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Local Economic Development in Macedonia in the Context of the Global Crisis

Abstract

This paper examines the financial crisis in light of the local economic development and sets out some policy recommendations. Local economic development is a process in which the local authorities cooperate with the public sector, business community, and NGOs, in order to create more appropriate environment for economic development and for unemployment decreasing. The last months saw the world economy facing to the worst financial crisis in history, causing unprecedented drop in demand and sales and record-breaking unemployment levels worldwide. No country can escape certain economic and social consequences from the global financial crisis. The main research question is the following: How does the gobal crisis affect local governments? The local governements are facing several problems such as: higher unemployment and social needs at the community level, pressure for increased spending, difficulties of investment financing, need of deferring maintenance. Then, the paper sets some policy recommendations adressed to the following aspect- what should and can local governments do? The crisis offers some chances for change in the context of strengthening the role of local governments.The central government will rely on local governments to bring policies rapidly to bear on the economy. This could and should intensify the intergovernmentaldialogue and it could also lead to strengthening fiscal autonomy of municipalities. Improving the competitiveness at the local level and developing a strong local economy can help the country cope with the effects of the global economic slowdown. Local government units should improve their competitiveness to attract more investments and to develop their local economy. Given that the responsibility of assisting the national government in mitigating the impact of the crisis through stimulation of the local economy are given to local governments, this paper aims to discuss issues related to enhancing local economic development and fiscal decentralization as a means of improving overall service delivery in the country, in the context of global economic and financial crisis. Local governments may also be succesful in the promoting productivity locally in order to enhance the country's competitiveness in anticipation of a greater role in global trade during the recovery in the next few years. The special focus of this paper has been given to the case of local economic development in the Republic of Macedonia.

Key words: *global crisis, fiscal decentralization, local government*

Introduction

Today we find ourselves in a problematic economic situation, the crisis in the banking sector turned into a financial one, which accelerated and deepened the economical crisis. Another worry remains the economic recession's chances of turning into an economic depression. Anyway, the crisis is spreading globally, unemployment is increasing and government revenues are expected to suffer as economic activity slows and commodity prices fall. Definetely, the global financial crisis will worsen the budgetary position of many governments. However, this impact will be spread also to the local governments. At the local level, the effect of the crisis is being felt heavily in localities due to the difficulties for SME to access finance, massive layoffs of large enterprises operating in affected economic sectors, lower demand for locally produced products embedded in global supply chains, etc.

The main research questions of the paper are the following: How does the global crisis affect local governments? Is the economic downturn having a major impact on the local governments? How can local governments contribute do the country economic recovery?

In order to contribute to the discussion on the financial and economic crisis, the paper is the attempt to map the effect of the crisis on the local and

regional authorities across Europe. In fact, much policy advice has been given to facilitate global finance, trade and investments in the context of the global economic crisis. But much less or none to reinforce local communities and local markets where people live and want to stay if given the opportunity. Strengthening local communities in developed and developing countries is also a means to help those who will suffer most from the global economic and jobs crisis. The goal is to provide some views and analysis on the direct and indirect impact of the crisis and to outline some actions of the local governments in relation to the crisis.
Last but not least, strengthening local communities and stimulating local economic development poses a big challenge for the Republic of Macedonia on the constant basis and even more to facilitate the negative effects from the crisis. Thus, the special attention in the paper has been given to the Republic of Macedonia.
In this framework, the paper is divided in three parts. Part one will deal with the global crisis in more detail. In part two, we collect some data about the impact of the global crisis on the local governments. In part three, we try to sublimate the challenges that local governments have in the context of overcoming the current crisis.

Global Outlook of the Crisis

The last months saw the world economy succumbing to the worst financial crisis in history, causing unprecedented drop in demand and sales and record-breaking unemployment levels worldwide. No country can escape certain economic and social consequences from the global financial crisis. The global economy is in the midst of a deep downturn, affecting the real and financial sectors, both in advanced and in emerging and developing countries. All major advanced economies are in recession, while activity in emerging and developing economies is slowing abruptly. The crisis started with the mortgage crisis in the USA which spread onto the banking sector. Credit rationining worsen for many businesses and consumers and this has influenced sharp collapse in business and consumer confidence. These developments – increased credit rationing and sharp falls in business and consumer confidence – have meant a marked worsening of existing trends. This means that the crisis has become an economic one, not just financial. In 2008, we saw the first negative results of the financial crisis in USA. All industrialized and emerging countries are now feeling the pain. The crisis has spilled over to affect the global economy at all levels, threatening a lasting economic recession, affecting companies and employment, and therefore social cohesion.

