

OECD Multi-level Governance Studies

Making the Most of Public Investment in the Eastern Slovak Republic



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Foreword

How to make the most of public investment across levels of government? This question is critical in today's tight fiscal environment. Public investment is a shared responsibility across levels of government. It makes its governance particularly complex. Sub-national governments, defined as states, provinces, regions and other municipalities, undertook around 60% of public investment in OECD countries in 2014. Most of the sub-national public investment goes to areas of critical importance for future economic growth, sustainable development and citizens' well-being.

When done right, public investment can be a powerful tool to boost growth, enhance well-being and provide right infrastructure to leverage private investment. In contrast, poor investment choices or badly managed investment waste resources, erode public trust and may hamper growth opportunities. Public investment has been under pressure in most OECD countries following fiscal consolidation strategies, even as private investment in many countries has continued to contract. Given that public budgets across the OECD are likely to remain tight for some time to come, all levels of government will have to do better with less by investing more efficiently.

Substantial savings can be made by better managing public investment throughout its life cycle, across levels of government. Effective public investment requires substantial co-ordination across levels of government to bridge information, policy or fiscal gaps that may occur, as well as critical governance capacities at different levels to design and implement public investment projects.

This study is part of the implementation of the OECD Recommendation on Effective Public Investment across Levels of Government adopted by the OECD Council in March 2014. The purpose of the Recommendation is to help governments assess the strengths and weaknesses of their public investment capacity across levels of government and set priorities for improvement.

The report focuses on the eastern Slovak Republic. It draws on multiple sources of information, including questionnaires that were completed by the national, regional and local governments as well as a study mission in the eastern Slovak Republic.

Acknowledgements

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The study was led by the Regional Development Policy Division of the OECD headed by Joaquim Oliveira Martins. It was co-ordinated by Dorothée Allain-Dupré and written with Isabelle Chatry from the OECD Secretariat, and Lee Mizell, external expert to the OECD. Comments received by Karen Maguire and William Thompson are gratefully acknowledged. Jennifer Kilbourne and Pilar Philip, in co-ordination with Ulrike Chaplar, prepared the manuscript for publication.

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Executive summary

The changes in the Slovak Republic's socio-economic and governance landscape over the past 20 years are impressive. The Slovak Republic joined the European Union (EU) in 2004, entered the Schengen area in 2007 and adopted the euro in 2009. These events, coupled with decentralisation reform and the creation of administrative regions, have brought significant changes to the country as a whole. Between 2004 and 2008, GDP grew at an average annual rate of approximately 7%, dropping off in the face of the global financial crisis but rebounding to 2.5% in 2010-13. Gross domestic product per capita at purchasing power parity has increased from 57% of the EU-28 average in 2004 to 75% in 2013.

While overall growth has been impressive compared to OECD countries overall, benefits have not accrued equally everywhere. Regional disparities in the Slovak Republic are high, with the eastern part of the country lagging well behind the west, and Bratislava in particular. In 2010, the Slovak Republic had the sixth largest regional disparities in GDP per capita among OECD countries and regional disparities are increasing. Economic growth is strong in western regions but trailing in the east. In the previous decade, GDP growth in Slovak regions was above the OECD average, and varied from 6% annually in the Bratislava Region to 3.9% in Východné Slovensko (Eastern Slovak Republic). Compared to other Slovak regions, the Eastern Slovak Republic tends toward lower GDP per capita, lower wage rates, lower labour productivity, and higher unemployment. This case study focuses precisely on the lagging region of Východné Slovensko with an eye to identifying how public investment in the region has been managed to date, what plans are in place for the future and what improvements could be made that will 1) enhance the effectiveness of public investment and better align practices with the OECD's Recommendation on Effective Public Investment Across Levels of Government and, 2) in doing so, help narrow the gap in terms of economic performance and well-being between this region and its neighbours to the west.

Key Findings

Effective public investment could potentially improve regional conditions and attract private funding, but bottlenecks in governance currently stand in the way. Since joining the EU in 2004, most public investment in the Slovak Republic has been financed through the EU Structural and Cohesion Funds (now Structural and Investment Funds, ESI). The Slovak Republic received approximately EUR 13.3 billion in EU Structural and Cohesion Funds for the 2007-13 period, and will receive approximately EUR 14 billion in ESI funding for 2014-20. This case study reveals challenges linked to governance that could hamper the effective use of these and other public investment funds: *i)* top-down orientation of public investment; *ii)* high local fragmentation; *iii)* limited private sector engagement; *iv)* weak sub-national administrative capacities; and *v)* complex regulatory framework and procurement conditions.

- **Public investment planning and financing in the Slovak Republic is largely top-down, limiting the influence of self-governing regions (and municipalities) such as Prešov and Košice in the planning process.** The Act on Regional Development Support requires regions and municipalities to produce multi-year, place-based, cross-sector development plans (PHSR) that broadly align with national priorities embodied in a National Strategy for Regional Development. However, planning seems to be disconnected from implementation. There is no financial backing of the National Strategy or an obligation for the national government to integrate sub-national priorities into investment planning, or to commit to their financing. Instead, because EU Structural and Investment Funds (ESI) represent the overwhelming majority of financing for public investment, investment priorities cascade downward through nationally-oriented Operational Programmes (OPs), which do not differentiate enough across regions. Sub-national actors play a role in preparing programming documents for ESI funds, but the resulting investment priorities are essentially the same for all regions.
- **Financing arrangements for sub-national public investment are not conducive to an integrated, place-based approach.** While the regions and municipalities in the Eastern Slovak Republic (Východné Slovensko) produce multi-sector, place-based development plans, there is no single pool of funds to finance them. To date, financing these medium-term plans has involved a mix-and-match of EU, national, and local funds – often sectorally oriented. Plans to introduce the EU’s new “Integrated Territorial

Investment” mechanism could have benefits, but it involves only a single Operational Programme (13% of ESI Funds) and needs to be co-ordinated with the PHSR. The updated National Strategy for Regional Development proposes a fund to support implementation of the PHSRs, a potentially positive development which should not go unfunded as in the past.

- **While the Slovak Republic has introduced ambitious decentralisation reforms, sub-national governments (and regions in particular) are hampered in their ability to play an effective, strategic role for public investment.** Decentralisation reforms introduced through 2005 increased the competences and resources of sub-national governments. Yet, sub-national governments have little fiscal “room to manoeuvre” and regions lack the competences in some areas (i.e. innovation) needed to play an effective role in public investment. The top-down orientation of public investment priority setting is reinforced by a fiscal framework in which sub-national governments rely heavily on intergovernmental transfers and whose creditworthiness is strongly tied to national government policies and economic performance. Moreover, their “bottom up” contributions to setting investment priorities are not being translated upward into ministerial budgets or backed by state funds dedicated to regional development.
- **The small size of jurisdictions, fragmentation of local governments, and limited incentives to co-operate can impede investment at a relevant functional scale.** Municipal fragmentation in the Slovak Republic is one of the highest in the OECD after France and the Czech Republic. In 86% of municipalities there are fewer than 2 000 inhabitants and in 39%, fewer than 500. Fragmentation is particularly notable in the east.
- **Technical support for sub-national governments in the Eastern Slovak Republic is needed before expanding private participation in public investment via public-private partnerships (PPPs).** PPPs are not currently pursued as a way to achieve public investment goals. This is due to the fragile fiscal climate at the sub-national level, the availability of ESI Funds, and – importantly – the limited capacity of municipalities and regions to evaluate and structure PPPs. Support for capacity building was reduced by the elimination of the national PPP unit in 2010.
- **The framework conditions for sub-national public investment are fragile and require continued attention.** The regions and municipalities in Východné Slovensko undertake public investment

activities within a context characterized by weak monitoring and evaluation arrangements, frequently changing public procurement law, under-utilised e-government tools (though this is improving) and substantial administrative burden. These dimensions of the “operating environment” constrain effective public investment management and require attention from actors at all levels of government.

Organisation of the report

The remainder of this case study is as follows: After presenting a summary assessment of the governance of public investment (Table 1), the report sets the stage for analysis of the Eastern Slovak Republic (also referred to as Východné Slovensko in this report) by describing the general decentralisation context in the Slovak Republic, sets out the national context of economic growth, and situates the Eastern Slovak Republic’s competitiveness relative to other regions in the Slovak Republic. The case study then examines public investment at the sub-national level, looking first at recent trends and then highlighting the state of infrastructure, human capital, and innovation capacity in the region – three elements which, when simultaneously present, help to make the most of public investment spending. The final section of the case study looks public investment management in Východné Slovensko directly. It reveals the strengths and opportunities for improvement that exist to make better use of public investment for regional development and inclusive growth in the Slovak Republic.

In addition to a review of existing literature, this case study benefits from discussions with regional stakeholders held in Košice in October 2014, as well as questionnaire data collected by the OECD in 2014 from the city of Košice, the city of Prešov, the self-governing region of Prešov, the self-governing region of Košice and the Ministry of Transport, Construction and Regional Development.

Assessment and recommendations

1. **Rebalance the top-down approach to public investment planning with a stronger, bottom-up component.** This involves recognising and integrating regional differences and development priorities into national investment planning, ensuring sub-national actors make meaningful contributions to national policy design for public investment with regional impacts and making national consideration of sub-national priorities more binding. Mechanisms could include introducing intergovernmental co-ordination arrangements, such as contracts between levels of government; joint platforms of discussion of investment priorities; and ensuring some national financial support for the implementation of sub-national Economic and Development Plans.
2. **Bolster sub-national capacity for effective public investment management.** Strengthening regional and local capacity to plan for, evaluate, implement and monitor investment projects can include, but must go beyond, technical assistance. A comprehensive approach would include the introduction of incentives for horizontal co-ordination of public investment and consideration of functional areas in investment planning, as well as introducing robust monitoring and evaluation arrangements.
3. **Strengthen sub-national capacities for public-private partnerships.** While there is room to increase private participation in public investment in the Eastern Slovak Republic, because of the risks to public finances associated with poorly designed PPPs, attention must be dedicated to building sub-national capacity to evaluate, structure, procure and manage sound projects. Reintroducing a national PPP unit and strengthening sub-national procurement capacity would be strong first steps in this direction.
4. **Continue to reinforce the operating environment for sub-national public investment.** This could be accomplished by accompanying changes to the public procurement system with adequate support for sub-national implementation, encouraging greater uptake of e-government tools to enhance and standardise sub-national capacity, and minimising the administrative burden of public investment processes on regional and local government (without compromising transparency, integrity, or quality of outcomes).

Summary assessment: OECD Recommendation on Effective Public Investment Across Levels of Government

Slovak Republic with a focus on the Eastern Slovak Republic

	System is in place and works in a satisfactory way		System is not in place or not functioning well
	System is in place, but improvements are needed		Additional information needed

PRINCIPLE 1:

To engage in planning for regional development that is tailored, results-oriented, realistic, forward-looking and coherent with national objectives

COHERENT PLANNING ACROSS LEVELS OF GOVERNMENT

Mechanisms exist to ensure that sub-national investment plans reflect national and sub-national development goals.

TAILORED, PLACE-BASED DEVELOPMENT PLAN

Assessment of territorial needs and strengths corresponds with planned projects.

CLEAR PUBLIC INVESTMENT PRIORITIES

There is a clear and authoritative statement of public investment priorities at national and regional levels.

To co-ordinate across sectors to achieve an integrated place-based approach

COMPLEMENTARY OF HARD AND SOFT INVESTMENTS

Consideration is given to complementarities between investments in hard and soft infrastructure.

COMPLEMENTARITIES ACROSS SECTORS

Attention is given to potential complementarities and conflicts among investments by different ministries/departments.

CROSS SECTORAL CO-ORDINATION

Formal or informal mechanisms exist to co-ordinate across sectors (and relevant departments/agencies) at the sub-national level.

To support decisions by adequate data

FORWARD-LOOKING INVESTMENT PLANS

Authorities assess the potential contribution of investments to current competitiveness, sustainable development and regional & national well-being.

DATA AVAILABILITY & USE FOR INVESTMENT PLANNING

Data are available and used to support the territorial assessment and planning process.

PRINCIPLE 2:

To co-ordinate across levels of government to reduce asymmetries of information

CO-ORDINATION BODIES ACROSS LEVELS OF GOVERNMENT

There are formal mechanisms/bodies for co-ordination of public investment (formal platforms and ad hoc arrangements) across levels of government.

CROSS-SECTORAL APPROACH

These co-ordination bodies/mechanisms have a multi-sector approach.

MOBILISATION OF CO-ORDINATION ARRANGEMENTS

These co-ordination mechanisms are mobilised regularly and produce clear outputs/outcomes.

EFFICACY OF CO-ORDINATION PLATFORMS

Stakeholders' perception (or empirical data) regarding the efficacy of these different platforms are available.

CONTRACTUAL AGREEMENTS/PARTNERSHIPS

Contractual agreements/partnerships across levels of government have been developed to manage joint responsibilities for sub-national public investment.

EFFECTIVENESS OF CONTRACTUAL AGREEMENTS

The share of sub-national public investment covered by these agreements is measured.

Summary assessment: OECD Recommendation on Effective Public Investment Across Levels of Government (*cont.*)

To align priorities across the national and sub-national levels	CO-FINANCING ARRANGEMENTS There are co-financing arrangements for public investment.
PRINCIPLE 3:	
To co-ordinate with other jurisdictions to achieve economies of scale across boundaries	HORIZONTAL CO-ORDINATION Cross-jurisdictional partnerships involving investment are possible. CROSS-SECTORAL APPROACH Cross-jurisdictional partnerships cover more than one sector INCENTIVES FROM HIGHER LEVELS OF GOVERNMENT Higher levels of government provide incentives for cross-jurisdictional co-ordination. EFFECTIVENESS OF HORIZONTAL CO-ORDINATION The share of investments involving use of cross-jurisdictional co-ordination arrangements at the sub-national level can be measured by mechanism and/or by sector.
To plan investment at the right functional level, in particular in metropolitan areas	DEFINITION OF FUNCTIONAL REGIONS Functional regions are defined and identified in investment policy. USE OF FUNCTIONAL REGIONS Functional regions are used in investment policy.
PRINCIPLE 4:	
To identify social, environmental and economic impacts, ensure value for money and limit risks	EX ANTE APPRAISALS A large share of public investment is subject to ex-ante appraisal. RESULTS OF EX-ANTE APPRAISALS The results of ex-ante appraisals are used to prioritise investments.
To conduct rigorous ex-ante appraisal	QUALITY OF APPRAISAL PROCESS Ex-ante appraisals are conducted by staff with project evaluation skills. INDEPENDENT REVIEW OF EX ANTE APPRAISALS Share of ex-ante appraisals subject to independent review. GUIDANCE FOR EX ANTE APPRAISALS Technical guidelines for ex-ante appraisal are available and used at all levels of government.
PRINCIPLE 5:	
To engage public, private and civil society stakeholders throughout the investment cycle	MECHANISMS TO INVOLVE STAKEHOLDERS Mechanisms exist to identify and involve stakeholders throughout the investment cycle. FAIR REPRESENTATION OF STAKEHOLDERS Fair representation of stakeholders in the investment cycle consultation process is guaranteed (to avoid capture situations). EARLY INVOLVEMENT OF STAKEHOLDERS Stakeholders are involved from the early stages of the investment cycle. ACCESS TO INFORMATION Stakeholders have easy access to timely and relevant information throughout the investment cycle. FEEDBACK INTEGRATED IN DECISION-MAKING PROCESS Stakeholders are involved at different points of the investment cycle and their feedback is integrated into investment decisions and evaluation.

Summary assessment: OECD Recommendation on Effective Public Investment Across Levels of Government (*cont.*)

PRINCIPLE 6:	
To mobilise private sector financing, without compromising long-term financial sustainability of sub-national public investment projects	SNGs HAVE ACCESS TO TECHNICAL ASSISTANCE FOR PPP Sub-national governments have access to and use technical assistance for public-private partnerships (e.g. via PPP units, formal training, good practice guidance). USE OF QUANTIFIABLE INDICATORS The amount of private financing per unit (e.g. Euro, USD) of public investment is known. ACCESS TO INFORMATION SNGs have access to information concerning (supra) national funds for investment.
To tap traditional and innovative financing mechanisms for sub-national public investment	USE OF INNOVATIVE FINANCING INSTRUMENTS The use of new, innovative financing instruments at sub-national levels is accompanied by assessment of their benefits, risks, and sub-national capacities to employ them.
PRINCIPLE 7:	
To develop institutional capacity and professional skills	SPECIFIC FOCUS ON INVESTMENT REQUIRED SKILLS Human resource management policies demonstrate attention to the professional skills of staff involved in public investment (e.g. hiring is targeted, needs assessments are made, appropriate training is available and used). DEDICATED FINANCIAL ASSISTANCE Dedicating financial assistance is made available for technical training of civil servants involved with public investment; training utilisation rates. TECHNICAL GUIDANCE Technical guidance documents are available for actors at all levels of government to clarify approaches to planning, implementation, and evaluation of public investment.
To identify binding capacity constraints and the proper sequence of reforms	ASSESSMENT OF BINDING CAPACITY CONSTRAINTS Specific assessments are conducted to assess binding constraints for effective public investment and identify the needs and the proper sequence of reforms.
PRINCIPLE 8:	
To design and use monitoring indicator systems with realistic, performance promoting targets	PERFORMANCE MONITORING IN PLACE A performance monitoring system is used to monitor public investment implementation. TIMELY REPORTING The monitoring systems facilitate credible and timely reporting of expenditure and performance. OUTPUT AND OUTCOMES The indicator system incorporates output and outcome (results) indicators. TARGETS Part of the indicators is associated with measurable targets.
To use monitoring and evaluation information to enhance decision making	PERFORMANCE MONITORING INFORMATION IS USED IN DECISION-MAKING Performance information contributes to inform decision-making at different stages of the investment cycle.
To conduct regular and rigorous ex post evaluation	EX POST EVALUATIONS Ex post evaluations are regularly conducted. Some ex post evaluations are conducted by independent bodies (e.g. research organisations, universities, consultancies). Clear guidance documents exist that detail ex post evaluation standards.

Summary assessment: OECD Recommendation on Effective Public Investment Across Levels of Government (cont.)

PRINCIPLE 9:	
To define appropriate intergovernmental fiscal arrangements that help align objectives across levels of government	CLEAR FISCAL FRAMEWORK The intergovernmental fiscal framework is clear, with timely indications of transfers between levels of government. PREDICTABLE CAPITAL TRANSFERS SNGs are aware of capital transfers from the central government a few months ahead before the start of each fiscal year. MINIMAL VARIANCE There is minimal variance between estimated and actual transfers. PUBLIC INFORMATION Information is made publicly available on the fiscal situation of sub-national governments and their comparison.
PRINCIPLE 10:	
To ensure budget transparency at all levels of government	BUDGET TRANSPARENCY Budget transparency principles apply at all levels of government. TIMELY INFORMATION Budgetary information regarding public investment is publicly available to stakeholders at all levels of government in a timely and user friendly format. MAINTENANCE COSTS INTEGRATED INTO BUDGETING Operations and maintenance costs of infrastructure investment are assessed and integrated into budgeting and planning decisions.
To ensure sub-national and national fiscal stability	BUDGET CO-ORDINATION ACROSS LEVELS OF GOVERNMENT Budgetary co-ordination across government in terms of contributions to national fiscal targets. SUB-NATIONAL GOVERNMENT BORROWING There are limits on sub-national governments' borrowing.
PRINCIPLE 11:	
To engage in transparent, competitive, procurement processes	COMPETITIVE PROCUREMENT The share of public tenders for public investment that are competitively awarded is known and publicly available. The participation rates for tenders are known. Procurement information from the full procurement cycle is publicly available at the national and sub-national levels of government. Procurement review and remedy mechanisms are in place at the national and sub-national levels.
To encourage procurement at the relevant scale	STRATEGIC PROCUREMENT The share of procurement which involves more than one sub national government is known.
To promote strategic use of procurement	Procurement is used strategically by SNGs to achieve green objectives. Procurement is used strategically by SNGs to achieve innovation objectives.
To foster sub-national capacity building for procurement	SUB-NATIONAL CAPACITIES FOR PROCUREMENT There is recognition of procurement officials as a specific profession. Formal guidance regarding procurement procedures is provided to sub-national governments. There is a procurement unit that can assist SNGs. The percentage of total annual contracts awarded go to SMEs in sub-national procurement is known. The percentage of national/sub-national procurement conducted on-line is known.

Summary assessment: OECD Recommendation on Effective Public Investment Across Levels of Government (*cont.*)

PRINCIPLE 12:

To engage in “better regulation” at sub-national levels, with coherence across levels of government

REGULATORY CO-ORDINATION ACROSS LEVELS OF GOVERNMENT

Formal co-ordination mechanisms between levels of government that impose specific obligations in relation to regulatory practice.

REGULATORY IMPACT ASSESSMENT

Regulatory Impact Analysis (RIA) are used.

A methodology for assessing quality of RIA exists and indications of quality are available.

REDUCTION OF STOCK OF REGULATION

Efforts to reduce the stock of regulation or simplify administrative procedures in relation to public investment are made.

PUBLIC CONSULTATIONS

Public consultations are conducted in connection with the preparation of new regulations of sufficient duration, accessible and appropriately targeted.

USE OF E-GOVERNMENT TOOLS

Use of e-government tools used to simplify administrative procedures for public investment projects.

Sources: Indicators selected for the implementation of the Recommendation on Effective Public Investment across Levels of Government. <http://www.oecd.org/effective-public-investment-toolkit/> - Drawn from the main text and the accompanying references, along with additional sources listed with the annotated table in Annex 1.

