





# 1. INTRODUCTION

With the quick recovery of its economy following the global crisis, Turkey gave the signal that she could continue with the bright performance displayed after 2001. However, the region with slowest rates of growth in a country pulls down overall rate of growth. The level of development of a country is determined by her least developed region. Regional development disparities not only weaken economic performance but also damage social fabric. Regional development is a top priority issue crosscutting many economic, social and political problems of the country. It is also one of the priority areas in TÜRKONFED's overall work.

The TÜRKONFED has been conducting its work in regional development under various headings. In 2010, with the project "Regional Development and the Role of Business World" fieldwork was conducted in selected regions and the issue was discussed with local actors. This work titled "**Regional Development in Turkey: Differences, Relations and Design of a New Mechanism**" also placed the academic dimension of the issue in focus.

**The objective of the present report is to expose various dimensions of regional disparities and to discuss the characteristics of the resource allocation mechanism to be designed to reduce these disparities together with development agencies in Turkey.**

Part Three of the study which was prepared by Assoc. Prof. Alpay Filiztekin from Sabancı University examines regions in their economic, demographic and sectoral characteristics and presents a clear picture of regional development disparities. Part Four by Assist. Prof. Mehmet Barlo and Assoc. Prof. Özgür Kıbrıs also from Sabancı University suggest a new and original mechanism for resource allocations to individual regions by the centre.

Part Five deals with development agencies, which are presently not so well known in Turkey, their objectives, activities, bottlenecks in their operation and the need for publicity. This part also gives the minutes of the panel discussion "Role of Regional Development Agencies in Turkey and in Europe" participated by academics, DPT (State Planning Organization), development agencies, EURADA and representatives from the business world during the 14<sup>th</sup> Entrepreneurship and Business World Summit organized by the TÜRKONFED on 16-17 December 2010. This part is important in that it reflects the opinion of lead figures who have first-hand information about development agencies concerning development policies and structure of these agencies and that it provides a ground for shoring local information and experience.

The **coordinative work for the report "Regional Development in Turkey: Differences, Relations and Design of a New Mechanism"** was undertaken by Dr. Ümit İzmen, Advisor in Economics to the Executive Board of TÜRKONFED.

## Regional development in a historical perspective

Limited availability of data does not allow for a clear picture on how regional disparities evolve over time. Nevertheless, studies conducted so far suggest that throughout the Republican era not much distance has been covered in closing gaps in regional development.

The persistence of deep regional disparities while national economy is growing fast invites questions about the correctness of policies that have been pursued. Meanwhile, it should be noted that policies geared to reducing regional disparities are quite new in Turkey. Indeed, Turkey met regional development policies first with the South-eastern Anatolia Project (GAP). This was later followed by Eastern Anatolia Project (DAP) and Eastern Black Sea Regional Development Plan (DOKAP). In all these initiatives, a centralistic approach was dominant, making it almost impossible to benefit from the contributions of local actors and local information.

## Recent change in approach to regional development

Today, emphasis in regional development turned away from a system of reallocation and incentives favouring less developed regions to improving the competitive power of such regions. The approach that misses the existing problems of individual regions and tries to remedy these problems through monetary incentives has left its place to another approach that priorities the identification and elimination of these problems. It is observed that measures such as special incentives and taxation policies alone are insufficient in attracting investments, qualified and unskilled labour and technology to less developed regions. Furthermore, it has also become clear that, once introduced, such policies dependent on the heavy monetary assistance by the central government are too difficult to abandon politically and, as a result, they prevent the development of resources in individual regions.

The hierarchical relationship between the central government and local government created by these policies and tutelage that followed brought along many negative processes including weakened interaction among local actors, curbing of the development of civic movements and private sector in regions, disturbance to local harmony and solidarity and even gradual erosion of local traditions and identities.

It became clear that such a centralistic approach had its pronounced disadvantages leave aside any elimination of regional disparities. Employment created through the means of the central government negatively affected local labour markets, bureaucratic and statist approach mutilated the culture of entrepreneurship in regions and few large firms that started operating in regions on the basis of state incentives led to the dissolution of local industries and traditional activities and liquidation of local entrepreneurship. The weak position that regional entrepreneurs were forced into and backward trends in production, productivity and employment eventually prevented business cooperation among local companies, made it difficult to create and sustain local organizations and mechanisms of solidarity and pushed regions to isolation. The decisive role and power of central government also weakened relations and cooperation between neighbouring regions, leading individual regions to turn more and more inward.

