is strongly dominated by the local governments, while the local business community and the civic sector are not encouraged to actively contribute to initiatives on both, local and regional level.

In addition to this, the Centers face a serious problem in relation to the lack of human resources. At the present, the Centers for regional development are hiring three to five full time employees. The Centers should become the key regional organizations capable of introducing a more systematic process of development through cooperation planning and program implementation, and the lack of human capacity is certainly not helping the process. The number and the quality of employees should be increased, whereas the competent staff should become the main strength for implementing the regional initiatives and the development agenda. The Centers can work on improvement of the competitiveness of each region only if they rely on successful regional development coordinators and agents.

3. Stimulation of balanced regional development

The two year period of implementation of the adopted legal documents (the Law on Balanced Regional Development, the Strategy, the Legal acts, the Programs for development of each of the eight regions etc.) the transformation of the existing institutions and the formation of new ones have confirmed that progress has been made, but have also pointed the missing pieces in the Macedonian regional development “puzzle”. Besides the remarks regarding the proper functioning of the institutions, as brought up above, the following section provides a realistic overview of the present usage of funds destined to regional development and it points out the weaknesses of the whole process.

The financial framework which underpins the use of money destined to regional development, in accordance with the Law on Balanced Regional Development, provides the following distribution of funds:

- 70% of the funds for regional development are destined for development of the planning regions;
- 20% for the areas with specific development needs; and the remaining
- 10% for the villages.

The funds addressed to the eight regions are distributed on the basis of the developmental level as it was brought up in the section one. The smallest share of only 6,4% goes to the Skopje Region. The other regions receive at least twice more than the most developed Skopje Region: the Vardar Region receives 13.5%, the Eastern Region 14%. The South Western Region 13%, the South Eastern 10.6%, the Pelagonia Region 12.9%, the Polog Region 13% and the less developed region, the North Eastern Region receives the biggest share of 16.7%¹³.

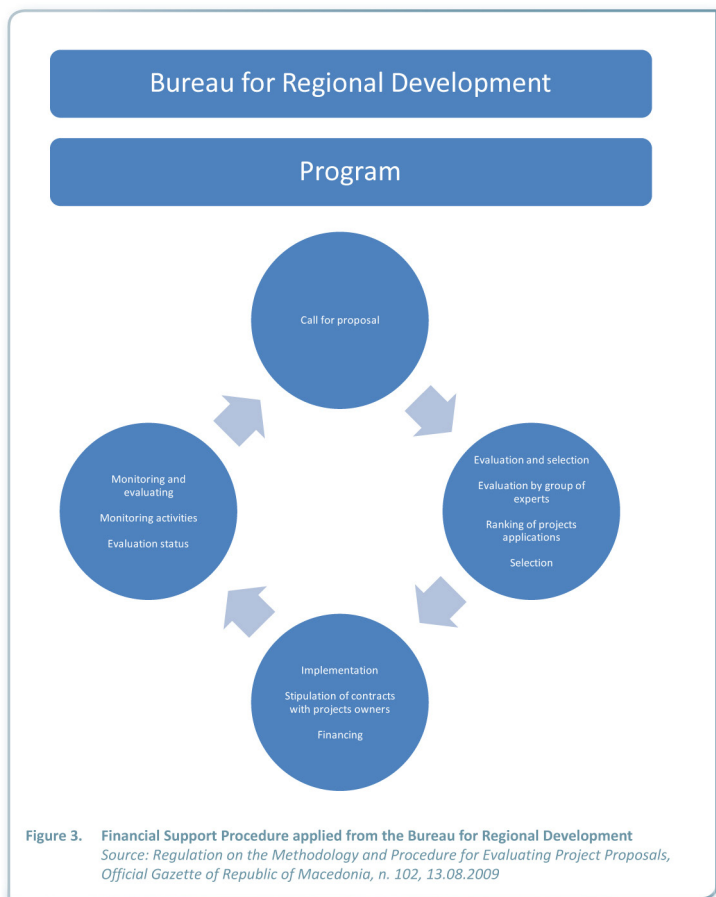
According to the available data, two public calls for project proposals for development have been announced. The first one during 2009, and the second one during 2010. The projects selected in the year 2009 were financed and implemented during 2010, while the projects selected in the year 2010 are to be financed and implemented during the year 2011.