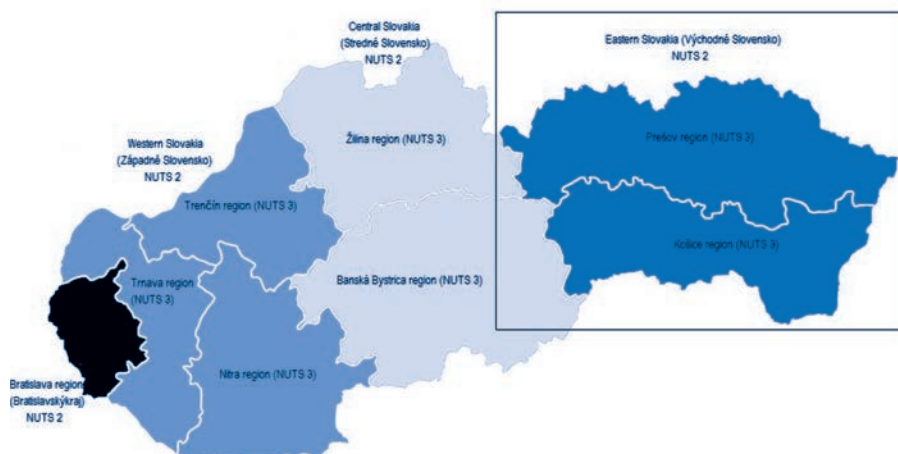
Chapter 1

Slovak Republic's decentralisation context

The Slovak Republic inherited a heavily centralised government at independence in 1993 but has steadily introduced elements of decentralisation since 2001. Constitutional reform in 2001 introduced three layers of government (central, regional, and municipal), Parliament extended new responsibilities to sub-national governments in 2002, and in the same year the government approved a three-year decentralisation plan. Major fiscal decentralisation reforms took hold in 2005. Although decentralisation has been rapid and strong in many ways, the Slovak Republic is among the less decentralised OECD countries in terms of sub-national expenditures, tax revenue, and debt.

The Slovak Republic is a unitary country divided into eight administrative, self-governing regions (*Kraje*) that are further divided into 2 890 self-governing localities (*Obce*), with the capital city of Bratislava and the eastern city of Košice governed under a separate law (UCLG, n.d.; Statistical Office of the Slovak Republic, 2014). The national government also operates sub-nationally, as a deconcentrated presence in 72 districts and 49 greater-district offices (Mesežnikov, Kollár and Bútor, 2014).¹ For the purposes of EU Structural and Investment Funds, the entire territory of the Slovak Republic is considered a NUTS 1 region. It is divided into four NUTS II regions and eight NUTS III regions (Eurostat, n.d.) (Figure 1.1). The NUTS II regions are Bratislava (Bratislavský kraj), the Western Slovakia (Západné Slovensko), Central Slovakia (Stredné Slovensko), and Eastern Slovakia (Východné Slovensko). The boundaries of the NUTS III regional level correspond to eight administrative regions (*Kraje*).

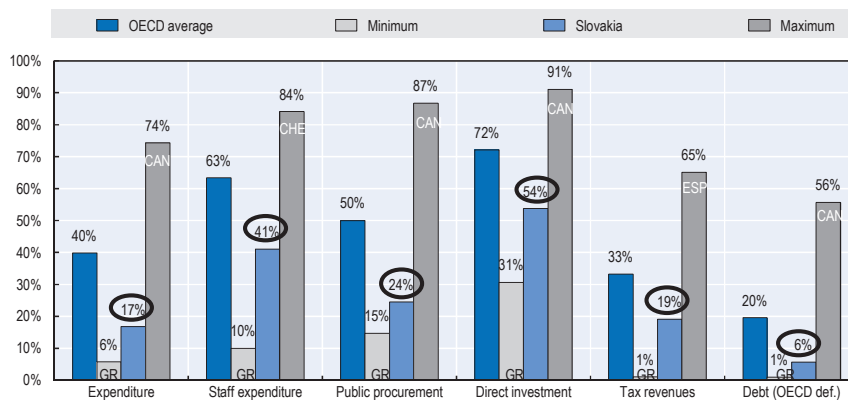
Figure 1.1. NUTS 2 and NUTS 3 regions in the Slovak Republic



Source: author's elaboration.

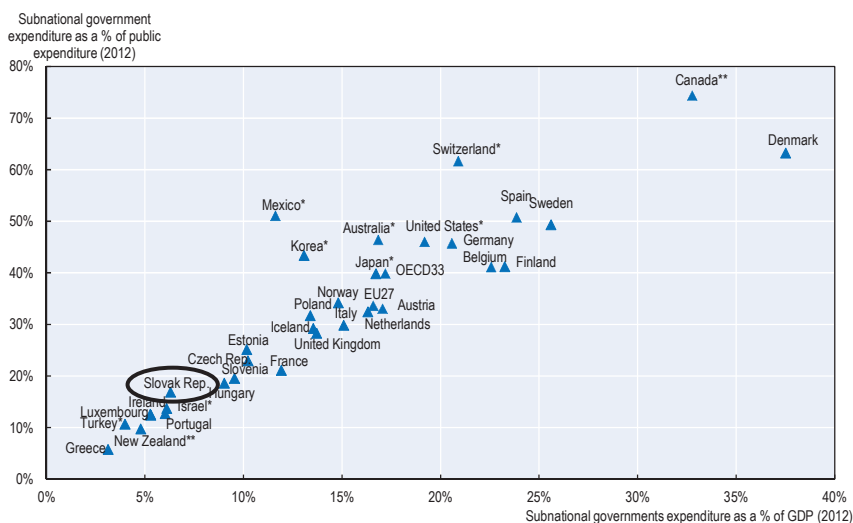
The Slovak Republic inherited a heavily centralised government at independence in 1993 but has steadily introduced elements of decentralisation since 2001. Constitutional reform in 2001 introduced three layers of government (central, regional, and municipal), Parliament extended new responsibilities to sub-national governments in 2002, and in the same year the government approved a three-year decentralisation plan ("General Government Decentralisation for the Years 2003-06") (OECD, 2005). Major fiscal decentralisation reforms took hold in 2005. Although decentralisation has been rapid and strong in many ways, as Figures 1.2 and 1.3 highlight, the Slovak Republic is among the less decentralised OECD countries in terms of sub-national expenditures, tax revenue, and debt.

Figure 1.2. Sub-national government as a % of general government in 2012, OECD and the Slovak Republic



Sources: OECD (2014a), *OECD Regional Outlook 2014: Regions and Cities: Where Policies and People Meet*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264201415-en>.

Figure 1.3. Weight of sub-national government expenditure as a % of total public expenditure and GDP, 2012



Source: Authors' elaboration using OECD (2013a), "Sub-national governments in OECD countries: Key data" (brochure), OECD, Paris.

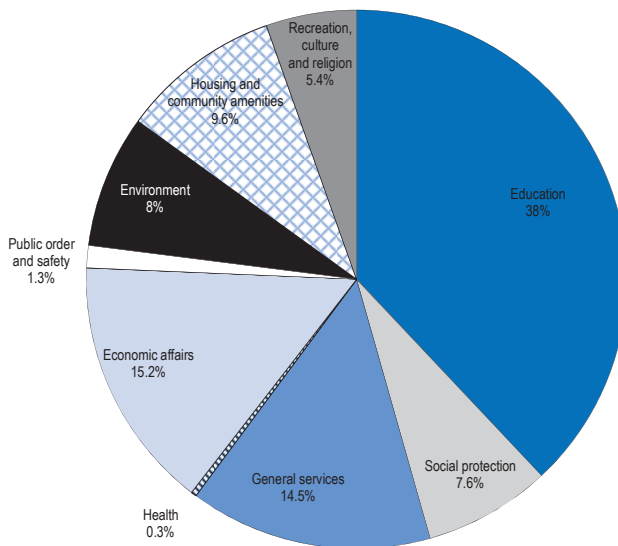
Expenditure

Although the share of sub-national expenditures has grown over time, the Slovak Republic is among OECD countries with a relatively low level of decentralisation (Figure 1.3). Prior to decentralisation reforms, in 2002 sub-national government expenditures accounted for 7.9% of the total public expenditure and 3.6% of GDP. By 2012, these figures had grown to 16.8% of Slovakian public expenditure and 6.3% of GDP, respectively. Despite this growth, however, the Slovak Republic remains well below the overall OECD averages of 39.9% and 17.2% respectively, and below OECD unitary countries' averages (respectively, 29.9% and 13.2%).

Today, municipalities have responsibilities in the areas of pre-school and primary education (including wages and maintenance), social welfare, housing, economic development, local public utilities and network services (water, waste collection), environment and recreation (OECD, 2014b). Self-governing regions have the responsibility for secondary, professional and vocational education; social welfare; transport and regional economic development (OECD, 2014b). Education is the main spending item. It represents 38% of sub-national expenditure (Figure 1.4), a figure well above the OECD average (26%) resulting from the fact that regions and municipalities are responsible not only for the construction and maintenance of educational infrastructures but also for school-related services and, above all, for the payment of teachers and staff on behalf of the central government through dedicated transfers. Economic affairs (i.e. mainly transport) and general services tie for second place (15% each), followed by housing and community amenities (10%), and environment and social protection (8% each).

The decentralisation process in 2002 created an important increase in the number of staff employed by regions and municipalities, including the teachers who were transferred to sub-national governments and who represent the bulk of workers. In 2012, sub-national governments accounted for 41.1% of public staff expenditure, a level which is also below the OECD average of 63%.

Figure 1.4. **Sub-national government expenditure by economic function in the Slovak Republic, 2012**



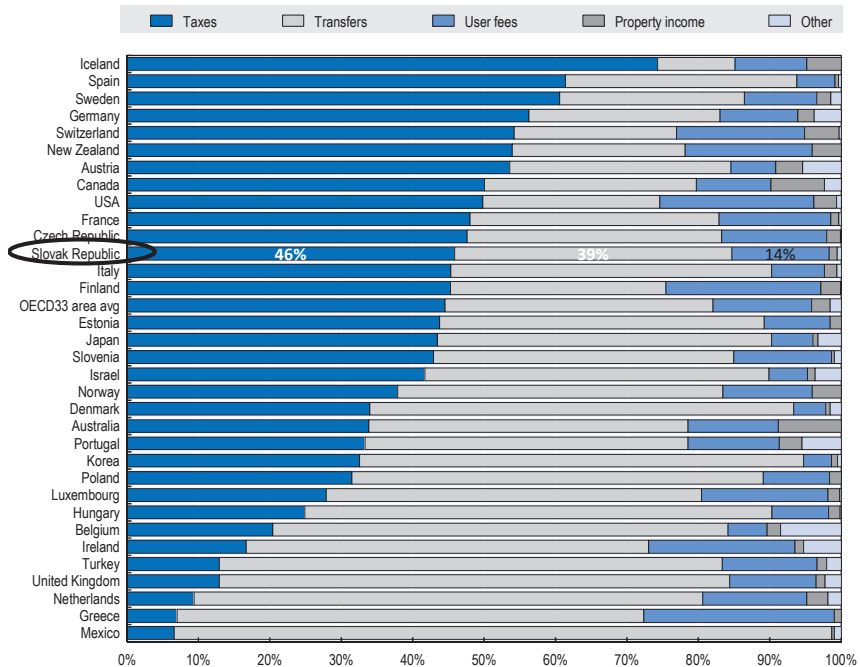
Source: Authors' elaboration using OECD (2013a), "Sub-national governments in OECD countries: Key data" (brochure), OECD, Paris.

Revenues

In 2012, sub-national revenues represented 6.4% of GDP and 19.5% of total public revenues. They come from three main sources: shared taxes (i.e. personal income tax redistributed to municipalities and regions), own-revenues (i.e. mainly municipal property tax and tax on vehicle for the regions), and intergovernmental transfers (i.e. central government transfers and EU grants)². The 2005 fiscal decentralisation reform raised both shared taxes and own-source taxes, and reduced central government transfers to sub-national governments. The share of taxation in sub-national revenues increased significantly, from 19.5% in 2004 to 45.8% of sub-national revenues in 2012. Sub-national tax revenues rose from 7.4% of all general government tax revenue (excluding social contributions) in 2004 to 19.1% in 2012. Sub-national governments still rely on central and EU government transfers for 38% of their revenues and on tariffs and fees for 14%.

The level of debt, borrowing and the fiscal deficit at the sub-national level are constrained by fiscal rules. In 2012, sub-national government debt totalled 5.7% of public debt and 3.2% of GDP (vs., respectively, 19.6% and 22% in the OECD).

Figure 1.5. Sub-national revenue structure in OECD countries, 2012



Source: OECD (2013b), *OECD Regions at a Glance 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/reg_glance-2013-en.

Notes

1. According to Mesežnikov, Kollár and Bútor (2014: 565), “the October 2013 Law on Local State Administration replaced the country’s 248 [deconcentrated] local government offices with 72 district offices and 49 greater-district offices.”
2. The implementation of the SNA 2008 (as of September 2014) has introduced some changes on the way some tax revenues are attributed to different levels of government when one government collects tax revenues and transfers them in whole or in part to other governments. In the case of the Slovak Republic, PIT was considered previously as a shared tax benefiting both to central and sub-national governments. Following the new guidelines, PIT proceeds are considered as a central government tax revenues. They are now redistributed to sub-national governments as a transfer. As a result, the share of sub-national tax revenue in total tax revenue drops from 19.1% to 2.9%. On the opposite, the share of central government transfers has increased substantially.

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Chapter 2

Economic growth and regional well-being in the Eastern Slovak Republic

The Slovak Republic has experienced notable economic growth since entering into negotiations to join the European Union in 2000. Between 2004 and 2008, gross domestic product grew at an average annual rate of approximately 7%, dropping off in the face of the global financial crisis but rebounding to 2.5% in 2010-13. While (on average) residents have become better off over time, and growth has been impressive compared to OECD countries overall, benefits have not accrued equally everywhere. The western regions of the Slovak Republic and Bratislava in particular, have achieved gains that substantially outpaced those in the east. The Eastern Slovak Republic's economy has long been the weakest in country. Východné Slovensko lags behind not only other regions within the Slovak Republic but also well behind EU and OECD regions overall. Looking at the OECD measures of regional well-being, the Eastern Slovak Republic presents broad challenges at the regional level linked to infrastructure and investment.

National perspective

The Slovak Republic has experienced notable economic growth since entering into negotiations to join the European Union (EU) in 2000. Economic and governance reforms adopted paved the way for entry into the EU in 2004, opened the economy to competition and private investment and led to impressive growth rates. Between 2004 and 2008, gross domestic product (GDP) grew at an average annual rate of approximately 7%, dropping off in the face of the global financial crisis but rebounding to 2.5% in 2010-13 (IMF, 2014). GDP per capita at purchasing power parity increased from 57% of the EU average to 75% between 2004 and 2013 (Eurostat, 2014). Growth has been heavily driven by high levels of foreign direct investment (attracted by structural reforms, low wages and a low tax environment) and boosting exports, particularly in manufacturing.

Between 2004 and 2013, the Slovak Republic received approximately EUR 13.3 billion in EU Structural and Cohesion Funds (now the EU Structural and Investment Funds, ESI) for the purposes of strengthening the competitiveness of its national and sub-national economies.¹ During the 2007-13 programming period, EU Structural and Cohesion Funds helped to create more than 2 600 jobs, provided direct investment aid to nearly 1 000 small and medium enterprises (SMEs), supported approximately 100 SME start-ups and contributed to a 10% increase the number of passengers using inter-regional and regional rail transport (European Commission, 2014a). Yet, while (on average) residents have become better off over time, and growth has been impressive compared to OECD countries overall, benefits have not accrued equally everywhere. The western regions of the Slovak Republic, and Bratislava in particular, have achieved gains that substantially outpaced those in the east.

Box 2.1. Findings of the 2011 OECD case study on the Eastern Slovak Republic

The 2011 OECD case study on the eastern region of the Slovak Republic as part of the project on “promoting growth in all regions” highlighted the need to promote labour mobility, better match skills with labour market needs, enhance educational outcomes/skills, and improve infrastructure. The case study also insisted on the need to ensure that all these factors are somehow connected and well integrated rather than operating in silos. These recommendations are well-aligned with the recommendations from OECD Economic Surveys: Slovak Republic 2014 regarding the need to increase growth prospects in the central and eastern regions, strengthen mobility, raise education, and improve transport infrastructure.

Sources: OECD (2014a), OECD Economic Surveys: Slovak Republic 2014, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_surveys-svk-2014-en; OECD (2012a), Promoting Growth in All Regions, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264174634-en>.

Regional growth

The Eastern Slovak Republic (Východné Slovensko) shares its eastern border with Ukraine, the northern border with Poland, and the southern border with Hungary. As a purely statistical (NUTS 2) region, it has no autonomous powers. It does, however, consist of two self-governing administrative regions - the Prešov region and the Košice region. National data (Statistical Office of the Slovak Republic, 2014b) indicate that combined, the self-governing regions account for 32% of Slovak Republic's land area and 30% of its population. In 2012, the Eastern Slovak Republic housed 1.6 million inhabitants, essentially evenly divided between the Prešov and Košice regions.² The total population in Východné Slovensko is growing. In 2012, Východné Slovensko grew at a rate of 1.62 residents per 1 000 inhabitants, driven entirely by natural increases (births minus deaths) since out-migration totalled nearly 1 out of 1 000 inhabitants. Not surprisingly, the mean age (37.4 years) in the region trails the national average (39.3) as well as that of other NUTS 2 regions.

The Eastern Slovak Republic's economy has long been the weakest in country, even as part of the former Czechoslovakia (Sokol, 2013). Historically, the region has suffered from a high unemployment rate, high emigration rate, and weak standard of living (Sokol, 2013). Under the socialist government of Czechoslovakia, the heavily agrarian region was transformed largely through "forced industrialisation" (Sokol, 2013).³ Major investments were also made in health, education, and research and development (R&D) infrastructure (Sokol, 2013). The collapse of communism wrought major economic restructuring in the Eastern Slovak Republic as part of the Slovak Republic's transition to a market-based economy. According to Sokol (2013: 1327), "the collapse of industrial production and the disintegration of socialist agriculture had devastating effects on regional output and employment. The Eastern Slovak Republic quickly became the most problematic area of the newly independent Slovak Republic (after Czechoslovakia de-federated in 1992)." Inequality in GDP per capita among Slovakia's NUTS II regions, as measured by the Gini index, increased notably from the early to mid-1990s (OECD, 2011) and has continued widening since. As of 2010, regional disparities in the Slovak Republic were the sixth widest in the OECD in terms of GDP per capita (OECD, 2013).

Today, the Eastern Slovak Republic lags the country's other NUTS II regions on most economic indicators (Table 2.1). Compared to other Slovak regions, the Eastern Slovak Republic tends toward lower GDP per capita, lower wage rates, lower labour productivity, and higher unemployment. Východné Slovensko accounts for 20% of national GDP, on par with central Slovakia, but trails the western and Bratislava NUTS II regions. When population is taken into account, Východné Slovensko lags behind each of the three other regions with the lowest GDP per capita (EUR 8 667 in 2011). Although nominal GDP per capita has grown in all regions over time (with a dip in 2009 following the financial crisis),⁴

among regions disparities have widened (Figure 2.1). Within the Eastern Slovak Republic, the Košice region boasts a higher GDP per capita than the neighbouring Prešov region, which lags well behind the rest of the country. However, GDP per capita in the Košice region as a percent of the national average has dropped steadily since 2001. By contrast, the (low) GDP per capita as a percent of the national average in Prešov demonstrates a slight U-shape, declining through 2006, picking up through 2008 (Figure 2.1).

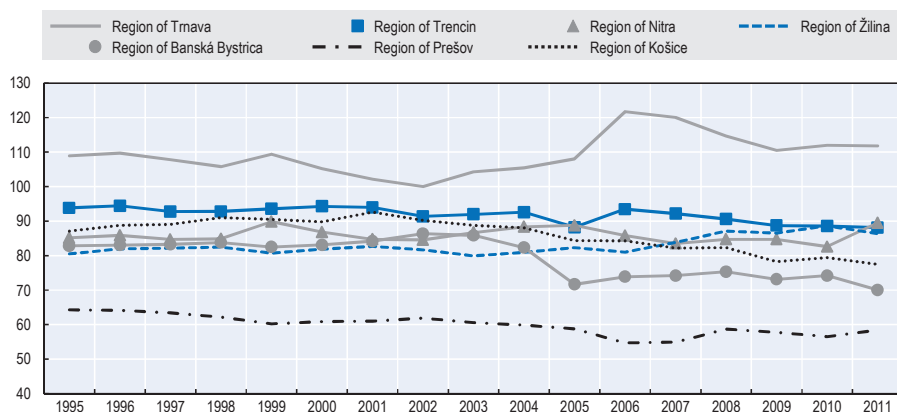
Table 2.1. **Key economic indicators, 2011 and 2012**

Indicator	Slovak Republic	Other NUTS 2			Východné Slovensko NUTS 2		
		Bratislava	Western Slovakia	Central Slovakia	Region overall	Prešov region	Košice region
Regional GDP, 2011							
Regional GDP (Current prices, mil EUR)	68 974	19 021	22 510	13 520	13 924	6 085	7 838
Regional GDP (% of national total)	100%	28%	33%	20%	20%	9%	11%
Regional GDP per capita (Current prices, mil EUR)	12 777	31 533	12 241	10 019	8 667	7 470	9 898
Regional labour force statistics, 2012							
Labour force participation rate (aged 15+, %)	59%	65%	59%	59%	58%	58%	57%
Unemployment rate (aged 15+, %)	14%	6%	11%	16%	19%	18%	20%
Distribution of the unemployed across regions		5%	28%	29%	38%		
Mean gross nominal monthly earnings of employees (EUR)	888	1 184	805	795	790	718	853
Labour productivity (2011; GDP per employee, EUR)	29 791	60 537	27 127	24 083	22 826	19 436	26 409
Labour productivity growth (2000-2010; GVA per worker, USD constant PPP)	+52%	+57%	+45%	+56%	+46%		
Distribution of labour force, ages 15+ by educational attainment (%)							
Basic and lower secondary	39%	20%	43%	40%	42%	45%	38%
Upper secondary	43%	44%	42%	43%	42%	39%	44%
University	18%	36%	15%	17%	17%	15%	18%

Sources: Statistical Office of the Slovak Republic (2014a), *Regional Statistical Yearbook of Slovakia, 2013*, European Statistical System (Eurostat), Brussels; OECD (2014b) “Regional GVA per worker” *Regional Economy* (database) <http://dotstat.oecd.org/Index.aspx?DatasetCode=STLABOUR#> (accessed 9 September 2014).

Figure 2.1. **Regional GDP per capita as a percent of the national GDP per capita, 1995–2011**

(Excluding Bratislava region)



Notes: (1) Bratislava region is excluded from the graph because its values are significantly higher than other regions (from 216 in 1995 to 247 in 2011). Including these data makes it difficult to clearly observe the trends in other regions. National GDP per capita in each year does include data from Bratislava. Data are based on nominal figures.