While deep rooted problems at local level persisted, it became clear that incentives introduced to balance off these problems were not effective in attracting investments from without and regional factors such as physical infrastructure, qualified labour force, technical and organizational skills, entrepreneurial capacity, social and institutional structure and local identity were all decisive. Consequently, the strategic goal in regional development has turned as both qualitative and quantitative development of individual regions and efficient utilization of their local resources.

In this context, not only quantity but also quality is important when it comes to investments to be made for overcoming problems specific to a given region. Priority must be given to those projects directly contributory to regional economic development.

A relatively low-cost investment in transportation to connect settlements with employment problems may be as beneficial as a large and costly transportation investment in a region.

However, these negative aspects of centralistic approach should not lead to the mistake of bringing regions to the fore and setting national goals over individual regions. To the contrary, ever increasing deep and intensive relations among regions and indirect interactions suggest that an approach that only takes regions into account would not yield desired outcomes. The approach to be adopted must observe both national targets and interests of local elements, consider mutual interactions and be in harmony with them.

Investment made in a specific region may be affected positively or negatively from investments made in other regions. For example, investment into transportation made in a region may also add to the attractiveness of surrounding regions. Or, as intensively debated in some regions of the country, an investment into energy made in a specific region may adversely affect neighbouring regions. Any regional policy must take into consideration such externalities.

In selecting “correct” investments, it is vital to make use of local information and to ensure that central government, regional development agencies, local governments and other local actors act in close cooperation in developing investment policies by identifying regional needs and priorities.

Setting regional development dynamics into motion requires a dual approach. Firstly, there is need to give weigh to local resources to make local investment environment attractive and enhance competitiveness. There must be investment into the development and promotion of features specific to the region. Meanwhile, the central government must be present in the cycle in policies to be implemented to attract investments to the region from without.

## **NGOs as the locomotive of regional development**

In our day, regional policy is built upon the wholesome enhancement of the attractiveness of a given region. Given this, the first thing to do is to identify such factors as remoteness, administrative formalities, low level of education on the part of labour force and unattractive social environments etc that curb the potential of the region, eliminate these factors and create a favourable environment. This is particularly important for local SMSEs. In this approach, it is more important to improve the productivity of local firms and to encourage local private sector to new investments than to attract new investments from without. The development of local economy will induce demand for services in the region and stimulate economic growth. With increase in the number of newly established firms and diversification in the fields of economic activity, technological and managerial skills will flourish and entrepreneurship will be encouraged along with improved competitiveness both at individual firm basis and at region level.

The increasing importance of regional development requires change in the adopted approach as well. Limits of an approach that considers the central government only are apparent. The private sector and NGOs should be included as well in processes of decision making and implementation. Since characteristics of regions are different from the very start, correct identification of obstacles to development and guaranteeing service quality can be possible only with the inclusion of NGOs in the process.

## **Changing approach to regional development in Turkey**

As it is the case in all other countries, the centralistic approach is changing in Turkey too after long periods of dominance. Regional policies gained momentum and holistic approaches were adopted starting with the process of full accession to the European Union.

As a part of the process of alignment with the EU, development agencies were established on the basis of 26 regions under the coordination of the State Planning Organization with due regard to respective development indicators. Starting in the early 2000s, this process took longer than envisaged due to contrasts between the objectives and forms of development agencies and legislation in effect in Turkey. Upon the elimination of these factors of delay, the process gained speed.

The structure of development agencies in the European Union displays some differences and while some agencies are more successful, others remain below original expectations. Contrary to the top-to-down approach of national policies, development agencies are based upon an approach that starts from below envisaging the active participation of local actors to decision making mechanisms in development process accompanied by an unfolding from governing to governance. In some agencies, however, various problems emerged as this approach was translated into life and it was found necessary to improve the governance structure of development agencies. In Turkey too, there is need to develop a down-to-up approach in agencies and to reduce the weight of the central government.

## Development agencies in the light of local experience

In spite of problems briefly mentioned above, the establishment of regional development agencies represents an important stage in translating regional development dynamics into life. On its part, the TÜRKONFED gives its support the functioning of agencies even with their present problems. As a matter of fact, the TÜRKONFED is represented in development boards of 15 agencies in various regions through its affiliated federations/associations and in the executive board of Izmir Development Agency through one affiliated federation.