According to some recent estimates of the relevant instiutions (IMF), the European Union's GDP will fall by 1.8%, with only a modest increase (0.5%) foreseen for 2010. However, in several countries, the situation looks even more difficult, especially those that had specific housing and excessive debt/credit "bubbles". The predictions for the next few years are that the global growth is expected to be not much better than its recent average. The global financial crisis will worsen the budgetary position of many governments and this will attack especially the governments of less-developed countries. Their government revenues are expected to suffer as economic activity slows and commodity prices fall. Potential declines in donor support and tighter financing conditions will likely impose further pressures on their budgets. At the same time, many countries will need to increase spending to protect the poor, and additional spending pressures may arise from currency depreciation and rising interest rates, which could raise debt service costs. Countries in initially strong budget positions may have some scope to accommodate the cyclical fiscal deterioration and, in some cases, to increase spending to cushion the impact of the crisis. These are countries without public debt sustainability and financing constraints that have achieved macroeconomic stability. Commodity producers that built up financial cushions during the boom may be able to maintain spending or adjust gradually.

The financial crisis has thrown into doubt much of the progress that Central and Eastern Europe has gone during the last two decades in all aspects: politically, economically and socially. The governments of this region need to take urgently some steps, because otherwise their macroeconomic and social stability will be at risk. Most CEE countries, including Macedonia, greatly underestimated and are still underestimating the problems they will face in 2009 and 2010, as their economic models – built on foreign direct investments, foreign borrowing and, for the regional members of the European Union, additional funds from Brussels – need a complete review. Today's problems cannot be solved just by relying on financing from the IMF, WB and EU. Instead these countries need a long overdue adjustment, with fiscal and structural reforms, including pension, healthcare and education reform for which IMF and WB should play a key role. "Premature welfare states" as Janos Kornai would call it, based on now scarce and expensive foreign funding, nose-diving FDIs and reduced budgetary incomes, are going to face an abrupt end all over the region.

What are the expectations at the end of 2009? Fiscal income will deteriorate even further while the shadow economy will gain in importance. Governments will focus almost exclusively on financing current consumption (wages and pensions), even through accumulation of fresh debt, while capital investments will be substantially cut back. Banks will face a deteriorating loan portfolio and will spend most of their time with a) refinancing or restructuring problematic debt, b) provide fresh loans to government c) cut back operating costs and d) hoard substantial amount of liquidity as a precautionary measure. Illiquidity in the economy will increase substantially, partly also due to much faster submission of promissory notes for early payment by creditors.

How Republic of Macedonia feels in the conditions of the global crisis? The financial crisis had an impact on the financial sector as well which can be seen through the measures undertaken by the National Bank of the Republic of Macedonia, in order to protect the banking sector from the ongoing crisis. The general findings are the following. Banks are stable, but the global financial crisis had partial impact on the real and the external sector in Macedonia. The main reason for this is the dependence of the production of the Macedonian companies on the European market where in this last months the market demand is on a very low level. Macedonian export partners were hit by the crisis, so it is expected high impact of recession in the export sectors. In this field, the country has started experiencing negative effects. However, since there exist large grey economy, these negative effects will not reflect strongly on the unemployment. Macedonian government has low external debt and low public debt, so there is a substantial space to cope with recession and even more space to have a deal with IMF. (National Bank Report, 2009). In a bid to protect the economy from the global financial crisis, Macedonia's government has announced ten new measures costing 330m euros in all. The challenges now are to implement the often more difficult and market-sustaining reforms (such as competition policy, governance and company restructuring) that are essential for long-term growth, while trying to surmount the shorter-term pressures coming from the international economic situation. The effort to keep inflation under control and to ensure the stability and functioning of the financial system will make it hard, if not impossible, to effectively implement policies aimed at raising the long-term growth potential of any transition economy.

Beyond such actions, however, the challenge of sustaining long-term growth in all transition countries raises questions about the respective roles of their local governments in coping with the crisis. Local governments can promote local economic development and should contribute to a broader, geographically balanced national framework to increase each country's global competitiveness and to cope with the crisis. Local governments policies can, for example, be deployed to address failures in markets. The crisis offers chances for change in a sence that can intensify the dialogue between the central and local government. The central government can use local governments to bring policies rapidly to bear on the economy. This could also lead to strengthening fiscal autonomy of municipalities.