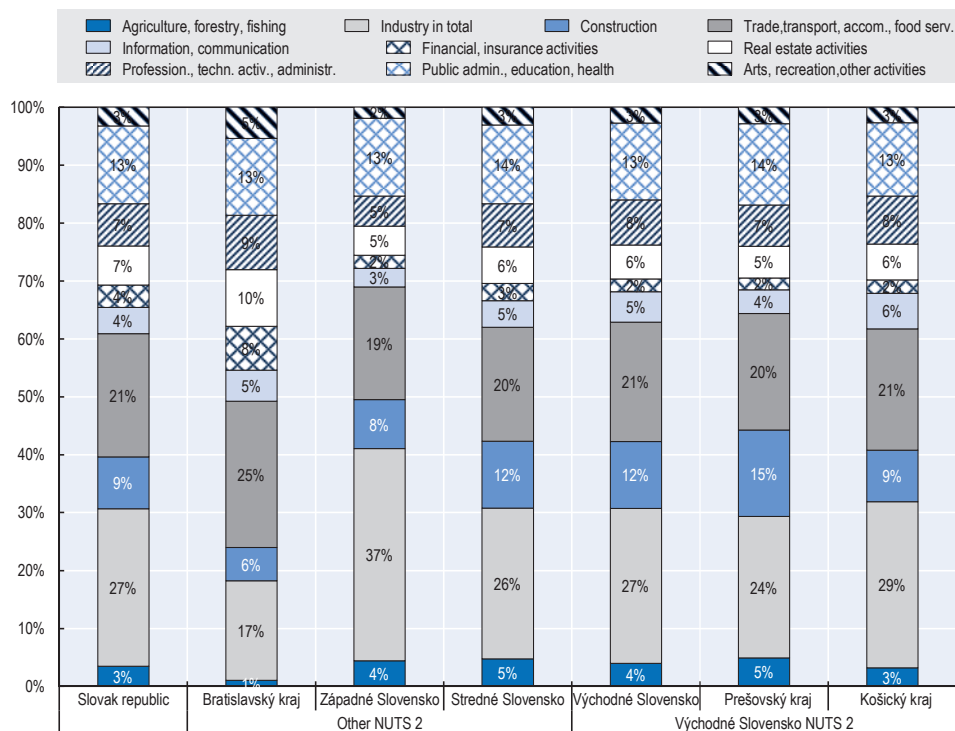
(2) The large increase in regional GDP per capita as a percent of the national average in Trnava is likely due to the opening of the PSA Peugeot Citroen Plant in the region in 2006. Site development began in 2003. Kia Motors launched production at a new car plant near Žilina at the end of 2006. Because regional GDP uses the composition criteria according to the place of work, a shift in commuting patterns of workers toward auto manufacturing regions (where they work) and away from neighbouring regions (where they live) can contribute to changes in regional GDP per capita.

Sources: Authors' elaboration based on GDP per capita (at current prices) by region for all years from Statistical Office of the Slovak Republic (2014b) *Regional Statistical Database of the Slovak Republic (RegDat)*, http://px-web.statistics.sk/PXWebSlovak/index_en.htm, (accessed 15 December 2014); Smolka, D. (2003), "Trnava car plant breaks ground," *The Slovak Spectator*, 23 June, <http://spectator.sme.sk/articles/view/13149/3/>, (accessed 27 January 2015); The Slovak Spectator (2006a) "PSA Peugeot Citroën starts production," *The Slovak Spectator*, 20 October, <http://spectator.sme.sk/articles/view/24922/10/> (accessed 27 January 2015); The Slovak Spectator (2006b), "Kia unveils new plans for Žilina", *The Slovak Spectator*, 18 December, <http://spectator.sme.sk/articles/view/25893/3/> (accessed 27 January 2015).

Labour market outcomes are troublesome for the eastern region. The OECD (2014a) finds the Slovak Republic's labour market "a major weakness" with "growth [...] hampered by poor employment prospects of

low-skilled women and the Roma population.” These challenges are particularly acute for the Eastern Slovak Republic where labour market performance trails the national and regional averages. While its labour force participation rate is generally on par with the national average, in 2012 the region had higher rates of unemployment and lower wages.⁵ In fact, of the four NUTS 2 regions, the Eastern Slovak Republic accounts for 38% of all unemployment (compared to 5% in Bratislava) (Table 2.1). Youth unemployment is a high 43% (OECD, 2013). Within the Eastern Slovak Republic, the Košice region has the lower labour force participation rate (57% vs. 58%) and higher unemployment rate (20% vs. 18%) than the neighbouring Prešov region, but also has a higher mean monthly wage (EUR 853 vs. EUR 718) (Table 2.1). In 2011, labour productivity, measured as GDP per employed person, was EUR 22 826 at current prices in Východné Slovensko, 77% of the national average (EUR 29 791). Although Východné Slovensko’s labour productivity lags behind other regions, it grew steadily from 2000 to 2010. It posted an increase of 46% in labour productivity over the course of the decade (Table 2.1).

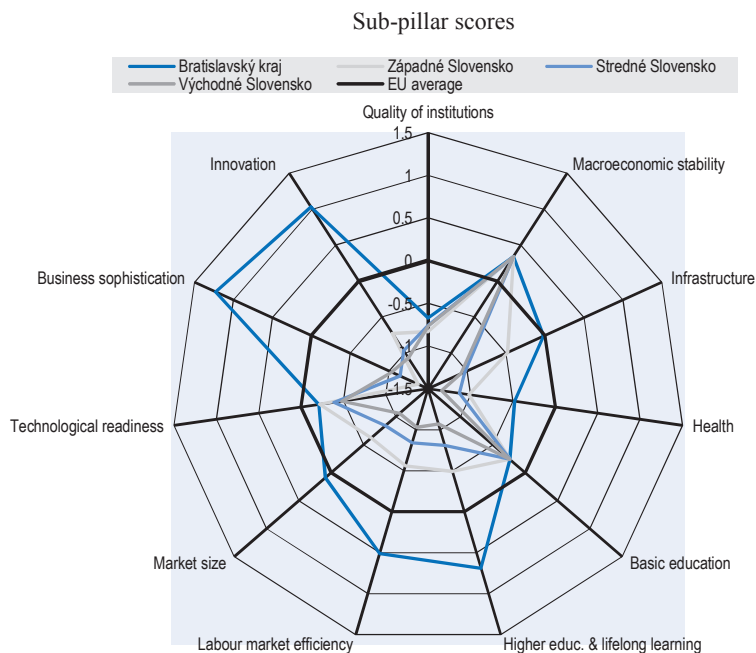
Although industrial structure in the Slovak Republic varies somewhat by region, contributions to gross value added (GVA) in the areas outside of Bratislava come largely from industry (and manufacturing, in particular) (Figure 2.2). In 2011, the largest contribution to gross value added for regions outside the capital came from industry in western Slovakia (37% of GVA), as well as the central and eastern regions (~ 26%).⁶ Western Slovakia benefits from the presence of the automobile industry, a key contributor to the Slovak Republic’s economy. According to Luptáčík et al. (2013), in 2012 the industry was directly and indirectly responsible for over 17% of gross production and 9% of total employment.⁷ Because production plants are located in the western part of the country (i.e. Volkswagen near Bratislava, PSA Peugeot Citroen in Trnava, and Kia near Žilina), most suppliers are as well. As of 2013, of the 316 production plants supplying the automotive industry in the Slovak Republic, 242 were located in the western half of the country (SARIO, 2014). Not surprisingly then, most of the benefits associated with auto industry employment and wages accrue in the west (Luptáčík et al., 2013). In the east, steel-making (U.S. Steel Košice) and auto parts manufacturing (Getrag Ford), both located in the Košice region, are a major presence the economic landscape (European Commission, 2014b). Construction and agriculture are slightly more important in Prešov than in Košice, where manufacturing and information/communications contribute more heavily to gross value added.

Figure 2.2. **Regional gross value added by economic activities, 2011**

Source: Authors' elaboration based on Table 9-2 of Statistical Office of the Slovak Republic (2014a), *Regional Statistical Yearbook of Slovakia, 2013*, European Statistical System (Eurostat), Brussels, pp. 222-23.

With all socioeconomic data in mind, it is not surprising to find that Východné Slovensko lags behind not only other regions within the Slovak Republic but also well behind EU and OECD regions overall. Its scores on the 11 sub-pillars of the 2013 Regional Competitiveness Index (which measures the strengths and weaknesses of each EU NUTS II region) highlight the domains in which it performs better, on-par, or worse than other NUTS II regions (Figure 2.3). It lags on all dimensions except macro-economic stability – a national-level measure. Looking at the OECD measures of regional well-being (Figure 2.4), the Eastern Slovak Republic presents broad challenges at the regional level linked to infrastructure and investment. Challenges are particularly important in the areas of health, income, jobs, housing and environment. By contrast, the region scores well in terms of safety (low homicide rate), education (high share of the adult labour force with at least secondary education), and accessibility to services (moderate share of household access to broadband).

Figure 2.3. **Slovak Republic's NUTS 2 regions on the European Regional Competitiveness Index, 2013**



Source: Authors' elaboration based on Annoni P. and L. Dijkstra (2013), *EU Regional Competitiveness Index, RCI 2013*, Joint Research Centre of the European Commission, available at: http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/6th_report/rci_2013_report_final.pdf.

Notes

1. This is the total of EUR 1.76 billion for the period 2004-2006 (EC, n.d.) and EUR 11.56 billion for the period 2007-2013 (Table 3, pg. 26).
2. The former is less dense (91 inhabitants per km²) than the latter (118 inhabitants per km²) (SO SR, 2014).
3. East Slovakia Iron Works, or VSZ, based in Košice, emerged as a major producer and employer in the region. The post-Socialist mismanagement of VSZ led to a buyout by U.S. Steel, which benefitted (not least), from its low-cost, skilled workers (Economist, 2001).
4. This growth is measured in nominal terms using data from SO SR (2014). According to SO SR (2014:218), regional GDP per capita is based on two indicators: “regional GDP (which uses the composition criteria according to the place of work) and the average amount of population with permanent residence in existing territory (based on the resident principle). The comparison of both indicators, based on different principles, does not cause major problems in most regions. This indicator used to be overestimated especially in regions with high job attendance (regions of the capital cities).”
5. Labour force participation rate is defined as the labour force (economically active population, aged 15+ in thousands) divided by the total population aged 15+ (in thousands). Unemployment rate is the number of unemployed as a percent of the labour force. Wages are measured as average gross nominal monthly earnings of employees in 2012.
6. The biggest contributor to Bratislava’s gross value added (25%) was a combination of three areas of activity – 1) wholesale and retail trade; repair of motor vehicles and motorcycles, 2) transportation and storage, and 3) accommodation and food service activities. Real estate and financial services together accounted for another 18% of GVA.
7. The authors calculate the automotive industry directly accounted for 12% gross production. They estimate that direct employment in the automotive sector accounts for 2.7% of total employment in the Slovak Republic.

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Chapter 3

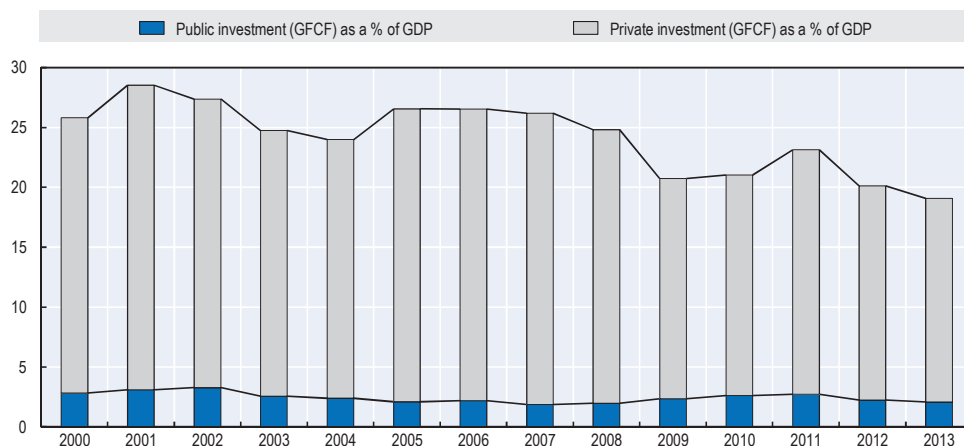
Sub-national public investment¹

Total private and public investment made by the business sector, households and the general government has been declining over the past years in the Slovak Republic. Nationally, public investment both as a percent of GDP and per capita in the Slovak Republic is well below the OECD average. Although the Slovak Republic's share of sub-national investment is low compared to other OECD countries, it grew tremendously since the early 2000s. In the Slovak Republic, municipalities are by far the biggest sub-national public investors compared to the regional governments. In eastern regions (Východné Slovensko), the role of municipalities is slightly higher, as municipalities in Košice and Prešov accounted for 87% and 86% of direct public investment in their regions, respectively. The Eastern Slovak Republic faces challenges to invest in transportation infrastructure, human capital development and innovation. The density and quality of much of the region's hard infrastructure lags behind other regions, creating bottlenecks to job creation and raising costs for firms that may wish to locate there. The Eastern Slovak Republic also needs to boost educational outcomes. Finally, Východné Slovensko has a relatively underdeveloped regional innovation system.

Recent trends: A fall in investment

Total private and public investment² (gross fixed capital formation, GFCF) made by the business sector, households and the general government has been declining over the past years from 25.8% of gross domestic product (GDP) in 2000 to 19.1% in 2013. The downturn has been slightly stronger for private direct investment than for public direct investment. In fact, private GFCF represented 23% of GDP in 2000 and 17% in 2013 while public GFCF represented 2.8% of GDP in 2000 and 2.1% in 2013 (Figure 3.1). Its share in total investment, despite variations over the years, remained in 2013 at the same level as 2000, i.e. 11%.

Figure 3.1. **Public and private investment (GFCF) as a % of GDP, 2000-13**



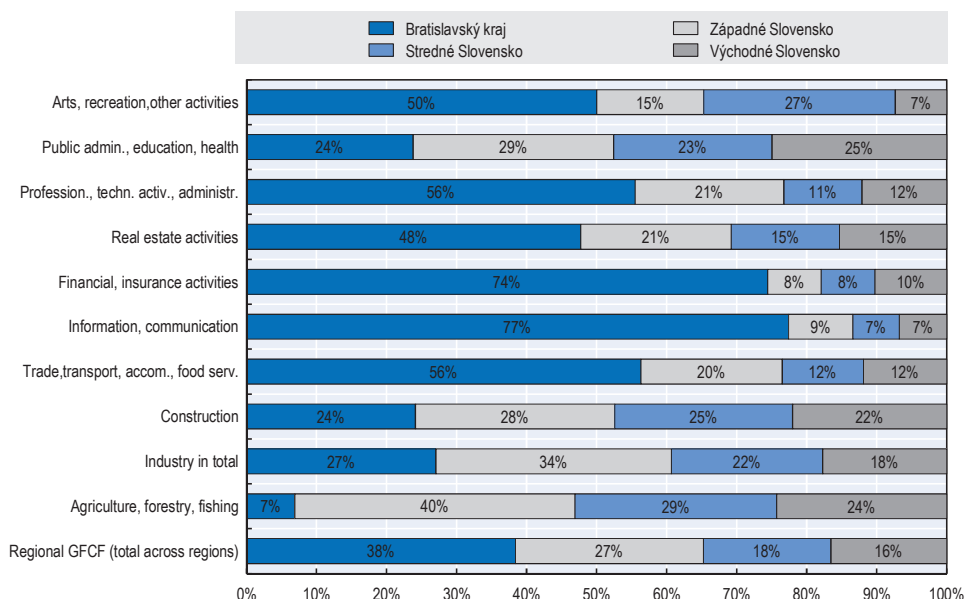
Source: OECD (2015), *National Account Statistics* (database) <http://dx.doi.org/10.1787/na-data-en> (accessed on 21 January 2015).

Fiscal consolidation measures following the 2008 financial crisis saw heavy emphasis on reductions in the building and installation construction and maintenance, with European Union (EU) funds underwriting nearly all new public investment along with the Slovak Republic's co-financing contribution (Draxler, 2013).

Looking at combined public and private gross fixed capital formation (total investment), it appears that the Bratislava region is the primary beneficiary (Figure 3.2). In 2011, 38% of gross fixed capital formation was attributable to the Bratislava region, whereas 16% occurred in the Eastern Slovak Republic. Bratislava region outpaced other regions in nearly all categories of gross fixed capital formation with some exceptions. Investment

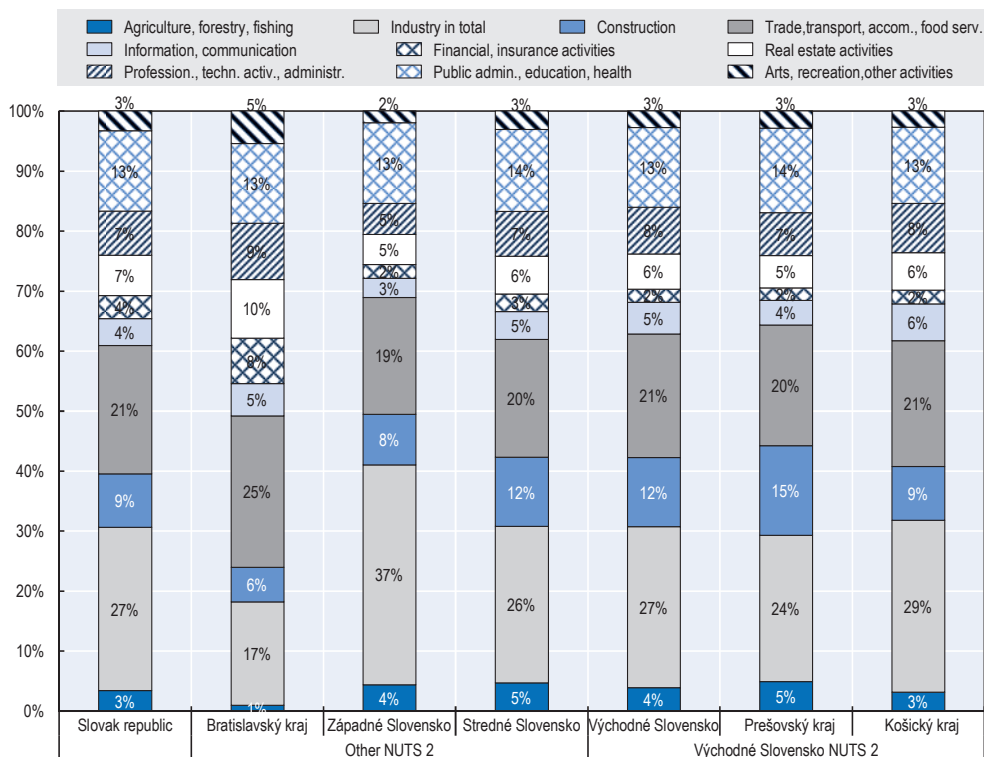
in public administration, health, and education is evenly distributed throughout the country.³ So, too, is construction, although the Eastern Slovak Republic lags slightly. Only with respect to investment in agriculture, forestry and fishing, do investments outside the capital region dwarf what occurs in Bratislava region (7%). In no category of regional gross fixed capital formation is Východné Slovensko a leader. Looking within the region, the breakdown of total investment by activity group is similar to Western and Central Slovakia. The bulk of investments in the Eastern Slovak Republic occur in industry and real estate. However, a greater proportion of investment in the region goes to public administration, education and health than in the other two regions. Investment in industry lags slightly behind.

Figure 3.2. **Gross fixed capital formation by region within category of economic activity, 2011**



Source: Authors' elaboration based on Table 9-3 in Statistical Office of the Slovak Republic (2014), *Regional Statistical Yearbook of Slovakia, 2013*, European Statistical System (Eurostat), Brussels, pp. 224-25.

Figure 3.3. Gross fixed capital formation by economic activity within regions, 2011

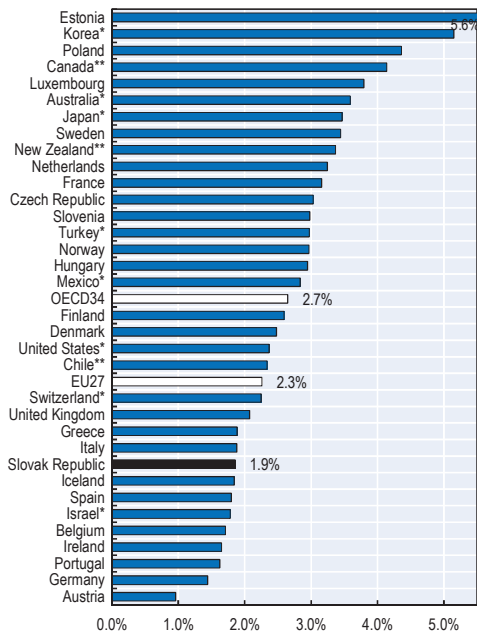
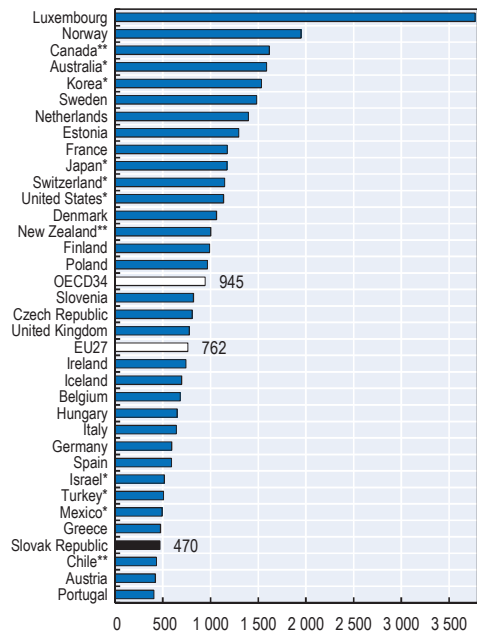


Source: Authors' elaboration based on Table 9-3 in Statistical Office of the Slovak Republic (2014), *Regional Statistical Yearbook of Slovakia, 2013*, European Statistical System (Eurostat), Brussels, pp. 224-25.