The TÜRKONFED expresses its suggestions deriving from this rich experience on the operation of agencies in order to contribute to their improvement. This part thus summarizes the findings of studies and observations conducted in respective regions.

**The structure of agencies should be shifted to a more decentralized line.** Given the present structure of agencies, it is difficult for members of development boards and executive committees who represent the private sector to have any meaningful influence on decisions. In fact, it is possible for 3 members of the development board in development agencies that cover only one province to have a fair chance to be elected for the executive committee. This is a factor mitigating government weight in the structure of agencies. However, the same does not hold true in other 23 development agencies.

**Interaction of agencies with the business world should be further developed.** It is observed that management and personnel in agencies are not very experienced in business life. This is a serious obstacle preventing agencies to act as flexible organizations capable of bringing quick solutions to the problems of business circles. In order for agencies to get better acquainted with the business world, it will be useful to accelerate fieldwork and, if necessary, to visit local businessmen one by one to listen to their problems and suggestions.

**The competency of agencies in regional development as an area of expertise should be improved.** Regional development is a field of expertise and agencies should be managed by persons with full knowledge about the issues of regional development. In this model commonly observed in EU countries, agencies are closely scrutinized both by independent auditors and the public.

**Agencies should be given stability in their management.** It is an important problem in the context of stability that the office of presidency in agencies is left to a public authority (Governor) and that this office is held by a different province within the region on annual basis.

**The agenda of agencies should be directly carried to policies at national level.** Mutual interaction between the central government and regions needs to be enhanced in order to facilitate the carriage of regional problems to national arena, to improve effectiveness in regional implementation of national policies and to encourage better service delivery by agencies. For this purpose, the ways of securing more contribution from regional deputies should be investigated.

**The composition of development boards in agencies should be revisited.** For electing members to development boards in agencies, there is need to design a process in which criteria are more clearly defined and more weight is given to merits.

**Development boards in agencies should be made more effective.** There is need to assign more functions to development boards that are considered as the highest hierarchical body in the legislation on development agencies. For example, it will be appropriate to have the chair of the board as natural member of executive committee, to allocate a special budget that he/she may use especially in administrative matters and to accord these boards a status where their recommendations are more than just advisory in nature.

**There should be arrangements ensuring effective work by development boards in agencies.** It is observed that in some agencies local representatives of development boards are not so active to meet

expectations and decisions of the board are not given due consideration by the executive committee. This situation prevents the full commitment of board members and involves the risk of boards gradually turning into bodies without any real function.

**The importance and functions of agencies should be promoted better before the public and business world.** The public have no sufficient information that almost all parties in the region from business circles to the representatives of governmental organizations can receive services like support and counselling from agencies. There should be promotional work on the importance and functions of development agencies.

**Agencies should operate as investment offices for their respective regions.** Agencies should be active in publicising investment opportunities in and attracting investments to their respective regions. This requires correct identification of the potential and competitive advantages of the region concerned as well as strengthened communication functions. In this context it will be useful to prepare reports that capitalize on the information and experience of local actors and also supported by academic information.

**Development strategies to be designed by agencies should be based on scientific work capitalizing on local information.** Regional strategies designed by development agencies should be based on work that pays attention to competitive advantages of individual regions, division of labour and mutual interaction between regions. This kind of work requires considerable time and labour and must therefore be supported by local business circles and academia actively and strongly.

**The way to increase the effectiveness of development strategies by agencies passes through the enhancement of the capacity of the private sector to develop projects.** Agencies implement grant programmes within the framework of projects identified under regional development strategies. But there appears to be some bottlenecks in the implementation of these programmes. There is need for a mechanism that would ensure sharing of experience by development agencies and drawing lessons from successful and unsuccessful projects and practices.

## Resource allocation model

As touched upon in Part Three of the present study, externalities are rather strong in Turkey. This means that policies implemented to mitigate inter-regional disparities will indeed be effective given that they are designed well. Hence, Part Four in this study is devoted to the design of a “good mechanism” that the central government may use in resource allocation.

**There are two actors in the mechanism envisaged. The first one is the centre and the other is the regional development agency. The institution described as “regional development agency” in the envisaged mechanism does not have to fully overlap with development agencies presently active in 26 regions. What is meant is an institution that conveys information from the region to the centre and effectively allocates resources that come in. The tasks attributed to this institution may be performed by presently active development agencies or they may be undertaken by any authority designated by the centre.**

What is referred to here as “good mechanism” is the establishment of a structure to which regional development agencies as well as all enterprises and institutions supplying information to agencies can realistically explain their situations and needs and which is capable of taking into account externalities, information shortages and strategic effects.