The National Budget for 2010 provided around 3 million euro (1.7 for the Ministry of Local Self Government and 1.6. million euro for the Bureau for Regional Development) destined for the balanced regional development. The funds are distributed in accordance with the Program “Attractive planning regions 2009” conducted by the Ministry of Local Self Government and the Program for balanced and sustainable regional development conducted by the Bureau for Regional Development.

Each year the relevant operational body i.e. the Bureau for regional development publicly announces proposal for development of the planning regions, of the areas with specific development needs and of the villages. The responsible regional and local institutions i.e. the Centers for Development of the Planning Regions and the Municipalities present their project proposals to the central institution, which evaluates them and decides which one of them should be financed. The projects are

¹³Source: Decision for classification of the planning regions according to their level of development in the period between 2008-2012, The Official Gazette of R. of Macedonia n. 162/2008

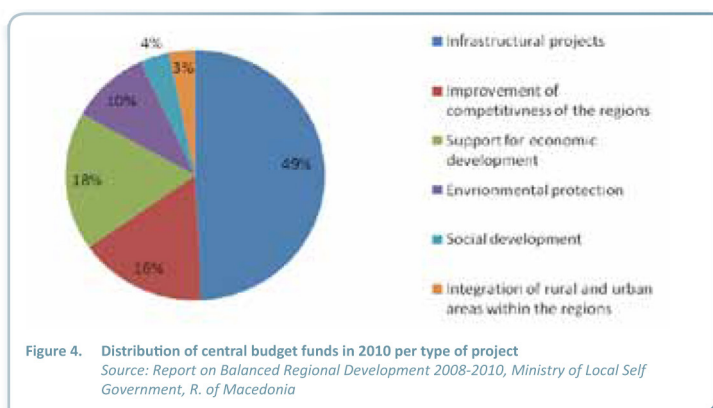
being evaluated according to the instructions of the Guidelines for evaluation of projects for regional development. All projects need to be in accordance with the Annual Programs for regional development. The whole procedure can graphically be presented as follows:



As figure 3 reveals, the operational body is responsible for the selection of the projects, and it is also responsible for the monitoring and evaluation of the project activities. The Bureau covers the two Programs cited above, the one from the Ministry and another from the Bureau itself. This means, that even though the half of the funds is distributed by the Ministry of Local Self Government, the whole procedure for selection, evaluation and monitoring of the project activities is managed by the Bureau. This should be on more reason why the Bureau should be transformed into an independent Agency as central institution responsible for distribution of the budget funds.

When analyzing the available data on the financed projects approved in 2009 (and financed during 2010), it is clear that the largest part of the financial meanings destined for regional development, almost half of the total funds, have been used for improvement of the infrastructural network. Still, a significant amount has been destined to other types of projects i.e. large amount of the financial support has been intended to development of the competitiveness and for economic development of the planning regions, while minor amount has been intended for environmental

protection and social development. The allocation of funds can graphically be presented as it follows:



Moreover, it can be easily concluded that the priorities in regional development differ from one regional stakeholder to another. Namely, the projects destined for development of the areas with specific development needs and for the villages, implemented by the relevant Municipalities, consist mainly in infrastructural activities, such as: construction and reconstruction of roads, sewage systems, construction of bridges etc. Despite the fact that the Municipalities can choose to promote areas with natural and cultural heritage, which are, by the Law, comprised as areas with specific development needs and in that way obtain overall results in development which include social and environmental aspects, they choose to intervene in the traditional infrastructure. When considering the projects for development of the planning regions implemented by the relevant Centers for development, the results demonstrate certain level of diverseness. The Centers are concentrated not only on infrastructural activities, but also on improvement of the institutional capacities, promotion of agricultural products, support on business activities, touristic valorization of the territory etc.

The concentration of funds on infrastructural projects is due mainly to poor infrastructure capacities of the Macedonian regions, but it is also due to the fact that, unfortunately, for many of the Councils for Development of the Planning Regions and for the Municipalities, regional development is still more about lobbying successfully for centrally funded infrastructure projects than about developing economic potentials and assuring social sustainability. Even though the meaning of regional development is creation of competitive regions, whereas institutional flexibility and openness to the local community problems, and especially to the needs of the economic operators needs, is of great importance, there is still a wide gap between authorities and the rest of the interested parties.