Nationally, public investment both as a percent of GDP and per capita in the Slovak Republic is well below the OECD average. In 2012, public investment in the Slovak Republic was 1.9% of GDP.⁴ This figure is below the OECD and EU averages (respectively, 2.7% and 2.3%) as well as below all the other Eastern European countries that are members of the OECD, in particular Hungary, Slovenia, Czech Republic and Estonia, which are all above the OECD average (Figure 3.4, Panel A). Public investment per capita (EU 470 per inhabitant) is also well below the OECD and EU averages (Figure 3.4, Panel B).

Figure 3.4. **Public direct investment in 2012**

Public direct investment as a % of GDP in 2012

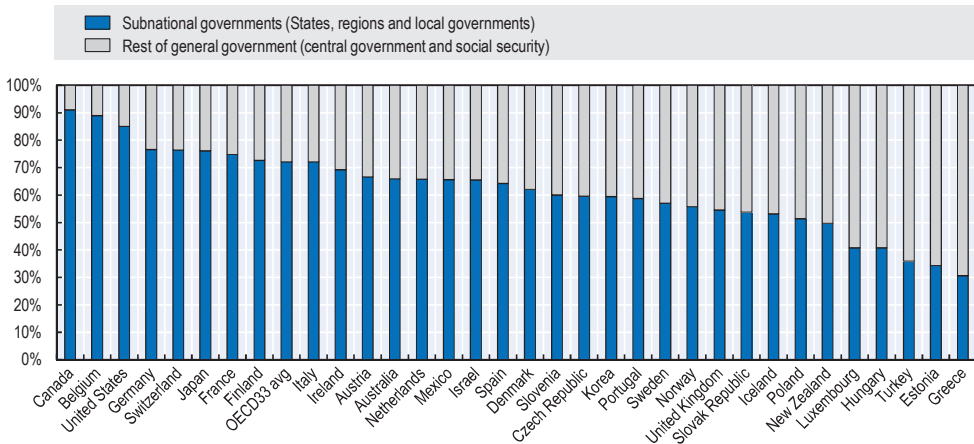
Public direct investment per capita in 2012
(USD PPP per capita)

Source: Authors' elaboration using OECD (2013), *Sub-national governments in OECD countries: Key data* (brochure), OECD, Paris.

The share of public investment occurring at the sub-national level in the Slovak Republic is relatively low compared to OECD countries. Around 54% of public investment occurred at the sub-national government level in 2012 (Figure 3.5). This share is relatively low compared to the OECD average of 72.2% (2013 data), and remains so even if only OECD unitary countries are considered (i.e. average of 63.1%). Sub-national government direct investment represented 1% of GDP (vs. 1.9% in the OECD) in 2012.

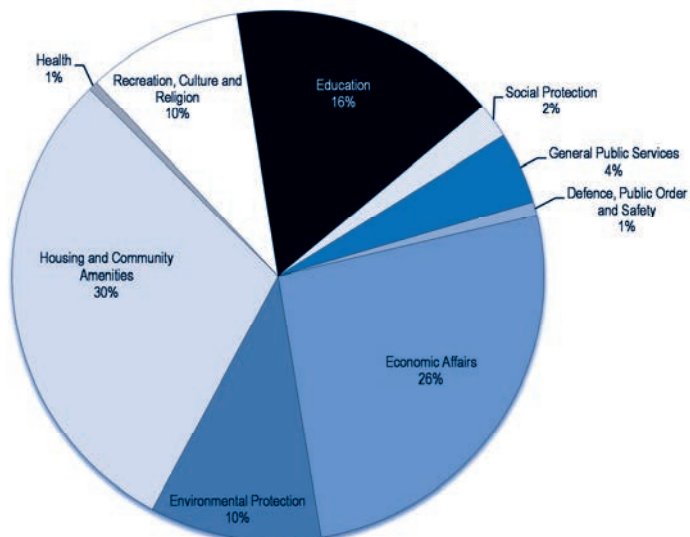
Capital expenditure for housing and community amenities is the primary sub-national government spending item (see Figure 3.6). It is followed by economic affairs (mainly transport), education infrastructure, environmental protection and recreation and culture.

Figure 3.5. **Distribution of public direct investment in OECD countries by level of government, 2012**



Source: OECD (2014a), *OECD Regional Outlook 2014: Regions and Cities: Where Policies and People Meet*, OECD Publishing, Paris <http://dx.doi.org/10.1787/9789264201415-en>.

Figure 3.6. **Sub-national direct investment in Slovak Republic by economic function, 2008-12**
(% of total direct investment, average 2008-12)

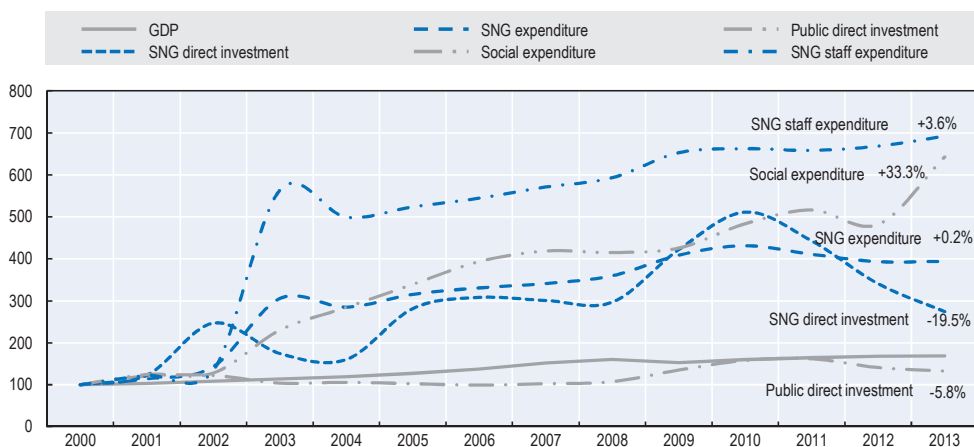


Sources: OECD (2015), *National Account Statistics* (database), <http://dx.doi.org/10.1787/na-data-en> (accessed 20 February 2015); OECD (2014b), “Effective Public Investment across Levels of Government – Slovak Republic” (country profile), Toolkit on Effective Public Investment across Levels of Government, OECD, Paris, available at: www.oecd.org/effective-public-investment-toolkit/slovak-republic.pdf

Although the Slovak Republic's share of sub-national investment is low compared to other OECD countries, Figure 3.7 shows that while national public investment remained relatively flat between 2000 and 2013, sub-national public investment grew tremendously. Sub-national investment increased 174% in real terms (around 8% per year on average) over 2000-13 while overall public investment increased 33% (i.e. 2.2% per year on average). These figures hide important variations. Between 2004 and 2010, despite some yearly variations, sub-national investment grew strongly as a result of decentralisation reforms, EU accession and access to Structural and Cohesion Funds, and involvement of sub-national governments in stimulus plans to counteract the financial crisis. In 2011, sub-national investment contracted sharply, dropping by 21% per year on average in real terms between 2011 and 2013.

Compared to 2006, by 2013 substantial declines in per capita sub-national investment were experienced in Bratislava region (-43% in nominal terms), Trnava (-36%) and Žilina (-35%) compared to a national average of -21% i.e. from EUR 144 per inhabitant in 2006 to EUR 113 per inhabitant in 2013 (Figure 3.8). This decrease was driven mainly by declines at the municipal level – as regional investment per capita increased in several regions. Prešov region followed the national trend (-21%). On the contrary, it is interesting to note that Košice region is the only region where sub-national investment rose substantially: from EUR 95 in 2006 to EUR 141 in 2013 (i.e. +48%). This notable increase resulted from a rise in both municipal and regional governments' investments.

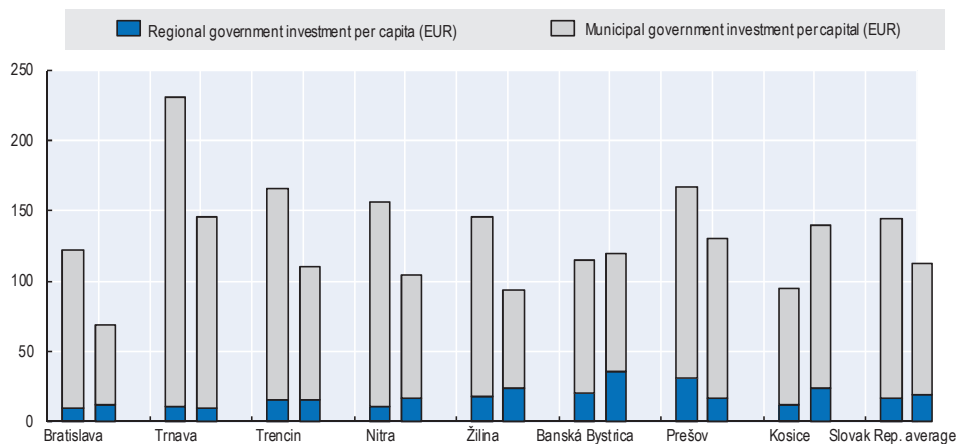
Figure 3.7. **The fall in general and sub-national investment in the Slovak Republic compared to other sub-national expenditures items, 2000-13**



Note: Base 100 in 2000.

Source: Authors' elaboration based on OECD (2015), *National Account Statistics* (database) <http://dx.doi.org/10.1787/na-data-en> (accessed 21 January 2015).

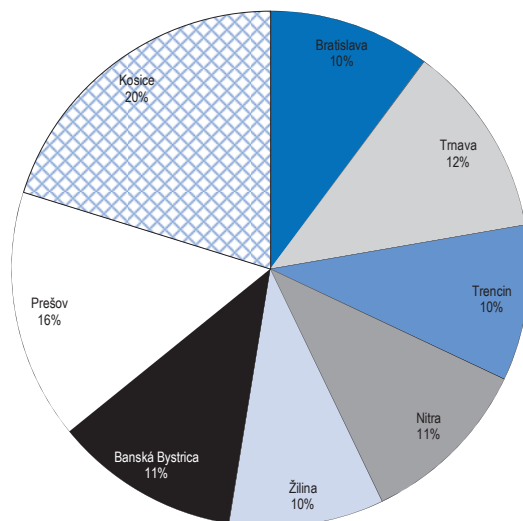
Figure 3.8. Sub-national governments' investment per capita, 2006 and 2013 by region



Note: Figures in nominal terms

Source: Authors' elaboration based on INEKO (2014), Slovak regional economic data website, <http://www.obce.ineko.sk> (accessed 15 November 2014).

In the Slovak Republic, municipalities are by far the biggest sub-national public investors compared to the regional governments; in 2013, 84% of sub-national government investment was made by the municipalities. In eastern regions, the role of municipalities is slightly higher, as municipalities in Košice and Prešov accounted for 87% and 86% of direct public investment in their regions, respectively. Overall, municipalities in Košice and Prešov regions accounted for the largest shares of municipal investment nationwide in 2013, totalling 36% of all municipal investment in the country (Figure 3.9).

Figure 3.9. **Breakdown of total municipal investment by region, 2013**

Source: Authors' elaboration based on INEKO (2014), Slovak regional economic data website, <http://www.obce.ineko.sk> (accessed 15 November 2014).

Looking forward: Investment needs for the future

According to the country's EU Partnership Agreement and 2014 National Reform Programme, the Slovak Republic expects to maintain an average level of public investment (general government GFCF) just above 2% of GDP during the 2014-20 EU programming period. The OECD (2009) suggests public investment in infrastructure can have a positive influence on regional economic growth when accompanied by investments in human capital and innovation. These are among the Slovak Republic's spending priorities.

Transportation infrastructure has been and will continue to be a major recipient of public investment funds. The importance of export-oriented manufacturing in the national and regional economies places noteworthy demands on transport infrastructure (European Commission, 2014a). Well-developed transportation networks, and road and rail in particular, can connect the Slovak Republic's regions to important job and product markets. Nationwide, however, transportation suffers from high unit costs for new and renovated infrastructure due to weak planning, design, and procurement processes – along with heavy administrative burdens in rail transport that create barriers to market entry (European Commission, 2014a). Using executive survey data, the World Economic Forum (2014) ranks the Slovak Republic 83rd of 144 countries for overall transport infrastructure.⁵ The

quality of rail infrastructure is ranked 24th of 144, while the quality of roads is ranked 82nd, the quality of port infrastructure, 100th and air transport 115th.

For the Eastern Slovak Republic, the density and quality of much of the region's hard infrastructure lags behind other regions, creating bottlenecks to job creation and raising costs for firms that may wish to locate there (OECD, 2014c). Needs exist in terms of east-west connections to link Východné Slovensko and Bratislava and north-south connections to link the region with Poland and Hungary. One positive development is the construction of missing parts of the D1 highway connecting Bratislava and Košice (OECD, 2014c). Other, non-transport forms of connectivity also lag in the Eastern Slovak Republic. For example, the Slovak Republic has low fixed broadband rates compared among EU countries, which negatively affects citizens (e.g. employment, digital literacy), the private sector (e.g. entrepreneurship) and government (e.g. e-government) (European Commission, 2014a). Within Východné Slovensko, Internet penetration is low in rural, mountainous and economically weak areas (Government of the Slovak Republic, 2014).

The Eastern Slovak Republic needs to boost educational outcomes. While educational attainment in the labour force in the Eastern Slovak Republic is essentially on par with the national average, it trails well behind the competitive Bratislava region (see Table 2.1). Internally, Prešov lags Košice. The former has a greater proportion of low-skilled workers (45% vs. 38% have a basic or lower-secondary education) and a lower proportion of high-skilled workers (15% vs. 18% have tertiary educational qualifications). In general, low levels of educational attainment make these regions less appealing for business investment, particularly given rising unit labour costs and competition for low-cost labour and higher value-added from neighbouring countries⁶ and outside the EU.⁷ While there is a stated intention in the Slovak Republic to increase education spending to the OECD average by 2020, the 2014-16 budget makes provision for increases only in 2014 (European Commission, 2014a).

Finally, Východné Slovensko has a relatively underdeveloped regional innovation system, indicated (not least) by below average performance on all indicators of the EU's 2014 Regional Innovation Scoreboard (European Commission, 2014b). In general, spending on research and development (R&D) is low in the region compared to the national and EU averages. Gross expenditure on research and development (GERD) has risen over time from EUR 22.5 million in 2000 to EUR 96.1 million in 2012, due largely to inflows of EU Structural and Cohesion Funds (Baláž, 2014). However, as a percent of GDP, GERD rose from 0.61% in 1996 to 0.67% in 2012. According to data in Baláž (2014), this figure is below the national average (0.82%) and the EU-28 average (2.07%). Within the region, the author finds

figures are higher in the Košice Region than in neighbouring Prešov Region (0.97% vs. 0.28% in 2012).

The rise in public (EU) funding for R&D has been accompanied by a shift in the structure of expenditures in Východné Slovensko.⁸ Between 2000 and 2012, “business enterprise research decreased in importance and [higher education institutions] and public research bodies [...] benefitted from increases in funding” (Baláž, 2014). Business expenditure on R&D (BERD) as a percent of GDP essentially declined from 2001 to 2008, rising to 0.18% in 2012. This compares to 0.34% nationwide and 1.31% in the EU28. Looking at the type of research being funded, the share of applied research and development in total GERD decreased from 65.4% to 41.3% from 2000 to 2012 (while basic research rose) potentially contributing to weak co-operation between industry and academia. The importance of social sciences and humanities as a percent of GERD spending rose, while technology and engineering declined. Finally, capital expenditures rose from approximately 5% of GERD in 2000 to 32% in 2012.

Boosting innovation performance is not only a matter of increasing R&D expenditure. The 2014 RIM Plus report suggests Východné Slovensko is hampered by underdeveloped governance of regional innovation systems (Baláž, 2014). Like other NUTS 2 regions, the report notes, it has no explicit competences and limited resources to support regional innovation. Moreover, despite the existence of regional innovation strategies at the NUTS 3 level, “almost all measures supporting R&D and innovation are designed, implemented and evaluated by the central government” using EU funds, - and the structure of the regional innovation policy mix “is generic for all non-Bratislava regions” (Baláž, 2014: 22). The central government is not bound to adopted measures in the NUTS 3 regional innovation strategies, or to integrate comments on policy that regions may offer (Baláž, 2014).

Notes

1. This case study uses data on public investment from the national accounts using the 1993 SNA methodology. This methodology was changed in 2008 (with changes implemented in late 2014/early 2015 in many countries) to incorporate defence (weapon systems) and R&D in public investment. The new calculation results in a reduction of the relative share of sub-national public investment in total public investment in most countries (from 72% to 58% on average for the OECD). The explanation is largely due to the fact that defence is in most cases a national competency in OECD countries and that R&D investment is also largely done by central governments, notably in unitary countries. The new data from the SNA 2008 methodology will be used in future OECD publications on the topic (2015 brochure on key data for sub-national governments, Toolkit, reviews and case studies). Since this case study was elaborated in the last quarter of 2014 and first quarter of 2015, it still uses data from the 1993 SNA methodology.
2. The way public investment is defined and measured across countries varies. In general, it refers to investment on physical infrastructure (e.g. roads, government buildings, etc.) and soft infrastructure (e.g. innovation support, research and development, etc.) with a productive use that extends beyond a year. Capital expenditure: consists of investments (i.e. gross capital formation and acquisitions, less disposals of non-financial non-produced assets) and capital transfers (i.e. investment grants and subsidies in cash or in kind made by subnational governments to other institutional units). Gross fixed capital formation (or fixed investments) is the main component of investments. Since the new standards of the SNA 2008, expenditures on research and development and weapons systems are included in gross fixed capital formation.
3. The category is defined as: “Public administration and defence; compulsory social security; education; human health and social work activities” (Eurostat, 2013: 528).
4. Defined here as gross capital formation and acquisitions less disposals of non-assets (i.e. not only GFCF).

5. Transport infrastructure is one of two components of the World Economic Forum's "Infrastructure Pillar" of its Global Competitiveness Index (the other component is electricity and telephony infrastructure). It is composed of five measures of quality that use data from the WEF Executive Opinion Survey and one measure of airline seat availability that uses IATA data. The data reported here come from the World Economic Forum's 2014-2015 Global Competitiveness Index, accessed online (Feb 2015) at <http://reports.weforum.org/global-competitiveness-report-2014-2015/economies/#economy=SVK>.
6. See OECD (2014a) regarding competition on domestic value added in global value chain.
7. This situation may well be exacerbated by a national minimum wage policy that results in excessively low minimum wages in Bratislava and excessively high ones in lagging regions such as Prešov and Košice (OECD, 2014a; Banerjee and Jarmuzek, 2009). The region has been successful at attracting some foreign direct investment, such as Embraco in 1997 and the 2000 buyout of East Slovakia Iron Works by U.S. Steel, but overall 80% of the Slovak Republic's FDI is located in other regions (Dupej, 2012).
8. The source of the data and discussion regarding regional innovation system in this paragraph is Baláž (2014). This endnote is provided in lieu of repeated in-text references.

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Chapter 4

Strengths and challenges for public investment management for the Eastern Slovak Republic

Effective public investment could potentially improve regional conditions and attract private funding, but bottlenecks in governance currently stand in the way. Since joining the EU in 2004, most public investment in the Slovak Republic has been financed through the EU Structural and Cohesion Funds (now Structural and Investment Funds, ESI). The Slovak Republic received approximately EUR 13.3 billion in EU Structural and Cohesion Funds for the 2007-13 period, and will receive approximately EUR 14 billion in ESI funding for 2014-20. The clear importance of ESI spending makes past practices and future plans with respect to Structural Funds implementation revealing as regards public investment for regional development in Východné Slovensko. Historically low absorption rates for EU funds suggest changes are needed to make better use of the funds for the 2014-20 period. This chapter looks at public investment management in Východné Slovensko directly. It reveals the strengths and opportunities for improvement that exist to make better use of public investment for regional development and inclusive growth. Challenges are in particular linked to: i) top-down orientation of public investment; ii) high local fragmentation; iii) limited private sector engagement; iv) weak sub-national administrative capacities; and complex regulatory framework and procurement conditions.

Overview

Well-targeted public investment that forms part of a comprehensive development strategy can make important contributions to growth at the regional level (OECD, 2014a). Since joining the European Union (EU) in 2004, most public investment in the Slovak Republic has been financed through the EU Structural and Cohesion Funds (now Structural and Investment Funds, ESI). Due in part to reductions in national public investment spending, for the period 2010-12, 92% of public investment in the Slovak Republic came from Cohesion Policy funding and associated national co-financing (European Commission, 2014a). The clear importance of ESI spending makes past practices and future plans with respect to Structural Funds implementation revealing as regards public investment for regional development in Východné Slovensko. Historically low absorption rates for EU funds suggest changes are needed to make better use of the funds for the 2014-20 period.

The Slovak Republic will receive approximately EUR 14 billion ESI funding for 2014-20 (EUR 4.2 billion of which will come from the Cohesion Fund) (European Commission, 2014b). As required by the EU, the country will orient spending to eleven thematic priorities toward the end of contributing to Europe 2020. A review of the Slovak Republic's Partnership Agreement (PA) reveals that, as in the past, priority is given to financing national development priorities – with regional development a secondary consideration (Mountford et al., 2012). Regional disparities are acknowledged at the outset, but little distinction is made with respect to how the thematic priorities will play out at the regional level. One exception is the region of Bratislava, which does receive dedicated attention in the Partnership Agreement. Aside from this, only spatial allocation of ESI funds is referred to. This spatial allocation is based on the 2001 Concept of the Territorial Development of Slovakia (KURS) amended most recently in 2011. The KURS defines and prioritises which places will receive what type of funding. Dense “core” settlement areas essentially receive top priority as places most capable of absorbing and making use of ESI Funds.