National development plans not paying enough attention to externalities and information shortages may lead to uncoordinated and unsound outcomes in regional development and associated welfare targets. The study shows that so long as externalities are strong and the central government is able to ensure the

flow of resources among regions, there will be an effective, fair and viable structure where each economic actor discloses only its real productivity and needs. By its very nature, this structure will also prove that a democratic organization is to the benefit of all parties and individuals.

It was only the notions of effectiveness, fairness and viability that were considered while designing the mechanism suggested. The regional development mechanism suggested creates an effective, fair and viable organization by working at two levels. The study clearly and unequivocally discloses the following: It is impossible to come up with an effective regional development system if there is insistence on a fully centralistic regional structuring. It is compulsory to resort to a system which is locally democratic.

The critical point at the second level of the suggested mechanism is the flow of correct information from regional development agencies to the centre. There is need for a system that ensures the flow of correct information to the centre to protect the interests of respective regions. Strong interaction among regions as there is increase in welfare encourages information flow from regions to the centre. In case this interaction is not strong enough, then there is the possibility that individual regions convey distorted information to the centre in order to enlarge their share in allocations. Then, the implementation of any development policy becomes more difficult, accompanied by allocating resources equally to all regions.

The central government should ensure the development of this interaction among regions by making necessary investments in infrastructure. This will pave the way for the implementation of a more effective approach to development. On the other hand, in case any approach that gives weight to regions neglects the need for national coordination as a reaction to the centralistic approach hitherto in effect, this will have its own negative consequences too.

Indeed, intensive and deeply-rooted relations between regions and non-linear interactions suggest that an approach omitting the need for national coordination will fail to yield desired outcomes.

Any approach adopted has to observe both national targets and local interests at the same time, take due account of mutual interactions and be in harmony with these.

Further, there is also need to ensure the active participation of local actors, regional population, producers and suppliers of such production factors as labour, capital and human capital. In this respect, making a start which brings together the active participation of civil society to regional development and mobilizes government support is of critical importance.

The model developed in this study to ensure more effective resource allocation is applicable in any economy where externalities are strong.

We hope that this study contributes to efforts to ensure smoothly working development agencies in which Turkey is presently at the beginning of the road. We also hope that this report will serve as a guide to other countries that are interested in Turkish experience to draw their lessons. Finally, we expect this study to contribute to relevant academic literature both in Turkey and worldwide.

## 2. EXECUTIVE SUMMARY

The Turkish economy grew much faster within the last decade than the preceding decade. In spite of this high rate of growth, unemployment reached unparalleled dimensions again within the last decade. The rate of unemployment which was on average around the 2000s doubled in some years. Participation to labour force dropped down to levels that it had never been before. All these brought along the question to what extent economic growth actually affects the welfare level of an average citizen.

Today, many countries in the world face the same problems regardless of their level of development. What make Turkey different from many of these countries are two great transformations that she experienced. The first one is demographic transformation that is taking place with the ageing of a very young population. The second one is the dissolution of agricultural structures which has been dominant for a long time.

Though nationwide, these problems were experienced at varying degrees in different regions. Growth did not proceed at equal rates in all regions. As to rates of unemployment, they started to display unacceptable regional differences. Disparities in growth started to feature within regions as well beyond inter-regional disparities. This uneven growth not only led to further widening of gaps among regions but also emerged as an obstacle to ensuring its sustainability and finding long-lasting solutions to the problem of unemployment.

As a matter of fact we observe that emphasis on inter-regional disparities has recently become common in all environments - the media, in academic studies and in policy debates. The purpose here in this report is to expose different dimensions of inter-regional disparities, discuss these disparities and inter-regional interactions and to investigate how development agencies now have their statutory existence should be organized to solve these problems.

To keep the discussion on a sound route it is necessary to explain clearly what is meant by "regional development". In the past, regional development was taken as a component of national development and it was assumed that regions would get their sufficient share from it as the level of welfare of the country rises. However, there was almost no country where this expectation was fully met.