Another limitation regarding the allocation of regional development funds can be evidenced when overall analysis of the Macedonian regional process is considered. The results of such overall analysis show that the part of the GDP addressed to specific problems on regional level, which by Law should be 1% of the country's GDP, in 2010 it arrived at 0.96%. However, only a small amount is distributed directly through the relevant institutions, i.e. the Bureau for Regional Development and the

Ministry for Local Self Government (about 4.642.552 Euro), while the largest share of the funds is distributed through other ministries and other relevant institutions (about 61.736.195 Euro). Even though the allocation of funds through the budgets of other ministries is in accordance with the Strategy for Regional Development it does not guarantee the proper regional distribution, and therefore does not assure proper implementation of the adopted regional policy and should therefore be re-examined.

In addition to this, the institutions involved in dealing with regional development issues and allocation of funds destined to regional development experience certain difficulties in coordination, which at the present is at non satisfactory level if one has in mind the lack of national data basis for regional development projects.

4. Conclusions and suggestions

The challenging process of regional development in Macedonia meant introduction of new kind of organization of policies and institutions according to EU standards.

As brought up in the sections above, a certain degree of adaptation to the EU principles can be evidenced, such as: adoption of the NUTS classification, creation of Law on Balanced Regional Development, preparation of National Strategy for Regional Development, preparation of Programs for development of each of the planning regions, transformation of certain institutions (Bureau for Regional Development), and establishment of new ones (the Centers for Development of the Planning Regions) etc.

However, the whole process was influenced by the present domestic factors, the strong regional disparities, the low level of economic development, the lack of human capacities, low level of participation of the business and the civic sector etc. Certain limitation on the implementation of the regional policy in Macedonia according to EU principles and standards is the inherited model of aid to underdeveloped areas which supports use of funds mainly for infrastructure projects and neglects all the other fields that need to be transformed in order to promote competitive regions. Improvement of the competitiveness of the regions which need to withstand competitive pressures is crucial for economic development and it is also the key condition for EU accession.

It is suggested that in future Macedonian regional policies concentrate not only on their outcomes but also on their wider impact on overall development in a given region. Developing regional perspectives should become a priority when planning regional development. In addition to this, local and regional institutions should contribute as much as they can to involve a wider range of actors in the decision making process, because long term development can be achieved only through active inclusion of all the regional and local stakeholders.

Moreover, the Macedonian regional development process is marked by the lack of horizontal and vertical cooperation. It is therefore suggested to create a national data basis for regional development projects which is of crucial importance, especially for the central institutions, in order to facilitate the process of financing of regional development projects and in consequence facilitate the further accomplishment of the strategy objectives which are mainly based on inter sector and inter ministerial cooperation. Improved horizontal cooperation is suggested also for the municipalities which need to join forces in different areas, but above all as providers of services for the economic operators. This kind of inter-municipal cooperation would help the improvement of services especially for the small and medium enterprises and will help them extend from local to regional, or at least micro regional level.

On the other side, all institutions involved in the process of regional development need to work further on the so called vertical cooperation. The Centers for Development of the Planning Regions should act not only as administrative institutions, they should become real partners of the municipalities and providers of quality services and help the process of inter municipal cooperation. The Centers should also concentrate on improvement of the cooperation with the NGOs and the private sector, which are considered best generators of ideas for development projects because of their close link to the territory where they exist. Through institutionalization of the process of development and promotion of the bottom-up approach based on know-

ledge and participation, the Centers should assume the role of managers of the provided ideas. In return, the Centers should also provide quality services for them. Furthermore, the Centers should become promoters of partnership between universities and economic operators securing improvement of the human capital and guarantying social sustainability.

It is also of the outmost importance to support further improvement of the cooperation between institutions on national, on one side and regional level, on the other side, is needed. The relevant institutions should improve the level of coordination by constant communication which will lead to better understanding of the real problems of the regions by the national institutions and in consequence further improvement of the programs for development. Also, the regional operational bodies can help the implementation process of the regional policies and secure in that way the sustainability of the conducted projects.

In addition to the previous conclusions and recommendations, it is suggested that the system of regional policies in Macedonia should be further upgraded with a more sustainable vision, i.e. more attention should be given on environmentally friendly projects and projects for social inclusion and promotion of community participation.

Finally, Macedonia needs to continue its efforts to develop a sustainable system of regional development, the competent central and regional institutions should be encouraged to adopt innovative instruments based on cooperative networking between stakeholders and further strengthening of the institutional capacities and human resources in public administration should remain a priority.

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- » *Eurada, the European Association of Regional Development Agencies www.eurada.org*
- » *GDP per capita for the European Union and for each of its 27 member states 2009, EUROSTAT*

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