As noted elsewhere,

[Slovakia] is operating a hybrid system whereby some EU funds are used to catalyse regional programming and significant EU resources are used to co-finance national programmes. This is a widely used and accepted practice, though it can create some confusion between which activities are regionally driven regional development and which are nationally driven regional development or national [sic] driven national development with regional impacts. (Mountford et al., 2012: 43)

Table 4.1. **Allocation of EU Structural and Cohesion Funds (ESI Funds), 2007-13 and 2014-20**

2007-13				2014-20 (Indicative)		
Operational Programmes	ESI Funds Contribution	Slovak Republic Contribution	% of total	Operational Programmes excluding rural development & fisheries	ESI Funds Contribution	% of total
Transport	3 206 904 595	638 815 396	28%	Integrated Infrastructure	3 966 645 373	28%
Environment	1 800 000 000	341 176 471	16%	Quality of the environment	3 137 900 110	22%
Regional	1 445 000 000	383 828 151	13%	Research and information	2 266 776 537	16%
R&D	1 209 415 373	213 426 244	10%	Human resources	2 204 983 517	16%
Information	993 095 405	169 369 778	8%	Integrated Regional Operational Pgm	1 754 490 415	13%
Employability and social inclusion	881 801 578	155 612 045	8%	Effective public administration	278 449 284	2%
Competitiveness & econ. growth	772 000 000	142 117 648	7%	Technical assistance	159 071 912	1%
Education	617 801 578	109 023 811	5%			
Health	250 000 000	44 117 647	2%			
Technical assistance	97 601 421	17 223 780	1%			
Bratislava	87 000 000	25 008 952	1%			
European Territorial Co-operation	200 000 000		1%	European Territorial Co-operation	223 367 272	2%
Total	11 560 619 950	2 239 719 923	100%	Total	13 991 684 420	100%

Sources: Adapted from Table 6 in Government of the Slovak Republic (2014), “Partnership Agreement of the Slovak Republic for the years 2014-2020,” <http://www.partnerskadohoda.gov.sk> (accessed 14 June 2015) pg. 120; Solomon, L. (2013) “Slovakia struggles to tap Eurofunds,” *The Slovak Spectator*, 18 November, <http://spectator.sme.sk/c/20048935/slovakia-struggles-to-tap-eurofunds.html> (accessed 21 January 2015); MTCRD SR (2008), “2007-2013 OP descriptions,” Ministry of Transport, Construction and Regional Development of the Slovak Republic, <http://www.nsr.sk/en> (accessed 30 September 2014).

Co-ordination mechanisms

Integrated regional development strategy

Regional policy in the Slovak Republic is framed by the 2008 Regional Development Support Act, amended in 2014 and by the National Strategy for Regional Development (NSRD) from 2010, updated in 2014, both in the portfolio of the Ministry of Transport, Construction and Regional Development. The strategy defines the national approach to regional development through 2020 and its vision through 2030 (Mountford et al., 2012) – including an economic assessment for each of the eight self-governing regions. The strategy is oriented toward development broadly, and not infrastructure specifically. Specific mechanisms to ensure effective implementation and future improvements in overall governance are included in the national strategy (with a timeline indicated), but these mechanisms have yet to be developed and implemented (Box 4.1). The NSRD is complemented by Programmes for Economic and Social Development (PHSR in Slovak) developed at both the regional and local levels (Buček, 2014) (Box 4.2). These documents are intended to provide a medium-term planning framework within which sub-national economic development can occur (2008 Regional Development Support Act of the Slovak Republic; Ali Taha and Dodecký, 2009). The city of Košice, for example, will have an updated PHSR for the period 2015-20 as required by legislation.

The PHSR planning process is supported, in part, by an integrated network of Regional Development Agencies (RDAs). Funded by the Ministry of Transport, Construction and Regional Development, 39 RDAs are distributed around the country. Among other activities, they play a role in elaborating regional social and economic development plans, engaging in social and economic partnerships, organising events and sharing information and providing advisory services with respect to regional development (Mountford et al., 2012). They may also play a role in preparation of projects eligible for ESI funds (Buček, 2011). While these agencies can potentially supplement public administrative capacity in key areas, the government should ensure that the fragmentation of their assistance to government does not compromise either efficiency or capacity for comprehensive support.¹

Box 4.1. Key aspects of the implementation of the National Regional Development Strategy in the Slovak Republic

- Higher Territorial Units (HTU, also known as self-governing regions) and municipalities have to align their programmes with the National Strategy. Regions must ensure the monitoring and evaluation of their performance and submit annual reports on the implementation of the National Strategy at the regional level.
- In order to develop a methodology for updated NSRD evaluation and to ensure collection and analysis of socio-economic indicators of regional development, the Ministry of Transport, Construction and Regional Development will prepare in co-operation with the Statistic Office of the Slovak Republic a system to collect and create statistics for the level LAU 1 (Lower Administrative Units, districts).
- Under the new strategy, it is necessary to define the types of problems in regions that become the subject of systemic support from the state and one of the measures of sectoral strategies of individual ministries.
- Analysis will be undertaken regarding the possibility to establish a common Fund for Regional Development in the Slovak Republic and the subsequently prepare legislative intent to create, establish a mechanism to promote regional development with the view of securing funding after 2020.
- A “Methodological Institute” for regional development is proposed as a specialised professional place of work. The aim of establishing the Institute is to create a common platform for strategic management and planning, including methodological guidelines for regional policy nationwide.
- The Strategy envisages a system of improvement and more effective use of professional capacities of employees in regional development at the regional level.

Source: Extracted from chapter 10 of the National Strategy of Regional Development of the Slovak Republic adopted by Government Decree 222/2014.

Although the PHSR provides a multi-sectoral, multi-annual planning framework, to date it appears to have served largely as a planning exercise somewhat disconnected from financing and without any real inter-ministerial co-ordination at the national level; the NSRD exists alongside other national (sectoral) planning documents with territorial impacts (e.g. Strategic Plan for Transport Infrastructure Development in the Slovak Republic until 2020, the Research and Innovation Strategy for Smart Specialisation of the Slovak Republic, Concept of agricultural development

for 2013-20).² Despite its legal basis, the NSRD appears to have limited influence. To date, financing the regional and local PHSR has involved a mix-and-match of EU, national (sectoral), and local funds along with investment incentives to attract businesses to regions³ -- with no single source of funds clearly targeted to integrated regional development. Although sub-national governments must have a PHSR to tap EU funds, these documents do not necessarily lead to regionally coherent investment. Instead, individual projects have been put forward to secure EU funds in a manner that lacks meaningful “strategic direction in the way the EU funds are invested at the regional level” (Mountford et al., 2012). Thus, even if sub-national planning is an integrated exercise, implementation may not be.

In addition to the NSRD and the associated PHSRs, according to its Partnership Agreement, the Slovak Republic intends to pursue an “Integrated Territorial Investment” (ITI) strategy during the 2014-20 programming period in the context of the EU-funded Integrated Regional Operational Programme (IROP). ITI is an optional place-based, cross-sectoral planning instrument introduced by the European Commission for implementing the ESI funds for the 2014-20 period (European Commission, 2014c). This strategy will require each NUTS 3 region to produce a “regional integrated territorial strategy” (RITS) in order to tap IROP funds. RITS are intended to clarify the economic development strategy for the region, including results to be achieved and the specific measures that will be implemented to achieve them (Government of the Slovak Republic, 2014). For the Eastern Slovak Republic, this will mean a RITS for the Prešov region and one for the Košice region. The RITS are expected to include measures to be funded via IROP as well as “soft” complementary measures to be financed via Operational Programme Human Resources (Government of the Slovak Republic, 2014). The RITS may also identify measures to be implemented via other operational programmes. The Partnership Agreement (Government of the Slovak Republic, 2014; 273) indicates that priority will be given to grant applications submitted to operational programmes (OPs) other than IROP “whose objectives will be in line with the planned measures in the approved RITS.”

According to the Partnership Agreement, ITI is to be accompanied by sustainable urban development (SUD) measures for urban areas and complemented by a community-led local development (CLLD) approach in rural and rural-urban areas.⁴ Each RITS will include a separate section on SUD actions for regional capitals, in this case Prešov and Košice. The KURS will be used to define the functional urban areas that will be the target of SUD measures (Government of the Slovak Republic, 2014). The SUD strategy is to be elaborated via a partnership of representatives from the functional urban territory, and to be approved by the urban and

municipal authorities in the SUD functional area (Government of the Slovak Republic, 2014). According to the Partnership Agreement, CLLD, a tool developed under the EU LEADER programme, will be used to develop rural local action groups (LAGs) in areas with a maximum population density of 150 people/km². LAGs may involve municipalities, small or medium-sized cities, or municipal districts. CLLD and LAGs do not appear to fall under the umbrella RITS.

For Východné Slovensko, changes associated with the updated version of the NSRD may move integrated planning in the right direction – although attention needs to be given to the dynamics of the planning process. The updated NSRD contains the possibility of a regional development fund. This may address some of the weaknesses discussed above. In addition, the Partnership Agreement suggests that regional and municipal PHSRs will contribute to development of the RITS. This is important to avoid duplication and fragmentation if the RITS is developed without consideration to the PHSR. In fact, PHSR is the only planning instrument with a basis in Slovak law.⁵ At present, only the Ministry for Agriculture and Rural Development (the managing authority for IROP) appears to be implied in the planning process for the RITS. This approach risks omitting key areas of investment that have strong regional impacts, such as transportation and environment, from the RITS. Notably, “an ITI cannot have objectives which are not linked to the programmes it draws on and it cannot support actions which do not contribute to the programmes providing support” (European Commission, 2014c: 3). Finally, the success of all planning efforts (i.e. PHSR, RITS, CLLD, and SUD) will depend not only on the availability of funding and the coherence of related plans, but also on the quality of economic assessment, investment planning, evidence-based decision making, involvement of stakeholders, and (ultimately) capacity to deliver at the regional and local levels. Past experience and administrative capacity constraints suggest weaknesses in these areas (discussed later).

Vertical co-ordination of public investment

There appears to be a strong top-down approach to public investment in the Slovak Republic. This is likely due to two key factors.

- First, the majority of public investment is financed through the EU Structural and Cohesion Funds and corresponding co-financing.⁶ As a result, vertical co-ordination of public investment is driven heavily by EU-oriented investment priorities, processes, and procedures – which in turn cascade downward through the Slovak Republic’s largely national operational programmes. For 2007-13, 87% of EU funds were allocated via national OPs. Only 13% was allocated with a regional focus (OECD, 2014a). For the period 2014-10, of the

Slovak Republic's nine operational programmes only one (IROP) has a specific regional orientation.

- Second, vertical co-ordination of public investment for regional development is hampered by a notable asymmetry of influence and information between the national and regional levels.^{7,8} Self-governing regions were introduced in 2002 not in response to bottom-up demand, but via a top-down reform that transferred national competences to “self-governing higher territorial units,” accompanied by fiscal decentralisation reforms in 2004 (Buček, 2011). Regions are thus evolving with respect to their competences, financing structure, and influence. Buček (2013) argues that “the current regional structure rather serves state-level policy-making than local or regional interests and the related tradition. The central state dominates over the regions, and limits their scope of action.”⁹ Not only is influence asymmetric, but regions face budgetary constraints (discussed later) and notable asymmetries of information as well. Despite the fact that “regional planning and development policies are the most discussed and used powers” (Buček, 2011) at the regional level, both case study regions report a lack of understanding by the central level regarding regional needs and projects, and a lack of information on the part of regional actors regarding national government investment priorities.

In the past, mechanisms to ensure effective bottom-up regional participation in national policy design have been relatively inadequate (OECD, 2012) and appear to remain so. Today, three main mechanisms exist for co-ordinating public investment between the national and sub-national governments.

1. The first mechanism is the ESI programming documents – with the Operational Programmes providing a specific context for co-ordination between individual ministries and sub-national governments. Here, regions' participation has evolved over time. Regional authorities were omitted from the preparation of EU programming documents for the 2004-06 period (Buček, 2011). For the 2007-13 period, however, regions were involved in working parties established for developing the Operational Programmes, as Intermediary Bodies under the Managing Authority for the Regional Operational Programme (ROP), and (along with local government and other social-economic partners) as members of the Monitoring Committee for the ROP (MTCRD, n.d.).¹⁰ For the 2014-20 programming period, meetings with the Association of Self-Governing Regions (SK8, discussed below) and regional sessions of government played a role in preparing programming documents for

ESI funds and for determining the format of the monitoring committees for each Operational Programme.

2. Second, the National Strategy for Regional Development and the Integrated Territorial Investment described previously act as vertical co-ordination instruments. The case of the NSRD is clearer. Its elaboration is expected to involve sub-national actors and its priorities are expected to be reflected in Programmes for Economic and Social Development articulated at the regional and local levels. Sub-national governments are expected to report annually on progress toward national goals. ITI is less a vertical than a horizontal co-ordination mechanism for the regional level, but – as the city of Košice reports – the elaboration of a new strategy for sustainable urban development in the context of the RITS involves working closely with the Košice self-governing region as well as local communities within the city's functional urban area.
3. Finally, the Association of Self-Governing Regions (SK8) provides a third, less formal platform for national/sub-national co-ordination. The Association is comprised of the chairpersons of all eight regions, meets at least quarterly to discuss important issues, often co-ordinates its activities with local government associations, and starting in 2011, introduced regular meetings with the national government (Buček, 2011). Sub-national governments also engage the central government on a range of subjects via other associations as well, such as the Association of the Slovakia's Towns and Villages (ZMOS), the Union of Slovakia's Towns (ÚMS), and the Association of Regional Capitals (K-8) (Mesežnikov, Kollár and Bútor, 2014).

Vertical co-ordination mechanisms have evolved over time. Changes associated with ESI implementation and the updated NSRD reflect the integration of lessons emerging since EU accession. It is unclear, however, the extent to which current arrangements are truly more effective at balancing and integrating top-down and bottom-up contributions to the design and implementation of public investment than in the past. Feedback from the case study regions regarding asymmetries of information suggest there is room for further improvement.

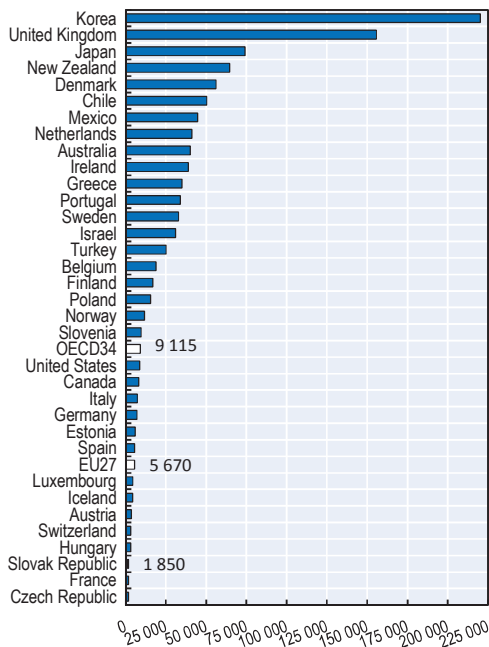
Horizontal co-ordination of public investment at the sub-national level

Municipal fragmentation is an important obstacle to effective public investment in the absence of effective co-ordination mechanisms across jurisdictions, as it can impede investment at the relevant scale. Local

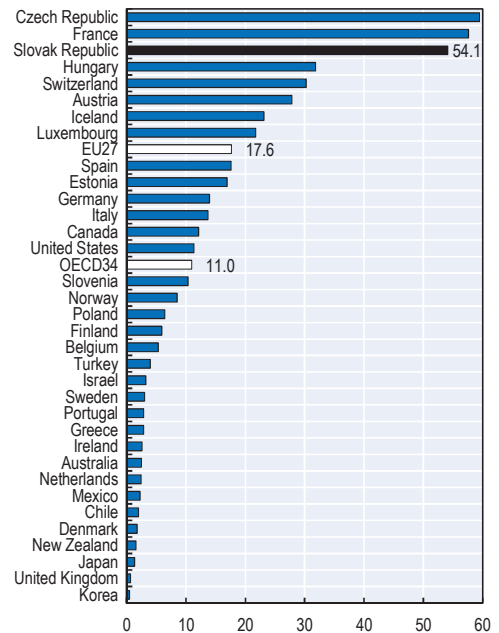
government has long been highly fragmented in the Slovak Republic, with a large number of small municipalities throughout the country (Buček, 2008). As of 2012, the Slovak Republic had an average of 54 municipalities per 100 000 people, compared to 11 among OECD countries and around 18 in the EU (OECD, 2013a). In 2012, average municipal size was 1 850 inhabitants, compared to 9 115 inhabitants in the OECD. It is among the lowest in the OECD, along with France and Czech Republic (Figure 4.1).

Figure 4.1. **Municipal size and fragmentation in OECD countries, 2012**

Municipal average size in the OECD in 2012
(average number of inhabitants per municipality)

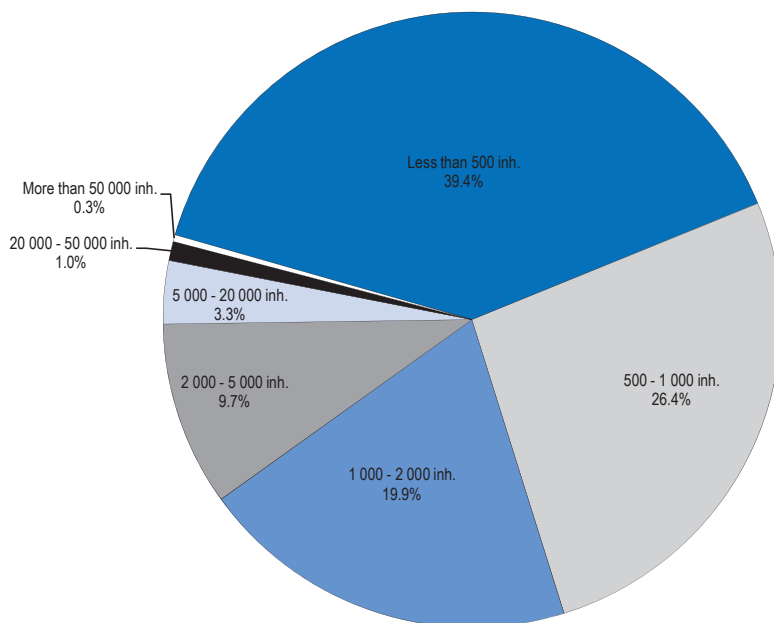


Municipal fragmentation in the OECD in 2012
(number of municipalities per 100 000 inhabitants)



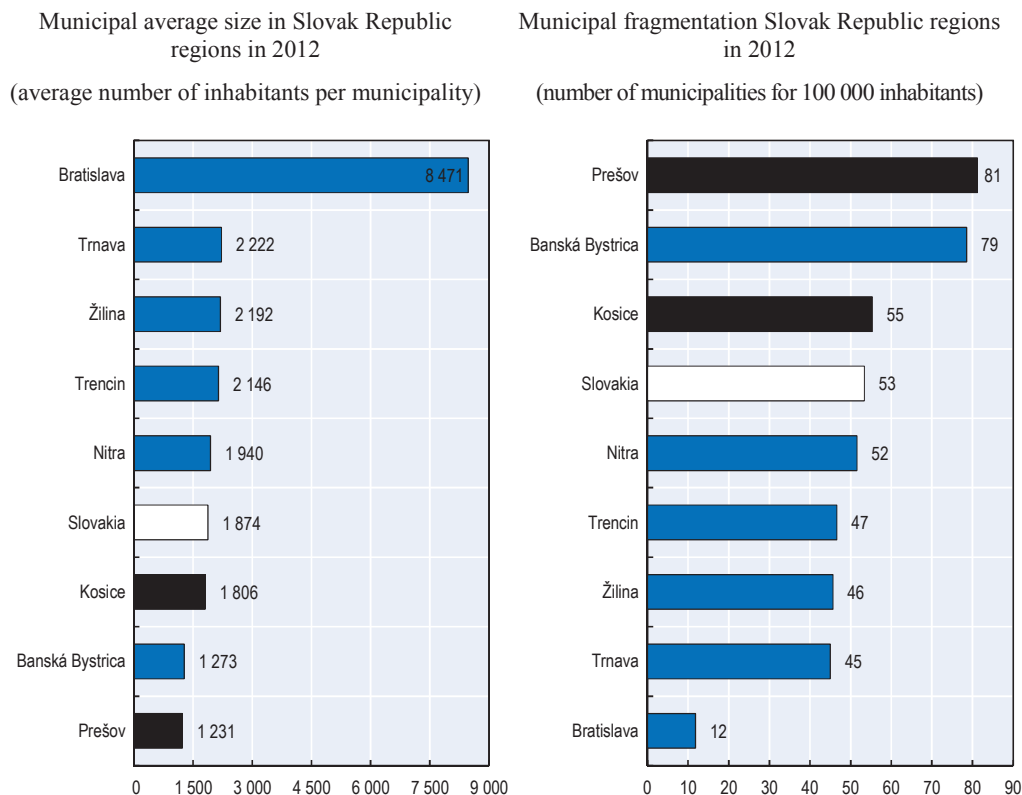
Source: OECD (2013a), “Sub-national governments in OECD countries: Key data” (brochure), OECD, Paris.

Figure 4.2. **Distribution of municipalities by population size in the Slovak Republic, 2013**



Source: Authors' elaboration from Statistical Office of the Slovak Republic (2014).

Although optimal municipal size varies with the type of service being considered, literature suggests that more efficient municipalities tend to have populations between 20 000 to 25 000 and 250 000 inhabitants (André and Garcia, 2014). In 2012, two thirds of Slovak municipalities had less than 1 000 inhabitants – with 39% having fewer than 500 inhabitants. At the other end of the spectrum, there are only 10 municipalities above 50 000 inhabitants, including Bratislava (418 000 inhabitants) and Košice (240 000 inhabitants). In short, most of the Slovak Republic's municipalities may lack economies of scale, particularly for the purposes of public investment. Moreover, small municipalities are unlikely to have sufficient funds or staffing to adequately implement their competences. This is likely to be especially true in the two regions of the Eastern Slovak Republic together with the region of Banská Bystrica (Figure 4.2).