This general approach is not based on the assumption that regions have the same economic and social structure at the outset and in fact the approach admits from the beginning that it cannot be so. It starts out from the premise that whether at regional or national level, all policies aim at improving the level of welfare of all individuals in a given society regardless of their geographical location and regionally specific social structures and institutions. Similarly, it is assumed that growth and development cannot start and proceed at the same time and with the same speed in all geographical regions and social formations. The same process was experienced in almost all countries that are considered as developed today. What needs to be done, therefore, is to work for policies that will build the future on the basis of these realities.

The approach of Turkey to the issue used to be that of adopting national level development policies.

In this process, regions were expected to develop in line with national objectives adopted. However, despite some achievements at national level, there emerged serious disparities at regional level. As a result, the efficiency of the economy as a whole is curbed, equity at national level could not be achieved and various social problems emerged including those brought along by migration. Living standards remained below desired standards for low levels of income in some regions, and for distorted patterns of urbanization and overcrowding in some other economically developed ones.

The aim of ensuring sustainable growth in Turkey while observing equity requires a deep understanding and evaluation of regional disparities. Closing regional development gaps will benefit developed regions

as well as less developed ones. Mobilizing resources and particularly labour in less developed regions will pay by higher output and as a result of increased income in these regions there will be higher demand for goods produced in all other regions. In this case, it will be possible to reach higher efficiency in total output by making use of economies of scale.

Yet, achieving this success requires, in turn, having an understanding about the geographical distribution of production together with its underlying reasons and consequences. In case there are production structures across regions that both complement and substitute each other depending on circumstances, this will make it possible to share risks while, at the same time, providing for mutual support.

Building policies along this line depends upon having insight about peculiar structure of individual regions and their specific place in the country as a whole. In this context it is necessary to ensure the active participation to the process of local actors, regional population, producers and suppliers of production factors such as labour, capital and human capital. Mutual interaction existing between regions makes it imperative for each individual region not to act exclusively by its own interests. An effective and fair economic system for the country as a whole points out to the need for ensuring coordination among regions while deciding on strategies to be pursued. Existing development agencies need to operate by acceding to these needs and facts first.

In this process, it is necessary to accept the existence of different rates of growth and thus different levels of development for a period of time. Of course, this is not proposed to justify existing disparities. The impossibility of totally eliminating regional development disparities in a relatively short period of time should underlie the importance of policy consistency and coherence while it can also be taken as a warning against the lure of populist approaches.

There are problems with centralistic approaches adopted so far. However, while bringing regions to the fore, it would be equally problematic to adopt an approach where national targets are set on the basis of regions.

The fallacy of such an approach is evident in ever increasing intensive and deep relations between regions and interactions which are not linear. The ideal approach has to observe both national targets and interests of local elements, take due account of mutual interactions and be in compliance with these.

Furthermore, it is also clear that the commitment to the approach adopted only by one section of the society will not work no matter how strong the commitment of this section may be. It is crucial in this context to make a start by bringing the active participation of civil society and the support of the government together.

In the European Union, development agencies made specific achievements and inspired hope for many regions at the outset. Later, however, some development agencies could not maintain their initial levels of success. This fact points out to the need to organize regional agencies by taking into consideration such factors as national and regional externalities embedded in economy, economies of scale and information gaps. As of today, the present position of these agencies is a topic for academic debate.

The very existence of development agencies is based upon a down-to-top approach to national policies versus a top-to-down one, active participation of local actors to decision making mechanisms in development process and shift from governing to governance. Yet, various problems emerged in translating this approach into life together with the need to improve the governance structure of agencies.

In England these agencies were criticized for oversimplifying regional development and for focusing on the equalization of rates of regional development around and objective set by the centre.

It is asserted that these agencies "operate contrary to market economy and are based on an artificial representation of functional economies" and that they "exclude the information and expertise of local firms,

local managers and local people". There are also criticisms that agencies are not sufficiently accountable to their regions and that they don't let local stakeholders take leadership to go on with economic development. It is also asserted that only the finance sector among activities supported by agencies could be successful in London sub-region while proving to be extremely insufficient in all other regions.

The experience of development agencies in many countries suggests that national governments are as important as local elements. On the one hand, governments getting weaker at national level and failing to ensure an equitable allocation play their role in laying the ground for the emergence of these agencies. On the other hand, increasing global pressures take regions from the state of being 'singular units' away and force them to turn into 'overlapping solidarity unions.' Thus the need and inevitability of coordination at central level is apparent.