Global crisis and the impact on the local governments

The crisis is spreading globally, unemployment is increasing, especially in less -developed countries jobs are being lost and employment is rising, with lower incomes and more poverty. At the local level, the effect of the crisis is being felt heavily in localities due to the difficulties for SME to access finance, massive layoffs of large enterprises operating in affected economic sectors, lower demand for locally produced products embedded in global supply chains, etc. While the formulation of stimulus packages and other rescue measures takes place at the global and national level, the implementation of these measures will pose challenges and opportunities at the local level. Policies, programs, instruments and global funds become necessary for global challenges, but their efficacy and implementation is always in the hands of local government. All global responses to the financial and economic crisis link to two most important elements such as short-term measures to support demand, protect jobs and restore confidence and smart investments towards long-term growth. Future historians will say about the 2008 financial crisis that the world rediscovered the importance of economic regulation and public intervention. Local and regional authorities must play their role, by their investments, by intervening directly.

The governments have taken urgently some steps and used fiscal policy tools on a massive scale to address the current economic crisis. For local governments, these interventions beg the question of what, if anything, can local governments do to stimulate their local economies? Here we provide some theoretical argumentations and for this purpose, we have apllied the traditional public finance and theory of public finance.

The answer, according to traditional public finance theory, is that local governments can do nothing. The main reason is that successful economic stimulus requires more resources than most local governments can leverage within the constraints of a balanced budget requirement. The components of a typical stimulus – tax cuts or rebates, infrastructure spending, temporary loans, and others –must take place on a large scale to have any meaningful economic impact, even at the local level. Most municipalities do not have the fiscal capacity to undertake those types of initiatives without reducing spending in other areas or increasing taxes, both of which are counterproductive to a stimulus effort.

But for other researchers "do something" will likely overshadow the prescriptions of economic theory. To that end, municipalities have at their disposal three main stimulus-type tools: 1) drawing down financial reserves to maintain or expand local government expenditures, 2) expanding or accelerating local capital projects, and 3) tax policy changes to encourage spending by local taxpayers.

Here we briefly review evidence on the effectiveness of each. Some researchers show that spending on public services is good for overall economic condition, and for economic development in particular (see, for instance, Fisher, 1997). As such, perhaps the most important thing local governments can do to stimulate their local economies is maintain current expenditure levels. The challenge do doing so, of course, is that revenues typically decline during an economic downturn. Many municipalities try to address this challenge by keeping financial reserves. These reserves range from formal mechanisms like governing board-approved rainy day funds to informal resources like unreserved general fund balance.

A second option is to accelerate or expand infrastructure spending. The previously mentioned positive effect of public spending is especially strong for public services that have a direct relationship with business and industry, like roads, bridges, stormwater treatment, and other basic infrastructure (Fisher,1997). Low interest rates for the foreseeable future, coupled with the likelihood of substantial federal support for infrastructure, could create the ideal conditions for local economic stimulus through capital improvements.

A third stimulus option is to modify local tax rates. The logic is simple – by lowering the price of goods, consumers will likely purchase more. Reductions to property tax rates or assessments follow the same logic. Research in this area shows that temporary tax reductions are "politically expedient, but poor tax policy" . There is little evidence that sales tax holidays encourage new consumer spending. Therefore, ironically enough, the best option for local governments asked to do something to stimulate their local economies is to stay the course. Maintain current expenditure levels, expand capital improvements if possible, and maintain the capacity to respond to local idiosyncratic fiscal problems.

Beside the theoretical argumentations, here, we briefly provide evidence how the global crisis has affected local governments. Researchers have argued that negative results will be felt directly and indirectly in all districts and municipialities. The local governements are facing several problems such as: higher unemployment and social needs at the community level, pressure for increased spending, difficulties of investment financing, need of deferring maintenance. Since September 2008, the global financial and economic crisis has made its impact felt more and more on Europe's towns and regions. An increasing number of local or regional authorities find themselves affected by the credit crunch and falling resources at time when many of their citizens face economic problems due to the recession, and nobody can forecast what will be the full extent and duration of the current crisis.

The Council of European Municipalities and Regions (CEMR) has done some preliminary research of how the crisis is affecting towns, cities and regions across Europe. Namely, there are some negative trends that have emerged in European municipialities.