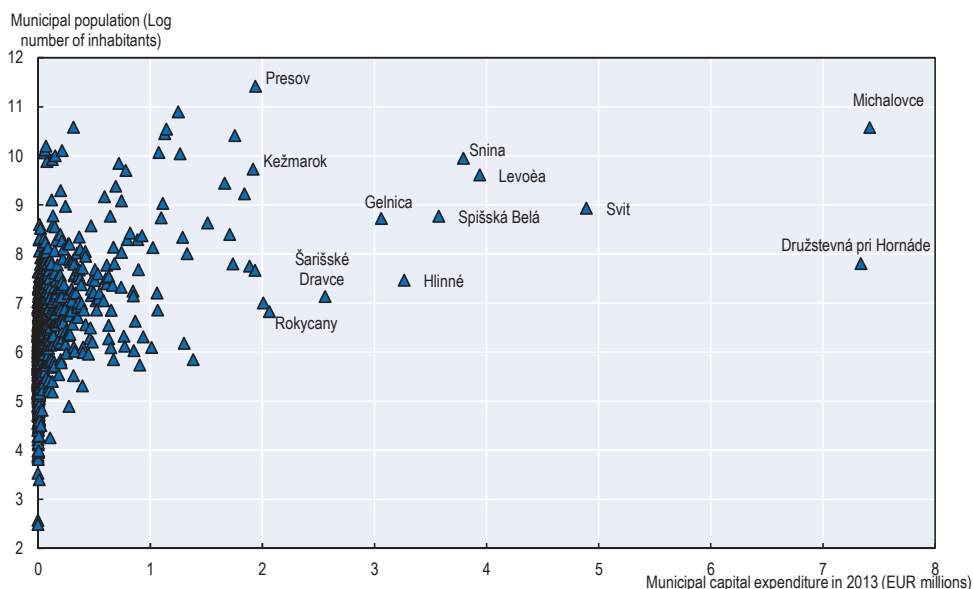
Figure 4.3. **Municipal size and fragmentation in the Slovak Republic, 2012**

Source: Authors' elaboration from Statistical Office of the Slovak Republic (2014).

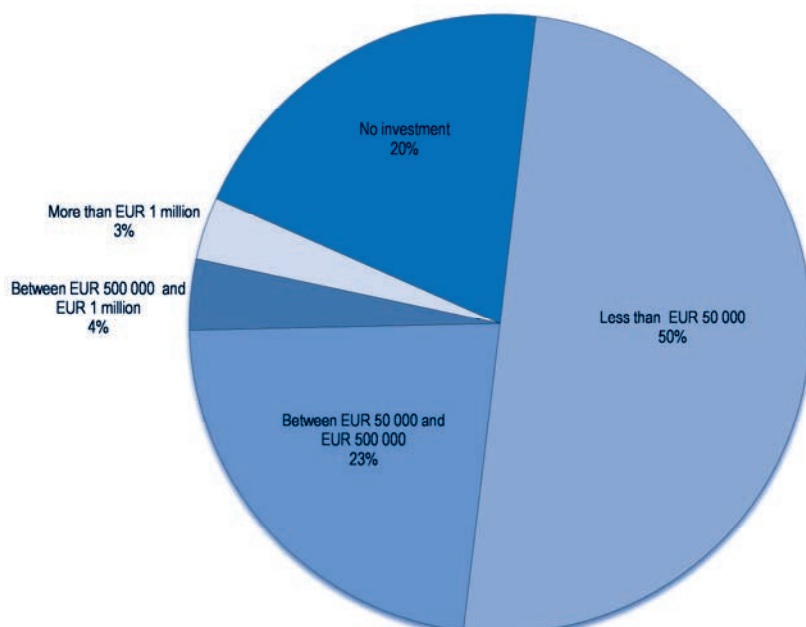
Figure 4.4 shows the relationship between municipal capital expenditures and municipal size. It reveals that most municipalities invest very little, and those that do invest tend to be larger. In the regions of Prešov and Košice, 20% of municipalities did not invest at all in 2013 and 50% invested less than EUR 50 000. Only 3% (i.e. 37 municipalities) spent more than EUR 1 million on infrastructures and equipment. Košice was, by far, the most important investor in 2013, probably linked to the fact that it was European Capital of Culture that year, followed by Michalovce (Košice region), Družstevnápri Hornáde (Košice region) and Svit (Prešov region). In all, 891 municipalities (i.e. 80% of municipalities in both regions) each constitute zero or less than 0.1% of municipal investment. Where investment occurs, it is relatively concentrated in Košice region and more fragmented in Prešov region. In Košice region, the city of Košice represented 42% of total municipal investment in 2013. Along with five other cities (Plešivec,

Moldavanad Bodvou, Gelnica, Družstevná pri Hornáde and Michalovce), it accounted for 61% of municipal investment. In contrast to Košice, Prešov region's municipal investment is somewhat less concentrated. Of Prešov region's 665 municipalities, 20 accounted for 50% of municipal investment in 2013. The city of Prešov represented only 2.1% of total municipal investment in the region in 2013, the biggest municipal investors being Hlinné, Spišská Belá, Snina, Levoča and Svit.

Figure 4.4. **Municipal investment and municipal size**



Source: Authors' elaboration based on INEKO (2014), Slovak regional economic data website, <http://www.obce.ineko.sk> (accessed 15 November 2014).

Figure 4.5. **Municipal capital expenditures in Prešov and Košice regions in 2013**

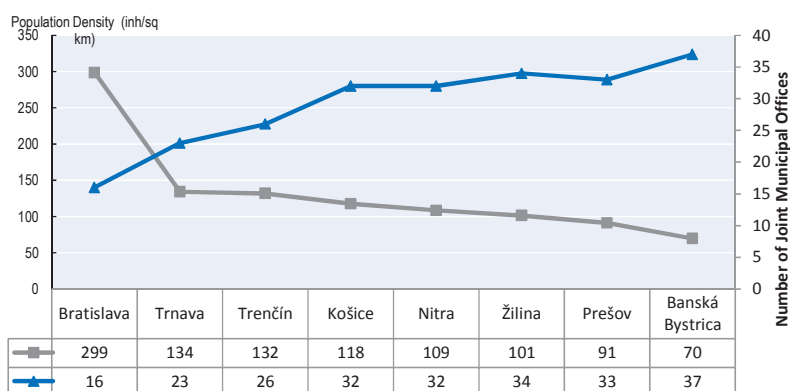
Source: Authors' elaboration based on INEKO (2014), Slovak regional economic data website, <http://www.obce.ineko.sk> (accessed 15 November 2014).

Solutions for horizontal co-ordination of municipal service delivery and public investment range from mandatory mergers to required co-operation to voluntary co-operation. Municipal amalgamation is one option for raising efficiency, but given the country's recent history, obligatory mergers may run contrary to the sentiment and value of local democracy.¹¹ Inter-municipal co-operation is a constitutionally provided alternative to mergers (Buček, 2008). Co-operation has increased as a result of decentralisation reform, but is potentially under-utilised for the purposes of public investment. Two important mechanisms used by Slovak municipalities are voluntary associations and Joint Municipal Offices (JMOs). Voluntary association of municipalities takes different forms, including two national associations, as well as groups of municipalities called micro-regions. Micro-regions are not legally defined, but exist as the voluntary association of multiple, often small, municipalities with common interests or historical ties (Klimovský, 2010). Micro-regions do not necessarily respect administrative boundaries. They are established for a variety of reasons, including but not limited to managing development projects. Their membership can extend beyond municipalities to include

public agencies, local/regional enterprises, NGOs, and individuals (Klimovský, 2010).

Joint municipal offices (JMOs) are more formal arrangements. JMOs involve the voluntary association of two or more municipalities for the purposes of executing delegated competences (UCLG, n.d.) such as construction proceedings, land transport, nature and environmental protection, domiciliary services, primary education, water management, etc. (Klimovský, 2010). Offices are “headquartered” in a single municipality, but serve multiple participating municipalities. They are frequently (but not always) multi-purpose offices performing functions in a number of different domains. According to the Ministry of the Interior (2014), as of May 2014, there were 233 JMOs in the Slovak Republic implementing co-ordination arrangements covering 21 different domains. “Investment” as a field of co-operation involves only one joint municipal office (in the Trnava region), but other domains may touch on public administration relevant for investment such as land use planning and building permit administration (Ministry of the Interior, 2014; Municipal Cooperation, 2009a; 2009b). As expected, the number of JMOs in a region increases as the population density declines (Figure 4.6). Prešov region counts 33 JMOs and Košice, 32.

Figure 4.6. Joint Municipal Offices in Slovak Republic regions



Sources: Authors' elaboration based on Statistical Office of the Slovak Republic (2014), *Regional Statistical Yearbook of Slovakia, 2013*, European Statistical System (Eurostat), Brussels; Ministry of the Interior (2014), “Celkový prehľad spoločných obecných úradov so stavom, k 9.5.2014” [“An overview of the joint municipal authorities as of 9 May 2014”], available at: www.minv.sk/swift_data/source/verejna_sprava/spol_obec_urady/sou_2014/SOU_aktual_09052014.pdf.

The use of functional areas for planning can also act as a mechanism for achieving appropriate scale for public investment. As noted earlier, the spatial allocation of EU Funds (the majority of public investment) is based on the 2001 Concept of the Territorial Development of Slovakia (KURS) amended in 2011. The KURS defines a hierarchy of settlement areas and prioritises dense “core” settlement areas as places most capable of absorbing and making use of ESI Funds. The KURS document is supposed to be binding for spatial planning in the Slovak Republic and must be reflected in regional spatial plans, development programmes, and proposals for public investments (ME SR, 2001).

In addition to the relationship between municipal and regional PHSRs discussed previously, self-governing regions can help ensure co-ordination and financing of investments at the appropriate scale. As the regions themselves are small, cross-regional co-operation is also important. Among their activities, regions provide support for development studies as well as for public investments with benefits for the larger NUTS 2 region. Examples include Košice region’s support for the European Capital of Culture, Medipark (a university medical science and technology park in Košice¹²), support for integrated transport, support for the high tech zone in the Košice agglomeration, and support in the industrial zone in Kechnec. At present, there is no integrated regional development plan for the NUTS II eastern region. In 2005-06, Prešov and Košice collaborated to produce a regional development plan, prompted by the national government’s intention to have an EU operational programme for the eastern region for the 2017-13 programming period. Ultimately, however, this approach was dropped. Co-operation between the two regions continues but in a different format, such as the exchange of experience or mutual support for specific projects. Both self-governing regions report room for greater formal co-operation at the NUTS 2 level to achieve greater synergy in investments.

Key capacities for public investment

Stakeholder engagement

According to Buček (2014), stakeholder involvement is an emerging feature of strategic economic and development planning in the Slovak Republic. The author, focusing on urban planning, notes that early planning efforts of the 1990s did not tend to feature systematic citizen participation or systematic involvement of other actors. This has changed over time with the introduction of regional and local Programmes for Economic and Social Development (required by Act No. 503/2001 on Support of Regional Development), which have included planning commissions and working groups based on multi-stakeholder participation (Box 4.1) (Buček, 2014). As

noted previously, for the 2014-20 funding period, the Slovak Republic intends to pursue an ITI strategy in the context of the EU-funded Integrated Regional Operational Programme (IROP). With respect to stakeholder engagement, each RITS is expected to have “Partnership Council” composed of representatives of NUTS 3 regions, municipalities, civil society, other government actors, and business. While higher territorial units (NUTS 3) will act as the lead authorities for RITS preparation and implementation, the Partnership Councils will play an oversight role. Councils are expected to approve the main elements of the RITS (Government of the Slovak Republic, 2014).

Box 4.2. Strategic planning and stakeholder engagement for local economic development in the Slovak Republic

The first legal framework to support place-oriented strategic planning was the Act No. 503/2001 on Support of Regional Development which introduced the Programmes for Economic and Social Development (PHSR in Slovak). Eventually, the central government required that “each development project asking for financial support from [the] state budget or EU funds” be consistent with the local PHSR. The government revised the Act on Support of Regional Development in 2008 (and again in 2014). Through these revisions the central government clarified dimensions of the PHSR, obliged municipalities to prepare them in collaboration with local partners, and to co-ordinate vertically with regional self-government in order to harmonise development plans at the different levels of government. According to Buček (2014) (who focuses on planning in urban areas), while the composition of stakeholder involvement varies by place, planning efforts may feature representation from local businesses and the business community at large, along with community organisations, environmental groups, and citizen participation. These strategic plans often contain sections focusing on communications with local communities and citizens, which may include public meetings, public opinion polls, and web-based interactive opportunities for citizen feedback.

Sources: Buček, J. (2014), “Urban Governance, Strategic Planning, and Democracy in Post-Socialist Transitional Society”, *Acta Geographica Universitatis Comenianae*, Vol. 58, 2014, No. 1, pp. 45-70; Ministry of Transport, Construction and Regional Development of the Slovak Republic.

Mobilisation of private actors

There has been relatively little uptake of public private partnerships (PPPs) in the Slovak Republic to meet infrastructure needs. Private engagement in public investment often occurs via PPPs for infrastructure delivery. PPPs are long-term, contractualised forms of collaboration that involve the private sector

in the design, construction, financing, operations, and/or maintenance of economic and social infrastructure assets.¹³ In the Slovak Republic, private participation has been tapped on a relatively small scale at the sub-national level, such as for the waste collection system in Košice, public lighting in Liptovský Mikuláš, and the reconstruction of the hospital in Malacky (EBRD, 2011). However, these projects are not “classic PPPs” in which the private partner is responsible for the design, financing, building and/or operation of a project, in return for which the partner receives a stream of payments from the government, from users (user charges), or both.

At the national level, the government proposed a PPP approach to tackle construction needs on the D1 highway and the R1 motorway in 2007. Three PPP projects emerged from this initiative, of which only the R1 motorway project was completed. This project is a 30-year concession to design, build, finance, operate and maintain sections of the R1 motorway linking Nitra and Banská Bystrica (EBRD, 2012; Reiserer, 2013). Although the R1 does not reach Východné Slovensko directly, it shortened travel time between the region and Bratislava. Cancellation of the other two projects was prompted by concerns “that the contracting procedures were not transparent, the assessment of financial risks was inadequate and that financing these projects with EU funds and public funds would be less costly than using PPPs” (Klein, Price and Wörgötter, 2013). All three projects, however, faced hurdles (The Economist Intelligence Unit, 2013). However, with a renewed interest PPPs, this approach is currently planned for the construction of a section of D4 highway and sections of the R7 expressway around the area of Bratislava (Bratislava bypass) (MTCRD SR, 2015).

There are three key obstacles to successful PPPs in the Slovak Republic and in the eastern region in particular: weak public sector capacity, fragile public finances and the availability of EU funds and limited political support. Critically, public sector capacity for designing and implementing PPPs is relatively weak and opportunities to cultivate this capacity have been limited (The Economist Intelligence Unit, 2013). Within the eastern region, both Prešov and Košice report weak national and weak sub-national capacity to properly evaluate and structure PPPs as an obstacle that poses serious problems for their region. Technical support for PPPs weakened in 2010 with the dissolution of the PPP unit within the Ministry of Finance. According to The Economist Intelligence Unit (2013), “the Unit had served as a key decision-maker for project planning and a knowledge centre for other ministries since 2006, filling the role of co-ordinating institution and offering oversight for PPPs.”

In addition to capacity issues, the current fiscal climate does not lend itself to PPPs. Not only is private financing for PPPs generally lacking, but Szekeres (2013) suggests the national commitment to keep state budget debt under 3% is not necessarily conducive to PPPs. Instead, policy makers prefer to pursue

infrastructure goals with the EU funds (Szekeres, 2013; The Economist Intelligence Unit, 2013). Using EU funds means municipalities co-finance 15% of an infrastructure project; by contrast, a PPP could require availability payments (unless EU funds are used for PPPs, a complicated approach that generally exceeds the technical capabilities of the municipal governments).

Box 4.3. Košice IT Valley

Public-private partnership for regional development can take a variety of forms. Traditional PPPs for infrastructure development are located at one end of spectrum of relationships. These traditional, highly contractualised, public-private partnerships contrast with other, less formal, “softer” collaborative arrangements that bring public and private actors together to spur investment and economic growth. The Slovak Republic has seen few traditional infrastructure PPPs for the reasons explained in the main text, but the Eastern Slovak Republic has developed a successful softer collaborative arrangement in the form of Košice IT Valley.

“Košice IT Valley”, established in 2007 as a “partnership of legal entities”, is a “functional cluster” of nearly 40 members that aims “to create suitable conditions for the creation and development of [an] ICT centre of excellence in the territory of Eastern Slovakia”. At its start, the association had ten founding members, including the Košice self-governing region, two local universities, and seven IT service firms. It has since grown considerably to include numerous IT firms and the Košice municipality. The initiative brings together universities, regional and local government, and the private sector in a formal structure.

The creation of Košice IT Valley was motivated by two key factors. First, industrial restructuring in the late 1980s left firms looking to co-operation rather than to competition to create opportunities for growth. Second, there was a need for more and better qualified local labour for the IT industry. The viability of the industry in Košice depends heavily on well-skilled labour in the region. As a result, Košice IT Valley has placed a priority on strengthening the quality and relevance of university and secondary education in the region. Firms have also invested in university IT labs, providing both new technology and inputs into teaching.

The activities of Košice IT Valley contribute to “soft investment” in the region. According to Felsenstein et al. (2001), “soft investment” refers to investment in human capital and in a region’s innovation and entrepreneurial base. OECD research (2009) has highlighted its important complement to investment in hard infrastructure.

Sources: Sokol, M. (2013) “Silicon Valley in Eastern Slovakia? Neo-liberalism, post-socialism and the knowledge economy”, *Europe-Asia Studies*, Vol. 65, No. 7, pp. 1324-43; Košice IT Valley (2014), “About Us” webpage (English version) <http://www.Kosiceitvalley.sk/en> (accessed 20 November 2014); Felsenstein, D. et al. (2001), *Public Investment and Regional Economic Development*, Edward Elgar Publishing, Cheltenham, United Kingdom, https://books.google.co.uk/books?id=BM4U_PTByZAC&lpg (accessed 13 June 2015); OECD (2009), *How Regions Grow: Trends and Analysis*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264039469-en>.

Finally, PPPs are politically sensitive. They have received negative publicity in the past, with the public viewing them as expensive and at risk for corruption. The political dimension of PPPs has the potential to overshadow economic and technical discussions regarding the viability of such partnerships to contribute to infrastructure goals.

Ultimately, given the potential financial risks created by poorly designed PPPs, greater uptake of PPPs in Východné Slovensko cannot proceed effectively without dedicated attention to strengthening regional and local capacity to evaluate, structure, procure, and manage them. Reintroducing a national PPP unit and strengthening sub-national procurement capacity (discussed later) would be steps in this direction. Previous OECD recommendations regarding budgetary treatment of construction costs and the importance of the OECD Principles for the public governance of PPPs (Klein, Price and Wörgötter, 2013) can be echoed here as well.

Monitoring and evaluation arrangements

At the national level, with the majority of public investment financed by EU Structural and Cohesion Funds, it follows that most investment is subject to monitoring and evaluation requirements associated with these funds. Monitoring financial and physical indicators associated with EU funds is the responsibility of Central Co-ordinating Body (Government Office) and the Ministry of Finance. They produce annual monitoring reports on funds implementation. The Commission has made recommendations to improve monitoring systems (European Commission, 2012). Aside from EU-related monitoring, individual ministries are responsible for reviewing the implementation of policies within their portfolios (OECD, 2014c). There is substantial variation across sectors with respect to the monitoring of performance (OECD, 2014c).

At the sub-national level, a monitoring system for public investment at the regional or municipal levels is not clearly identifiable in Východné Slovensko. Both regions report such capacity to be weak. Yet, these arrangements are crucial to ensure the efficiency and effectiveness of public spending, to provide a basis for learning and policy adjustment, and to bolster public sector accountability and trust in government. They are also necessary to counter-balance any potential reductions in regulatory burden associated with sub-national management of ESI Funds (discussed later) to ensure adequate performance and prevent abuse. The National Strategy for Regional Development requires NUTS 3 (i.e. Košice and Prešov) regions to submit an annual report to the Ministry on the implementation of the national strategy at the regional level (MTCRD SR, 2014). The NSRD includes outcome indicators for each NUTS 3 region that are tied to Europe 2020 goals; unfortunately, however, it is not clear how progress toward

these goals is being monitored. Ultimately, performance indicator systems for public investment should be clearly identifiable, with a manageable number of indicators that produce actionable information for policy makers and practitioners.

With respect to evaluation, there is little to suggest regular use of ex post evaluation of public investments either in Východné Slovensko or in the Slovak Republic as a whole. Neither the Prešov region nor the Košice region indicates that they conduct (ex post) impact evaluations of public investment.¹⁴ A 2013 review of Cohesion Policy implementation in the Slovak Republic reported a “lack of high quality impact evaluations” and “no rigorous evidence based on evaluations and/or scientific papers on the effects of [Cohesion Policy] interventions on regional disparities or any long-term effects on the economy” (Frank, 2013: 21, 27). For 2007-13, Managing Authorities established their own evaluation plans. Most evaluations focused on internal procedures with the objective of identifying bottlenecks to more successful implementation. According to Frank (2013), few outcome-oriented evaluations have yet been undertaken. Because financial implementation of Structural and Cohesion Funds in Slovakia has been slow, with spending occurring toward the end of the programming period, and because the long-term impacts of public investment can accrue numerous years after initial investments, the number of evaluations focused on outcomes may increase in the near- to medium-term. Such an increase would be facilitated by increasing demand for high-quality evaluation information. Recent analysis (Frank, 2013: 22) finds: “Evaluation processes are not integrated into policy making. The policy making process is not based evaluation evidence but solely on political programmes of parties and discretionary initiatives of the individual ministries.” Regional and local governments, too, need both to commission and to use evaluations as part of planning and decision-making for public investment.

Public administration capacity

Due to the importance of EU Structural and Investment Funds, the administrative capacity to manage the rules and regulations associated with these funds is central to successful public investment. The skills needed to effectively plan for, use, and evaluate the impacts of ESI-funded projects can also be transferred to nationally or locally funded investment. Unfortunately, administrative capacity to manage ESI Funds is documented to be weak. According to the European Commission (2014d: 4), “public administration in the Slovak Republic suffers from poor human resource management and high staff turnover, which also affects the slow implementation of EU funds. Weak analytical capacity hampers evidence-based policy making.” Certainly, high turnover jeopardises the

effectiveness of training programmes, weakens long-term institutional strengthening, and risks regular disruption to programme implementation. Weak analytic capacity is highly problematic for public investment, an area in which proper planning and decision capacity early in the investment cycle sets the stage for good outcomes over the long-term.