In Turkey where there are pronounced regional development disparities, the history of development policies to mitigate these disparities is not so new. Indeed, following the plans of the Ministry of Public Works and Resettlement related to some urban centres in the 1960s, there was the South-eastern Anatolia Project (GAP) as the first regional development project formulated in 1980. The GAP was followed by DAP (Eastern Anatolia Project) and DOKAP (Eastern Black Sea Regional Development Plan). However, a systematic approach to regional disparities took shape along with the process of accession to the EU. As required by alignment to the EU approach to regional development, development agencies were established and they started working under the coordination of DPT.

This mechanism that replaced the centralistic approach to the issue of regional development is a new and forward step for Turkey. Development agencies represent a bottom-up approach against top-to-down approach in national policies. Nevertheless, as far as active participation of local actors to decision making in development process and shift from governing to governance which constitute the essence of the new approach are concerned, it is still debated to what extent development agencies could achieve these. Since similar problems are experienced in the EU which is taken as a model, there is need for scrupulous studies on how development agencies should work.

Part Four in this study deals with an effective, fair and viable mechanism for resource allocation in the context of resource allocation and presents evidence for a specific mechanism. The mechanism suggested is presented in general terms.

There are two actors in the institutional mechanism envisaged. The first one is the centre and the other is the regional development agency. The institution described as "regional development agency" in the envisaged mechanism does not have to fully overlap with development agencies presently active in 26 regions. What is meant is an institution that conveys information from the region to the centre and effectively allocates resources that come in. The tasks attributed to this institution may be performed by presently active development agencies or they may be undertaken by any authority designated by the centre.

The study shows that so long as externalities are strong and the central government is able to ensure the flow of resources among regions, there will be an effective, fair and viable structure where each economic actor discloses only its real productivity and needs. National development plans that miss externalities and problems of information shortage may yield unsound and uncoordinated regional development trajectories accompanied by distortions in welfare sharing.

Suggestions developed in this study are applicable to other countries as well.

As touched upon in Part Three of the present study, externalities are rather strong in Turkey. This means that policies implemented to mitigate inter-regional disparities will indeed be effective given that they are designed well. Hence, Part Four in this study is devoted to the design of a "good mechanism" that

the central government may use in resource allocation. What is referred to here as “good mechanism” is the establishment of a structure to which regional development agencies as well as all enterprises and institutions supplying information to agencies can realistically explain their situations and needs and which is capable of taking into account externalities, information shortages and strategic effects. By its very nature, this structure will also prove that a democratic organization is to the benefit of all parties and individuals.

The theoretical framework developed in the study enriches discussions on regional development in Turkey with respect to the following points:

1. In order to mitigate regional development disparities, the weakness of the existing structure in Turkey in soliciting the opinion of voluntary business organizations in respective regions should be eliminated.
2. So far, there has not been any strong emphasis on externalities in Turkey. Individual regions should be convinced that welfare improvements in other regions are to their benefit as well.
3. If there are no strong externalities among the regions of a country, this is the responsibility of the centre. The DPT (State Planning Organization) and other governmental units should make investments to make this interaction among regions stronger.
4. There is a trade off between the power of the centre in decisions related to a specific region and the welfare of regional actors to be affected by these decisions.
5. For regional productivity externalities to be taken into account there is need for a coordinated work between regional business representatives and regional agencies and between the centre and umbrella organizations representing the world of business.
6. The decision making mechanism in a well designed regional development system should be effective, fair and viable. The fairness of the decision making mechanism guarantees that resource allocation does not instigate rivalry and preferences do not specifically favour any actor or group of actors. In the present system, however, balances among institutions within agencies and the hierarchical order of public authorities in it play against this rule of fairness. The privileged status of chambers of commerce and industry also runs counter to the principle of fairness. Inclusion of regional deputies in agencies’ executive boards, as is the case in many European countries, will further strengthen the local element and support the working of externalities.
7. The present weight of government authorities in development agencies limits the role of regional actors in decision making mechanisms. To be more specific, in agencies covering many provinces, the votes of local actors remain limited to one-fourth at best. There is one person representing the chamber of commerce and industry as a semi-official organ per 4 persons representing the government. As for agencies covering a single province, there is no statutory guarantee for a higher representation. As clearly shown by the study, this situation makes it possible to come up with an ideal system.
8. It is impossible to build up an ideal system in eliminating regional disparities if there is insistence on centralistic structure. It is imperative to have a democratic system established at local level. No other mechanism except the one that guarantees for elements of local democracy can bring in desired objectives of effectiveness, fairness and viability.



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