One of the direct impacts was loss on investments and this was especially the case in United Kingdom, where due to bankruptcy cases of Icelandic banks the local governments lost € 1 billion in financial investments, with further loss in unrealized income from interests. For local governments, this means a drop of share market value, dilution of their share in the bank and loss in unrealized income from dividends. The general negative effect is the decreased tax revenues volume that can be felt during the fiscal year 2008, but the real negative impact is expected 2009 and further. Actual loss volume depends on the type of tax levied or shared by the local or regional government in the respective countries (personal income tax, company income tax, etc.), and the proportion of this income in total budget revenues. Apart from immediate effect on the revenues, a mid- or long-term impact is expected upon local and regional authorities. The direct effect may continue in the coming years due to expected lower consumption during the time of crisis and loss on income tax due to increasing unemployment. A general economic slowdown is also immediately manifested in lower investments in the construction. In the near future, this would adversely affect the income from real estate tax. In countries where the municipal sector had high rating as borrower, the financial crisis in the banking sector has affected the availability of credits. Even more, for some countries, problems with cash liquidity were experienced. Almost all countries have reported that their main worry are the increased expenses due to higher demand for social and welfare services requested as an consequence of the economic crisis. Local authorities will have to plan for increased expense for services provided to citizen due to shortage of income and loss of employment. On the other hand, in order to facilitate savings, most of the municipalities need to cut back the number of employees because they must decrease the personnel expenditures. If this is the answer to resist with crisis, then it would have an adverse impact to the overall national policy and will aggravate the social situation. Those countries that have problems with high rate of unemployment cannot allow implementing this measure and should avoid it and even more should use the opportunity to recruit qualified personnel who might be in the labour market during the recession. The credit crisis is affecting also ongoing investments in infrastructures and development projects. The reduce rate of investments by both the private and the public sectors will result in a general slow-down of local and regional development.

Referring to the SEE region, the spill-over effects of the global crisis are not yet strongly felt by most of their local governments. But the predictions are that they will appear throughout 2009 especially with the primary impact on the municipal finances. According to Nalas, the negative trends will be in the form of significant reduction of the revenues of municipalities, mainly due to stagnation of the property market and in particular of local tax revenue, but also in terms of reduction of income from municipal taxes due to reduced demand, incapability of individuals to pay their municipal taxes and fees in due time, increased demand for social assistance programs due to the growing unemployment etc. Most of the governments in SEE consider that their banking and monetary systems are relatively stable, but they are very well aware that their rate of the economic growth will decline and about the urge to take preventive measures. In these circumstances the central governments should intensify their dialogue and cooperation with local government authorities and their associations. They should be open for new, innovative and even informal forms of dialogue. Local governments are there to point out on the most needed capital investment projects which central governments might decide to finance as one of their measures of alleviating the consequences of the financial crisis.

According to CEMR, undoubtedly there's more room for the influence of the local governments toward comprehensive economic recovery during this economic period. However, the concrete instruments and politics greatly change depending from the economic profile of the districts and municipalities, from the degree of decentralization, country, from the structure of the budgetary income and from the financial sources of the budgets.
For instance, all local governments in SEE need to have a cautious approach with the budget projections for 2009 and 2010. Their estimations on tax incomes should be conservative while other budget risks should be carefully estimated. At the same time the local authorities should making maximum use of grant funds. Local authorities have to do with monitoring the large firms/employers (including public enterprises) that may be at risk of lay-offs or plant closures, prepare catalogue of investments projects that could be implemented rapidly in support of national government, and finally connect with citizens and assure them that in spite of the hard times, the taxes will not be raised, but that they need to at least pay what they are due. A moderate tax level may be a better long term strategy. A considerable decrease of simple taxes because of the crisis may create difficulties in the future. Decreasing taxes considerably is not considered as a free or cheap lunch – conclude the researchers.
Furthermore, the central governments of all SEE countries must support local government in utilizing the available EU programs and funds, both structural funds for EU member countries and IPA for the candidate countries. Additional funding should be made available to local governments for co-financing IPA projects and for bridging any financial gaps during project implementation to maintain liquidity.
Local governments in SEE should be prepared to cope with the risks but also profit from the opportunities that might come along. The central government will have to rely on local governments to bring policies rapidly to preserve the economy under the difficult conditions. Hence, central and local governments should intensify their dialogue and cooperation. This will allow local governments to plan more effectively and specify priorities more accurately, enable timely identification of emerging problems in specific territories or industries and ensure joint programming of any countercyclical spending. Local governments are there to point out on the most needed capital investment projects which central governments might decide to finance as one of their measures of alleviating the consequences of the economic crisis. Namely, central governments should commit to increase

public investments as a way to boost economic activity. In order to increase the effectiveness, any national anti-crisis programme must be found and underpinned by a bottom-up approach that takes into account and promotes the needs of the local economy as the primary way to reviving the national one. Finally, in cases where old municipal debt is still dragging the overall sector and the economy as a whole, this is the right moment to help the local governments in clearing their books. This could be a case for Macedonia.