In 2012, the Slovak Republic launched the ESO (Efficient, Reliable and Open) reform programme. The programme aims to improve the efficiency and transparency of the national public administration, and the accessibility and reliability of public services. Reforms introduced in 2012 and 2013 included streamlining the deconcentrated state government administration by consolidating numerous specialised offices into 72 district offices. The ESO Programme includes reforms to strengthen human resource management. A new civil service law to take effect in 2015 will, among other changes, move towards upgrading civil servants' qualifications and skills (OECD, 2014c). There is also an intention to bolster the analytical capacities of seven analytical centres attached to economic and social ministries, and open new ones if necessary (OECD, 2014c). However, the existing centres appear to have only limited involvement in policy making (European Commission, 2014d). In addition, the updated NSRD incorporates the possibility of establishing a "Methodological Institute" for regional development to boost professional skills nationwide. Public administration capacity is also discussed extensively in the Partnership Agreement and strengthening public administration capacity will be the target of a single OP for the 2014-20 programming period. Discussion is largely left at the national level, so questions regarding impact at the sub-national level remain open. Importantly, while addressing weak analytic capacity can make a positive contribute to public investment; such capacity development must cascade from the national level to Východné Slovensko's regional and local governments.

There is some indication that local administrative capacity and staff recruitment and retention may be weakened in the short-term. A 2013 agreement between the central government and the Association of Towns and Communities of the Slovak Republic to cut municipal expenditures by 10% in 2013 and local government salaries by 5% to help bring the state budget deficit under 3% of GDP (Mesežnikov, Kollár and Bútor, 2013) could potentially have adverse consequences for administrative capacity. Moreover, although the 2004 law on fiscal decentralisation indicates that municipalities receive 70.3% of the personal income taxes, this figure dropped in 2011 to 64.5% as part of national fiscal consolidation, returning to only 67% in 2014 – further constraining municipal activities (Mesežnikov, Kollár and Bútor, 2014).

Framework conditions

Adequate fiscal framework

The top-down orientation of public investment is reinforced by the current intergovernmental fiscal framework. At present, financing the implementation of their competencies leaves sub-national governments, and regions in particular, little financial “room to manoeuvre” due to high levels of obligatory expenditures and strong reliance on intergovernmental transfers. With respect to investment, both the Košice and Prešov regions report approximately 10% of their investment expenditures are financed via own revenues, 15-20% by central government grants, and the remaining 70% by EU Structural and Investment Funds. Borrowing for capital expenditures is allowed, with some limitations, under current fiscal rules (OECD, 2014b), and both Košice and Prešov regions report securing commercial bank loans, loans from banks related to the sub-national governments and intergovernmental loans (e.g. the European Investment Bank, EIB). For example, the EIB is lending EUR 25 million in 2015 to the Prešov Region for infrastructure investment and services linked to the region’s PHSR (EIB, 2014). Yet, sub-national creditworthiness is strongly tied to their fiscal relations with the central government: As Moody’s notes:

[...] sub-sovereign creditworthiness is strictly intertwined with the sovereign. In Slovakia, regional and local governments depend on revenues that are linked to the sovereign's macroeconomic and fiscal performance. Almost 73% of the sub-sovereign operating revenue is derived from the central government in the form of shared personal income tax and transfers that are collected and set at the national level. In addition, the institutional linkages intensify the close ties between the two levels of government through the sovereign's ability to change the institutional framework, under which the Slovak sub-sovereigns operate. In 2012, these linkages materialised in form [sic] of adjustments in the tax-sharing mechanism in favour of the central budget. At the same time, this step has muted revenue growth in 2012 and challenged the sub-sovereigns' liquidity profile. However ... solid revenue and expenditure predictability has mitigated the sub-sovereigns' need for credit lines or short-term borrowings. (Moody’s Investors Service, 2013)

Regional revenue is particularly constrained. In 2014, total revenue of regional governments amounted to 1.51% of GDP, lower than that of the central government (18.88% of GDP) or municipalities (5.23% of GDP) (Baláž, 2014). Revenues can be broken down into targeted and non-targeted allocations (Baláž, 2014). Grants for targeted allocations include central government transfers for regional secondary education, health and social

care expenditures, as well as EU Structural Funds grants for infrastructure (Baláž, 2014). For Košice region, targeted allocations accounted for nearly 56% of total revenue in 2014; for Prešov region the figure was approximately 44% (Table 4.2). Within Východné Slovensko, the Košice region “benefited more from the Structural Fund grants. The total grants was (sic) [EUR] 47.12m, of which [EUR] 29.79m was allocated to reconstruction of regional roads, [EUR] 4.24m to reconstruction of regional culture monuments; [EUR] 11.45m to reconstruction of social care facilities, and [EUR] 0.64m to regional e-government services” (Baláž, 2014: 16). By contrast, due to a higher number of inhabitants, the Prešov Region received a larger amount of tax transfers (Baláž, 2014). These and other non-targeted revenues cover expenditures for regional road maintenance, regional culture, and regional planning and development (Baláž, 2014). Table 4.2 underscores the primacy of secondary education expenditures in regional budgets, and the reliance on intergovernmental transfers to finance regional obligations and priorities.

Table 4.2. NUTS 3 Revenues and Expenditures: Východné Slovensko, 2014

(EUR million)

	Slovak Republic	Východné Slovensko	Košice	Prešov
Total revenues, of which:	1 146.89	338.96	182.65	156.31
Grants for targeted allocations	416.89	169.43	101.30	68.13
Non-targeted allocations				
Tax transfers	569.00	153.64	71.44	82.20
Non-tax revenue	84.00	15.88	9.91	5.97
Financial operations	77.00	0.00	0.00	0.00
Total expenditures, of which:	1 090.44	346.31	186.30	160.00
Secondary education	446.12	134.94	66.01	68.93

Source: Table replicated with slight modification from “Table 3 Income and Expenditure by Governments in NUTS III in 2014 (€m),” pg. 16 in Baláž, V. (2014), “Regional innovation monitor plus: Regional innovation report Východné Slovensko Region,” prepared for the European Commission, Enterprise and Industry Directorate-General Directorate B – Sustainable Growth and EU 2020 and Technopolis Group, available at: https://ec.europa.eu/growth/tools-databases/regional-innovation-monitor/sites/default/files/report/2014%20RIM%20Plus_Regional%20Innovation%20Report_Vychodne%20Slovensko.pdf.

Public procurement systems

Properly implemented public procurement is a cornerstone of effective public investment. Public procurement in the Slovak Republic is regulated by the Public Procurement Act of 2006. The national Public Procurement Office (PPO) has “exclusive competence” with respect to methodology guidance and supervision of all public procurement activities (Pucher et al., 2012). The national co-ordinating authority for implementation for ESI

funds verifies all goods, services, and works procured with Structural and Cohesion funds. In 2011 general government procurement accounted for 30.5% of the Slovak Republic's general government expenditure – higher than the OECD average (28.9%). However, procurement is concentrated at the national level. In 2012 sub-national governments accounted for 24.5% of total public procurement expenditure – far less than the OECD average.

Box 4.4. Perceptions of Corruption in the Slovak Republic

Perception of corruption is high in the Slovak Republic. According to a 2014 Eurobarometer survey, 86% of Slovaks polled believe corruption exists in national public institutions (vs. 80% for the EU in 2013). Perceptions of corruption are only slightly lower when local and regional institutions are considered (81% vs. 77% for the EU in 2013). As concerns its impact on economic outcomes, 80% of individuals surveyed report that corruption and favouritism hinder business competition and 66% of companies surveyed report that corruption is a problem for doing business in the Slovak Republic. Of surveyed companies that took part in a public tender, 57% say that corruption prevented them from winning a public tender or public procurement contract in the Slovak Republic. A high proportion of companies surveyed perceive widespread problematic practices in public procurement:

- tailor-made specifications for particular companies (84%)
- collusive bidding (77%)
- conflict of interest in the evaluation of bids (63%)
- unclear selection or evaluation criteria (62%)
- amendments to contract terms of conclusion of the contract (62%)
- abuse of emergency grounds to justify use of non-competitive or fast-track procedures (60%)
- abuse of negotiated procedures (45%)
- involvement of bidders in the design specifications (44%).

Sources: European Commission (2014e), “Businesses’ attitudes towards corruption in the EU,” Flash Eurobarometer 374, February 2014, European Commission, Directorate-General Home Affairs and Directorate-General for Communication, available at: http://ec.europa.eu/public_opinion/flash/fl_374_en.pdf; European Commission (2014f), “Corruption,” Special Eurobarometer 397, Directorate-General Home Affairs and Directorate-General for Communication, February 2014, available at: http://ec.europa.eu/public_opinion/archives/ebs/ebs_397_en.pdf.

Public procurement, particularly for large infrastructure projects, is a complex and demanding task. At the national level “allegations of corruption and conflicts of interest are frequent” with respect to EU Structural and

Cohesion Funds, with complaints regarding public procurement processes delaying project implementation and a general lack of transparency in project selection potentially undermining value for money (OECD, 2014b). The 2014 EU Anti-Corruption report's chapter on Slovakia (European Commission, 2014g), highlights various problematic procurement processes, which combined with weak independence of the national Public Procurement Office, inconsistent interpretations and decisions by the PPO, underdeveloped professional procurement capacity and regular staff turnover weaken effective procurement (European Commission, 2014g; Pucher et al., 2012). Although data regarding the Eastern Slovak Republic specifically are not readily available, the complexity of procurement processes combined with general capacity constraints suggest that problems with public procurement likely affect all levels of government.

In light of these problems, the Slovak Republic has taken regular steps toward reform – although results have been mixed. The Slovak Republic's national measures currently include the National Strategy for the Protection of the EU Financial Interests and Online Publication of Public Contracts (European Commission, 2014h).¹⁵ Any contracts involving public funds (including those procured by sub-national authorities), are effective only after their publication (OECD, 2014b). “The single-entry procurement website is one of the few in the OECD that allows users to track the outcomes of contracts, an important functionality for making the public procurement transactions more transparent ...” (OECD, 2014b: 64). The Slovak Republic also introduced a 2011 strategic plan to tackle corruption, reforms of the Procurement Act, efforts to strengthen human resources at the national PPO, “credible efforts” to minimise the risks of corruption in the business environment, a new internal appeal mechanism at the PPO, a Central Register of Contracts (European Commission, 2014g), and recently an electronic marketplace for small to medium-sized procurement (Box 4.5).

Despite advances for regional and local governments, ensuring sufficient capacity for effective procurement has, in some ways, been made more complex by frequent changes to the Public Procurement Act. Some changes to strengthen transparency and bring procurement in line with EU directives have made the process more complex, improperly tightened financial limits, and reduced efficiency and effectiveness (Pucher et al., 2012). With respect to recent changes, the European Commission notes:

The impact of the 2013 public procurement reform seems to be limited, so far. Amendments to the Public Procurement Act aimed to increase the independence of the Public Procurement Office, streamline lengthy tender procedures, improve transparency requirements and improve competition. The results, however, suggest that public procurement has become lengthier, savings are

lower and use of e-procurement has declined. The reform does not appear to have substantially increased the transparency of public procurement procedures or to have led to a reduction in the number of complaints about decisions by the contracting authorities. Experience in using EU structural funds supports these conclusions. (2014i: 29)

Box 4.5. The Slovak Republic launches e-marketplace for public procurement

In September 2014, the Slovak Ministry of Interior launched its test phase of an Electronic Marketplace, an online auction site for small to medium-sized public procurement. The Electronic Marketplace is the first of three features that will make up the Electronic Contractual System (EKS) website. EKS will also include a

“Dynamic Purchasing System, which will make sure that public tenders feature as many suppliers as possible, and Electronic Process Support, which will provide information and explanations.” Beginning in 2015, use of the EKS will be obligatory for public institutions, including municipalities and regions, that wish to procure goods and services for prices ranging from EUR 1 000 up to EUR 134 000 for the state, EUR 207 000 for other procurers, and EUR 5.186 million for construction work. Use of previous procurement methods will only be permissible if goods and services cannot be secured through EKS. The new system is expected to increase transparency, reduce costs, and shorten the time it takes to procure goods and services from approximately 43 days to three.

Sources: Cuprik, R. (2014), “E-market place posts first results,” The Slovak Spectator, 4 November, http://spectator.sme.sk/articles/view/55792/10/e_market_place_posts_first_results.html (accessed 18 December 2014); The Slovak Spectator (2014) “State e-Bay launched”, The Slovak Spectator, 22 September, http://spectator.sme.sk/articles/view/55305/3/state_e_bay_launched.html (accessed 18 December 2014).

Looking forward, among other measures, the Commission’s Anti-Corruption Report underlines the benefit of “further developing the skills of officials in charge of drafting terms of references, and of evaluating and selecting bids”, as well as “independent ex-ante checks of public procurement procedures at central and local levels,” “strengthening the internal control mechanisms within contracting authorities,” and “promoting greater stability, efficiency, independence and expertise in Slovak public administration, including central and local public procurement authorities” (European Commission, 2014g: 10,11). The OECD further highlights the benefit of increased utilisation of e-procurement, an area in which the Slovak Republic is lagging (OECD, 2014b). The recent launch of the

government's electronic marketplace for small to medium-sized transactions should enhance the speed and transparency of public procurement (Box 4.5).

Regulatory quality and administrative burden

The administrative burden associated with public investment is notably heavy in the Slovak Republic. By its own assessment (Government of the Slovak Republic, 2014), substantial administrative burdens, lengthy procurement processes, and the vicissitudes of political cycles all interfere with investment in hard infrastructure, and transportation networks in particular. Throughout the country, road construction is beset with difficulties associated with “insufficient project preparation, lengthy preparatory process due to land ownership clearance requirements, incomplete project documentation, delays in decisions issued under the Building Code, and insufficient financial coverage. The deadlines for the construction of individual sections are currently delayed due to lengthy processes of public procurement and problems with settling land ownership titles” (Government of the Slovak Republic, 2014: 24).¹⁶ Looking at public investment broadly, the OECD (2014b) underscores the linkage between “the incapacity of local administration to absorb the [Structural and Cohesion Funds] efficiently” and “an extremely burdensome national system of structural funds administration.” The Slovak Republic's system for administering ESI funds generally goes beyond what is required by the EU (OECD, 2014b), no doubt placing extra burdens on sub-national administrators.

While recent reforms at the national and EU levels may alleviate some of the administrative burden associated with public investment, further measures are likely needed. For example, according to the OECD (2014b), simplified national procedures allow managing authorities to request only partial project documentation for applications, with the remainder required only after a project has been selected. EU-level measures to simplify implementation of ESI funds will benefit all EU member states. However, some reforms – such as the extension of simplified cost options – will be challenging for the Slovak Republic to implement, as it has little experience in this area (OECD, 2014b). Moreover, while some activities – such as audits – will be reduced as a result of the simplification measures, other activities such as transparent project selection and public procurement (OECD, 2014b) and strengthening monitoring and evaluation capacity must be reinforced to ensure integrity in the use of funds.

Notes

1. Mountford et al. (2012: 49) found, “If the Slovakian government intends to continue to maintain 8 regions for self-government and development purposes (and this may be too many organisations) it would make sense to have 8 RDAs that are substantially owned by the 8 self-governing regions and to reserve the title of RDA for these organisations alone. These organisations should operate on the supply side of EU funds, driving strategy and making choices about how and where funds are invested.”
2. For a list of selected medium and long-term strategies by ministerial portfolio see OECD (2014c), pp. 37-38.
3. According to SARIO (2015; n.d.) investment incentives for companies are a form of regional assistance intended to boost direct investment, job creation, and technology transfer in less developed Slovak regions. Investors in certain industries may receive “tax relief, cash grant, contributions for the newly created jobs and transfer of state/municipal property for a discounted price” if they place their projects in lagging regions (SARIO, 2015: 1). The minimum amount of investment and higher levels of aid intensity vary with the region’s level of unemployment. Higher levels of unemployment are associated with greater incentives. Investments in the Bratislava region are not eligible for support.
4. At least 5% of the European Regional Development Fund allocation will be invested in SUD actions (EC, 2014m), at least 5% of EU funds for the rural development programme and 1.4% of the total contribution to IROP will go to CLLD actions (EC, 2014g).
5. The PHSR is required under the 2008 Regional Development Support Act. The Integrated Territorial Investment (ITI, e.g. via RITS), CLLD, and SUD are instruments that countries may choose to use to deliver ESI funds. For more on ITI see EC (2014k). For more on CLLD, see EC (2014l). For more on SUD see EC (2014m).
6. EU funds are integrated in sub-national budget as “capital transfers” which can be direct (EU grants) or indirect (through the central government channels). The other sources of funding are: self-financing (gross savings adjusted by the cash flow variations) and debt.

7. See Buček (2011: 22), who notes “the position of the regional self-government is limited by other issues, such as the artificial regional divisions, still disputable legitimacy resulting from the low electoral attendance, lack of resources, or even unclear terminology [...] The main limit, though is perhaps the absence of sufficient powers and resources (including the EU funds) for managing regional development.”
8. Regional innovation capacity matters for development. While both the Košice and Prešov regions introduced regional innovation strategies in 2008, the regional governments have limited competences and financial resources in field of innovation and R&D (EC, 2014e). According to (EC, 2014e) “regional innovation policies may by only as far successful as far the regions obtain and absorb Structural Funds.” However, as the central government priorities seems to drive the allocation of EU Structural and Cohesion Funds, regions may have limited influence in this area.
9. Buček (2013: 442) goes on to say, “the political structure is too centralised, political parties are not really regionalised. Regional functions have been destabilised, “de-institutionalised”, rendering current regions more or less artificial constructions.”
10. For 2007-2013, a representative from each self-governing region, the Association of Slovakia’s Towns and Villages, the integrated network of regional development agencies, and the Rural Parliament participated alongside ministries’ representatives in the Working Group for the preparation of the Regional Operational Programme (MCRD, n.d.).(The Rural Parliament of the Slovak Republic is an association established in 2000 to promote the quality of life in rural areas and to support initiatives for rural development (Vidiecky parlament Slovensko, 2010)). They similarly participated in the Working Party for the Preparation of the Operational Programme Transport (MTPT, 2007).
11. Poorly designed mandatory mergers occurred under the previous socialist regime, leading to overall decline in the number of municipalities from 3421 in 1930 to 2725 in 1980 (Buček, 2008). The proliferation of municipalities that occurred following independence was a response, in part, to poorly designed legislation and partly to a desire for local democracy. The legal environment has since been strengthened and fewer new municipalities have emerged (Buček, 2008).
12. <http://www.upjs.sk/univerzita/medipark-kosice>.
13. Traditional PPPs for infrastructure and service delivery in the Slovak Republic are governed by a number of different laws and sectoral regulations, with an underlying legal logic that is not necessarily coherent (EBRD, 2011 and 2012). The main source of law is the 2006 Act on Public Procurement. This law defines concessions and outlines procedures for project selection and award, but does not address PPPs in

great detail (The Economist Intelligence Unit, 2013; EBRD, 2012). The fact that it does not provide for the basic rights and obligations of the parties participating in the PPP may hinder the realization of smaller projects, particularly at municipal level where the local government may not have funding to pay for experienced external transaction advisors (EBRD, 2011). In addition, frequent updates and amendments have made the Act complicated and potentially difficult to implement.

14. An ex-post evaluation of European Capitals of Culture 2013 commissioned by the EU includes the Kosice European Capital of Culture 2013 (along with the Marseille-Provence area in France). The document implies other monitoring and evaluation activities took place as part of the Kosice project (EC, 2014n).
15. 2011 Amendments to the Law on Access to Information and the civic code require local governments to publish announcements of all public procurement tenders and concluded contracts online (Mesežnikov, Kollár and Bútor, 2012).
16. The Partnership Agreement also mentions “a lack of construction continuity” and “high susceptibility to political cycles” (PA 2014: 24).

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Annex A.1.

OECD Recommendation on Effective Public Investment Across Levels of Government

Table A1.1. Annotated Summary Assessment

Slovak Republic with a focus on the Eastern Slovak Republic

	System is in place and works in a satisfactory way System is in place, but improvements are needed		System is not in place or not functioning well Additional information needed
Objective	Indicator		Assessment
PRINCIPLE 1:	COHERENT PLANNING ACROSS LEVELS OF GOVERNMENT Mechanisms exist to ensure that sub-national investment plans reflect national and sub-national development goals.		The Slovak Republic recently updated its National Strategy for Regional Development (NSRD), a multi-year, multi-sector strategic plan that includes national and regional development goals that are useful for guiding public investment. The NSRD is complemented by required multi-year regional and municipal Programmes for Social and Economic Development (PHSR). The (unfunded) NSRD exists alongside (heavily funded) strategic documents for EU Structural Investment (ESI) Funds which set largely national development goals (e.g. an exception is Bratislava region).
TAILORED, PLACE-BASED DEVELOPMENT PLAN There is correspondence between assessment of territorial needs and strengths and planned projects.			Both the NSRD and regional PHSRs include assessment of regional (and local) characteristics as the basis for corresponding development goals. Regions (and localities) could use their PHSR to help prioritise infrastructure projects. However, as the PHSR is financed by funds from multiple sources, the characteristics of the funding rather than the PHSR may end up determining which projects are implemented. EU funds are the primary source of funding for public investment, and while all regions must have a PHSR in place to tap EU funds, the correspondence between the PHSR and EU-funded projects is unclear. Both the Košice and Prešov regions also produced smart specialisation strategies in 2008 (being updated in 2014). Again, however, financing relies heavily on EU funds which tend toward national priorities.

Table A1.1. Annotated Summary Assessment (*cont.*)

Objective	Indicator	Assessment
	CLEAR PUBLIC INVESTMENT PRIORITIES There is a clear and authoritative statement of public investment priorities at national and regional levels.	There is no national plan specifically focused on infrastructure. Investment priorities are most clearly articulated in ESI-related documents, which are strongly oriented toward national (and EU) priorities. Development goals are stated in the NSRD, with their quality and usefulness for guiding public investment varying at the regional level.
To co-ordinate across sectors to achieve an integrated place-based approach	COMPLEMENTARY OF HARD AND SOFT INVESTMENTS Consideration is given to complementarities between investments in hard and soft infrastructure. COMPLEMENTARITIES ACROSS SECTORS Attention is given to potential complementarities and conflicts among investments by different ministries/departments. CROSS SECTORAL CO-ORDINATION Formal or informal mechanisms exist to co-ordinate across sectors (and relevant departments/agencies) at the sub-national level.	Sectoral influence is strong in the Slovak Republic with little formal cross-sectoral co-ordination around public investment with regional impacts at the national level. At the planning stage, the NSRD and the associated PHSR are multi-sector. However, their implementation is less so. Most public investment funds reach the sub-national level via EU-funded Operational Programmes (OPs) that are largely sectoral in nature. Thus, to date, financing sub-national PHSR has involved a mix-and-match of EU, national (sectoral), and local funds along with investment incentives to attract businesses to regions – with no single source of funds clearly targeted to integrated (multi-sector) regional development. This may change somewhat with the planned introduction of a Regional Development Fund. The Slovak Republic also intends to pursue “integrated territorial investment” (ITI) in the context of its Regional Operational Programme for the 2014-20 ESI programming period. This approach requires a multi-sectoral planning document for implementation. Under new EU rules, implementation of ITI can draw on different ESI Funds, thus possibly achieving some complementarities between infrastructure and human capital investments.
To support decisions by adequate data	FORWARD-LOOKING INVESTMENT PLANS Authorities assess the potential contribution of investments to current competitiveness, sustainable development and regional & national well-being.	As noted previously, the NSRD is a multi-year, multi-sector strategic plan complemented by similar sub-national plan (PHSR). These plans exist alongside multi-year strategic documents for ESI Funds that set broad investment priorities. The extent to which the potential contributions of investments are assessed is unclear. Mountford et al. (2012) suggests that their funding does not necessarily represent a coherent, place-based strategy.

Table A.1.1. Annotated Summary Assessment (*cont.*)

Objective	Indicator	Assessment
	DATA AVAILABILITY FOR INVESTMENT PLANNING Data are available and used to support the territorial assessment and planning process.	According to the Statistical Office of the Slovak Republic, it makes available different databases for national and sub-national planning of public investment. SLOVSTAT contains time series economic and social development indicators for the whole of the Slovak Republic. STATdat and DATAcube contain indicators of economic and socio-economic development, including at sub-national levels of government. Urban and municipal statistics are integrated into DATAcube.
PRINCIPLE 2: To co-ordinate across levels of government to reduce asymmetries of information	CO-ORDINATION BODIES ACROSS LEVELS OF GOVERNMENT There are formal mechanisms/bodies for co-ordination of public investment (formal platforms and ad hoc arrangements) across levels of government. CROSS-SECTORAL APPROACH These co-ordination bodies/mechanisms have a multi-sector approach. MOBILISATION OF CO-ORDINATION ARRANGEMENTS The co-ordination mechanisms are mobilised regularly and produce clear outputs/outcomes. EFFICACY OF CO-ORDINATION PLATFORMS Stakeholders' perception (or empirical data) regarding the efficacy of these different platforms. CONTRACTUAL AGREEMENTS/PARTNERSHIPS Contractual agreements/partnerships across levels of government have been developed to manage joint responsibilities for sub-national public investment.	Three mechanisms contribute to vertical co-ordination of public investment. Research suggests they are largely top-down mechanisms, with modest bottom-up contributions by sub-national governments. First, ESI Operational Programmes provide a context for co-ordination between individual ministries and sub-national governments. Second, the NSRD acts as a vertical co-ordination instrument for regional development. Finally, less formally, the Association of Self-Governing Regions provides a platform for national/sub-national vertical co-ordination. Multi-sector mechanisms are built into some of these co-ordination arrangements (e.g. Integrated Territorial Investment in the context of the OP Integrated Regional Programme; the PHSR in the context of the NSRD). The efficacy of these cross-sectoral tools is unclear. Mechanisms associated with ESI Funds are mobilised regularly, but low absorption rates suggest that production of outputs and the link to outcomes could be strengthened. There does not appear to be any formal (or readily available) evaluation of vertical co-ordination mechanisms by stakeholders. There does not appear to be any formal contractual agreements across levels of government for managing joint responsibilities for public investment. There is a hierarchy of planning documents (e.g. plans for social and economic development) that link different levels of government.

Table A1.1. Annotated Summary Assessment (*cont.*)

Objective	Indicator	Assessment
To align national & sub-national priorities	EFFECTIVENESS OF CONTRACTUAL AGREEMENTS The share of sub-national public investment covered by these agreements is measured.	N/A
	CO-FINANCING ARRANGEMENTS There are co-financing arrangements for public investment.	ESI Funds require co-financing at rates that vary depending on the fund or the type of region. Under EU rules, the maximum co-financing rates for 2014-20 are: Less developed regions: 80 or 85% More developed regions: 50% (includes Východné Slovensko) Cohesion Fund: 85% Transition regions: 60% European Territorial Co-operation: 85%
PRINCIPLE 3:		
To co-ordinate with other jurisdictions to achieve economies of scale across boundaries	HORIZONTAL CO-ORDINATION Cross-jurisdictional partnerships involving investment are possible.	Cross-jurisdictional partnerships are possible. They can occur formally in the context of Joint Municipal Office (JMO), less formally in the context of micro-regions, and on an ad hoc basis. Systematic use of cross-jurisdictional partnerships to achieve scale and symmetries in public investment is not readily observable in Východné Slovensko.
	CROSS-SECTORAL APPROACH Cross-jurisdictional partnerships cover more than one sector.	Numerous joint municipal offices are structured to manage tasks across multiple sectors. While JMOs may be used to manage administrative tasks, such as issuing permits, for example, they do not appear to be tapped for public investment tasks.
	INCENTIVES FROM HIGHER LEVELS OF GOVERNMENT Higher levels of government provide incentives for cross-jurisdictional co-ordination.	There do not appear to be explicit financial or administrative incentives for sub-national horizontal co-ordination provided by higher levels of government. The incentive for co-ordination comes from the pressure small municipalities face to implement their competences with limited financial and administrative resources.
	EFFECTIVENESS OF HORIZONTAL CO-ORDINATION The share of investments involving use of cross-jurisdictional co-ordination arrangements at the sub-national level can be measured by mechanism and/or by sector.	This does not appear to be the case.

Table A1.1. Annotated Summary Assessment (cont.)

Objective	Indicator	Assessment
To plan investment at the right functional level, in particular in metropolitan areas	DEFINITION OF FUNCTIONAL REGIONS Functional regions are defined and identified in investment policy. USE OF FUNCTIONAL REGIONS Functional regions are used in investment policy.	The spatial allocation of EU Funds, which constitute the majority of public investment, is based on the 2001 Concept of the Territorial Development of Slovakia (KURS) amended in 2011. The KURS defines a hierarchy of settlement areas and prioritises which places will receive funding. Dense "core" settlement areas essentially receive top priority as places most capable of absorbing and making use of ESI Funds. The KURS document is binding for spatial planning in the Slovak Republic and must be reflected in regional spatial plans, development programmes, and proposals for public investments. The KURS will be used to define the functional urban areas that will be the target of integrated actions for sustainable urban development in the Integrated Regional Operational Programme (IROP).
PRINCIPLE 4: To identify social, environmental and economic impacts, ensure value for money and limit risks	EX-ANTE APPRAISALS A large share of public investment is subject to ex-ante appraisal. RESULTS OF EX-ANTE APPRAISALS The results of ex-ante appraisals are used to prioritise investments.	Cost-benefit analysis is required for "major projects" eligible for co-financing by ESI Funds. According to EU rules, for 2014-2020 cost-benefit analysis has to be carried out for projects with eligible costs exceeding EUR 50 million (or EUR 75 million in the case of major projects contributing to thematic objectives). The use of ex-ante appraisal is unclear for nationally or sub-nationally financed investments without the use of EU funds, or for EU-funded projects which fall below the "major projects" threshold. In the context of ESI-funded projects, ex-ante appraisals form part of a package of information used to secure EU co-financing (approval) for "major projects". Some research (World Bank, 2008) suggests that there is greater incentive to initiate new projects in order to tap EU funds than to assure value for money. The same research also suggests that in the Slovak Republic, there is an incentive to over-design projects rather than identify simpler, cost-effective options. If and how ex-ante appraisal is used for other projects is unclear.

Table A1.1. Annotated Summary Assessment (cont.)

Objective	Indicator	Assessment
To conduct rigorous ex-ante appraisal Ex-ante appraisals are conducted by staff with project evaluation skills. INDEPENDENT REVIEW OF EX ANTE APPRAISALS Share of ex-ante appraisals subject to independent review. GUIDANCE FOR EX ANTE APPRAISALS Technical guidelines for ex-ante appraisal are available and used at all levels of government.		Technical guidelines are provided by the EU for CBA for “major projects” eligible for EU co-financing.
PRINCIPLE 5: To engage public, private and civil society stakeholders throughout the investment cycle	MECHANISMS TO INVOLVE STAKEHOLDERS Mechanisms exist to identify and involve stakeholders throughout the investment cycle. FAIR REPRESENTATION OF STAKEHOLDERS Fair representation of stakeholders in the investment cycle consultation process is guaranteed (to avoid capture situations).	The introduction of regional and local Programmes for Economic and Social Development (PHSR, required by Act No. 503/2001 on Support of Regional Development) resulted in more regular inclusion of stakeholders in planning commissions and working groups. The PHSR may contain sections focusing on communications with local communities and citizens, which may include public meetings, public opinion polls, and web-based interactive opportunities for citizen feedback. For the 2014-20 funding period, the Slovak Republic will pursue an “integrated territorial investment” strategy in the context of the EU-funded IROP. Each Regional Integrated Strategy is expected to have “Partnership Council” composed of stakeholders that oversee planning and implementation of the regional strategy. While the composition of stakeholder involvement varies by place, planning efforts for the Programmes for Economic and Social Development may feature representation from local businesses and the business community at large, along with community organisations, environmental groups, and citizen participation. For the EU-funded Regional Operational Programme, the “Partnership Council” for each Regional Integrated Strategy should be composed of representatives of NUTS 3 regions, municipalities, civil society, other government actors, and business. Rural LAGs also incorporate different stakeholders.

Table A1.1. Annotated Summary Assessment (cont.)

Objective	Indicator	Assessment
EARLY INVOLVEMENT OF STAKEHOLDERS Stakeholders are involved from the early stages of the investment cycle.		For the 2014-20 programming period, meetings with the Association of Self-Governing Regions and regional sessions of government played a role in preparing programming documents for ESI Funds and for determining the format of the monitoring committees for each Operational Programme. The Partnership Agreement suggests stakeholder involvement in the RITS will be early in the investment cycle (i.e. planning stage).
ACCESS TO INFORMATION Stakeholders have easy access to timely and relevant information throughout the investment cycle.		
PRINCIPLE 6: To mobilise private sector financing, without compromising long-term financial sustainability of sub-national public investment projects	SNGs HAVE ACCESS TO TECHNICAL ASSISTANCE FOR PPP Sub-national governments have access to and use technical assistance for public-private partnerships (e.g. via PPP units, formal training, good practice guidance). USE OF QUANTIFIABLE INDICATORS The amount of private financing per unit (e.g. Euro, USD) of public investment is known. ACCESS TO INFORMATION SNGs have access to information concerning (supra) national funds for investment.	There has been relatively little uptake of PPPs in the Slovak Republic to meet infrastructure needs. The national PPP unit within the Ministry of Finance was dissolved in 2010, leaving Prešov and Košice with less capacity support for engaging in PPPs.
To tap traditional and innovative financing mechanisms for sub-national public investment	USE OF INNOVATIVE FINANCING INSTRUMENTS The use of new, innovative financing instruments at sub-national levels is accompanied by assessment of their benefits, risks, and sub-national capacities to employ them.	Yes but allocation of funding is top-down. The use of innovative financing instruments is limited in the Slovak Republic (almost no PPPs), and, according to Draxler (2013), the Slovak Republic has lower per capita access to financing from the European Investment Bank (EIB) than its neighbours Austria, the Czech Republic, Hungary and Slovenia.

Table A1.1. Annotated Summary Assessment (cont.)

Objective	Indicator	Assessment
PRINCIPLE 7: To develop institutional capacity and professional skills	SPECIFIC FOCUS ON INVESTMENT REQUIRED SKILLS Human resource management policies demonstrate attention to the professional skills of staff involved in public investment (e.g. hiring is targeted, needs assessments are made, appropriate training is available and used). DEDICATED FINANCIAL ASSISTANCE Dedicating financial assistance is made available for technical training of civil servants involved with public investment; training utilisation rates. TECHNICAL GUIDANCE Technical guidance documents are available for actors at all levels of government to clarify approaches to planning, implementation, and evaluation of public investment. ASSESSMENT OF BINDING CAPACITY CONSTRAINTS Specific assessments are conducted to assess binding constraints for effective public investment and identify the needs and the proper sequence of reforms.	Public administration capacity at all levels of government has been documented to be weak relative to the needs for public investment planning and implementation. Sub-national administrative capacity is notably constrained in areas such as securing private sector participation or effective public procurement. The Slovak Republic has used significant amounts of EU funds for technical assistance to bolster administrative capacity to implement the CSF Funds. Yet, administrative capacity gaps persist and staff turnover is high. The Ministry of Transport, Construction and Regional Development provides methodological guidance for developing the sub-national programmes of social and economic development (PHSR). Guidance for the implementation of ESI Funds is also available from the European Commission.
PRINCIPLE 8: To design and use monitoring indicator systems with realistic, performance promoting targets	PERFORMANCE MONITORING IN PLACE A performance monitoring system is used to monitor public investment implementation.	At the national level, with the vast majority of public investment financed by EU Structural and Cohesion Funds, it follows that most investment is subject to monitoring and evaluation requirements associated with these funds. Monitoring financial and physical indicators associated with EU funds is the responsibility of Central Co-ordinating Body (Government Office) and the Ministry of Finance. At the sub-national level, a monitoring system for public investment at the regional or municipal levels is not clearly identifiable in Východné Slovensko. Both regions report such capacity to be weak. Aside from EU-related monitoring, individual ministries are responsible for reviewing the implementation of policies in their domains. There is variation across sectors with respect to the monitoring performance.

Table A.1.1. Annotated Summary Assessment (cont.)

Objective	Indicator	Assessment
TIMELY REPORTING The monitoring systems facilitate credible and timely reporting of expenditure and performance.		The Central Co-ordinating Body (Government Office) and the Ministry of Finance produce annual monitoring reports on ESI funds implementation but a clear, timely regional reporting of expenditure and performance is not readily identifiable.
OUTPUT AND OUTCOMES The indicator system incorporates output and outcome (results) indicators.		Indicators developed by individual ministries appear to emphasise inputs and tasks rather than outputs and outcomes. However the set of 10 performance indicators in the NSRD associated with regions are outcome-oriented.
TARGETS Part of the indicators is associated with measurable targets.		Quantified targets for specific policies may be set by the ministry responsible for developing and implementing a policy or programme. Quantitative and qualitative indicators are used. There are targets association with regional indicators in the NSRD.
To use monitoring and evaluation information to enhance decision making	PERFORMANCE MONITORING INFORMATION IS USED IN DECISION-MAKING Performance information contributes to inform decision-making at different stages of the investment cycle.	There is no clear evidence the performance monitoring information is used in the investment cycle, particularly at the regional level.
To conduct regular and rigorous ex post evaluation	EX-POST EVALUATIONS Ex-post evaluations are regularly conducted.	There is little to suggest regular use of ex-post evaluation of public investments either in Východné Slovensko or in the Slovak Republic as a whole. An ex-post evaluation of Košice European Capital of Culture 2013 is included in a larger evaluation that also includes the Marseille-Provence area in France. It implies other monitoring and evaluation activities took place as part of the Košice project.
	Some ex-post evaluations are conducted by independent bodies (e.g. research organisations, universities, consultancies).	The ex post evaluation of European Capitals of Culture 2013 noted above was commissioned by the EU, conducted by an independent consulting firm (based in the UK). However, little suggests the systematic use of independent bodies to evaluate public investment in Východné Slovensko.
	Clear guidance documents exist that detail ex post evaluation standards.	

Table A1.1. Annotated Summary Assessment (cont.)

Objective	Indicator	Assessment
PRINCIPLE 9: To define appropriate intergovernmental fiscal arrangements that help align objectives across levels of government	CLEAR FISCAL FRAMEWORK The intergovernmental fiscal framework is clear, with timely indications of transfers between levels of government. PREDICTABLE CAPITAL TRANSFERS SNGs are aware of capital transfers from the CG a few months ahead before the start of each fiscal year. MINIMAL VARIANCE There is minimal variance between estimated and actual transfers. PUBLIC INFORMATION Information is made publicly available on the fiscal situation of sub-national governments and their comparison.	The intergovernmental fiscal framework is clear but financing the implementation of their competencies leaves sub-national governments, and regions in particular, little financial “room to manoeuvre” due to high levels of obligatory expenditures and strong reliance on intergovernmental transfers. Recent changes by the central government to tax sharing arrangements have led to a reduction in the percentage allocated to sub-national governments. Budget information on city and regional websites IS AVAILABLE. The NSRD has profiles of each region.
PRINCIPLE 10: To ensure budget transparency at all levels of government	BUDGET TRANSPARENCY Budget transparency principles apply at all levels of government. TIMELY INFORMATION Budgetary information regarding public investment is publicly available to stakeholders at all levels of government in a timely and user friendly format. MAINTENANCE COSTS INTEGRATED INTO BUDGETING Operations and maintenance costs of infrastructure investment are assessed and integrated into budgeting and planning decisions.	Multiple years of budget documentation and annual financial reports for the regions of Prešov and Košice, as well as the cities of Prešov and Košice, are available online.
To ensure sub-national and national fiscal stability	BUDGET CO-ORDINATION ACROSS LEVELS OF GOVERNMENT Budgetary co-ordination across levels of government in terms of contributions to national fiscal targets.	

Table A.1.1. Annotated Summary Assessment (cont.)

Objective	Indicator	Assessment
	SUB-NATIONAL GOVERNMENT BORROWING There are limits on sub-national governments' borrowing.	The OECD (2014a) notes that sub-national capital spending in the Slovak Republic can be financed by loans or debt service. However, according to Slovakia's Stability Programme for 2014-17, measures are taken to decrease the debt of a municipality or self-governing region if it is higher than 50% or more of actual current revenues of the previous budget year, with a fine introduced if the figure reaches 60% or more.
To link strategic plans to multi-annual budgets	MULTI-YEAR FORECASTS Public investment is linked to multi-year budget forecasts, which are reviewed regularly.	At the national level, the Slovak Republic's Ministry of Finance integrates EU and national funding into a three-year medium-term expenditure framework with fixed first year budgetary targets and indicative targets for the 2nd and 3rd year. Sub-national budgets are also prepared on a three-year basis, with a binding first year and indicative second and third.
	MEDIUM-TERM BUDGETING FRAMEWORK The medium-term planning and budgeting framework is integrated with the annual budget. MULTI-YEAR FORECASTS Multi-year forecasts for public investment reviewed and updated regularly.	
PRINCIPLE 11: To engage in transparent, competitive, procurement processes	COMPETITIVE PROCUREMENT The share of public tenders for public investment that are competitively awarded is known and publicly available. The participation rates for tenders are known. Procurement information from the full procurement cycle is publicly available at the national and sub-national levels of government.	The Slovak Republic has a single-entry procurement website. Contracts involving public funds (including those procured by sub-national authorities) are effective only after publication. The site is one of few in the OECD that allows users to track contract outcomes. The new Electronic Contractual System (EKS) website includes an online auction site, a Dynamic Purchasing System, and technical explanations. As of 2015, use of EKS is obligatory for public institutions, including municipalities and regions for small to medium-sized procurement.

Table A.1.1. Annotated Summary Assessment (*cont.*)

Objective	Indicator	Assessment
To encourage procurement at the relevant scale	Procurement review and remedy mechanisms are in place at the national and sub-national levels. STRATEGIC PROCUREMENT The share of procurement which involves more than one sub national government is known.	
To promote the strategic use of procurement	Procurement is used strategically by SNGs to achieve green objectives. Procurement is used strategically by SNGs to achieve innovation objectives.	The "National Action Plan on Green Public Procurement in the Slovak Republic for years 2011 to 2015" (NAP GPP II) was approved by the national government in 2012. Its goal is to reach 65% of green public procurement in all tendering procedures at the national level and 50% at the local level by 2015.
To foster sub-national capacity building for procurement	SUB-NATIONAL CAPACITIES FOR PROCUREMENT There is recognition of procurement officials as a specific profession. Formal guidance regarding procurement procedures is provided to sub-national governments. There is a procurement unit that can assist SNGs. The percentage of total annual contracts awarded go to SMEs in sub-national procurement is known.	Procurement is recognised as a specific profession. Formal training is provided in the area of green procurement for officials at all levels of government. Trainings have been held in regional capitals, free of charge for participants. The national Office of Public Procurement controls compliance with the national procurement act. It is unclear if they assist sub-national contracting authorities.

Table A.1.1. Annotated Summary Assessment (cont.)

Objective	Indicator	Assessment
PRINCIPLE 12: To engage in "better regulation" at sub-national levels, with coherence across levels of government	CO-ORDINATION ACROSS LEVELS OF GOVERNMENT Formal co-ordination mechanisms between levels of government that impose specific obligations in relation to regulatory practice. REGULATORY IMPACT ASSESSMENT Regulatory Impact Analysis (RIA) is used. A methodology for assessing quality of RIA exists and indications of quality are available. REDUCTION OF STOCK OF REGULATION Efforts to reduce the stock of regulation or simplify administrative procedures in relation to public investment are made. PUBLIC CONSULTATIONS Public consultations are conducted in connection with the preparation of new regulations of sufficient duration, accessible, and appropriately targeted. USE OF E-GOVERNMENT TOOLS Use of e-government tools used to simplify administrative procedures for public investment projects.	There are no formal co-ordination mechanisms between the national and sub-national governments around regulatory practice. Such mechanisms only exist between the supra-national and national levels. RIA is <i>sometimes</i> used before new regulation is adopted. It occurs early in the development of a regulatory proposal. When RIA is undertaken, assessment of impact on the public sector is required. Guidance on the implementation of RIA is available. There is no specific body outside a ministry tasked with reviewing RIA quality. There is an explicit government programme to reduce the administrative burdens imposed by government on enterprises and/or citizens. However, the administrative associated with the national administration for implementation of ESI Funds is quite heavy. At the national level, formal consultation processes always exist when preparing new primary laws and sub-ordinate regulations. Advanced public notice is provided and affected parties are always consulted. They are consulted for primary laws at the inception of the legal proposal, during the drafting of the law, and once the law is implemented. For subordinate regulations, consultation with affected parties occurs at the inception of the regulatory proposal, but not for the Regulatory Impact Statement. The minimum period for both within government and public consultation is two weeks. There are no consultation guidelines. The OECD (2014) has recommended increased use of e-government tools to improve the efficiency of public administration. The single entry procurement website and the EKS system are examples of useful application of e-government to public investment.

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