Local Economic Development (LED)

Why is Local Economic Development important?
In the next part, we would draw up the attention on the process of Local Economic Development, what is relatively new phenomenon that is increasing in its importance due to the process of globalization. Let us introduce first the meaning of the Local Economic Development (LED). Local Economic Development is a process of strategic planning through partnerships between local government, the business community and NGOs. Its objectives are to stimulate investments that will promote sustained high growth in a local community. LED focuses on the region's potential and identifies specifically what local stakeholders can and need to do to ensure their local community reaches its potential. In this context, Local Economic Development assesses a community's comparative advantage, identifies new or existing market opportunities for businesses, and reduces obstacles to business expansion and creation. LED activities should have an impact on the economic viability of the entire city and surrounding region not just a particular sector of the local economy. LED does not just happen; a local community needs to research its own economic strengths, agree upon a common strategy and organize itself to implement the strategy. Communities, cities and governments around the world increasingly turn to Local Economic Development (LED) strategies in response to the challenges of globalization and the drive for decentralization. LED means more than just economic growth. It is promoting participation and local dialogue, connecting people and their resources for better employment and a higher quality of life for both men and women. (Association for LED, 2005)
Communities today are required to take on the task of creating a quality living environment. A task once relegated to the national government, now is placed in the laps of local governments, local social and educational

institutions, and local businesses. While national policies are still important, local actions are as vital as those of the national government. National governments create the environment for the free and open exchange of goods, while local communities work at producing competitively priced products, provide primary markets for the consumption of these goods, and also help to create an environment conducive to investment from external funding sources. Through this model, employment is created, the flow of capital is increased and the overall wealth of a nation rises.

LED is especially important for Central and Eastern European countries, because their economies were forced to go from a centralised and state-owned economy to a market economy. In this situation, it seems that an active government economic policy is a necessary response to increasing technological complexity and to international economic forces, and economic development has to have its place among the principal planning activities carried out at state levels, but especially on local levels. Therefore, the transition includes also the process of decentralisation. It is of special importance to local communities to mobilise their resources to create alternative economic and employment opportunities. The development strategy has to reflect specific socioeconomic circumstances to meet the requirements of a given locality, since circumstances and development milieu vary from case to case.

Republic of Macedonia welcomed the beginning of the process of transition with having highly centralized economic and political system. However, in the middle of the 1990s, the need for gradual decentralization started to arise. In the corpus of duties that were transferred from central to local level, the one that is particularly emphasized is the duty regarding the local economic development. The practice and experience gathered so far, point to the fact that it is desirable for the economic development to begin formulating and creating a strategy that will be a basic component in the process of creation of the local economic development The strategy of the local economic development should be coherent and it should embrace all the economic elements of the community. In the process of conception, a precise definition about the funcion of the economic development should be given. For that reason, the local economic development usually has the need for a political support.

Taken into consideration the aspect of the national economy, it would be easily noticed that few years ago the local economic development was concidered as a periphetal activity in comparison to the preocupation for promoting the economic rise on a national level. At the same time, these means were mainly accomplished through specific set of non-fiscal, monetary and trade politics. On the other hand, the effords, given by the state, in respect to the local economic development are often limited because of its own economic problems and difficulties. It seems paradoxsal, but the process of globalization contibuted so that the role of the local development could be bigger than ever. Speaking of this, the influence of the global economic changes was necessary for the usage of the new approach, whose focus comes down to the vinternal economic growth that implies greater approach to the financial asset and a promotion of the export.

Republic of Macedonia welcomed the beginning of the process of transition with having highly centralized economic and political system. The turbulent years that followed were filled with high effords that were oriented towards the establishing of the soveregnity of the country. From this point of view, the high level of centralization wich was present in that time, seems to be completely justified. However, in the middle of the 1990s, the need for gradual decentalization started to arrise.

The first step was made with the ratification of the contract with the European threaty for local self-government in 1996. Soon after that, in 1999, the strategy for reforms in the field of the administration was adopted, wich represented one of the crucial moments by wich the reforming of the state's structure was deepened. Altough exeptionally politically motivated, the process of decentralization began.

After the inconviniances in 2001, the decentralization in Macedonia entered in a new- third phase. It began with the adoption of the new local self-government Act (in 2002), wich was followed by the local self-government Act for territorial organization (2004), and the Act for financincing of the local self-government's units.

The implementation of the process of decentralization is associated with the promotion of providing public services, id est with the promoted ensuring of the public goods, in respect to the fiscal decentralization.Widely accepted view is that the lower levels of the government could adequatly adjust their budgets in aspect of the needed span and structure of the public services, that are in accordance to the preferences of the local population. Actually, the expectations are that the process of decentralization will promote the tehnical and allocative efficiency in the providing of the public goods and services, but in addition, it will serve as a rectifier of the public sector span.

In the corpus of transferred authorities from central to local level, especially interesting is the authority that goes in respect to the local economic development. Infact, according to the local self-government Act, the authority for the local economic development is given to the communities, that are incharge of their region.Local economic development - planning of the local economic development , acertainment of the developing and structural piorities, leading local economic policy, giving support to small and middle entrprices, as well as to the entrepreneurshi on the local level. And it this context, participating in the establishing and development of the local institutional and agency net and promoting a partnership.

What is left in the hands of the mayor and the council of the community, in this field, is the span of accomplished authorities of the community, and which solutions are going to be undertaken, especially in the aspect of planning and determining the priorities on the planning frame, that the community should prepare. It is assumed that politics led on the local level could, in respect to the local and communal taxes, have specific influence on the local economic development. Adequatly chosen rates of the local taxes, id est ground rents could represent competitive advantage over the other communities and it can significantlly influence on the economic activity stimulus.

What are the challenges for LED in the context of the current economic and social crisis and how can LED activities help to stem the crisis? LED activities can provide targeted support to vulnerable groups and sectors, such as for instance, building the capacity of local governments to put in place local labour market intermediation mechanisms to respond to higher supply of labour, stimulating alternative business opportunities in community services and agriculture among others, introducing temporary youth employment programmes, etc. Such programmes reinforce local communities and local markets, thus helping those who will suffer most from the current global economic and jobs crisis. An LED process therefore brings together various local actors who decide on a local economic strategy to boost enterprises and create decent jobs: this has the potential of being a dynamic and customised local response to the current crisis. To bring it to the point:

There cannot be a successful globalization without a successful "localization". Much the same, national compensation and rescue measures should also be tailored to the specific local needs and opportunities. Local government units should improve their competitiveness to attract more investments and to develop their local economy, LGUs are also encouraged to focus on attracting investments in sunrise industries in the country like agribusiness, mining, business process outsourcing and tourism. Even more here is a need to replicate all the best practices of local government units because it can create a critical mass of local governments that can help the country to achieve medium and long term goals. LGUs should reduce bureaucratic processes and wastage and ensure peace and order, availability of infrastructure and reliable service to attract more investments. Local and regional governments face increasing pressures at times of economic crisis – more demands for services and help, more pressure on finances. At the same time, they are usually best placed to act in implementing actions to revive or safeguard local economies. After all, local and regional governments are already responsible for a great majority of public procurement expenditure, and are best placed to respond rapidly to deliver economic stimulus programmes. Today, community leaders must understand their local economies and be able to make decisions that efficiently allocate public services, improve the effectiveness of labor through training, and financial incentives. This means communities must understand the types of economies that exist. It is no longer possible to simply hope for the best, as community leaders must be pro-active if they are to survive. For example, are firms located in the area part of and reliant upon a global market or a local market? Do they produce goods consumed locally only? What factors drive decisions about new investment?

For the case of the Republic of Macedonia, the local authorities in their programmes should enable a development and modernization of the communal and social infrastructure. The calming of the social tensions could be achived by importing variety of programmes that include the poor and socially threatened population in the municipality in the process of building the communal infrastructure. Further ,the council of the community should ensure a strategy for restructuring of the already closed industrial capacities through finding strategic partners. In this, it could be included an initiative for support of the partnership with the aim of building trust among the sides that are interested in it. It should be expected that the community council would come up with some programmes with which it would have an influence over the realization of the strategy for the local economic development. For instance: establishment of the local net of institution for support to the small and medium enterprices and entrepreneurshi (thruogh offering advices, techical help, information, training for entrepreneurship) , promotion and attracting of investments in the competetive sectors on the local level(coming from any part of the state or from abroad), offering help for the access to the capital financial sources and means, or self-investment in the field of infrastructural buildings.

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